Redundancy and retirement

It is a sad fact of life that many people in their 50s and 60s will face redundancy before they reach their retirement age. For some, this may be a positive step: giving them the opportunity – and the capital – to start up their own business, pursue a second career, opt for part-time work or even take early retirement.

For others this turn of events may be far less welcome. Many may be worried about their earning potential at a time when many are looking to maximise their retirement savings.

Whichever camp you fall into, there are some key points you need to think about, not least how any redundancy payout can be used to maximise your pension.

What will you get?

Most people who are made redundant should receive some form of payout.

Provided you’ve been employed by the company for two years you will qualify for statutory redundancy pay. For those aged between 22 and 41 this means at least one week’s pay for every full year of employment, older workers get 1.5 weeks’ pay.

Some companies will pay more – in some cases up to a month for every year worked. These terms should be set out in your contract. Remember, workers should also be entitled to work out their notice period, or be offered pay in lieu.

This can mean a substantial payout for some. However, only the first £30,000 is paid tax-free. Payments over this will be taxed, and if this payout pushes you into the higher-rate tax bracket you could lose up to 40% of this payment.

Boosting your pension

If you have a redundancy payout of more than £30,000 then you can use some of the surplus to pay into a pension. This is one of the most tax-efficient ways of getting a redundancy payout, as you will receive tax relief on these contributions.

Recent changes to the pension rules make this an even more attractive option, as this capital isn’t being locked away forever.

You are now able to withdraw as much capital from your pension pot as you like, once you reach the age of 55. The minimum pension age will rise from age 55 to age 57 from 2028.

For those who are in their 50s or 60s, saving in a pension is a tax-efficient home for their money which they can access again at a later date and can help them manage their income needs and tax liabilities.

Temporary retirement

You may also want to use your pension to support yourself whilst you remain out of work fully intending this to be for a short time.

The flexibility to draw from the pension is very useful here but there are some drawbacks.

You will drain your pension fund quite quickly and so you should have one eye on how sustainable your proposed drawings are. Once you do find work then consider re-building the pension fund by further contributions. Bear in mind once you have accessed your pension flexibly then you will be limited in what you can pay into a pension to £10,000 a year. Flexible access means taking more than just the tax free cash unless you used a lifetime annuity.

Putting you in control of your retirement
Should you retire?

If you don’t have a large redundancy payment, and are worried about finding further employment, one option is to use your pension fund to provide some income whilst working part-time. This is only possible though if you are already 55 years-old. Give a wide berth to any pension ‘scheme’ that claims to enable you to access pension funds earlier. These are likely to be fraudulent and land you with a large tax bill and hugely reduced pension fund.

If you are planning to retire you need to think about how you’ll use your pension to deliver an income.

1. **Buy an annuity**

   **Pros**
   - This provides a guaranteed income for life, so you don’t have to worry about your pension pot ‘running out’.
   - You may get a higher rate if you are in poor health or have a lifestyle that could shorten your life expectancy.

   **Cons**
   - If you are retiring early this can look poor value – the younger you are, the lower the rates.
   - This is a product for life, so can be inflexible. If you subsequently find work you can’t turn this income off – or switch to a different product.

2. **Take cash from your pension pot**

   **Pros**
   - Provided you are at least 55 this can give you capital to meet day to day living costs.
   - This money can also be used to reduce debts, such as a mortgage, so reducing living expenses.
   - The bulk of your pension fund remains invested – so can continue to grow.
   - Provided you don’t withdraw more than a quarter of the fund, there will be no tax to pay on this income.
   - You can either take out one lump sum, or withdraw regular smaller amounts of income.

   **Cons**
   - If you take too much capital it could push you up into a higher tax bracket resulting in an unexpected tax bill.
   - Cashing in part of your pension pot is likely to mean a lower income in later life.
   - Taking money from your pension pot may mean these funds will run out earlier.
   - If you take more then 25% of your fund, your future pension contributions could be restricted to a maximum of £10,000 per annum. The funds in your pensions remain invested and may fall in value.

**Important Information**

This information is not investment advice or a recommendation for any particular product, service or course of action. Pension and retirement planning can be complex, so if you are unsure of the suitability of a pension investment, retirement service or any action you need to take, please contact Fidelity’s Retirement Service on 0800 084 5045 or refer to your financial adviser. The value of investments can go down as well as up and you may get back less than you invested. Eligibility to invest into a pension depends on personal circumstances and all tax rules may change. With pension products you will not be able to withdraw money until you reach age 55.

**Seek advice**

These are important decisions and it is vital to get independent advice. It may be possible to get this as part of your redundancy settlement: some companies give those losing their jobs financial advice, plus additional retraining and careers advice. Ask whether this is available.

If not, it is worth paying for an adviser to look at your individual situation and recommend a course of action.

**Next steps**

If you want to discuss your retirement options with an expert, Fidelity’s qualified retirement specialists can help with a free, no-obligation discussion about your options at retirement and making the most of your pensions.

Call 0800 084 5045, visit fidelity.co.uk/retirement or speak to an authorised financial adviser.

Alternatively Pension Wise is a free and impartial government service that helps you understand your pension options and is available online, over the phone or face to face. Find out more at pensionwise.gov.uk.