pebble
independent financial services ltd

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LIFE AFTER WORK

PLANNING FOR THE RETIREMENT YOU DESERVE

YOUR ISA, YOUR FUTURE
Time to reimagine how to invest more tax-efficiently?

TAX ACTION
Getting your tax affairs in order before 5 April

SMART PLANS
Living a less complicated life!

BREXIT - WHAT NEXT?
Unintended consequences

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EXPERIENCE LIFE TO THE FULL

Welcome to our latest issue. Robert Kiyosaki, the American businessman and author of the best-selling book Rich Dad, Poor Dad, once remarked, 'Making money is common sense. It's not rocket science. But unfortunately, when it comes to money, common sense is uncommon.' As we continue into 2019 with the uncertainties surrounding Brexit, we look to de-mystify the ever-changing landscape of the financial world.

Where better place to start off than tax-efficient investing? Each tax year, we are each given an annual Individual Savings Account (ISA) allowance. The ISA limit for 2018/19 is £20,000, and anyone wishing to utilise their allowance should do so before the deadline at midnight on Friday 5 April 2019. The date marks the end of the 2018/19 tax year. It is a 'use it or lose it' allowance, meaning that if you don't use all or part of it in one tax year, you cannot take that allowance over to the next year. To find out more about your ISA options, turn to page 08.

Over time, with life expectancy and the cost of living rising, it could mean that some retirees are at risk of running out of pension income in later life. On page 06, we consider what you can do to make sure that you have a big enough pension to meet your needs for your entire retirement.

This time of year is your last chance to get your tax affairs in order before the end of the 2018/19 tax year. On page 33, we've provided a summary of some key tax and financial planning areas which may be appropriate to certain taxpayers and should be considered prior to the end of the tax year.

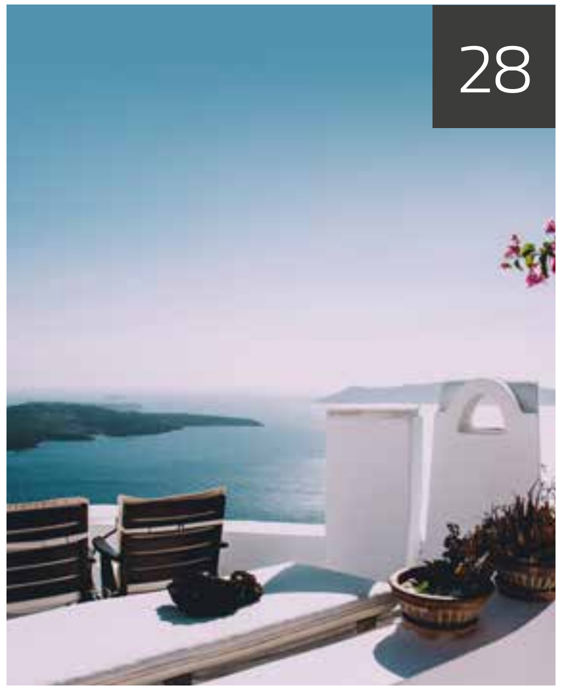
Some people may believe that since they have reached their 60s and 'retired', the hard work is over. But there are probably another three or four decades ahead, so it's not the time to be without expert professional financial advice. Turn to page 05 to read the full article.

At the time of writing, the UK Government is still in negotiations with the European Union over the terms of its planned withdrawal on 29 March 2019. The challenges facing the UK economy are unclear. On page 12, we look at some potential financial scenarios.

We hope you enjoy this issue. A full list of the articles featured in this issue appears opposite.

READY TO MAKE YOUR NEXT BIG DECISION?

Whatever your next step is in life, we'll help you make your next big decision easier by getting the most out of your finances. To discuss your situation, please contact us – we look forward to hearing from you.



INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

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04 INVESTMENT

TRUST IN YOUR INVESTMENTS

INVESTING FOR INCOME OR GROWTH, OR BOTH

Investment trusts are a well-established way of investing. Many investors prefer to invest in a fund rather than by picking individual stocks, shares or other assets. Funds allow you to diversify your portfolio easily, as well as giving you the chance to benefit from the expertise of fund managers.

They are set up as listed companies issuing shares that can be traded on the London Stock Exchange. Like any company, they issue a fixed number of shares – hence the term 'closed-ended' – to raise capital that the manager allocates to investments.

RIGHT TO VOTE ON ISSUES

When you invest in an investment trust, you become a shareholder in that company. This gives you the right to vote on issues such as the appointment of directors or changes to the investment policy. If shareholders in the trust want to sell shares, their decisions don't impact directly on the value of the manager's pot, enabling a relatively long-term view in investment decisions.

Investment trusts usually have smaller operating costs and lower charges than other types of funds, for example, OEICs (Open-Ended Investment Companies) or unit trusts. Unit trusts and OEICS have an open-ended structure, which means the fund manager simply creates more units when more people want to own that fund, and vice versa.

MORE DIVERSE ARRAY OF ASSETS

Investment trusts enable investors to invest in a more diverse array of assets, including less liquid asset classes such as private equity, commercial property and infrastructure. This liquidity issue is important. If an investor in a trust wants their money back, they simply sell the shares.

Investment trusts have two valuations. One is the share price, which is the price you will pay to buy the investment or what you will receive if you sell it (disregarding spreads and trading costs).

TRADING AT A PREMIUM

The other is the Net Asset Value (NAV), which is the value of the underlying investments. If the trust is trading at a higher level than its NAV, it is said to be 'trading at a premium', and if lower it is 'trading at a discount'.

Gearing, or borrowing, is something open-ended fund managers are not allowed to do. Borrowing to invest more at opportune times can lift returns per share by more than the cost of the loan per share. But if the market falls, investors in geared trusts may lose more per share than those in ungeared trusts.

PROFITS FOR 'SMOOTHING' PURPOSES

In the current low interest rate environment, funds that pay a regular income are very attractive. Unlike open-ended funds, investment trusts are allowed to keep back 15% of their profits for 'smoothing' purposes. This means trusts can use the income they keep back to help them pay dividends in years that have been less fruitful.

Figures from the Association of Investment Companies[1] show over half of trusts that pay a dividend now pay on a quarterly basis to meet client demand for regular income. There are 21 'dividend hero' investment companies which have raised their dividends every year for 20 years or longer. ◀

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LOOKING FOR AN INVESTMENT TO SUIT YOUR NEEDS?

