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WEALTH **KNOWLEDGE**

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1 in 3 retirees enter drawdown as novice investors

Almost a third of people using drawdown to fund their retirement have no investment experience, research shows.

YouGov polled 742 retirees on behalf of Zurich and found that 32% have never invested in the stock market before, while 41% of those using drawdown received no prior financial advice or guidance.

Nearly half (47%) of the novice investors polled were under the impression that drawdown would be simple to understand, and only 29% backed their investment decisions.

Drawdown is offered by some personal pensions, allowing savers to draw post-retirement income from assets – such as cash, funds, equities or other eligible investments – held in their pension.

This offers the potential for investment growth, although income levels can fall as well as rise depending on how the investments perform.

According to the Financial Conduct Authority, twice as many people moved their pension pots into drawdown rather than annuities since the introduction of pension freedoms in 2015.

However, unlike an annuity, there is no guarantee that income received from drawdown can last for life.

Alistair Wilson, head of retail platform strategy at Zurich, said: "In the build-up to retirement, many savers rely on pension firms to make investment decisions on their behalf.

"In drawdown there is a danger they could end up picking the wrong investments or taking money out of their pot too quickly.

"Understanding what can be done to encourage consumers to seek financial advice or guidance is crucial to helping retirees secure a decent, lifelong income."

Contact us to discuss your retirement options.

More high earners use full ISA allowance

Increasing numbers of higher earners are maxing out their full ISA allowance, statistics from HMRC show.

Out of around 860,000 people in the UK who earn £100,000 a year or more, around a quarter (24%) used their maximum ISA allowance of £15,240 in the 2015/16 tax year.

This was a significant rise on the figures for 2011/12, which showed that 16% of the same group saved up to the limit of £10,680.

The figures suggest this trend has come about in response to decreases in the lifetime allowance since 2010/11.

The lifetime allowance, which is £1.03 million for 2018/19, limits the amount of savings that can be held in pension pots without being taxed.

Withdrawing more than this amount from a pension will result in a 55% tax charge for a lump sum, or a 25% tax charge for income, on the excess over the lifetime allowance.

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To avoid exceeding this limit on their pension pots, savers have instead taken advantage of the tax-free savings offered by ISAs.

While the lifetime allowance slightly increased for 2018/19, it is still significantly lower than its peak of £1.8 million in 2011/12, so the trend could be set to continue.

Meanwhile, the ISA allowance has risen since the data was taken, and currently stands at £20,000 for 2018/19.

Get in touch to discuss your savings strategy.

Rise in self-employment 'risks undermining state pension'

The growth of self-employment is putting pressure on the sustainability of the state pension as national insurance contributions (NICs) fall, research has found.

Analysis from Aegon claims £2.8 billion is lost in national insurance receipts for every one million people who make the move from employment to self-employment.

The challenge has arisen after reforms to the state pension were introduced in 2016, giving self-employed people the same state pension entitlement as employees.

However, the rules surrounding NICs did not change at the same time and the self-employed pay slightly less than those employees who have NICs deducted through PAYE.

This suggests that, as self-employment increases, the overall national insurance pot shrinks.

According to the Office for National Statistics, more than 4.8 million people were registered as self-employed in 2017 – representing an increase of 1.5 million in the last 16 years.

Aegon warns that increasing NICs for all self-employed workers is not the solution due to the diverse nature of self-employment.

Steven Cameron, pensions director at Aegon, said:

"As the self-employed on average pay less national insurance, the growth of self-employment means that over time, the total amount available to pay state pensions will shrink.

"Penalising every self-employed person with a national insurance increase is unlikely to be a fair or politically acceptable answer to this challenge.

"The self-employed are not benefitting from automatic enrolment with an employer contribution, and miss out on other benefits like maternity and paternity pay.

"The government needs to balance these considerations when looking at how to find a fair way of maintaining the state pension system."

Talk to us about your pension planning.

43% of over-55s fear pension pot will not cover retirement

More than two-fifths of over-55s fear their retirement savings will run out before they die, a study has claimed.

SunLife polled more than 1,000 people over the age of 55 and found that 43% worry about whether they have enough money to cover their retirement, with the average pension pot worth £105,496.

Almost half of respondents lay the blame at the door of poor interest rates, which have dented their savings, while two-thirds cited rising living costs for not being as comfortable as they had hoped.

The research flies in the face of the general assumption that many 'baby boomers', classed as those born between 1946 and 1964, have never had it so good.

Dean Lamble, chief executive at SunLife, said:

"In some ways, there has never been a better time to retire – we're living longer, enjoying healthier, more active lifestyles, and thanks to the new flexible rules around pensions, we have more freedom to spend our pension savings as we choose.

"We know people over 55 want a cash fund for many reasons – whether to pay for home improvements, pay off a mortgage or just have more money to live on each month."

According to various sources, the average UK household currently spends £2,200 a month, which works out at £26,400 each year, to give an idea of how much cash is needed in retirement.

However, priorities change as you move through your retirement years as people tend to spend less on food and drink, housing payments and recreation, but more on utility bills, health and insurance.

Speak to us about planning your retirement.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change.

Pension and ISA eligibility depend on individual circumstances. Pension benefits cannot usually be taken until age 55.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any investment decisions based on its content.

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