Cost of Living

5 practical ways to make your pension go further during the cost of living crisis

Household bills have increased rapidly during the past year. The current cost of living crisis began with the Covid pandemic, causing problems for economies around the world and creating global supply chain delays followed by the war in Ukraine.

Following such an extended period of price rises, you may be concerned about your household finances and long-term plans. If you are retired or about to retire and rely on a defined contribution (DC) pension for your income, read on for five options that could help you make your pension stretch further.

01 Use existing savings for income

If the value of your DC pension has fallen recently, one way to help it to recover could be to keep as much of it invested as possible. Consider whether you could live on less income than you are currently taking.

Using alternative savings or investments could help reduce the amount you need from your pension. By leaving your money invested in your pension, you'll retain more fund units, which may increase in value when markets recover.

When things are looking better, if you have depleted your emergency fund you could use some of your income to rebuild it gradually. This will provide a buffer to support you if markets drop again in the future.

02 You could take a phased retirement

Many people are choosing to take a phased retirement to fight the effects of the cost of living crisis.

This might include:
- Taking a part-time job
- Setting up your own business or working as a contractor
- Staying in your old job but on reduced hours

Continuing to work means you could contribute more to your pension, helping it to grow further. Keep in mind that the Money Purchase Annual Allowance (MPAA) might limit the amount of tax relief you can receive.

Once you start drawing income flexibly from your pension, you can only receive tax relief on contributions up to £10,000 a year, although you can make contributions over this amount. You could also receive your State Pension payments alongside any income you make from work once you reach State Pension Age. If you are struggling to cover your monthly expenses, this could provide a welcome boost to your income. We can help you understand all the financial implications of phased retirement and pension contributions.

03 An annuity could provide guaranteed annual income for the rest of your life

If you would like a guaranteed annual income but don't want to go back to work, you could consider an annuity. Buying an annuity with a lump sum from your pension can deliver a guaranteed annual income for the rest of your life. Annuities are becoming an attractive option for retirees again. Rates have risen to a 15 year high in 2023, meaning you can now get much more for your money. For example, in September 2023, a 65-year-old with a pension pot worth £100,000 could secure a guaranteed income of £7,462 a year for life.

04 A lifetime mortgage could free up cash from your home

A lifetime mortgage is a loan that you take out against the value of your home, allowing you to exchange equity for tax-free cash. To be eligible, you must:

- Be over 55 and a UK resident
- Own your home, which must be worth/valued at more than £70,000
- Have little or no mortgage left to pay

A lifetime mortgage has several benefits and disadvantages, as illustrated.

Benefits of a lifetime mortgage:

- You retain ownership of your home
- The cash can be used to pay for anything
- You don't need to repay the loan, or the interest accrued, until you move into long-term care or pass away

Disadvantages of a lifetime mortgage:

- Interest will be charged on the original loan and the interest accrued, so the amount you owe will grow
- The interest rates on lifetime mortgages tend to be higher than on residential mortgages
- You may have less to leave beneficiaries in your will

05 Downsize your home to reduce monthly bills

Moving to a smaller property with a better Energy Performance Certificate rating could offer a win-win situation. Not only could this help free up some cash from the sale of your old property, but a smaller, more efficient home could also reduce monthly bills.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Past performance is not a guide to future performance and should not be relied upon.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes, which cannot be foreseen.

A Lifetime Mortgage is not suitable for everyone and may affect your entitlement to means tested benefits, so it is important to seek financial advice before taking any action. If you are considering releasing equity from your home, you should consider all options available before equity release. The interest that may be accrued over the long term with a Lifetime Mortgage, may mean it is not the cheapest solution. As interest is charged on both the original loan and the interest that has been added, the amount you owe will increase over time, reducing the equity left in your home and the value of any inheritance, potentially to nothing. Although the final decision is yours, you are encouraged to discuss your plans with your family and beneficiaries, as a Lifetime Mortgage could have an impact on any potential inheritance. We would also encourage you to invite them to join any meetings with us so they can ask questions and join in the decision, as we believe it is better to discuss your decision with them before you go ahead.

Get in touch

If you're worried about the rising cost of living and would like to discuss ways to protect your finances from the effects of inflation, we're here to help. **Please get in touch to arrange a time to chat.**

PART OF THE Openwork PARTNERSHIP