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## Wealth Supplement

### Retirement Planning Special



The New Year has always been a great time to focus the mind on some of the more important issues such as how to make sure your pension planning is on track and that your retirement goals are achievable. Long gone are the days when pension planning was simply a case of waiting for your employer to pay up the amount due from your final salary pension scheme or for your insurance provider to commence payments from your annuity.

Nowadays pension provision is all about choice for the majority who no longer have the comfort of a final salary pension scheme to fall back on and that choice is not only the type of scheme in which to invest but also what type of investments to make and at what level of contribution.

#### SIPPS

For UK residents the most flexible option to consider for pension planning is the self invested personal pension although for the vast majority the self investment element is something of a misnomer as most people will be more than happy investing in a range of collectives (unit trusts and OEICs). However the option to self invest should not be ignored, commercial property either through individual investment or by pooling resources with others is becoming more popular with schemes to invest in property both in the UK and overseas being promoted. Other specialist areas for investment that can be considered are direct investment into company shares, antiques and other collectables.

The rules are relatively straightforward you can get tax relief on your contribution at your highest marginal rate (contribution limit has just been set at £50,000 for the next financial year whereas you were previously eligible to contribute up to 100% of your earnings). In other words for a 40% tax payer a contribution of £50,000 will only cost £30,000 from earned

income. The government has set a limit to each individual's fund size, which was £1.8 million but has just been reduced to £1.5 million. There are financial penalties for exceeding the cap and whilst the ceiling might seem to be set at a generous level, for a high earner in their 30's looking to maximise their pension contributions with reasonable fund growth this ceiling could well become prohibitive. There is certainly merit in reviewing current arrangements and we would be delighted to carry out this review process with you.

One of the great advantages of a SIPP is that there is no need to buy an annuity when securing benefits. Annuities have always been seen as poor value and the ability to be able to draw income from your fund from age 55 to 75 within a broad range set by the government actuarial department (GAD) is a clear benefit. With careful planning income levels can be structured so as not to trigger higher rates of taxation and of course there is the ability to take a lump sum of 25% of the accumulated fund tax free.

A flexible pension with tax free growth and the option to receive a tax free lump sum and income to suit might seem an ideal arrangement but consider this:

- Income taken from pension is taxed at your highest marginal rate
- A cap of £1.5 million will only generate maximum income of £62,500 gross at retirement
- Taking a tax free lump sum triggers a tax charge of 35% on your fund at death
- If death occurs after age 75 this tax charge is currently 82%

The government's policy is clear. You will have benefitted from tax breaks during the build up of your pension (relief on contributions and tax free growth on the fund) and apart from

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