Whether you are looking to invest for income or growth, or both, we can provide the professional financial advice, comprehensive investment solutions and ongoing service to help you find the right investment solutions. Please contact us to discuss your requirements – we look forward to hearing from you.

Source data

[1] https://www.theaic.co.uk/aic/news/press-releases/2018-industry-celebrates-150-years-of-investment-companies

SMART PLANS

LIVING A LESS COMPLICATED LIFE!

For anyone enjoying their retirement years and living a less complicated life, it can be easy to assume that you no longer require professional financial advice. Some people may believe that since they have reached their 60s and 'retired', the hard work is over.

But there are probably another three or four decades ahead, and if we were to split life into two halves, this second half is likely to be more complex and challenging than our careers. From age 60-plus, the world will throw a host of challenges our way.

This is not the time to be without expert professional financial advice. This is the period of life when financial planning is most valuable and rewarding.

LOOKING AHEAD

Between the ages of 20 to 60 is typically the period of working life for most people. You work and strive, building a career, buying a property, raising a family, perhaps paying for education and enjoying a certain standard of living.

This entails managing debt, balancing income and expenditure, putting money away into a pension, saving for a rainy day and topping up ISAs annually.

All of a sudden, the striving is over. Enough money, or so you hope, has been invested to leave the workplace behind, and your mortgage is repaid. The pension pot is bulging, your children have graduated and the new car on the driveway is finance-free for the first time. Your sights are set on a holiday home, and everything looks good.

You may well have had professional financial help during this 40-year growth phase, but most of those years may be behind you. You need to look ahead.

OVERRIDING EMOTIONS

But it's the second half of life, from the 60-plus stage, that is more aligned to spending. Having achieved so much in life, the overriding emotion can now be the fear of loss. The conundrum being: 'How can we live our ideal life, safe in the knowledge that we will always have enough?'

Safety and fear of loss are key concerns. Have we got enough income to meet our obligations? Will we run out of money? Can we afford to support our favourite charity? What happens if one of us needs long-term care? Should we help our children now, or later? Is our capital keeping up with inflation? Can we keep on having fun?

As people age, illness can strike out of the blue and blow plans off course overnight. What then? A new and unexpected challenge, and no life experiences to fall back on. There are choices and tough emotional decisions to be made – this is when professional financial advice and support are essential. ◀

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MAINTAINING YOUR LIFESTYLE ONCE YOU'VE STOPPED WORK

One of the most common worries for many people as they enter retirement is to ensure they're able to maintain their lifestyle once they've stopped work. Continuing to have access to and receive professional financial advice is key. If you've retired and want to reassess your options, please contact us.

LIFE AFTER WORK

PLANNING FOR THE RETIREMENT YOU DESERVE

Over time, with life expectancy and the cost of living rising, it could mean that some retirees are at risk of running out of pension income in later life. So what can you do to make sure that you have a big enough pension to meet your needs for the whole of your retirement?

To begin with, we all know when planning for retirement, the earlier we start saving and investing, the better off we'll be, thanks to the power of our money compounding over time. And even if we start saving later in life or we've yet to begin, it's important to know that we're not alone and that there are steps that can be taken to increase our eventual retirement savings.

IT'S NO SECRET – RETIREMENT CHANGES YOUR LIFE

After years of hard work, retirement is an exciting period in life. You might be looking forward to taking a trip to sunnier climes, dedicating more time to a favourite hobby or spending more time with family and friends. However, to ensure that you are able to continue to pay the bills and live comfortably when you are no longer drawing an income, you need to start putting money aside as soon as possible. The thought of it may be daunting, and it can feel like an impossible mission.

The process of building a retirement pot typically involves a combination of consistent saving and long-term investments, but saving and investing for your retirement can look pretty different during your twenties versus your forties or fifties.

ON YOUR WAY TO A COMFORTABLE LIFE AFTER WORK

With discipline and determination, you can be on your way to a comfortable life after years of hard work. Building a retirement pot requires more certainty in your financial planning and less risk-taking (depending on factors such as age and your attitude to risk). But first, you need to figure out how much you need in order to set a goal.

Retirement is personal and full of surprises, so it's important to decide what you want yours to look like first, and then plan how to make it a financial reality. We've provided some tips to help boost your savings – no matter what your current stage of life – to enable you to pursue the retirement you deserve.

THE PROCESS OF BUILDING A RETIREMENT POT TYPICALLY INVOLVES A COMBINATION OF CONSISTENT SAVING AND LONG-TERM INVESTMENTS, BUT SAVING AND INVESTING FOR YOUR RETIREMENT CAN LOOK PRETTY DIFFERENT DURING YOUR TWENTIES VERSUS YOUR FORTIES AND FIFTIES.

1. RETIREMENT GOALS

Setting up a retirement goal requires you to find out how much income you need when you have stopped working. To get an indication of this, use the following questions to help you:

- At what age do I plan to retire?
- How many years do I have to plan for whilst I'm in retirement?
- What is my desired monthly income during retirement?

2. RISK APPETITE

Are you a 'conservative' investor who cannot afford to lose the initial capital you put up? Can you sacrifice the certainty of having your principal protected in order to gain higher potential earnings?

If you do not already have a large sum of retirement savings, you shouldn't take too much risk when you invest, since you may not have the luxury of time to recoup any investment losses as you approach your target retirement age.

3. TIME HORIZON

If appropriate, generally a bigger portion of your retirement pot can be apportioned for higher-risk investments if you start early in your career. As you progress closer towards the retirement years, it's usually prudent for your pension pot to focus increasingly on lower-risk investments or savings with the objective of providing more stable returns.

It's important to consider allocating your investments into products suitable for different investment horizons (short, medium and longer term) depending on your risk appetite. You should always be reminded that with higher expected returns come higher risks.

4. INFLATION

If you choose to save your way to retirement by putting cash into a savings account, the value of your money could potentially be eroded due to inflation. Therefore, in order to ensure that the money you have now preserves its purchasing power during your retirement years, you need to choose savings or investments that have the potential to provide you with higher returns.

