Case Study

Title: Pension Contributions Close To Retirement

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I am 58 and a non-taxpayer, as I work part time and earn under the personal allowance threshold. I have a personal pension pot valued at £138,824 plus a stakeholder pension pot valued at £25,019. I have built up the latter by making annual contributions allowed by non-taxpayers, which are then topped up by HMRC. My current chosen retirement date is in two years' time and this suits our family finances quite well, if I then start to take the projected annual income of about £5,000 – my husband will receive a good teacher's pension starting some five years later.

Is it worth still putting in the annual amount I am allowed (£2,808 or thereabouts), or is it too close to my retirement date for it to be worthwhile? Given that it's topped up by 33% it seems a potentially better return than putting the same money in a savings account.

Secondly, my entire pension fund is currently in shares - the Friends Life Stewardship Fund. I now gather a conventional course would have been to have started switching into bonds some eight years ago; but there is also worry over the value of bonds. Should I switch any of it, or is too late to bother? I have no other funds in stocks and shares, so am inclined to take the risk.

Whilst the tax relief available on pension contributions is attractive, you need to be mindful of the compromise you make in exchange for this benefit which is that pensions are relatively inflexible. You can't access all of your capital and the pension dies with you unless you have a guarantee or spouses benefit built in, both of which reduce your initial income. Plus the fact that once in receipt your pension annuity is subject to tax. There is a very strong argument for stocks and shares ISA to be used to compliment pension savings, due to the high level of flexibility they offer and the tax efficiency they provide. Certainly with only two years to go and on the basis that you seem happy with the income which your pension will produce, I suggest you consider contributing to a stocks and shares ISA instead.

De-risking your pension investment strategy as you approach retirement is an essential exercise to undertake. Reducing the risk and the volatility does not necessarily mean switching to bonds exclusively; there are many ways to reduce the risk. I would urge you to undertake such an exercise as soon as possible to avoid a downturn in your fund just before retirement which would impact of the pension income you receive. A lower risk profile is likely to produce lower returns and this is another reason why making additional pension contributions may not be very worthwhile.