# What does the pension lifetime allowance buy?

**It is worth looking at what your pension pot could buy for your retirement.**

The importance of pension contributions has been bolstered by the rollout of auto-enrolment pension schemes. However, it is not as clear what your savings will give you when you come to retire.

For example, Louise, a healthy, non-smoking 65-year-old, reaches retirement with £1,000,000 in her pension plan. If she uses the entire fund to buy herself an inflation-proofed income, what will be her first monthly pension payment *before* tax is deducted?

A. £2,500
B. £3,000
C. £3,500
D. £4,000

The answer is A, based on current pension annuity rates. After tax, if Louise has no other income, her monthly payment will be about £2,200. Include a 2/3 widow's pension and the gross amount drops by about £400 a month (roughly £320 after tax).

This may be a surprise as the National Living Wage is nearly £1,200 a month for a 35-hour week. Especially when you remember Louise forgoes a tax-free lump sum of up to £250,000 in favour of a higher income.

The income of £2,500 a month (£30,000 a year) is only 3% of the pension pot, but it is RPI-linked. Importantly, because it is an annuity payment, it is also guaranteed throughout life – however long that may be.

Whilst annuities have gone out of fashion, the rates set a base line for retirement planning. Alternative retirement incomes, such as income drawdown, all carry some form of investment risk, meaning the potentially higher income available does not have the same degree of security.

This means the rise in automatic enrolment contributions from April is a necessary *start* on the way to building up adequate retirement funds. However, a realistic level of contributions will still be much higher for most people. Why not ask us what yours should be?

*The value of your investment 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.*

*The value of tax reliefs depends on your individual circumstances.*

*Tax laws can change.*

*The Financial Conduct Authority does not regulate tax advice.*