HARGREAVES
LANSDOWN

10 TOP TIPS FOR IMPROVING A PENSION IN 2019

IMPORTANT INFORMATION

This guide is not personal advice. If you are unsure of the suitability of an investment for your circumstances please contact us for personal advice. Once held in a pension money is not usually accessible until age 55 (rising to 57 in 2028). The value of investments will rise and fall, so you could get back less than you invest. Correct at 21 March 2019 and all figures relate to the 2019/20 tax year..

1. REVIEW YOUR PENSION REGULARLY

Have you ever planted anything in your garden?

If so you probably kept an eye on its growth, watered it and dug out the occasional weeds that threatened to smother it. Had you walked away and come back many years later, you wouldn't be too surprised to find it wasn't faring too well. But that is exactly how millions of people treat one of their most important assets – their pension. They take the important first step of setting up one, but then fail to follow this up by making sure their pension is prospering.

Not reviewing your pension won't affect your day-to-day life while you're still at work. But it could have serious implications for your comfort in retirement.

Keeping a regular eye on a pension can help ensure it is on course to provide the retirement income needed. It is sensible to review a pension at least once a year.

WHAT COULD YOU CONSIDER NEXT?
Try our pension calculator to get an idea if your pension is on track. Find out how much your pension might pay and if you need to consider saving more.
www.hl.co.uk/calculator →

WHAT COULD YOU CONSIDER NEXT?

Look at the Wealth 50, our favourite funds across all the major sectors. Compiled by our Research Team who conduct hundreds of hours of fund manager interviews every year to try and pick out tomorrow's success stories.

www.hl.co.uk/wealth-50 →

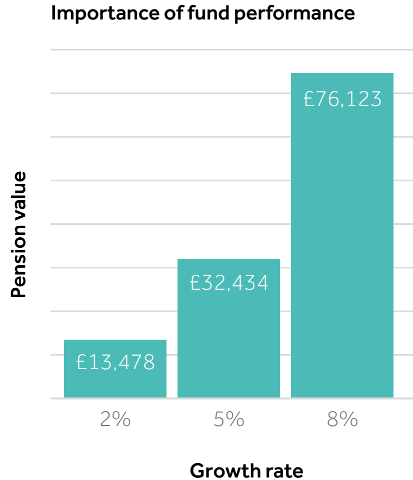
2. CHOOSE THE RIGHT INVESTMENTS FOR YOU

A pension will usually contain at least one investment. Usually this will be a managed fund of some description. Often this managed fund will be run by the pension provider, usually an insurance company. Insurance companies should be very good at measuring and analysing risk, but may not specialise in investments.

However, the performance of a pension fund can make a huge difference to an investor's comfort in retirement. To the right is what a £10,000 pension pot could be worth after 30 years depending on the growth the fund achieves.

Clearly there is a lot at stake here, yet this is an issue which is neglected by many pension investors. Don't be one of them. Pension investments should be monitored regularly to make sure they are up to scratch. If necessary, the pension can be switched into a fund you feel offers better prospects. An investor may find this possible within the pension they already have, depending on the funds available.

Otherwise it is possible to transfer a pension to a new pension provider with a better range of funds.



This is just an example to illustrate the importance of investment performance. In reality investments fall as well as rise in value so an investor could get back less than they invest. 1% annual charge assumed. Inflation will reduce the value of money over time.

3. BEWARE OF HIGH CHARGES

There are often stories in the financial press of people paying into a pension for years, only to find that at the end of the day they have less than the money they put in. One reason for this has already been covered: investment performance will vary depending on the fund. However, another common reason is that high charges have eaten into the value of their pension fund.

Pensions in general now have lower costs than they used to. However, many people still have older pension contracts set up in the 1980s, 1990s and early 2000s. In those days charges were often much higher, and those who set up their plans back then may still be paying more in charges than they should for their pension. It would not be unusual for an older pension contract to take a fixed monthly fee or a percentage of the monthly contributions as a charge before investing them. The investments themselves could carry a percentage charge as well. On top of that an annual management fee would probably apply.