5. DIVERSIFICATION

While putting all your retirement savings into a bank account can be potentially risky, so too can investing all of your savings in shares. The key to growing your retirement fund will typically include having different asset classes in your portfolio, which is otherwise known as 'diversification'. Diversification not only helps you manage the risk of your investments, but it also involves re-balancing your portfolio to maintain the risk levels over time.

6. AFFORDABILITY

Building a retirement pot is a long process. By starting late, you may find that you need to set aside a larger amount for your retirement.

Therefore, you'd want your retirement sum to be an affordable amount for your current lifestyle. We can work with you to help you take a look at your current commitments to make saving for your retirement a sustainable habit. ◀

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HOW MUCH MONEY DO YOU NEED TO RETIRE?

It's never too early to start planning for your retirement! With discipline and determination, you can be on your way to a comfortable life after years of hard work. To find out more or to discuss your situation, please contact us.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

YOUR ISA, YOUR FUTURE

TIME TO REIMAGINE HOW TO INVEST MORE TAX-EFFICIENTLY?

Each tax year, from the age of 16 we are each given an annual Individual Savings Account (ISA) allowance. The ISA limit for 2018/19 is £20,000, and anyone wishing to utilise their allowance should do so before the deadline at midnight on Friday 5 April 2019.

The date marks the end of the 2018/19 tax year. It is a 'use it or lose it' allowance, meaning that if you don't use all or part of it in one tax year, you cannot take that allowance over to the next year. Utilising your ISA allowance to invest tax-efficiently could lead to significant savings in Income Tax and Capital Gains Tax and even improve your potential returns.

We've answered some typical questions we get asked about how to best use the ISA allowance to help make the most of the opportunities as this tax year draws to a close.

Q: WHAT IS AN ISA?

A: An ISA is a 'tax-efficient wrapper' designed to go around an investment. Types of ISA include a Cash ISA and Stocks & Shares ISA. A Cash ISA is like a normal deposit account, except that you pay no tax on the interest you earn. Stocks & Shares ISAs allow you to invest in equities, bonds or commercial property without paying personal tax on your proceeds. There are also Innovative Finance ISAs, Lifetime ISAs and Help to Buy ISAs (the latter being a type of Cash ISA).

Q: CAN I HAVE MORE THAN ONE ISA?

A: You have a total tax-efficient allowance of £20,000 for this tax year. This means that the sum of money you invest across all your ISAs this tax year cannot exceed £20,000 (Lifetime ISAs and Help to Buy ISAs have their own lower limits but still use some of the overall £20,000). However, it's important to bear in mind that you have the flexibility to split your tax-free allowance across as many ISAs and ISA types as you wish, but you cannot have more than one of each type. For example, you may invest £10,000 in a Stocks & Shares ISA and the remaining £10,000 in a Cash ISA, but you cannot invest £10,000 in each of two Cash ISAs. This is a useful option for those who want to use their investment for different purposes and over varying periods of time.

Q: WHEN WILL I BE ABLE TO ACCESS THE MONEY I SAVE IN AN ISA?

A: Some ISAs do tie your money up for a significant period of time. However, others are pretty flexible. If you're after flexibility, variable rate Cash ISAs don't tend to have a minimum commitment. This means you can keep your money in one of these ISAs for as long – or as short a time – as you like. If the ISA is classed as a Flexible ISA, funds can be withdrawn and replaced in the same tax year without the replacement using up any more of the ISA subscription limit.

On the other hand, fixed-rate Cash ISAs will typically require you to tie your money up for a set amount of time. If you decide to cut the term short, you usually have to pay a penalty. But ISAs that tie your money up for longer do tend to have higher interest rates.

Stocks & Shares ISAs don't usually have a minimum commitment, which means you can take your money out at any point. That said, your money has to be converted back into cash before it can be withdrawn.

Q: WHAT IS A HELP TO BUY ISA?

A: A Help to Buy ISA is an ISA designed to help first-time buyers aged 16-plus to save up a deposit for their home. It is possible to contribute up to £200 per calendar month plus an additional £1,000 lump sum at the start, up to an overall maximum of £12,000. The Government will add 25% to the savings, up to a maximum of £3,000 on savings of £12,000. If you pay into a Help to Buy ISA in the current tax year, you cannot also pay into another Cash ISA.

Q: COULD I TAKE ADVANTAGE OF A LIFETIME ISA?

A: You must be 18 or over but under 40 to open a Lifetime ISA. You can use a Lifetime ISA to buy your first home or save for later life. You can put in up to £4,000 each year until you're 50. The Government will add a 25% bonus to your savings, up to a maximum of £1,000 per year. Any money invested in a Lifetime ISA reduces your annual ISA limit accordingly.

Q: IS TAX PAYABLE ON ISA DIVIDEND INCOME?

A: You don't pay tax on any dividends paid inside your ISA. Outside of an ISA, you currently receive a £2,000 dividend income allowance within which dividends are also tax-free.

Q: IS CAPITAL GAINS TAX (CGT) PAYABLE ON MY ISA INVESTMENT GAINS?

A: You don't have to pay any CGT on profits. You make a profit when you sell an investment for more than you purchased it for. If you invest outside an ISA, excluding residential property, any profits made above the annual CGT allowance for individuals (£11,700 in the 2018/19 tax year) would be subject to CGT. For basic rate taxpayers, CGT is 10% or more if the gains don't exceed the basic rate band when added to income (or 20% on any gains that do exceed the basic rate band). For higher and additional rate taxpayers, CGT is 20%.

Q: I ALREADY HAVE ISAS WITH SEVERAL DIFFERENT PROVIDERS. CAN I CONSOLIDATE THEM?

A: Yes, you can – and you won't lose the tax-efficient 'wrapper' status if you transfer them rather than encashing them. Many previously attractive savings accounts cease to have a good rate of interest, and naturally some Stocks & Shares ISAs don't perform as well as investors would have hoped. Consolidating your ISAs may also substantially reduce your paperwork. We'll be happy to talk you through the advantages and disadvantages of doing it.

"PUT YOUR 2018/19 ISA ALLOWANCE OF £20,000 INTO AN ISA BY 5 APRIL AND DON'T PAY TAX ON THE MONEY YOUR ISA MAKES"

Q: CAN I TRANSFER MY EXISTING ISA?

