

A new era for Individual Savings Account planning

Are you making the most of your options in a changing tax landscape?

For many years, pensions have been regarded as one of the most tax-efficient ways to save for retirement and to pass wealth to future generations. However, significant changes on the horizon could prompt many savers to rethink how they balance pensions with Individual Savings Accounts (ISAs).

Although the new rules will not take effect until April 2027, now may be an appropriate time to review your savings strategy. Understanding how pensions and ISAs work together could help ensure your long-term financial plans remain aligned with your objectives.

CHANGING PRIORITIES FOR SAVERS

From April 2027, pensions will no longer automatically fall outside an individual's estate for Inheritance Tax (IHT) purposes. As a result, some pension funds may become subject to IHT at 40%, potentially reducing the amount passed to beneficiaries.

This change may affect how some people draw on their retirement savings. Historically, some savers chose to spend ISA assets first, preserving pension wealth for future generations. Going forward, the opposite approach may become more attractive, with pensions potentially used earlier and ISA savings retained for longer.

REVIEWING YOUR RETIREMENT SAVINGS

The forthcoming changes could make it worthwhile to review whether you are directing too much of your savings into your pension. While pensions remain highly valuable retirement planning tools, maintaining a balance across different tax-efficient wrappers may provide greater flexibility.

For those approaching retirement, there may also be merit in considering how to use tax-free pension lump sums. In some circumstances, transferring available funds into an ISA over time could create additional flexibility while maintaining tax-efficient growth.

ALIGNING INVESTMENTS WITH YOUR GOALS

As ISAs potentially become a more important vehicle for passing wealth to loved ones, some investors may wish to reassess how these funds are invested. Money intended for long-term legacy planning can often be invested differently from assets that may be needed in the near future.

At the same time, retirement income needs should not be overlooked. Ensuring that pension investments remain aligned with planned withdrawals and future spending needs is equally important.

SUPPORTING FUTURE GENERATIONS

The rule changes may also encourage some individuals to consider gifting strategies. Making regular gifts from surplus income could help family members use their own ISA allowances while potentially reducing future IHT concerns.

More broadly, the changes serve as a reminder of the importance of diversification. Relying too heavily on any single tax wrapper can leave savers exposed to future legislative changes. Spreading wealth across different types of accounts may help improve long-term flexibility and resilience. ■

IS IT TIME TO REVIEW YOUR STRATEGY?

Tax rules and financial planning opportunities evolve over time. Regularly reviewing your pension and ISA arrangements can help ensure your savings remain structured to support both your retirement lifestyle and your legacy objectives.

If you would like further information on ISAs, pensions, Inheritance Tax planning or your wider investment strategy, please contact us. Professional guidance will help you understand your options and develop a financial plan tailored to your circumstances and long-term goals.

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