WHAT COULD YOU CONSIDER NEXT?
Take a look at our HL SIPP (self-invested personal pension). It's free to set up and low-cost to run.
www.hl.co.uk/SIPP →

4. CONSOLIDATE PENSIONS

It can be difficult to keep an eye on how pensions are doing if they are held with a number of different companies. Many of us accumulate pensions through the workplace, and when changing jobs we leave behind a trail of separate pension pots. These may be easier to manage if they are consolidated.

This can be done by transferring them to a Stakeholder Pension, Personal Pension or SIPP (self-invested personal pension). An investor wanting more choice and flexibility could choose a SIPP.

An added benefit an investor may seek is online access to their pension, so they can monitor it and make changes as often as they want at the click of a button. Some pensions can even be managed through a smartphone or tablet app.

There are pensions it may not be wise to transfer. For instance defined benefit (e.g. final salary) schemes promise a specified income in retirement or other schemes might offer a guaranteed growth rate on the pension fund. Where such a pension is worth more than £30,000 investors will be required to take advice before transferring.

Pension schemes which provide a guaranteed annuity rate that will be used to convert the pension pot into an income at retirement may not require advice to transfer, but the scheme should explain the benefit of the guarantee.

If an employer is paying into a current workplace scheme then it normally makes sense for that to remain where it is too, otherwise the employer contributions may stop.

Before transferring, an investor should always check they will not lose any valuable benefits or guarantees or incur excessive exit fees. Pensions are usually transferred as cash, so will be out of the market for a period.

WHAT COULD YOU CONSIDER NEXT?
Find out how to take control of your pensions and transfer to a SIPP.
www.hl.co.uk/SIPP-transfer →

5. TOP UP

Joining a workplace pension scheme often used to be enough to provide a comfortable retirement.

Final salary schemes were common. However, very few people outside the public sector are now offered a final salary scheme.

Most people nowadays are typically offered membership of what is called a defined contribution (also known as money purchase) pension. Unlike a final salary scheme the employer does not promise an income in retirement. Instead both the employee and employer will pay an agreed contribution and the employee will build an invested pot of money from which they can draw when they reach retirement age. While this is an excellent start to pension saving, it is unlikely to be all they need to do to secure a comfortable retirement. In many cases it will therefore make sense to top up by making additional pension contributions.

Many people start pension saving later in life, and even then may have periods when they don't contribute to a pension. Consequently it often makes sense to top up a pension whenever possible. This could be a lump sum contribution as a result of a bonus for instance, or perhaps as a regular monthly contribution.

Remember money in a pension cannot normally be accessed until age 55 (57 from 2028). It is then usually possible to take up to 25% tax free and the rest taxed as income.

An employee can usually make additional savings into their existing workplace pension scheme. Alternatively if they want greater investment freedom (and won't be missing out on an employer contribution) then they might consider contributing to a SIPP. If they are a member of a final salary scheme they may be able to pay money to build up an additional pension pot or to buy 'added years' to give more income from the pension. If these options are available, they are definitely worth considering.

WHAT COULD YOU CONSIDER NEXT?
Use our pension calculator to see how much you might need to save for your retirement.
www.hl.co.uk/calculator →

Up to 45% tax relief available when topping up a pension

UK investors under age 75 can benefit from up to 45% pension tax relief. The higher their rate of tax, the more tax relief they could receive. Even non-earners, including children, and those with earned income under £3,600 can benefit, but can only contribute up to £3,600 this tax year. Basic-rate tax relief of 20% is added automatically. For instance, contribute £8,000 to a pension and the government adds £2,000, to make a total investment of £10,000.

Higher-rate taxpayers can claim back up to a further 20% through their tax return – another £2,000 in this example. So the effective cost of a £10,000 contribution is as little as £6,000.

Top-rate taxpayers can claim back up to a further 25% through their tax return – another £2,500 in this example. So the effective cost of a £10,000 contribution is as little as £5,500.

