ACUMEN FINANCIAL

KEY GUIDE

Saving for retirement

Introduction

THE VALUE IN THINKING AHEAD

Retirement is something most of us look forward to – particularly on a Monday morning. However, those thoughts are often little more than a whimsical cocktail of not having to work and prolonged holidays. The reality could be rather different.

For a start, retirement has increasingly become a gradual process, with part-time work often playing an important role. The latest data from the Office for National Statistics (ONS) show that 16.2% of men and 10.9% of women aged 65 and over are still in employment.

Ensuring you have enough to live on in retirement isn't straightforward. In a report published earlier this year updated calculations from the Pensions and Lifetime Savings Association showed that in 2026/27 a couple who wish to enjoy a moderate standard of living in retirement needed a net annual income of £45,400 (£47,000 in London). Not planning adequately for your later years could have a serious impact.

Please note that all examples included in this guide are fictitious.

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A gradual process

The blurring of the work/retirement boundary is being accompanied by changes to the state pension age (SPA). The process of equalising the SPA for men and women started in 2010, and both sexes have shared a common SPA since November 2018. Another phased SPA increase ended on 6 October 2020, and the latest phased change to an SPA of 67 for both sexes is now underway. The planned increases are:

State pension age increase	Phasing-in starts	Phasing-in ends
66 to 67	6 April 2026	5 April 2028
67 to 68*	6 April 2037	5 April 2039

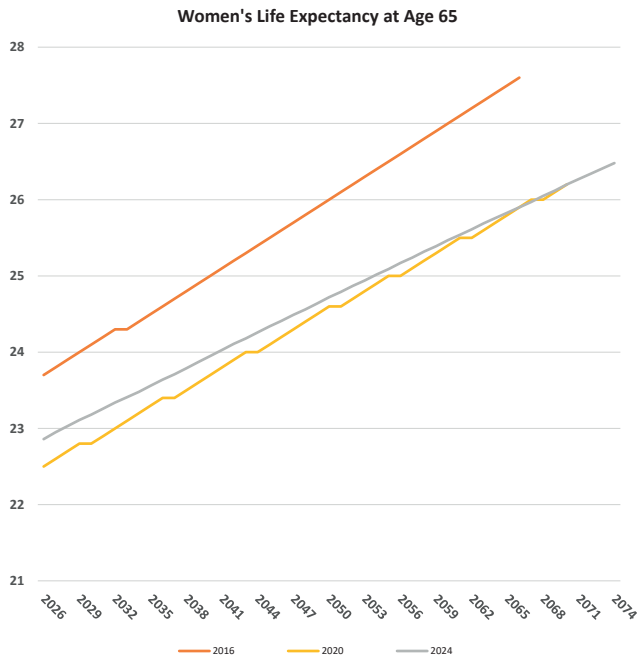
**Not yet legislated for but announced in July 2017, initially the subject of a review in 2023 and now the subject of a further review, with results due soon.*

Planning point

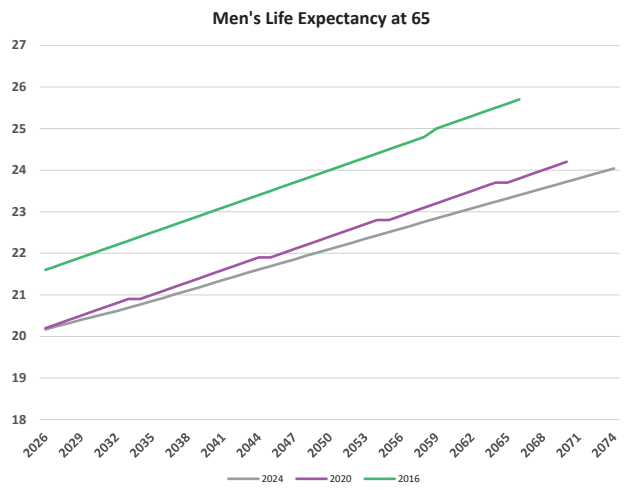
Life expectancies have increased significantly over recent decades, so your plans for saving should allow for a longer retirement than you may have anticipated.

At the rate that SPA has been rising, you may need to have reached age 70 by around 2060 before you can start to draw your state pension – food for thought if you were born after 1989.

