



McCleary & Company Ltd.

Chartered Accountants & Registered Auditors

Successful retirement planning

This guide looks at some important considerations when planning for income in retirement.



Many people spend time thinking about what retirement might look like financially, and this is particularly important now given the stock market recovery we have seen in 2013, albeit against the background of a sluggish economy and continuing low interest rates.

Pension funds have been depleted by higher tax charges, the loss of compounding values between 2008 and 2013 and increased longevity.

It is important to look at how much you need to save to secure your desired income and how your saving can be optimised for tax purposes. The applicable laws and tax regime change over time, as do economic circumstances and market-based solutions.



Retirement plans should be reviewed periodically to check their adequacy.

Will the state pension suffice?

Being able to retire when and how you would like is, sooner or later, likely to

be one of your most important financial objectives. But achieving this goal takes planning and perseverance.

Your state pension is worth just over £5,700 at current rates, assuming you have a full national insurance record. This now requires 30 years' worth of contributions.

In 2016 new retirees will receive a new flat-rate state pension which based on current estimates will be around £145.

The state pension age (SPA) is also changing and it is far from clear that we have the final definitive position. Currently:

- Men born before 6 December 1953 retain their SPA of 65
- Women born before 6 April 1950 retain their SPA of 60
- Women born on or after 6 April 1950 but before 6 December 1953 will have an SPA between 60 and 65
- Men and women born on or after 6 December 1953 but before 6 October 1954 will have an SPA between 65 and 66

- Men and women born on or after 6 October 1954 but before 6 April 1968 will have an SPA of 66
- SPA is to increase to 67 for all by 2026
- It is planned that SPA will rise to 68 and beyond.

Pensions

Large contributions

Currently there is an annual contribution limit of £50,000 to a pension fund. The lifetime allowance of pension contributions is now capped at £1.5 million.

In occupational schemes, the limit applies to both the employer's and employee's contributions.

For final salary or defined benefit schemes, the contribution limit applies to the increase in the value of the member's pension entitlement during the year. In such an employment, a significant pay rise can result in a significant increase in entitlement value which could be caught by these new provisions.

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If you make a contribution above £50,000 or otherwise have your pension entitlement value increase by this amount, it may be possible to claim further relief under a transitional provision or by using an unused deemed allowance from one of the three previous years.

If you do make a pension contribution above the limit, you will still get tax relief on the whole contribution at your highest rate of income tax. But you will also incur a tax charge on the amount of the excess.

Salary sacrifice

Salary sacrifice remains a tax-efficient way of providing for your future. This approach saves both the employer and employee money through reducing national insurance contributions. This can save the employee income tax too.

Even so, taking a reduction in take-home salary now in exchange for a longer-term benefit is not everyone's first choice and should only be used in conjunction with proper financial planning. This technique may not be effective for high income individuals.

Self-invested personal pensions (SIPPs)

SIPPs allow the freedom and flexibility to select the allocation of your pension fund investments. Subject to approval by the SIPP provider, SIPP investors can choose what assets are bought, leased and sold, and when those assets are acquired or disposed.

Certain items, such as classic cars and residential property, are inadvisable because they are subject to heavy tax penalties.

The investor may also enjoy ownership of the assets via an individual trust, so long as the provider or administrator is listed as a co-trustee.

Potentially, SIPPs can even borrow 50 per cent of the net value of the pension fund to invest in further assets.

Retirement investing alternatives?

For those who want an alternative to pensions, or not to rely on them entirely, the alternatives are almost unlimited.

Common savings and investment vehicles include ISAs, equities, bonds, insurance

policies, property portfolios and fine art or other valuables. However innovative or unusual your retirement planning, it should stand the 'reality and adequacy test.'

Each of these alternatives has differing tax treatments, which is important to factor in to your planning.

Investment bonds

Investment bonds are seen by some as complex and they remain much underused in retirement planning. But they offer unique opportunities to aspiring retirees.

Because they are offered by life assurance companies, the investment bond is considered a life policy and is not subject to capital gains tax. Instead, a tax liability arises on a chargeable event, such as the death of the owner or maturity. You can take a 5 per cent tax-free withdrawal every year and, excepting the events just mentioned, this can be carried forward for up to 20 years.

This arrangement is a deferment of tax, not an exemption from tax. There is a tax advantage if you reasonably believe that you will be paying income tax at a lower rate at the end of the 20-year period.

A higher-rate taxpayer would pay 20 per cent of the total gain (or 20 per cent on withdrawals above 5 per cent). An additional rate taxpayer would pay 25 per cent instead, but there is no further tax liability over and above this. With foresight, a taxpayer bearing either 40 per cent or higher rate of tax on income could enjoy 5 per cent tax-free withdrawals while working and then, on retirement and if in a lower tax bracket, withdraw large sums without incurring a tax liability.

A policyholder in a higher tax bracket can transfer ownership of the bond to a lower tax-paying spouse. Because this transfer is made by deed of assignment, it is not a chargeable event.



Sound advice is key to long-term investment bond planning.

How much capital will your business realise?

Many expect their business to provide a substantial injection of capital into their retirement pot. However, before you bank the proceeds from sale there may well be capital gains tax to consider.

Entrepreneurs' relief means that capital gains tax is due at 10 per cent on all qualifying gains up to the maximum lifetime limit. Entrepreneurs' relief provides a reduction in capital gains tax on the disposal of an interest in a qualifying business or qualifying business asset(s) up to a maximum of £1,800,000.

Advantageously for some, it has no minimum age requirement and the business need only meet the qualifying conditions for one year. There is a maximum lifetime allowance for gains of £10 million.



If your retirement will coincide with the disposal of business assets and your planning has not yet taken into account the tax impact, please discuss this relief and your tax planning with us.