

# METCALF MOAT UPDATE

YOUR FIRST CALL FOR INDEPENDENT FINANCIAL ADVICE

## **Pre Retirement**

Personal Pension  
Group Pensions  
Pension Life Assurance

## **At Retirement**

Annuities  
Phased Retirement  
Income Withdrawal  
Lifetime Mortgages

## **Investments**

ISA's  
Unit Trusts  
Childrens Savings  
Investment Bonds  
Savings Plans  
Fund Reviews

## **Tax Planning**

Inheritance Tax  
Capital Gains

## **Protection**

Income  
Life/Critical Illness

## **Mortgage**

First Time Buyers  
Moving Home  
Remortgaging  
Debt Consolidation  
Buy to Let

## **Business**

Key Man Cover  
Shareholder Protection  
Commercial Borrowing  
Group Life  
Group Pension  
Employee Benefits

## **Advisers**

Colin Moat  
John Riley  
Lee Taylor

## **What is a pension?**

Pensions are long-term investments with special tax rules. In a nutshell, the government gives you tax relief on money you pay in but, in return, you cannot take your money out until you are at least 50 (going up to 55 by 2010). Once you start drawing your pension this is taxed as earned income.

### **Salary-related occupational pensions**

#### **How they work**

You build up a pension at retirement that depends on:

- how many years you have been a member of the pension scheme (pensionable service);
- your pensionable earnings (often averaged over the last three years before retirement);
- the proportion of those earnings which you get as a pension for each year of membership (called the 'accrual rate'). The most common accrual rates are 1/60th or 1/80<sup>th</sup> of your earnings for each year of membership.

Please note, you can only join these schemes if your employer provides one – you cannot contribute to one privately.

#### **Example**

Bill belongs to an occupational pension scheme at work. It is a salary-based scheme. The 'accrual rate' is 1/60th. This means that Bill can expect a pension of 1/60th of his pre-retirement pensionable earnings for each year he belongs to the scheme. Bill retires at 65 on a salary of £24,000 a year, having been in the pension scheme for 10 years. His pension is:  $10 \times £24,000 \div 60 = £4,000$  a year (less if he takes any lump sum).

### **Money purchase pensions**

#### **How they work**

Money purchase pensions work by building up a pension fund using your contributions (and your employer's contributions if they make any), plus investment returns (if any) and tax relief. It helps to think of money purchase pensions as having two stages: **Stage 1:** The fund is invested, usually in stocks and shares and other investments with the aim of growing the fund over the years before you retire.

**Stage 2:** When you retire, you can take a tax-free lump sum from your fund and use the rest of the fund to secure an income – usually in the form of a lifetime annuity. This is why they are called 'money purchase' – you are swapping your fund for a regular income for the rest of your life. At retirement, the amount of pension you'll get will depend on various factors including:

- how much you pay into the fund;
- how much your employer pays in (if anything);
- how well your invested contributions perform;
- the charges taken out of your fund by your pension provider;
- how much you take out as a tax-free lump sum;
- 'annuity rates' and the type you chose.

### **Anyone can take out a Pension privately**

Whether you are employed, self-employed or not employed, you can still contribute to a private pension. You send your contributions to the pension provider you have chosen. The pension provider claims tax relief from HM Revenue & Customs (formerly Inland Revenue) at the basic rate (now 22%, 20% from 6th April 2008) and adds it to your fund. If you are subject to higher rate tax (40%), additional rebates can be claimed through your tax return.