Until the 2010s, the rise in SPA has reflected some good news for retirees: the increase in life expectancies. Between 1981–83 and 2009–11 the average life expectancy in the UK at age 65 rose by over five years for men (to 83.0 years) and a little under four years for women (to 85.7 years). Since then, as the graph shows, projections of the pace of improvement in life expectancy have been falling at each biennial review undertaken by the ONS. These are average numbers based on historical data, so they don't tell the whole story. Other calculations made by the ONS suggest that a man aged 65 today has a one-in-three chance of reaching age 90, while a woman of the same age has close to an even chance of reaching the same age.



Source: Office for National Statistics



Source: Office for National Statistics

YOUR PENSION OPTIONS

Today's pension offerings are best considered in two parts: state provision and private provision. These remain complementary elements, with the state providing a base/subsistence level of income on which private provision is built.

Since 2010, a raft of pension changes has been introduced. The reforms have had a variety of goals, but two key points stand out:

- The state's role in retirement provision is shrinking, effectively limiting the burden of an ageing population on the Treasury. There is now no long-term, earnings-related link to state pensions, other than in terms of the certain thresholds.

- In parallel with the declining relevance of the state, there is greater emphasis on private pension provision and individual responsibility. The introduction of automatic enrolment and the increased flexibility in drawing benefits from pension arrangements are both moves away from state responsibility.

State pension

The state pension is now a single-tier arrangement, meaning that there is no longer any earnings-related element. In 2026/27, the theoretical maximum new state pension is £241.30 a week – about 54% of what the National Living Wage (NLW) would provide for a 35-hour week. In practice, few people reaching their SPA now receive precisely £241.30. The differences stem from the arcane transitional adjustments made to take account of the old state pension regimes, including the option to opt out (technically 'contract out') of the earnings-related element.

Unlike the old state pension regime paid to those who reached their SPA before 6 April 2016, the new state pension is a purely individual benefit and does not incorporate any widow's or widower's pension. However, under the transitional provisions in respect of national insurance contributions (NICs) made or credited before 6 April 2016, some widow's or widower's

payments may be included. Once payment starts – and don't forget that moving SPA – the state pension has previously increased by whichever of the following is greater: average earnings, price inflation (as measured by the consumer prices index) and 2.5%.

There are regularly calls for this so-called 'triple lock' to be replaced, with the costly guarantee of the 2.5% floor removed. The 2024 general election saw the Conservatives, Labour and the Liberal Democrats all confirming that they would maintaining the 'triple lock' were they to gain power. In the Autumn 2024 Budget, the Chancellor confirmed the 'triple lock' would continue for the rest of this Parliament. However, that promise may be called into question if further spending cuts are required.

The triple lock increase from April 2026 was 4.8%, in line with earnings growth to July 2025 and comfortably above the September 2025 CPI inflation benchmark of 3.8%. By the time the increase came into effect, inflation was 2.8%, underlining the lags in the state pension system.

To find out your projected state pension entitlement, start by visiting www.gov.uk/check-state-pension. Then you will need to consider your private provision.

Planning point

If you are still working, you can opt to defer the state pension to increase the amount you receive when you start to take it.

Final salary pensions

Final salary pension schemes, often referred to as defined benefit schemes, generally offer a pension benefit related to your salary around the date of retirement and the number of years of service with the scheme's sponsoring employer. In

the private sector, the cost of running final salary schemes has prompted their widespread closure: as at 31 March 2025 only 4% of schemes were open to new members and over 70% were no longer accruing further benefits for existing members.

The public sector has continued to offer defined benefit pension schemes, which are largely funded on a pay-as-you-go basis, unlike their pre-funded private sector counterparts. Even so, these schemes have been subject to various cost-saving measures, such as higher member contributions and moving towards benefits based on career average earnings rather than final salary.

If you are a member – past or present – of a defined benefit pension arrangement, you should probably consider yourself lucky. Do make sure you understand what your eventual benefits should be and seek expert advice before taking any action, such as drawing benefits early or transferring to another pension arrangement.

Transferring out of a final salary pension scheme is unlikely to be in the best interests of most people.