The tax bands are slightly different if you're a Scottish taxpayer. If you earn between £24,945 and £43,430, you should get tax relief of up to 21%. But this extra 1% won't be added automatically. You'll need to complete a tax return or write to your local tax office. If you're a higher rate tax payer you can claim back up to a further 21% and top-rate taxpayers can claim up to an extra 26%. Find out more: **www.hl.co.uk/scottish-tax**

WHAT COULD YOU CONSIDER NEXT?
Use our tax relief calculator to see how little a pension contribution could cost you.
www.hl.co.uk/tax-relief →

EXAMPLES – HOW PENSION TAX RELIEF WORKS

			40% RATE TAXPAYERS		45% RATE TAXPAYERS	
You pay	Government adds	Total in your SIPP	Claim back up to an extra	Effective cost of as little as	Claim back up to an extra	Effective cost of as little as
£400	£100	£500	£100	£300	£125	£275
£2,880	£720	£3,600	£720	£2,160	£900	£1,980
£10,000	£2,500	£12,500	£2,500	£7,500	£3,125	£6,875

The value of tax benefits depends on individual circumstances and tax rules may change. An investor must pay sufficient tax at the relevant rate to claim the full tax relief.

6. DON'T FORGET YOUR SPOUSE'S ALLOWANCE

Investing in a pension for a non-working spouse or civil partner is not only one of the most tax-efficient ways to save, it may also provide additional tax-free income in retirement.

Most people can receive a certain amount of income, before starting to pay tax. This is known as the 'personal allowance' and is currently £12,500. This means there is a potential for a tax-free income of £25,000 per couple. Pension income can be one of the best ways to make use of both tax-free allowances.

Rules became more flexible in 2015 and pension savers can now withdraw what they like from age 55 (57 from 2028), you can withdraw up to 25% tax free and the rest taxed as income.

It may therefore make sense to save into a pension each even if one of the couple does not work.

This will help to use both personal allowances when retirement incomes are taken and potentially boost the amount of tax-free income received as a couple.

On the next page is an example, based on a couple with a joint retirement income of £40,000 a year. The income they receive after tax will depend on how this £40,000 is split between them. If they maximise tax efficiencies, they could receive £1,250 extra a year.

EXAMPLE 1: NO TAX PLANNING
COUPLE'S INCOME AFTER TAX = £35,750

	PERSON A	PERSON B
Gross income	£35,000	£5,000
Personal tax-free allowance*	£13,750 (£12,500 + £1,250)	£11,250 (£12,500- £1,250)
Taxable income	£21,250	£0
Tax (20%)	£4,250	£0
Post tax income	£30,750	£5,000
Total as a couple	**£35,750**	

EXAMPLE 2: TAX PLANNING
COUPLE'S INCOME AFTER TAX = £37,000

	PERSON A	PERSON B
Gross income	£20,000	£20,000
Personal tax-free allowance	£12,500	£12,500
Taxable income	£7,500	£7,500
Tax (20%)	£1,500	£1,500
Post tax income	£18,500	£18,500
Total as a couple	**£37,000**	

*£1,250 of person B's unused personal allowance can be transferred to spouse as neither is a 40% or 45% taxpayer.

One situation where it might make sense to be selfish with pension contributions, though, is if one of the couple qualifies for a higher rate of tax relief and the other does not.

Please note tax rules can change and the benefits depend on individual circumstances. It is also worth bearing in mind an investor may have additional sources of income, which will need to be taken into account.

For instance, most people will probably have some entitlement to a state pension (to find out roughly what to expect visit www.gov.uk).

In the examples here, we assume neither person is a Scottish taxpayer.

WHAT COULD YOU CONSIDER NEXT?
With our HL SIPP you can link accounts with family members and manage them all on a smartphone or iPad app.
www.hl.co.uk/SIPP →

7. MANAGE INVESTMENT RISK

Money contributed to a pension will almost certainly be invested and therefore subject to investment risk.

Why should an investor consider taking any risk at all? The reason is that risk and reward are related; the greater the risk of loss, the greater the return an investor should expect.