### **We would recommend anyone take appropriate advice when saving for retirement or considering retirement options.**

Cardinal House, 27 Station Square, Petts Wood,  
Orpington, Kent, BR5 1LZ

T: 01689 891919 F: 01689 819191 [www.metcalfmoat.co.uk](http://www.metcalfmoat.co.uk)



METCALF MOAT

IFA LIMITED

'Growing by  
recommendation'

Authorised and regulated by the Financial Services Authority. FSA No: 440915  
Metcalfe Moat IFA Limited Registration No: 4825993

## How much can you pay in each year?

### Annual allowance

- You can pay as much as you like into all your registered pension schemes but there are limits on the amount of tax relief given. You can get tax relief on contributions of up to 100% of your UK earnings if you are a UK taxpayer. Any contributions (including any by your employer) above the annual allowance, which is £215,000 for 2006/07, will be subject to tax, currently 40%. The annual allowance will increase each year until 2010 when the position will be reviewed.
- If you're not earning (or earn less than £3,600) but can afford to contribute to a pension, the maximum you can contribute this tax year is £2,808 (made up to £3,600 with basic rate tax relief of 22%) rising to £2880 (made up to £3,600 with basic rate tax relief of 20%) from 6th April 2008 onwards.

### Lifetime allowance

There is also a lifetime allowance on the amount you can accumulate (free of tax) in all the pension funds when you come to draw your benefits.

- In 2006/07 tax year this is £1.5m. You have to pay tax on any excess over the £1.5m allowance. This is set to rise in stages to £1.8m by 2010/11.
- Salary-related pension scheme benefits are given a value which counts towards the £1.5m lifetime allowance. Any amount above the lifetime allowance can be paid as pension benefits but is subject to a tax charge (currently 25% if paid as income or 55% if paid as a lump sum). You may still have to pay tax on your income when you start to draw the pension. If you wish, you can take a maximum of one quarter of ALL the pension funds you have built up (including AVCs and FSAVCs) as a tax-free lump sum, up to a maximum of one quarter of the lifetime allowance.

## This table shows the estimated monthly pension “at today’s prices”

It outlines what you would get for different regular monthly contributions.

The estimated pension (annuity) shown assumes that:

- you increase your contributions each year in line with inflation (which we've assumed to be 2.5% a year);
- your fund grows by 7% a year on top of your contributions before charges;
- charges are 1.5% of the value of your fund each year for the first ten years and 1% a year afterwards. When you retire the estimates assume that you buy an annuity that increases by 2.5% a year with a 50% spouse's annuity.

“At today’s prices” Inflation erodes the value of money over time. For example, £100 in one year's time would purchase less than it would today. The size of this effect can become larger as the time period increases. When making pension decisions it is often useful to see what a future illustrated fund value is equivalent to in today's prices.

<b>What you pay per month for the first year (tax rebates will be added to this amount)</b>				
	<b>£20</b>	<b>£50</b>	<b>£100</b>	<b>£200</b>
<i>Your Age Now</i>	Initial annual pension if you retire at age	Initial annual pension if you retire at age	Initial annual pension if you retire at age	Initial annual pension if you retire at age
	<b>65</b>	<b>65</b>	<b>65</b>	<b>65</b>
<b>20</b>	£1176	£2940	£5880	£11760
<b>25</b>	£948	£2364	£4740	£9480
<b>30</b>	£744	£1884	£3768	£7536
<b>35</b>	£588	£1464	£2940	£5880
<b>40</b>	£480	£1212	£2424	£4848
<b>45</b>	£324	£816	£1632	£3276
<b>50</b>	£216	£564	£1128	£2256
<b>55</b>	£132	£336	£648	£1368
<b>60</b>	£60	£156	£312	£636

*Remember: these estimates are not guaranteed – you could get more or less than the amounts shown. The table gives you an idea of how much you need to pay now – as a regular monthly contribution – to get the annual income you want when you retire. In particular, the rate of growth of your fund may vary considerably and may be below 7% a year.*

Source Annualised figures taken from FSA – Guide to pensions June 2006

## Did you know?

**Government estimates for the UK show that life expectancy for people aged 65 in 2005 will be:**

- **around 84 for men; and**
- **around 87 for women. You could be living on your retirement income for many years.**

Source: Government Actuary's Department – cohort figures 2005