A: Yes, you can transfer an existing ISA from one provider to another at any time. If you want to transfer money you've invested in an ISA during the current tax year, you must transfer all of it. For money you invested in previous years, you can choose to transfer all or part of your savings.

Q: DO I STILL NEED A PERSONAL PENSION PLAN IF I HAVE AN ISA?

A: ISAs and personal pension plans are entirely separate, and both can – and most likely will – form part of your financial planning requirements. They both have tax-efficient benefits. An investment-based ISA such as a Stocks & Shares ISA could potentially grow your savings as much as a pension plan in the long term. However, personal pensions have benefits which ISAs don't have.

For example, the yearly tax-efficient pension allowance is higher than the yearly ISA allowance for most people. Also, besides tax-efficient income and capital gains within the fund, you also receive tax back on all your pension contributions. This is paid at up to the highest rate of tax you pay, up to a maximum of 45%. If you're in a workplace pension scheme, your employer will also usually contribute to your pension plan. From 6 April 2019, the minimum employer contribution is at least 3% of your qualifying earnings (earnings between £6,136 and £50,000 as of the 2019/20 tax year).

Pensions are not normally accessible until age 55. This means there's no temptation to dip in early. An ISA can be a good way to supplement your personal pension planning. The yearly pension allowance is in addition to your annual ISA allowance. By using both allowances as much as possible, you'll maximise your tax savings.

Q: WHAT HAPPENS TO MY ISA IF DIE PREMATURELY?

A: The funds within your ISA will pass in line with your Will or the intestacy rules if you don't have a Will. The funds remain tax-free whilst your estate is administered. The rules on ISA death benefits allow for an extra one-off ISA allowance equal to the value of your ISAs to be given to your spouse or registered civil partner. If your spouse is inheriting your ISA funds, this enables them to keep those funds within a tax-free ISA wrapper if they wish (even if your ISA funds are not passing to your spouse, they still receive this additional one-off ISA allowance which they can make use of, using other funds if they wish). ◀

LOOKING FOR WAYS TO MAKE YOUR MONEY WORK HARDER?

The ISA season is a great time of year to do a spring clean of your finances and explore new ways to give your savings a boost. Whether you're new to investing or an experienced investor, we can help you consider the options available. To discuss your requirements, please contact us.

RETIREMENT OPTIONS

GREATER RESPONSIBILITY ON INDIVIDUALS TO PLAN FOR FINANCIAL SECURITY IN OLD AGE

Deciding what to do with your pension pot is one of the most important decisions you will ever make for your future. The 'pension freedom' changes of April 2015 represented a complete shake-up of the UK's pensions system, giving people much more control over their pension savings than before.

New research[1] has revealed that the number of savers who have embraced their freedoms now exceeds one million (1.04 million). The report from HM Revenue & Customs shows that a record-breaking sum of £7.83 billion was withdrawn in 2018[2], up from £6.54 billion in 2017. It is reported that there have been 5.49 million individual withdrawals since the pension freedoms were introduced in 2015.

UNCONTROLLED 'DASH-FOR-CASH'

There is, however, currently no evidence of an uncontrolled 'dash-for-cash' that was feared by some when the freedoms were introduced. The 2018 figure of £7.83 billion needs to be seen in the context of a total private pension wealth in the UK of approximately £5,000 billion[3].

Withdrawal payments have also consistently averaged less than £4,000 since summer 2017, showing little evidence of savers rushing to buy extravagant luxury items. These freedoms are attractive to younger savers too, with recent figures released[4] finding that one third (33%) of under-35s believe this flexible access encourages them to put more money towards their pension.

FIVE TIPS TO HELP MAKE THE MOST OF THE PENSION FREEDOMS

1. UNDERSTAND YOUR STATE PENSION

The State Pension continues to be most people's biggest source of income in retirement. But the State Pension, and the age at which you are entitled to this money, is changing – www.gov.uk/check-state-pension.

2. TAKE YOUR TIME

You may have spent 40 years saving for your retirement. Take more than 40 minutes considering your options.

3. OBTAIN PROFESSIONAL FINANCIAL ADVICE ABOUT WHAT YOU CAN DO WITH YOUR PENSION POT

There are a number of different ways you can take your defined contribution pension pot. You can usually take 25% of your pot tax-free from age 55.

YOUR OPTIONS ARE:

Leave your whole pot untouched

You don't have to start taking money from your pension pot when you reach your 'selected retirement age'. If you want to build up your pension pot further, you can continue to receive tax relief on your own pension savings of up to £40,000 each year (tax year 2018/19) less employer contributions being made, or currently 100% of your earnings if you earn less than £40,000, until age 75 (beyond 75 for employer/company contributions).

Guaranteed income (annuity)

You can use your pot to buy an insurance policy that guarantees you an income for the rest of your life – no matter how long you live. You don't have to accept the annuity that your pension provider or pension scheme offers you. The 'open market option' allows someone approaching retirement to shop around for a number of options to convert their pension pot into an annuity, rather than simply taking the default rate offered by their pension provider.

Adjustable income

This option is also known as 'flexi-access drawdown'. You move your pension pot into one or more funds that allow you to take a taxable income at times to suit you. You choose funds that match your income objectives and attitude to risk and set the income you want. The income you receive might be adjusted periodically, depending on the performance of your investments. The full 25% tax free lump sum can be taken at outset or you can move funds gradually into flexi-access drawdown and take your tax free cash in stages.

Take cash in lump sums

Another option is to take smaller sums of money from your pot until you run out. How much you take and when you take it is up to you. You decide how much to take and when to take it. You don't have to take your 25% tax-free amount in one lump sum – you can decide to receive it over time. Each time you take a lump sum of money, 25% can be tax-free, and the rest is taxable.

Take your entire pot in one go

You can cash in your entire pot – 25% is tax-free, and the rest is then taxed at your highest tax rate/s (by adding it to the rest of your income). However, cashing in your pension pot will not give you a secure retirement income. If you're thinking of doing this, you should first obtain professional financial advice to discuss your options.

Mix your options

You can mix different options. Usually, you would need a larger pension pot to do this.

4. CONSIDER YOUR LIFE EXPECTANCY

Pension savings are intended to last the rest of your life, yet we typically underestimate how many years we may live. Figures from the Office for National Statistics[5] show that for 2015 to 2017, a woman's life expectancy in England from birth remains 82.9 years, and for a man it is 79.2. For men and women in Scotland and Wales, the latest figures show a slight decline by more than a month. Men in Northern Ireland have seen a similar fall.

