5 Pension Tips for those made redundant by Covid-19

November 2020

With unemployment rising, many individuals will be facing an uncertain future. While they look for new opportunities it is important to consider longer term income needs and how pensions should be handled.

Here are 5 key points to bear in mind: -

1. Leaving your job does not mean losing your pension savings. While workplace pensions are funded by employers, they belong to the employee after the employment ceases. Keeping track of older workplace pensions can be tricky, it is estimated that there are nearly £20 billion of unclaimed pensions in the UK*. For some of those made redundant using the time now to track down old pensions could be very worthwhile.

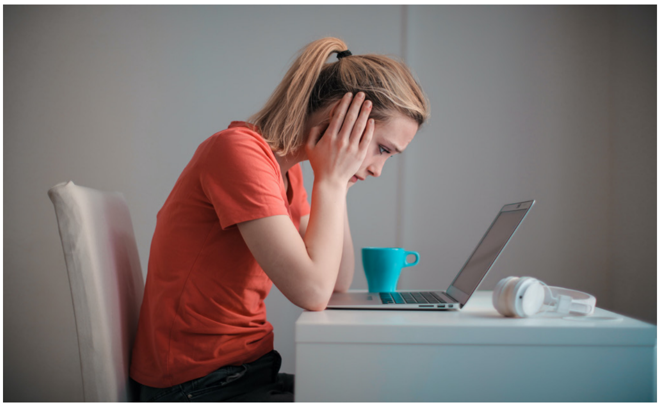
   https://www.lebc-group.com/news-and-views/keeping-track-of-pensions

2. If planning a longer break from work to care for family members, try to keep some pension savings going. Non earners can pay into pension plans and get a boost to their savings. HMRC automatically adds 20% to the savings made so that every £8 saved becomes £10 for savings of up to £2,880 per year.

   Some workplace pensions can continue to receive payments direct from a bank account and many may remain open with as little as £20 per month paid in. This can avoid big gaps in pension savings which is a major cause of the gender pension gap.

   https://www.lebc-group.com/news-and-views/gender-pension-gap-how-women-can-secure-a-better-retirement

3. When you find a new job ask about the pension scheme and join as soon as possible. All employees aged 22 to 66 who earn £10,000 per year or more are automatically enrolled into an employer pension scheme. The employee pays 4%, HMRC 1% and employer 3% of eligible earnings. Employees can opt out but will lose the employer contribution and tax subsidy if they do, so avoid this false economy if you can. Many employers offer more than this statutory



   minimum which costs the employee nothing and lower earners, under 22s and over 66s can still request to join.

4. If thinking of early retirement get financial advice on whether this is feasible and the best way to access retirement income in a sustainable way. While retirement from age 55 is possible, it may not be sensible if it means that income will run out later in life. Other solutions to a short-term income drop should be considered too. Withdrawing pensions before state retirement age (66) can make the individual illegible for benefits they would otherwise get if the pension was left untouched. Those under 55, unless in terminal ill health or in a special occupational category, eg sportsperson, armed forces, cannot usually access pensions without incurring heavy tax penalties which can wipe the fund out. An offer to provide access before 55 could be a scam and should be avoided.

5. Once aged 55 pension schemes can be accessed early but care needs to be taken to ensure that the tax charged on withdrawals is not excessive. While up to 25% of most pension funds can be withdrawn as a tax -free lump sum, any amount drawn over this is subject to income tax. A large withdrawal can take the individual into a higher tax bracket, so planning taxable withdrawals spread over a period may provide more net income. HMRC also tax one off withdrawals as though they are the first in a series of monthly payments. This results in too much tax being deducted at source, which the individual must reclaim using form P55 or P53.

Anyone who plans to resume building their pension savings needs to take great care not to limit their future savings opportunities by taking more than the tax-free cash from their pension. Even £1 over the tax-free amount can trigger a reduction in future pension savings allowance to no more than £4,000 per year. This little understood rule makes it difficult to rebuild retirement income. Taking financial advice prior to accessing pensions can avoid these traps.

https://www.lebc-group.com/news-and-views/covid-19-filling-the-income-gap-pension-withdrawals

*Association of British Insurers

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November 2020

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