If very averse to investment risk, an investor can usually choose to invest pension contributions into a very low-risk fund, for instance a fund that invests in cash deposits only. However, as a result over the long term they could receive low returns. Indeed, there is a risk the interest earned on cash may not even keep pace with inflation, in which case the money they are contributing would actually be losing its buying power.

This is why most pension investors invest in a managed fund which invests in stocks and shares. They have historically performed better than cash over the long term, although there are no guarantees this will continue. Furthermore the value of stock market investments can fall as well as rise, so an investor could get back less than they invest.

When choosing investments within a pension, it might well pay to spread them around to reduce the risk faced from poor returns in any one sector or indeed from any one fund. For instance, investing in just one UK growth fund means that if that particular sector does badly, the entire pension fund will suffer. Likewise by investing in just one fund in that sector, there is a risk that the manager performs poorly.

This problem can be addressed to some extent by investing in a number of funds. Depending on the investor's attitude to risk this could be anything from cash funds through to higher risk emerging markets funds.

WHAT COULD YOU CONSIDER NEXT?

Take a look at our multi-manager funds run by our sister company Hargreaves Lansdown Fund Managers. They can be held in a SIPP and invest in a range of what we believe are the best funds available. Each aims to provide broad exposure to an entire sector with a single, convenient investment.
This extra layer of management means there are additional charges associated with running a multi-manager fund.

www.hl.co.uk/multimanager →

TAKE A LOOK AT OUR MULTI-MANAGER FUNDS

8. SACRIFICE SALARY

> An investor who is due a bonus or wants to know more about their company's policy on salary sacrifice, should speak with their Human Resources Manager or Financial Manager.

It might sound like a painful experience, but a salary sacrifice or a bonus sacrifice arrangement can be one of the most efficient ways of contributing to a pension. Such an arrangement involves giving up some salary in exchange for a pension contribution from the employer. In doing so the employee pays a reduced amount of income tax and, in addition to this, both the employee and employer usually make a National Insurance saving.

Where such arrangements exist, the employer can choose to give some or all of the saving they make to you, by paying it into your pension.

For example, assuming a higher-rate taxpayer receives a £10,000 bonus from their employer, using salary sacrifice can mean the difference between receiving £11,380 in their pension or just £5,800 in cash*.

That's a pretty attractive proposition for an investor who is given the option and is happy for the money to be tied up until retirement.

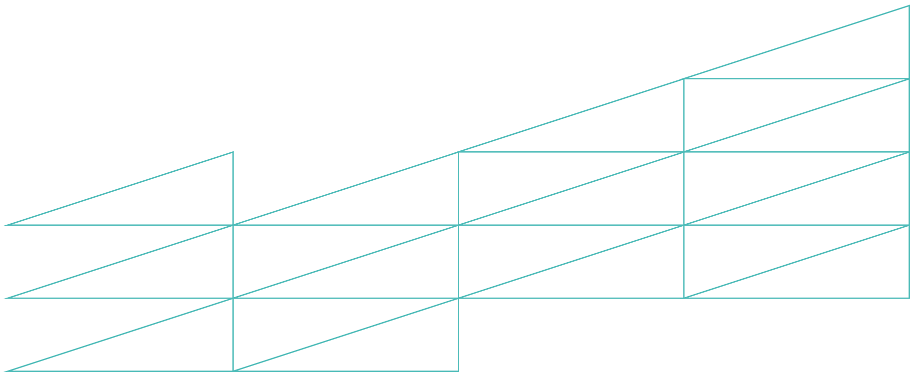
*The example assumes a 40% taxpayer and a 13.8% employer National Insurance saving paid into the pension.

The only tricky bit might be getting the employer to adopt such an arrangement and nominating a pension into which the payment is to be made. An investor who is due a bonus or wants to know more about their company's policy on salary sacrifice, should speak with their Human Resources Manager or Financial Manager.