Defined contribution pensions

At their simplest, defined contribution pensions, sometimes called money purchase pensions, are similar to savings plans. Contributions made by you, your employer (if you have one) or even third parties are invested in your chosen investment funds. When you want to draw benefits, you cash in part or all of your fund, either buying a pension annuity or directly withdrawing the cash. Reforms that took effect in April 2015 mean that there are virtually no restrictions on how you take your benefits, provided you have reached the minimum pension age (currently 55, but 57 from April 2028 and then increasing in line with ten years below the SPA).

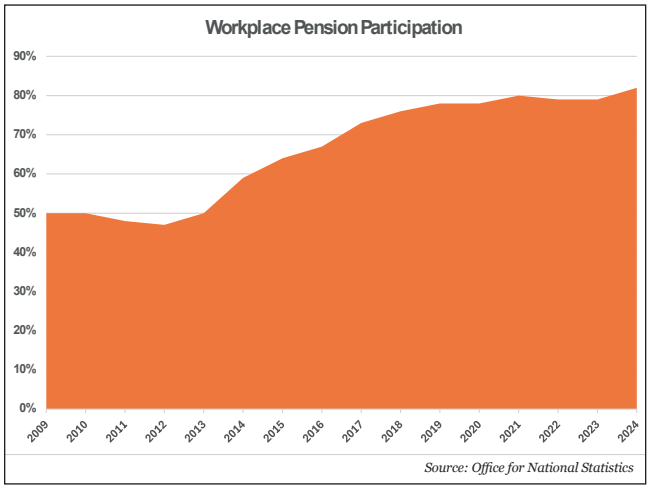
Defined contribution pension arrangements take a variety of forms, from highly tailored individual plans, such as self-invested personal pensions (SIPPs), to large multi-employer arrangements, such as the government-established National Employment Savings Trust (NEST).

The growth of defined contribution schemes has been given a boost by auto-enrolment of employees for workplace pensions, as the graph below demonstrates. Auto-enrolment was phased in from October 2012 and combined employer and employee contributions have totalled 8% of qualifying earnings since April 2019. A private member's bill that passed into law in 2023 with government support provides for the possibility of further increases in contributions and expanded eligibility. However, no changes are likely any time soon. In July 2025 the government announced that it was reviving the Pension Commission "to examine why tomorrow's pensioners are on track to be poorer than today's and make recommendations for change". A final report from the Commission is due in 2027.

If you have been auto-enrolled into a pension in the past 14 years, the chances are you became a member of a defined contribution arrangement. The importance the government attaches to auto-enrolment can be seen by the fact that it included ongoing payments of employer contributions in the benefits given to furloughed workers under the Coronavirus Job Retention Scheme during the pandemic.

Planning point

Defined contribution pensions have largely replaced final salary schemes and allow you to cash in all or part of your fund as an annuity or cash withdrawal.



Lifetime ISAs

Lifetime ISAs (LISAs) are not pension arrangements, but a variant on the individual savings account (ISA) that was launched in April 2017. Their structure looks like a pension because there is a form of tax relief on contributions and a minimum age of 60 for drawing out funds without penalty, unless the cash is used for purchase of a first home. In some circumstances, a LISA is preferable to a pension arrangement, but the choice is best made with advice.

You will incur a lifetime ISA government withdrawal charge (currently 25%) if you transfer the funds to a different ISA or withdraw the funds before age 60 and you may therefore get back less than you paid into a lifetime ISA.

By saving in a lifetime ISA instead of enrolling in, or contributing to an auto-enrolment pension scheme, occupational pension scheme, or personal pension scheme: (i) you may lose the benefit of contributions from your employer (if any) to that scheme; and (ii) your current and future entitlement to means tested benefits (if any) may be affected.

The Autumn 2025 Budget announced that in 2026 LISAs would be replaced by a new First Time Buyer ISA. A consultation paper was issued in June with limited detail, but HMRC has confirmed that contributions can continue to existing LISAs once the product is withdrawn.

YOUR PENSION CONTRIBUTIONS

Contributions to private pensions generally attract full income tax relief, so if you are a higher rate taxpayer in England, Wales or Northern Ireland, a contribution of £100 will cost you a net £60 (it is £58 in Scotland where the higher rate on earnings is currently 42%). The income tax relief is so generous that there is a raft of legislation which places limits upon it.

