Supercharge your pension

Seven ways to give your pension pot a last-minute boost

Add tens of thousands of pounds to your retirement income with these smart tips and a little forward planning

BY RUTH JACKSON-KIRBY

Once you hit 55 it is easy to think it's too late to significantly boost your pension – but this is not true. From topping up your state pension to maximising your private pot's potential, you can add tens of thousands of pounds to your retirement income with just a few years, or even months, of forward planning.

1 Work out what you have and hunt down old pension pots

The first step to supercharging your pension is to understand your current position. Research by Aviva found that over a third of mid-life employees don't know what their pension is worth.

"Millions of mid-life employees are flying blind and fast toward their retirement," says Lindsey Rix, managing director of savings and retirement at Aviva.

"As a first step, mid-life employees who are mystified by their pension savings should try to get a clear picture of what they have saved so far and how much of an income this can provide them with over the course of retirement."

Dig out your latest statement from your pension provider to see what

your pot is currently worth. You can track down any forgotten pensions using the Pension Tracing Service (0845 6002 537).

You should also request a state pension forecast. This will tell you how much state pension you are due to receive, when you can start claiming it and what you can do to boost it. You can apply for this at gov.uk/check-state-pension.

2 Pump up your state pension

"If you are looking to maximise your income in retirement, a good place to start is to check that you are getting a full state pension," says Michelle Cracknell, an independent pension expert.

In order to receive the full amount – currently £168.40 a week – you have to have made national insurance contributions (NICs) for 35 years.

If not, you'll get a smaller state pension, and if you have less than 10 years of NICs you won't normally qualify for a state pension at all.

"If you are not on track to get the full state pension, consider topping up by paying voluntary national insurance contributions," says Ms Cracknell. You can pay £780 for a year of voluntary Class 3 NICs. This will add 1/35th of the full state pension to what you receive, so around £250 a year. You will get that extra money for the length of your retirement so would recoup your £780 outlay in just over four years.

Not everyone can make voluntary NICs, so speak to the Future Pension Centre (0800 731 0175) first.

3 Make the most of your private pension

Surprisingly, a lot of us stop paying into our pension as we approach retirement. Almost a quarter of employees over 60 opt out of their workplace pension, according to Royal London.

"It's understandable that someone at the age of 60 might think it is too late to save enough to make a difference to their retirement income, but they are wrong," says Helen Morrissey, pension specialist at Royal London.

"Our figures show that older workers are throwing away thousands of pounds of retirement income by opting out of their scheme."

Someone making the minimum contribution of 8% of their earnings (5% from you and 3% from your employer) to their workplace pension could amass savings worth £13,980 between the ages of 60 and 65, according to Royal London.

Even if you have no pension at all, if you started saving at 45 you could build a pension pot worth £56,100 by 65, according to Aviva – that's assuming you earn the average UK salary of £28,000 and contribute the minimum 8%.

Boost your contributions above the minimum and you could save up significantly more.

Remember that the amount you pay into your pension is topped up by tax relief. This means it only costs a basic rate taxpayer £80 to invest £100 in their pension, while higher rate taxpayers only need to stump up £60 to pay the same amount.

Depending on the scheme, some higher rate taxpayers may only get 20% relief applied automatically and will have to claim the remainder back via their tax return.

4 Boost your pension with extra cash

You can also significantly boost your pension as you approach retirement by diverting other money into it. For example, when you finish repaying your mortgage, consider paying your usual monthly mortgage repayments into your pension instead.

"Over a third of people expect to have paid off their mortgage by the age of 55," says Sarah Coles from Hargreaves Lansdown.

"Your new-found mortgage freedom presents a brilliant opportunity to boost your pension.

"With average payments of £670 a month, a basic rate taxpayer will get tax relief of £167.50 a month, so in a year, you and the government will have added £10,050 to your pension. A higher rate taxpayer in England may have to claim the rest of their tax relief through their tax return and get £2,000 back. This in turn can be ploughed into your pension."

It's also possible to pump up your pension with one-off lump sums, such as an inheritance.

"By using carry-forward rules you are able to invest any unused pension allowances from the previous three tax years, so this could potentially be up to £120,000 plus the £40,000 pension annual allowance from this tax year," says Patrick Connolly, a chartered financial planner from Chase de Vere.

For people who receive a bonus at work another even savvier way to top up your pension is to pay it directly into your pension – saving you both tax and national insurance. (See box for explanation.)

Just be aware that you can only get tax relief on pension contributions up to the same level as your taxable income for that financial year. So, even if you have an unused allowance worth £120,000, if your

"Get a clear picture of what you've saved and what it will provide"

5 HOW PAYING YOUR BONUS INTO YOUR PENSION CAN ALMOST DOUBLE YOUR WINDFALL

If you get a bonus at work, then seriously consider paying it directly into your pension rather than spending it.

Claire Trott, head of pensions strategy at St James Place, explains: "If we assume someone is not restricted by their annual allowance and they don't need the cash, then paying into a pension is a great way to minimise the tax they will pay."

This is because pension contributions are eligible for tax relief so you won't have to pay any income tax on the bonus.