5. APPROACH FINAL SALARY PENSION TRANSFERS WITH CAUTION

If you have a final salary pension, you will need to transfer it elsewhere to access the freedoms. This is a significant decision, as you could lose important benefits. Such a decision should be approached with caution and with the guidance of professional financial advice.

The onus is now firmly on us as individuals to plan our financial security in retirement. We're now expected to take greater responsibility for funding the time in our lives when we're dependent on a lifestyle that we've spent the last 40 years saving for. ◀

THE 'PENSION FREEDOM' CHANGES OF APRIL 2015 REPRESENTED A COMPLETE SHAKE-UP OF THE UK'S PENSIONS SYSTEM, GIVING PEOPLE MUCH MORE CONTROL OVER THEIR PENSION SAVINGS THAN BEFORE.

IT CAN HELP TO BE FLEXIBLE

There's a lot to think about when you're planning for retirement. And don't forget that your situation may change in the future, so it can help to be flexible. If you would like to discuss your particular situation or arrange a meeting, please contact us.

Source data

[1] https://www.gov.uk/government/statistics/flexible-payments-from-pensions

[2] Note: this figure underplays the total amount withdrawn as it does not include any additional amounts taken as tax-free-cash.

[3] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/wealthingreatbritainwave5/2014to2016#private-pensions-wealth

[4] Aviva 2018 survey of 1,000 UK adults: 'Would you put more money towards your pension if you were able to access the money more flexibly?'

[5] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2015to2017

BREXIT – WHAT NEXT?

UNINTENDED CONSEQUENCES

At the time of writing this article, the UK Government is still in negotiations with the European Union over the terms of its planned withdrawal on 29 March 2019.

As we've been constantly hearing over the past few years in the media, Brexit uncertainty is affecting business and consumer confidence, whilst also contributing to a difficult political backdrop. But right now, the form of what this might look like is unclear, as are the related economic and regulatory implications for investments.

WORST-CASE SCENARIO

A report by the Bank of England has suggested that a worst-case scenario is indeed a no-deal Brexit, which could lead to a shrinking economy, house prices falling by over a third, unemployment doubling and inflation rising substantially. But that is the worst-case scenario, and there is some comfort in knowing that the actual outcome is likely to be better.

But there could be a scenario where there is no direct impact. For example, for a UK-domiciled individual investing with a UK-registered company from a UK-based bank account, it's unlikely that Brexit would have a direct impact on their investments.

FOREIGN CURRENCY EXPOSURE

Political uncertainty and various other factors such as exchange and interest rates can all impact how investments perform. However, for some investors, the Brexit vote has up until now been good for their portfolio's performance, as some have benefited from foreign currency exposure.

During any period of change, it's important to be able to access professional financial advice and feel comfortable that your investments are robust enough to deal with any potential volatility and that they include a diverse mix of assets, which is key.

ECONOMIC CYCLE PERFORMANCE

Among so much uncertainty and gloom surrounding the UK's imminent departure from the EU, conventional pricing of company shares has been turned on its head. This is not to say that all UK stocks have fared badly. On the contrary, many large companies that derive most of their earnings from overseas have outperformed, as have those seen as 'defensive' stocks that are widely expected to hold up well throughout the economic cycle.

It is often said that quality is not about any single metric, but a blend of characteristics that allows companies to deliver growing value for their shareholders over time. A quality company should, amongst other things, be able to deliver sustainable growth with a healthy balance sheet and strong corporate governance.

FERTILE HUNTING GROUNDS

Brexit, for all its unintended consequences, has opened up rare possibilities to buy stakes in quality companies at attractive valuations. By comparing share prices to company earnings, UK stocks overall look less expensive than their counterparts elsewhere in the world – especially in the US. The abandonment of logic in the face of short-term concerns over the UK economy has created particularly fertile hunting grounds for some long-term investors.

It also remains too early fully to understand how Brexit may affect the cost of imported goods years from now, as so much depends on trade agreements reached between the UK and the EU (and other countries). If the pound's weakness persists, the cost of other imported goods may also rise.

EMBRACING OPPORTUNITIES

But despite periodic and unavoidable corrections, stock markets tend to recover over time. The worst thing to do is to sell out of the market. Long-term investors need to take a pragmatic view about volatility and the subsequent opportunities. Of course, it is tempting to think that cash is the best place for long-term savings, but if investors embrace opportunities and avoid panicking, then market corrections can become a friend.

It's important to remember, especially as Brexit approaches, that no matter how big a market correction, gains made during the recovery period that follows generally outweigh any losses. No one can predict exactly what will happen in 2019 and beyond, but we can safely look to history and take some comfort from the knowledge that markets are resilient. Short-term bear markets may be painful, but bull markets are very rewarding for those who hold their nerve. ◀

IT'S GOOD TO TALK

The Brexit negotiations to date have been detailed and complex, and at the time of writing there is still uncertainty as to the final outcome and its direct impact on our personal finances. If you would like to discuss any aspect of your financial plans in the light of Brexit, please contact us.

