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Combined finances

Planning ahead for your financial future together

Some couples may prefer to keep their finances separate, while others share everything. Whichever method you've chosen, when it comes to retirement saving, it's worth planning together to ensure you've made the most of all the allowances and benefits offered to couples.

Your golden years may ultimately be the best of your relationship if you understand each other's future goals, needs and expectations.

SET YOUR BUDGET

The first step of planning for retirement is to look at how much money you'll need to cover your outgoings. Start by analysing your current spending, and then identify where your spending might increase and decrease over the years.

If you have different perspectives on how extravagant your lifestyle will be, it's best to discuss this openly and early on as you'll need to come to an agreement. One of you might be underestimating how much you'll need or overestimating what you can realistically afford.

Remember to plan for different circumstances. Hopefully, you'll enjoy a decades-long retirement together, but your finances might look very different if one of you were to fall ill or die. It might be unpleasant to discuss but is essential to plan for.

ASSESS YOUR FINANCES

Next, look at the income you'll both have from the State Pension and any private pensions. Set aside some time to trace pensions from previous workplaces that you might have forgotten about or not known an employer was paying into, as many people find extra cash that way.

Make sure you understand all of your options for withdrawing your pensions, as the amount you get back from your pension depends, in part, on which option you choose. Consider, for example, whether you want to take a tax-free lump sum of up to 25% of your pension savings at the start of your retirement, and how best you could use that.

If you have any debts or savings you haven't mentioned to your partner, it would be wise to open up about these now.

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TOP UP YOUR SAVINGS

If your existing pension savings won't provide the income you think you'll need, look at ways to address the shortfall. Could you make some lifestyle changes now to save more for later? If one or both of you have less than 35 years on your National Insurance record, you can make voluntary contributions to receive more State Pension.

It's worth obtaining professional financial advice about using both of your pension allowances, and whose pension it is more sensible to contribute to. You both have an 'annual allowance', which is £40,000 in the 2020/21 tax year, or 100% of your income if you earn less than £40,000.

This means with the current annual allowance limit, someone paying Income Tax at the standard rate of 20% would receive a maximum sum of £8,000 of pension tax relief towards their pension pot. If you pay tax at the higher rate of 40% you would receive up to £16,000 of tax relief, while those in the additional rate band of 45% would currently receive £18,000 of tax relief. ■

NEED HELP WITH YOUR RETIREMENT PLAN?

It's important to carry out any financial planning exercise together, holistically, as a couple. If you don't fully understand your options or want to boost your pension savings, speak to us to discuss your circumstances.