"If the employer will also allow the individual to use salary sacrifice, then there are further savings to be had. They won't pay any national insurance on the contribution and they won't have to reclaim any tax either, because it will be paid to the scheme before any tax is deducted. In many cases the employer will pass on some or all of the saving they make on employees' national insurance, which is 13.8% of the bonus."

Ms Trott says that a higher-rate taxpayer with a £10,000 bonus would get it boosted by as much as £1,380 in NI savings, giving them a total pension contribution of £11,380 (some employers may deduct an admin fee).

If the individual took their bonus via payroll they would only get £5,800 after tax and NI.

KNOW YOUR LIMITS

If you're planning to increase your pension contributions make sure you don't exceed the annual and lifetime allowances.

The amount you can pay into your pension is the amount you have earned in salary, capped at £40,000 a year. If you exceed this, you won't receive tax relief on the excess and will have to pay an annual allowance charge.

There is also a lifetime allowance on pensions. The value of your pension cannot exceed £1,055,000. If your pension is worth more you'll pay a charge on it of 25% if the excess is paid as income, or 55% if it's taken as a lump sum.

earnings are £80,000 you can't get tax relief on pension contributions exceeding £80,000.

You don't even need to pay more into your pension to get it working harder. Moira O'Neill, head of personal finance at *Moneywise*'s parent company, interactive investor, says savers need to engage with the pension and the funds they are invested in to ensure they are doing what they need them to.

"Take a good hard look at your risk profile – it's going to make the biggest impact on your pension as you get older, not how much you tuck away.

"If you don't want to compromise your lifestyle in retirement, then a low-risk portfolio might not have the fire power to see you through. That doesn't mean you should go all out high risk, but it's worth reassessing your attitude to risk."

> "Take a good look at your risk profile"

She adds: "As for your current portfolio, keep on top of your investments and review them at least twice a year. Think about traffic-lighting your investments. Green means you are happy things are going well. Amber means that you need to pay close attention. Red means you have given a fund the chance to turn around, but it's now time to sell and buy a better option."

6 Don't take your lump sum

When you turn 55 you can take up to 25% of your pension pot tax-free. But just because you can doesn't mean you necessarily should.

"Lots of people will take their tax-free cash as soon as possible. However, it is worth asking yourself whether you really need the money now," says Ms Morrissey.

"Taking the money and putting it in a bank account means the money will only benefit from extremely low interest rates, whereas if you leave it invested until you need it then it has the opportunity to grow further."

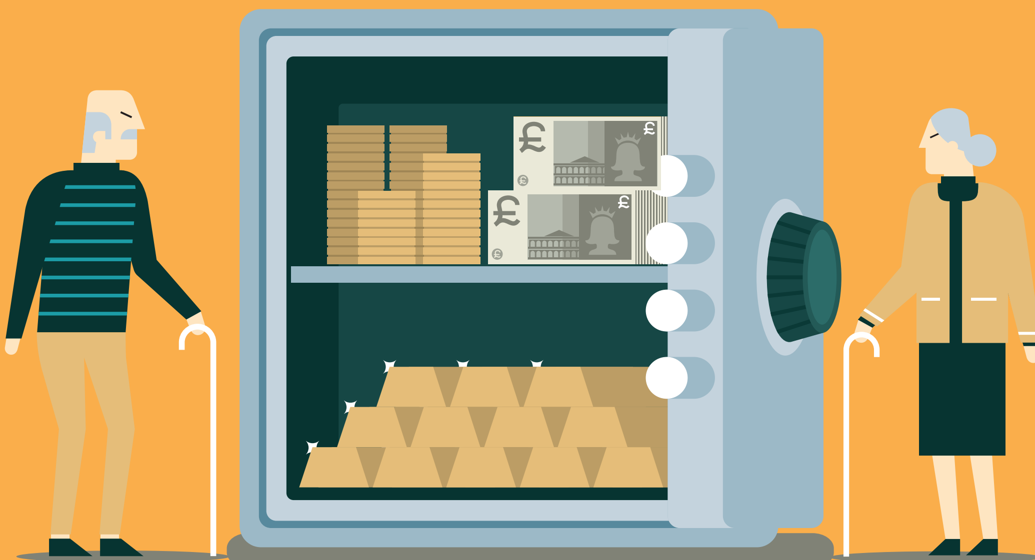
Leave it to grow and you can enjoy an even bigger tax-free amount down the line. Plus, you don't have to take it all at once – you can take it in several smaller amounts if you prefer.

7 Delay your pension

Another way you can significantly boost your pension is to delay when you start getting it. "A common misunderstanding is that people think when they receive their retirement pack from their pension provider or scheme, they have to draw their pension," says Ms Cracknell. "This is not the case. If you do not need the money, for example you are still working, you should check the terms for delaying taking your pension. This applies to your state and private pensions."

With your private pension the benefits of delaying it include that your money remains invested for further growth and is sheltered from inheritance tax.

With your state pension, for every year you delay your payment, it will be increased by 5.8% for life – so the longer you live the more you stand to benefit. mw



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