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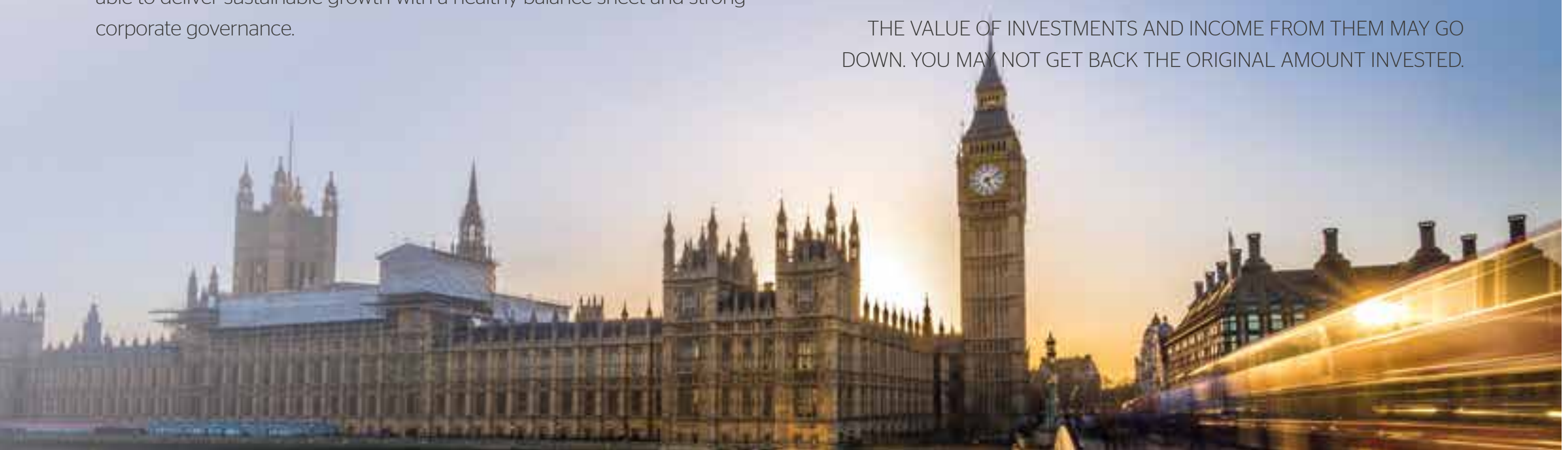

NO PAIN, NO GAIN

PLANNING TO GET WHERE YOU WANT TO BE

Successful saving and investing is arguably a lot like exercise – no pain, no gain. As is the case when undertaking a new fitness regime, if you properly commit yourself and stick to it, the eventual outcomes can be very rewarding.

Many people have savings and investment goals in their life, from the old adage of saving for a rainy day to planning for a comfortable retirement. Working out exactly what you want to get out of your investments will help you set realistic targets and keep you on track.

It will also give you an incentive to keep going when you need to and enable you to arrange your personal finances to get you where you want to be.

TYPES OF GOALS

The three most common types of investment goal are retirement planning or a property purchase over the very long term (15 years or more); life events, such as school and university fees over the medium term (10-15 years); and rainy day or lifestyle funds to finance goals such as that dream car or dream cruise over the medium to shorter term (5-10 years).

The minimum time horizon for all types of investing should be at least five years. But whatever your personal investment goals may be, it is important to consider the time horizon at the outset, as this will determine the type of investments you consider to help achieve your goals.

It also makes sense to revisit your goals at regular intervals to account for any changes to your personal circumstances, for example, the arrival of a new member of the family.

INVESTMENT STRATEGIES

Investment strategies should often include a combination of various fund types in order to obtain a balanced and diversified approach. Maintaining this approach is usually key to the chances of achieving your investment goals, while bearing in mind that at some point you will want access to your money. This makes it important to allow for flexibility in your planning.

LONG TERM: RETIREMENT PLANNING

The importance of shifting goals can be seen in retirement planning, where it is quite common for funds to be more geared towards equities in their early stages to try to build capital. As an individual grows closer to retirement age, their pension plan will tend to lean more towards bonds to reduce volatility. Exposure to riskier sectors such as commodities or real estate may also be gradually reduced as the individual ages.

A typical pension plan may start out as 60% equities, 30% bonds and 10% 'other', including real estate or commodities, when the employee starts work. Towards the end of its life, the plan may be 70% bonds, about 20% in equities and up to 10% in cash. This ensures that the person retiring does not become susceptible to a sudden slump in stock markets just as they are about to cash in some of the fund.

MEDIUM TERM: SCHOOL AND UNIVERSITY FEES PLANS

School and university fees planning may involve the same idea of buying a mix of equities, bonds and other investments in order to build enough capital to pay for education. Most plans of this type are geared to begin paying out after a fixed-term horizon, usually ten years, with withdrawals allowed incrementally after that to meet the fees. In this way, they need to be more flexible than pension plans that only pay out on retirement.

For this reason, parents often start plans when their baby is born so that they can start paying out when the child starts secondary school at age eleven, or even years before then, especially if they want their children to go to fee-paying primary or preparatory schools.

SHORT TO MEDIUM TERM: LIFESTYLE PLANS

Investment companies can offer ten-year plans or even shorter savings schemes that help pay out for a future holiday or dream car. A large number of products now exist for this, including Individual Savings Accounts that contain stocks and shares, depending on your timescale and willingness to accept risk. ◀

READY FOR THE NEXT STEP?

Whether you are looking to invest for income or growth, we can provide the professional financial advice, comprehensive investment solutions and ongoing service to help you achieve your financial goals. To identify which options are right for your individual circumstances or to find out more, please contact us – we look forward to hearing from you.

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14 PROTECTION

WEALTH PROTECTION

PLANNING YOUR LEGACY

Unforeseen life events and circumstances can potentially impact your finances in a number of ways. Believe it or not, you have an estate. In fact, nearly everyone does.

Your estate is comprised of everything you own – your car, home, savings accounts, investments, life insurance, furniture, personal possessions – the list goes on. No matter how large or how modest, everyone has an estate and therefore shares something in common – you can't take it with you when you die.

Ensure your wishes are carried out
When that happens, you probably want to control how these things are given to the people or organisations you care most about. To ensure your wishes are carried out, you need to provide instructions stating whom you want to receive something of yours, what you want them to receive, and when they are to receive it. You will, of course, want this to happen with the least amount paid in taxes, legal fees and court costs.

An estate plan differs considerably from a Will. A Will is quite a simple document about the distribution of your assets and, potentially, instructions for the care of your children. An estate plan, however, goes much further than a Will, and aims to help your heirs pay substantially less in taxes and fees.

LET'S CONSIDER SOME KEY PARTS OF AN ESTATE PLAN.

YOUR CURRENT CIRCUMSTANCES

There are a number of key documents that together build a clear picture of your current circumstances. Aside from the Will, some key documents within an estate plan could include:

- A lasting power of attorney
- A list of all assets and liabilities
- Deeds of any trusts created
- Life policies (which should be included in an appropriate trust)
- Pension Death Benefit Nomination forms
- Records of any gifts made

BEFORE MOVING ON TO THE NEXT PART OF YOUR ESTATE PLAN

Should any of the above be required but aren't available, you should seek professional advice before moving on to the next part of your estate plan. For example, if you've made gifts from your estate but haven't kept a record of them, it's important to do so – this way, the executors of your estate have these details when administering your estate.