Annual allowance

One such limit is that your total pension contributions, including employer contributions, must be kept within an annual allowance to avoid tax charges. For 2026/27, the basic annual allowance is £60,000, but it is gradually reduced if you are a high earner. As a very broad guide, tapering starts to bite if your income (not just earnings) plus your employer pension contributions exceed £260,000, and at £360,000 or more hits a £10,000 contribution floor.

Before 2023/24 the maximum annual allowance was £40,000, again subject to tapering. The tapering of the annual allowance caused – and, despite the 2023 increase, can still cause – major problems for high earners. One result has been the spread of cash payments in lieu of pensions contributions for senior employees.

EXAMPLE
Maximising contributions

Bill is a self-employed consultant with a total income of £160,000 a year, meaning he is unaffected by the rules for tapering the annual allowance. For the last two years he has contributed £25,000 a year to his SIPP, and £45,000 in 2023/24, well below the annual allowance he could have paid. In 2026/27 he could in theory pay £145,000:

Tax year	Amount contributed	Balance of annual allowance available
2026/27	–	£60,000
2025/26	£25,000	£35,000
2024/25	£25,000	£35,000
2023/24	£45,000	£15,000
TOTAL		**£145,000**

In practice, Bill might choose to set his contribution at £89,000 for 2026/27 and the next tax year and £87,000 for 2028/29, as that level would allow him to take advantage of his unused allowance receive additional and higher-rate tax relief on all his contributions and take his taxable income below the £100,000 personal allowance taper threshold. If he made a one-off payment of £145,000 in this tax year, about £35,000 of this would only attract basic-rate relief.

Carry forward

There are some special rules that may allow you to catch up on the pension contributions you could have made in the previous three tax years, and thus contribute more than one year's annual allowance. This process is known as 'carry forward' and up until 5 April 2027 you can exploit it to mop up your unused annual allowance dating back to 2023/24. The rules are relatively complicated in their application, but, in theory at least, if your earnings are high enough and you have not paid into a pension in recent years, it would be possible to make up to £220,000 of pension contributions in 2026/27 with full tax relief.

Lifetime allowance

Alongside the annual allowance, there used to be an effective limit, the lifetime allowance, on the tax-efficient value of your overall pension benefits, set at £1,073,100 for 2023/24. The allowance was abolished with effect from 2024/25, although the replacement legislation still includes tax-free lump sum restrictions which reflect the former ceiling. As shadow chancellor, Rachel Reeves had said the lifetime allowance would be reinstated. The proposal was not included in the Labour manifesto, was unmentioned in her subsequent budgets and can now probably be assumed abandoned.

The abolition of the lifetime allowance was complicated by varying treatment of several sets of transitional rules dating back as far as 2006. If you were – or might be – affected by the removal of the lifetime allowance, advice is vital before making any fresh pension contributions.

Outside of the pensions arena, there are many ways to create retirement funds, some of which offer tax reliefs similar to those provided by pensions.

Planning point

The abolition of the lifetime allowance may mean that you are now able to restart pension contributions that previously would have meant you lost valuable protection from a lifetime allowance tax charge.

Making contributions

Whether or not you wish to maximise your pension contributions, it is well worth taking some trouble to decide how they should be made. If you are an employee, then you (and your employer) can save NICs. The secret is for you to reduce your salary or your bonus and ask your employer to use the money, including the NIC saving, to make the pension contributions for you. The technical name for this is salary or bonus sacrifice and it is all perfectly legal, provided you do it correctly. If you pay basic rate tax, the result could be an increase of up to 27.8% in the amount being paid into your pension. If you are a higher rate taxpayer, the uplift is a maximum of 19.0%.

You should note that this reduction in your salary would not have the same effect as asking your employer to make the contributions on your behalf. Your cash salary will be reduced and replaced with the pension benefit. Before taking this out you should consider the effect this may have on:

- your ability to borrow money, for example for a mortgage;
- your entitlement to redundancy payments or other benefits such as statutory maternity pay, working tax credit, universal credit or child tax credit;
- any life insurance or income protection where the amount paid is linked to your salary.

A new pension salary sacrifice regime announced in the Autumn 2025 Budget will charge employer and employee NICs on any salary sacrificed above £2,000 per tax year. However, it will not take effect until 2029/30, creating an unusually long planning window.

INVESTMENT DECISIONS

Unless you only have defined benefit pension arrangements, your pension will require you to make and regularly review investment choices.