There are some potential drawbacks to entering into a salary sacrifice arrangement which need to be considered. These include:

- a reduction in contractual entitlement to sick pay, overtime rates and paternity and maternity pay. Most of these issues can be overcome by the employer maintaining a reference salary on which these benefits are based
- eligibility for certain state benefits or statutory entitlements could be reduced as a result of paying less National Insurance or receiving less pay
- high earners with 'adjusted income' over £150,000 could be better off making a personal contribution. For details see **www.hl.co.uk/annual-allowance**

WHAT COULD YOU CONSIDER NEXT?
Our HL SIPP accepts employer contributions.
www.hl.co.uk/employers →



9. CONSIDER A LIFETIME ISA

The Lifetime ISA (LISA) is a tax-efficient product which can be opened by investors under age 40 to save for retirement. It was launched in April 2017.

Is it better to save into a LISA or pension? This is a question many people ask because both enjoy generous tax treatment. Investors should usually consider making the most of any pension contributions offered by their employer, but the answer will depend on your circumstances and preferences.

Here is a quick rundown of the main features of both. Please note tax benefits can be changed by the government.

	LIFETIME ISA	PERSONAL PENSION, INCLUDING SIPPS
Am I eligible?	Yes, if you are UK resident and older than 18 and younger than 40 when you open the account. You can then contribute up to your 50th birthday	Yes, if you are UK resident. Everyone under 75 qualifies for tax relief on their contributions, even children
Maximum annual contribution	Up to £4,000	You can normally contribute and get tax relief on as much as you earn each tax year, subject to a £40,000 annual allowance. Non-earners can pay in up to £3,600. Some people who have accessed a pension and high earners may face restrictions
What is the government's contribution?	Government adds 25% bonus	Everyone under 75: government pays 20% of your total contribution (effectively the same as the LISA bonus). 40% taxpayers can claim back up to an extra 20% and 45% taxpayers up to an extra 25%. For Scottish taxpayers, the tax bands are slightly different – www.hl.co.uk/scottish-tax
Tax relief on investments	Yes, no UK income tax or capital gains tax to pay	Yes, no UK income tax or capital gains tax to pay
When can I withdraw the money?	When you like, but there is usually a 25% government withdrawal charge if you use the funds for any reason other than the purchase of your first home, before age 60	Generally age 55, rising to 57 in 2028
Can I withdraw all the money tax free?	Yes, when purchasing your first home (conditions apply) or after age 60	No, only up to 25% of withdrawals are usually tax free and the rest taxed as income
How to apply with HL	Online, by phone and by post	Online, by phone and by post
Further details	www.hl.co.uk/LISA	www.hl.co.uk/SIPP

Tax rules can change. The value of tax benefits depends on individual circumstances. You must pay sufficient tax at the relevant rate to claim the full tax relief.

10. CONSIDER YOUR RETIREMENT OPTIONS CAREFULLY

Any time from age 55 (57 from 2028), you can normally start taking money from your pension, up to 25% is tax free and the rest is taxed as income. You could take the whole fund as a lump sum, smaller lump sums or a regular income.

However, with choice comes the risk of making a poor decision. For example, unsustainable withdrawals could result in a large tax bill or running out of money later in retirement. Before making a decision you should spend time carefully considering all the options. What you do with your pension is an important decision. Therefore, we strongly recommend you understand your options and check your chosen option is suitable for your circumstances: take appropriate advice or guidance if you are at all unsure.

Pension Wise, the Government's pension guidance service, provides a free impartial service to help you understand your options at retirement. You can access the service online at **www.pensionwise.gov.uk**, by calling **0800 138 3944** or face to face.

This guide is not personal advice. We offer a range of information to help you plan your own finances and personal financial advice if requested.

WHAT ARE THE MAIN OPTIONS?

Annuities

An annuity provides a secure income in exchange for the pension fund. The income is guaranteed for life, no matter how long the investor lives. Normally up to 25% of the fund can be used to provide a tax-free lump sum and the income is subject to tax. The investor chooses whether the income is fixed, increases by a set percentage over time or tracks inflation. Enhanced rates are often available if investors confirm lifestyle and health details. This could boost the income for life.

The annuity can continue to support beneficiaries after the investor dies (joint life annuity) or stop on death (single life annuity). It is also possible to guarantee the annuity for a minimum length of time, for example 5, 10 or even 30 years. If the investor dies within this time, the income will continue to be paid to their estate, or to the beneficiaries nominated, for the remainder of the guarantee period.