Key parts of an estate plan are your objectives and preferences. They could include details of whom you wish to benefit from your estate and when you'd like this to take place – either during your lifetime and/or upon your death. With Inheritance Tax (IHT) currently at 40%, many people are concerned about the amount of tax their estate may have to pay. And as anyone can access information from a probate court upon death, there could be delays, fees and a loss of privacy. You may also have a favourite charity you'd like to transfer your wealth to, or philanthropic goals you wish to include.

STRUCTURING YOUR WEALTH TAX-EFFICIENTLY

Once you have an accurate record of your estate and have clearly defined your objectives, the final part of an estate plan is to put it into place. You may need professional advice to help arrange your assets to maximise the legacy to your loved ones and minimise the impact of tax, fees and loss of privacy.

We can advise you on your options to make sure these are executed correctly. This may involve helping you invest in assets that are exempt from IHT, creating a trust for loved ones, putting a gifting strategy in place, or simply helping to structure your wealth tax-efficiently.

REVIEWING YOUR PLAN ANNUALLY IS SENSIBLE

Once the plan is in place, it's important to keep it up to date. It's usually sensible to review the plan annually or when there's a significant life event, such as a birth or death in the family, a business sale or if your objectives change over time. It can also be good to seek a review of your plan when taxation rules change.

ESTATE FACTS

- Inheritance Tax is levied at a fixed rate of 40% on all assets worth more than £325,000 per person (0% under this amount) – or £650,000 per couple if other exemptions cannot be applied
- Parents and grandparents can currently leave property worth up to £850,000 to their children without them having to pay Inheritance Tax. This figure will rise to £1 million by 2020
- The current allowance of £325,000 remains unchanged, but an additional tax-free band worth £175,000 per person on your main residence will be added to the £325,000, making it £500,000 per person. The new tax-free band was set at £125,000 in 2018, eventually rising to £175,000 in 2020 ◀

YOUR ESTATE IS COMPRISED OF EVERYTHING YOU OWN – YOUR CAR, HOME, SAVINGS ACCOUNTS, INVESTMENTS, LIFE INSURANCE, FURNITURE, PERSONAL POSSESSIONS – THE LIST GOES ON.

NEED SOMEONE TO TALK THINGS THROUGH WITH ABOUT YOUR ESTATE PLAN?

If you want to be sure your wishes will be met after you die, then an estate plan is vital. Whatever your circumstances, we are there to talk things through with and guide you in an appropriate direction. If you require more information or would like to discuss your situation, please contact us.

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THE RULES AROUND TRUSTS ARE COMPLICATED SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

14 INVESTMENT

MONEY'S TOO TIGHT TO MENTION

DON'T LET INFLATION REDUCE THE VALUE OF YOUR INVESTMENT RETURNS

Inflation can have a significant impact on our finances in a number of ways. But what exactly does it mean? And what impact could it have on our savings and investments? It's important to understand how inflation works, as well as the effects it has on our financial planning. As the American economist Milton Friedman remarked, 'Inflation is taxation without legislation.'

Put simply, inflation affects all aspects of the economy, from consumer spending, business investment and employment rates to government programmes, tax policies and interest rates. Understanding inflation is crucial to investing because inflation can reduce the value of investment returns.

INFLATIONARY PRESSURES IN AN ECONOMY

There are several different factors that may create inflationary pressure in an economy. Rising commodity prices can have a major impact, particularly higher oil prices, as this translates into steeper petrol costs for consumers.

Stronger economic growth pushes up inflation too, as increasing demand for goods and services places pressure on supplies, which may in turn lead to companies raising their prices. The falling pound since Britain's vote to leave the EU in June 2016 has also been a contributing factor, as it makes the cost of importing goods from overseas more expensive.

ERODING THE PURCHASING POWER OF YOUR MONEY

Inflation is not good news for savers, as it erodes the purchasing power of your money. Low interest rates also don't help, as this makes it even harder to find returns that can keep pace with rising living costs. Higher inflation can also drive down the price of bonds. These become less attractive because you're locked in at interest rates that may not keep up with the cost of living in years to come.

One option is index-linked gilts, which are government bonds whose interest payments and value at redemption are adjusted for inflation. However, if they're sold before their maturity date, their market value can fall as well as rise and therefore may be more or less than the redemption value paid at the end of their terms.

PROVIDING BETTER PROTECTION AGAINST INFLATION

Investing in equities can potentially provide better protection against inflation than deposit accounts or bonds, which aren't index-linked, because companies can raise prices to cover higher costs. That, in theory, should enable them to grow at the same rate of inflation over time.

However, investing in equities can carry a higher risk, and you must be prepared to accept that you could get back less than you put in and that the value of your investment may not keep up with inflation.

WHEN THE COST OF LIVING INCREASES

Companies that raise their prices in line with inflation tend to fare better than others when the cost of living is increasing. Energy companies, for example, may perform well in an inflationary environment as they can raise their prices in line with inflation. Infrastructure companies – such as those responsible for toll roads, government buildings and hospitals – may also do well, as they often have long-term government contracts in place with payments linked to inflation, which encourages private sector investment.

Other companies that tend to be resilient to inflation are those producing consumer staples, which will always be required, regardless of what happens to prices. These include companies that produce food and drinks or other essential items such as cleaning products, toothpaste and prescription drugs. ◀

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CONCERNED ABOUT THE EFFECTS OF INFLATION ON YOUR INVESTMENTS?

Inflation can eat away not only at your capital growth, but also the value of dividend payments, which will not usually keep pace with rising inflation. With a weaker pound following the Brexit vote pushing up import costs and contributing to rising prices, this is potentially bad news for investors. To take stock of your particular situation, please contact us.

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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

MILLENNIALS GET REAL WITH THE NUMBERS

MAKING SACRIFICES FOR HOME OWNERSHIP OVER RETIREMENT

Millennials are chasing the home ownership dream at the potential cost of a lower income in retirement, new research[1] shows.

Over a third (35%) of millennials say they prioritise saving for a deposit on a home instead of their retirement. Nearly a fifth (19%) say buying a house is the main reason they don't save more into their pension, while 10% say student debt stops them saving into a pension. One in 11 (9%) admits that frequently changing jobs affects their ability to make regular pension contributions.

