Ready for the next rise in State pension age?

The State pension remains a cornerstone of most people's retirement plans — yet fewer than half know when they'll receive it.

You may assume it's the 20-somethings, years away from retirement, who are blissfully unaware of their State pension age (SPA), but government research found that 42% of 54 to 64-year-olds did not know the date they are eligible for their pension. This confusion may be due to the fact the SPA has increased in recent years and will rise again next year.

The State pension is currently worth around £11,500 a year, and for now men and women collect this on their 66th birthday.

- From April 2026 the SPA will rise over a period of two years to age 67, so those born after 6 March 1961 won't collect until they reach 67. Those in the transition phase, born between 6 April 1960 and 5 March 1961, should use the gov.uk pension checker to check the month this becomes payable.
- To further complicate matters, the SPA will rise to 68 again over a two-year period from 2044 — although there are proposals to bring this forward to 2037. A final decision on bringing this date forward was postponed by the previous government.

Review your past pensions

Whether you're two or 10 years from retirement, it helps to have a robust plan in place that also covers company and private pensions, alongside other savings and investments. People often end up with a hotchpotch of savings plans, so it pays to track down lost accounts, get up-to-date valuations and look at the pros and cons of consolidation.

Think about the income you will need in retirement. If there's a shortfall, consider saving more now, or working for longer. You can defer the State pension, for example, and receive a higher payment, helping to attain the retirement you want.

✣ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

Occupational pensions are regulated by The Pensions Regulator.

The case for early ISA investment

It pays to be an early bird when it comes to the £20,000 ISA allowance.

This year more savers than usual have rushed to open ISA accounts in the final months of the tax year, amid speculation that the Chancellor may limit how much of this overall allowance can be saved into cash ISAs.

ISAs play a key role in both short- and long-term savings. Opening an ISA early in the tax year gives savers more time to choose the right product and gain an additional 12 months of tax-free growth.

Every age group can benefit from ISAs. For shorter-term savings, accessible within five years, cash ISAs are the likely option, offering tax-free interest.

In contrast basic-rate taxpayers can only earn interest of up to £1,000 a year tax free on standard savings accounts, which reduces to £500 for higher-rate taxpayers, and zero for those subject to the additional rate.

Cash ISAs may particularly help younger 'Gen Z' savers. A recent report found over half of those aged 16–27 had saved nothing in the past two years. Millennials also struggle due to high housing and childcare costs, while fewer than one third of Generation X (aged 45–60) are confident they're on track to meet retirement goals.

Many may want to consider stocks and shares ISAs for these longer-term objectives. Though volatile, equities have historically delivered higher returns, helping savings keep pace with inflation.

✣ *Investments do not offer the same level of capital security as deposit accounts.*

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

The value of your investment and any income from it 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.

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> “ *Opening an ISA early in the tax year gives savers more time to choose the right product and gain an additional 12 months of tax-free growth.*

Start planning now for the new tax year

A new tax year starts on 6 April. What actions should you take now to get 2025/26 off to a good start?

As ever you need to factor in a mix of freezes and changes. There are no changes to:

- The personal allowance, frozen at £12,570 since 2021/22.
- The point at which the personal allowance begins to be tapered away, which remains at £100,000 where it started life 15 years ago.
- The higher-rate threshold (£50,270 in England and £43,662 in Scotland), which also remains at the same level since 2021/22.

The tax changes from 6 April include:

- A lower starting point of £5,000 for employer's national insurance contributions (NICs).
- A higher rate of employer's NICs.
- An increased rate for Business Asset Disposal Relief. The main capital gains tax (CGT) rates rose to 18% for basic-rate taxpayers and 24% for other taxpayers from 30 October 2024. The annual exempt amount remains frozen at £3,000.

Both the freezes and the changes will produce more revenue for the Exchequer which makes them areas to consider in your new-year tax planning.

Personal allowances

Ideally your start-of-year planning should begin with an estimate of your gross (pre-tax) income – not just earnings – over the next 12 months. If that's below the tax-free personal allowance, then look at the options for increasing your income by, for example, rearranging investment holdings with your spouse/civil partner.

At the opposite end of the scale, if your income exceeds £100,000, then you may lose part or all

“Ideally your start-of-year planning should begin with an estimate of your gross (pre-tax) income - not just earnings - over the next 12 months.

Credit: CC7/Shutterstock.com

of your personal allowance. Here, tax planning aims to reduce your gross income. There is a range of ways that this can be achieved, including making pension contributions or restructuring how you hold your investments.

Higher-rate tax
The Office for Budget Responsibility estimates there will be 6.6 million higher-rate taxpayers in 2025/26, over 2.1 million more than in 2021/22. If you're a member of this rapidly growing club, then the principles of income reduction – and thus tax saving – are broadly the same as for limiting the personal allowance taper.