Once an annuity is set up, the options originally selected cannot normally be changed and any change in the investor's health cannot be used to enhance the annuity in the future.

GET A FREE ANNUITY QUOTE
www.hl.co.uk/annuity →

DRAWDOWN

Drawdown allows an investor to take tax-free cash (usually up to 25%) and keep the fund invested, while drawing income directly from the fund. It is more complex than an annuity.

The investor chooses where to invest, and the fund value will rise and fall depending on investment performance. They can choose how much income to take – from nothing to the whole fund. However, with this increased flexibility comes increased risk. Income is not secure, so poor investment performance or large withdrawals will erode the fund's value over time. In the worst case scenario this could completely deplete the fund. Whatever income is chosen the investor needs to satisfy themself the income will be sustainable for as long as they need it to last, and their investment strategy is compatible with this.

The death benefits with drawdown are generally more favourable than an annuity, simply because no one-off decisions need to be made before applying. Drawdown pension wealth can be inherited by anyone and is usually tax free if the original investor died before age 75, or subject to income tax if after.

Drawdown investors can usually nominate a beneficiary or beneficiaries to whom they would like to pass their pension to if they die and can change this nomination at any time. But you should be aware that this nomination is not legally binding.

REQUEST OUR FREE DRAWDOWN GUIDE
www.hl.co.uk/drawdown-guide →

UNCRYSTALLISED FUNDS PENSION LUMP SUM (UFPLS)

This option was introduced in April 2015. Investors who do not need their full tax-free cash yet, nor a regular income from their pension, can now take periodic lump sums directly from their pension without having to go into drawdown.

Each time an UFPLS is taken, 25% of the lump sum will usually be tax free and the rest taxed as income. Deciding whether to withdraw income over time rather than in one go is an important consideration, and can affect the amount of tax paid.

The remaining pension stays invested, which means the fund value and future income is not secure. Keeping the fund invested does create potential for growth; however, taking lump sums out will reduce what is left to provide income in the future, particularly if the investments perform badly or if too much is drawn.

FIND OUT MORE ABOUT UFPLS
www.hl.co.uk/ufpls →

MIX AND MATCH

There is no requirement to take a pension all in one go and investors do not need to choose just one option. They could decide on a mixture, for example using some of a pension to cover essential living costs through an annuity and using the remainder to provide a flexible income to support this.

TRY OUR FREE RETIREMENT PLANNER
www.hl.co.uk/retirement-planner →

IMPORTANT INVESTMENT NOTES

This guide is for your information only and is not personal advice. It is based on our understanding of legislation at 21 March 2019, which could change. Unless stated otherwise, all figures apply to the 2019/20 tax year.

Please remember pensions are long-term investments to fund your retirement. If you are unsure a particular course of action is suitable for your circumstances, you should seek personal financial advice – we can put you in touch with an adviser. Investments fall in value as well as rise so you may get back less than you invest. Neither capital nor income is guaranteed. Once held in a pension money is not usually accessible until age 55 (57 from 2028). Up to 25% is usually tax free and the rest taxed as income. Tax treatment can change and depends on your individual circumstances.

The HL SIPP is for investors who prefer to make their own investment decisions, without personal advice. If you are happy to manage your own pension the HL SIPP could be for you. If you do not need the flexibility of a SIPP, you might consider a stakeholder pension. If you have access to an employer's pension scheme you should always consider that first.

Most people can contribute as much as they earn to pensions. A £40,000 annual allowance also applies, although this can be as low as £10,000 for some high earners with 'adjusted income' over £150,000 and £4,000 for some people who have flexibly accessed a pension. The lifetime allowance is £1.055m. These limits can be affected by other factors – contact us for details.

Before transferring a pension, ensure you will benefit and will not lose valuable guarantees or benefits or incur excessive exit fees.

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HOW WE CAN HELP

The specialists on our Helpdesk are available to answer any queries you may have:

Monday – Thursday 8am to 7pm
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