Default funds

All auto-enrolment pension arrangements and some other pension plans offer 'default' funds or investment strategies, designed to spare you the task of making investment choices. The simplicity may appeal to new investors, who aren't ready to make such investment decisions.

Research by the DWP published in 2025 showed that a large majority of pension providers' automatic enrolment assets was invested in default funds (86% on average for multi-employer schemes and 77% for single-employer schemes. If you choose your pension provider's default investment solution, remember:

- You are still making an investment choice, which is to follow the decisions made by the manager of the default fund or strategy.
- By definition, the default option is not personalised to your particular circumstances. For example, it takes no account of your other investments.
- There is no such thing as a standard default fund or strategy. Different providers can select surprisingly different default asset allocations.

The tailored approach

As an alternative to the default 'choice' you can actively take investment decisions designed to match your retirement goals. Many people who adopt this route rely upon their financial adviser either to make fund recommendations, manage the whole process or appoint a specialist external investment manager. You always have the option of DIY management, but in practice this requires time and expertise to avoid serious mistakes.

A major advantage of the tailored approach is that it allows your pension investments to be integrated into your overall investment portfolio. Otherwise you could find yourself, for example, selling Japanese funds from your portfolio while your default investment manager buys into Japan.

iStock/wilpunt

The more refined the tailored approach, the more likely it is that a pension plan should be a SIPP. The key difference compared to other defined contribution arrangements is the range of investments available under a SIPP, which vary among providers. Investment platforms typically offer a fund-based range that will suit most investors, while specialist providers may offer the full range. Investment options include:

- a very wide range of investment funds;
- direct investment in stocks and shares;
- cash deposits;
- commercial property.

Planning point

You can take a more tailored approach to integrate your pension investments with your portfolio, but without advice this can be risky and time-consuming.

THE NEED FOR REGULAR REVIEWS

If you were to wait for a time when pension rules remain constant, your retirement date would be likely to arrive first. Governments of all hues have regularly revised the tax and other rules surrounding pensions, the Autumn 2025 Budget changes to salary sacrifice rules being the latest. Often the motivation has been to save money, either by reducing the tax relief cost (estimated at a net £59.1 billion in 2025/26) or by cutting expenditure on the state pension (as happened with the suspension of the triple lock for 2022/23).

Until the revisions announced in Budget 2023, government changes to pension taxation meant that, for some people, there was no financial sense in making pension contributions. For others, earlier reforms had transformed pensions into a key estate planning tool, something that was reversed by the changes announced in the Autumn Budget 2024.

Aside from government interventions, regular reviews are also necessary for other reasons:

- Your circumstances could change. For instance, you may want to alter your retirement date, use an inherited lump sum to make a one-off contribution or move to a new employer offering a different pension arrangement.
- If you have a defined contribution plan, the underlying investments will need to be reviewed in the light of market conditions and any changes in your circumstances. Usually it is best to do this as part of an overall portfolio review.
- As you approach retirement your pensions will usually need to be recast as plans to provide income rather than build up wealth. This could mean a different investment strategy and/or in some cases a switch of pension provider.

Planning point

Given the frequency of government reforms to pensions, plus your own changing circumstances, regular reviews should be built into your financial planning.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

The value of your investment and pensions can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investment in a registered pension fund is subject to many restrictions on access and on how the funds can be used.

Investment in commercial property can be high risk and can be difficult to sell.

HOW WE CAN HELP

Retirement planning is complicated and has been made even more so by constant changes to the rules. We make it our business to stay up to date with the latest developments, and to help clients take full advantage of the available tax breaks. In particular, we can:

- Assess your financial priorities and choose suitable ways of saving for retirement.
- Integrate any auto-enrolment pension provision from your employer with your own private provision.
- Maximise pension contributions, using carry forward where appropriate and taking advantage of the abolition of the lifetime allowance.
- Advise whether using the current limited life version of salary sacrifice could increase the amount invested in your pension, at no extra cost to you or your employer.
- Consider the appropriateness of a SIPP, and the right investment strategy.
- Deal with pension arrangements from previous employments.
- Manage the move from saving to withdrawing from your pension.
- Recommend any actions that you need to consider ahead of the introduction of revised inheritance tax treatment of pensions.
- Keep you informed on how any new government legislation could affect your retirement planning.

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