Shareholder director NICs
The change to NICs will affect you if you're a shareholder director as your company's cost of paying your salary and bonuses is likely to rise. However, the alternative of drawing dividends is not necessarily the answer – what your company (and you) save on NICs may be less than the extra corporation tax payable. There are no reliable rules of thumb in making the choice: a calculation based on your circumstances is essential.

CGT and ISAs
Gains taxed at the CGT rates suffer less tax than income, especially for higher- and additional-rate taxpayers. ISAs offer you the opportunity to reduce the CGT you pay, but the maximum subscription is a limiting factor. As ever, the best time to make an ISA investment is at the start of the tax year, so you benefit from the ISA's tax exemptions throughout the year.

For more information on any of the above, or for your own year-beginning tax plan, please talk to us now – there is no need to wait until after 5 April.

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News in brief...

No change to automatic enrolment

The Department for Work and Pensions has once again left the lower age limit, income thresholds and contribution rates for automatic enrolment in workplace pensions unchanged for the new tax year.

The lack of any updating means that, for example, a 21-year-old now qualifies for the full National Living Wage, but not auto-enrolment (which still starts at 22). Most experts also believe the 8% minimum total contribution rate is too low to provide an adequate retirement income.

NS&I cuts

National Savings & Investments has been busy cutting its variable interest rates. Income Bonds now pay 3.26% (3.30% AER), down from 3.93% (4% AER) at their 2024 peak. The Premium Bond prize rate will be 3.8% from April, against 4.40% in the early part of last year. There has been one rate *increase*, on the Direct ISA, but its new 3.5% rate is well adrift of the market-leading rates.

1.1 million miss tax deadline

According to HMRC an estimated 1.1 million taxpayers missed the 31 January tax return filing deadline. If you're one of them, you face an array of penalties, including an initial £100 fixed penalty, even if you have no tax to pay, or you have paid the tax due on time. After 3 months, there are additional penalties of £10 per day (to a maximum of £900). You then incur 5% of the tax unpaid at 30 days, together with interest (currently at 7%) on any tax paid late.

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Annuities lock in peace of mind

If you want a guaranteed retirement income, there is only one tried and tested option.

Ten years ago, when George Osborne made a surprise announcement introducing pension flexibility, the demise of the pension annuity was widely predicted. However, figures recently released by the Association of British Insurers show annuity sales last year were above their 2014 level and double their 2020 low point. There are several reasons for the annuity revival:

- Long-term interest rates, which underpin annuities, have risen in the past few years.
- Some people who took advantage of the flexibilities when they started their retirement income now want more security. The complex mathematics of annuities means that the older the individual, the harder it is for pension flexibility options to match the guaranteed income from an annuity. At age 75 an annuity can provide an income for life of over 9.5%.
- Last autumn's Budget has called into question the use of pension flexibility to build up an inheritance for your family. The current proposals, due to take effect from April 2027, will mean inheritance tax (IHT) is payable on any fund remaining at death unless it passes to a surviving spouse or civil partner. In addition, as now, income tax is chargeable on any benefits if you survive until beyond age 75. In theory the combined tax rate could be an effective 67%.

The rates quoted above are for a single life annuity with level payments, but you can choose joint annuities and build in fixed or inflation-linked increases. The annuity market is a competitive one, with rates changing rapidly. That, and the fact that once an annuity is in place, it is virtually impossible to change, means advice is vital.

✣ *The value of your investment can go down as well as up and you may not get back the full amount you invested.*

> ***Figures recently released by the Association of British Insurers show annuity sales last year were above their 2014 level and double their 2020 low point.***

The lessons of March 2020

Five years ago, the UK was at the start of the Covid-19 pandemic.

On 23 March 2020, Boris Johnson announced the first UK lockdown in response to the Covid-19 pandemic. It was a traumatic period that many of us want to forget, but looking back there were some valuable lessons to be learned:

1. **Don't rely on the social security safety net.** It was immediately clear that the benefit system was incapable of dealing with the massive changes and income loss created by the pandemic. A variety of emergency support measures were rushed through, such as the Coronavirus Job Retention Scheme (aka the furlough scheme).

Five years later, the benefit system has reverted to its pre-pandemic paucity.

2. **Your will should always be kept up to date.** Completing or updating a will is one of those do-it-later tasks that are sometimes left undone for decades. For many, the pandemic was a sharp reminder of the dangers of such procrastination. Suddenly, a will became a vital document.

3. **Keep a rainy-day fund.** The government's income replacement schemes took a while to get off the ground and left loopholes. Many never fully replaced the earnings lost. A cash reserve is a key part of financial planning, there to deal with crises.

4. **Take a long-term investment view.** The investment markets fell sharply when the virus hit. The FTSE 100 dropped from 7,542 at the start of 2020 to 4,994 on 23 March. The index ended the year at 6,461. Panicked investors who sold out as the first lockdown was imposed paid a high price for their short-term approach.

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Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

The Financial Conduct Authority does not regulate will writing and some forms of estate planning.