Millennials seem willing to make sacrifices for home ownership, with one in ten (10%) living with parents instead of renting to help save more money for a home. The study found men are almost twice as likely (20%) to be heading home compared to women (11%).

BANK OF MUM AND DAD

Despite worries about graduate debt and the squeeze on wages, on average, nearly a third (31%) expect to buy their first property by the age of 30, with men (39%) more confident than women (26%) they'll achieve their ambition. However, the research shows they won't all have to save hard – an optimistic 20% expect to receive financial aid from the Bank of Mum and Dad.

Industry data[2] shows millennials are right to be hopeful about home ownership – around 365,600 first-time buyers completed mortgages in the year to July 2018, borrowing a total of £59.9 billion. The average age of the first-time buyer during the year was 30, borrowing an average £145,000 on a gross household income of £42,000.

But pensions are feeling the strain. The research found around 21% say they have not started saving for retirement yet, while 15% say pension saving does not motivate them, and 12% believe pensions are irrelevant to millennials.

FOCUSED ON HOME OWNERSHIP

Retirement can seem daunting for millennials and is, of course, a long way off when you are contending with student debts and high rents. However, it is crucial to start saving for your pension as early on as possible, putting away as much as you can each time.

It is easier if you start doing this as soon as you start working, so you get used to the money going straight into your pension pot. Many will, at least, be saving through the workplace, which is a good start, and contributions should be regularly reviewed to ensure a significant fund can be built up.

Not all millennials, however, are focused on home ownership. According to the survey, approximately 17% of under-35s say buying a house is a not a realistic option at present, while 11% say that saving for a house deposit is not a financial priority. And it is not just millennials, as the research shows that one in seven 35-54-year-olds have given up on the hope of ever owning a home. ◀

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DON'T LET SAVING BECOME A DAUNTING PROSPECT

Juggling buying a house with saving for retirement is no doubt a challenge, and it is inevitable that something may get dropped, which unfortunately appears to be retirement saving. However, it is important to start saving for your pension as early on as possible. To find out how we can help, please contact us – we look forward to hearing from you.

Source data

[1] Consumer Intelligence conducted an independent online survey for Prudential between 20 and 21 June 2018 among 1,178 UK adults

[2] https://www.ukfinance.org.uk/house-purchase-activity-slows-in-june-but-remortgaging-activityremains-high/

SAFEGUARDING YOUR WEALTH FOR FUTURE GENERATIONS

STEPS TO MITIGATE AGAINST INHERITANCE TAX

Unforeseen life events and circumstances can potentially impact your finances in a number of ways. We can help you to safeguard your wealth for future generations. But for many of us, there can be a remarkable gap between our intentions and our actions.

Inheritance Tax (IHT) affects thousands of families every year. It comes at a time of loss and mourning and can have an impact on families with even quite modest assets – if you thought IHT was just for extremely wealthy people to worry about, think again.

TACKLING IHT SOONER RATHER THAN LATER

There are legitimate ways to mitigate against IHT, which is why it is sometimes called the 'voluntary tax'. Unfortunately, some of the most valuable exemptions must be used seven years before your death to be fully effective, so it makes sense to consider ways to tackle IHT sooner rather than later and to seek professional financial advice.

As property prices make IHT a reality for many in the UK, we've looked at a number of ways to prevent HM Revenue and Customs being one of the largest beneficiaries of your estate. IHT is levied at a fixed rate of 40% on all assets worth more than £325,000 per person (0% under this amount) – or £650,000 per couple if other exemptions cannot be applied.

Parents and grandparents can leave property worth up to £850,000 to their children without them having to pay IHT. This figure will rise to £1 million by 2020. The current allowance of £325,000 remains unchanged, but a new tax-free band worth £175,000 per person on your main residence will be added to the £325,000, making it £500,000 per person. The new tax-free band was set at £125,000 in 2018, eventually rising to £175,000 in 2020.

STEPS TO MITIGATE AGAINST IHT

1. MAKE A WILL

Dying intestate (without a Will) means that you may not be making the most of the IHT exemption that exists if you wish your estate to pass to your spouse or registered civil partner. For example, if you don't make a Will, then relatives other than your spouse or registered civil partner may be entitled to a share of your estate – and this might trigger an IHT liability.

2. MAKE LIFETIME GIFTS

Gifts made more than seven years before the donor dies to an individual or to a bare trust are free of IHT. So, if appropriate, it could be wise to pass on some of your wealth while you are still alive. This may reduce the value of your estate when it is assessed for IHT purposes, and there is no limit on the sums you can pass on. You can gift as much as you wish, and this is known as a 'Potentially Exempt Transfer' (PET). However, there is a catch: if you live for seven years after making such a gift, then it will be exempt from IHT. But should you be unfortunate enough to die within seven years, it will still be counted as part of your estate if it is above the annual gift allowance. You need to be particularly careful if you are giving away your home to your children with conditions attached to it, or if you give it away but continue to benefit from it. This is known as a 'Gift with Reservation of Benefit'.

3. LEAVE A PROPORTION TO CHARITY

Being generous to your favourite charity can reduce your tax bill. If you leave at least 10% of your estate to a charity or number of charities, then your IHT liability on the taxable portion of the estate is reduced to 36% rather than 40%.

4. SET UP A TRUST

Family trusts can be useful as a way of reducing IHT, making provision for your children and spouse, and potentially protecting family businesses. Trusts enable the donor to control who benefits (the beneficiaries) and under what circumstances, sometimes long after the donor's death. Compare this with making a direct gift (for example, to a child), which offers no control to the donor once given. When you set up a trust, it is a legal arrangement, and you will need to appoint 'trustees' who are responsible for holding and managing the assets. Trustees have a responsibility to manage the trust on behalf of and in the best interest of the beneficiaries, in accordance with the trust terms. The terms will be set out in a legal document called 'the trust deed'.

TYPES OF TRUST

There are now three main types of trust.
Bare (Absolute) trusts – with a bare trust, you name the beneficiaries at outset and these can't be changed. The assets, both income and capital, are immediately owned and can be taken by the beneficiary at age 18 (16 in Scotland).
Interest in possession trusts – with this type of trust, the beneficiaries have a right to all the income from the trust, but not necessarily the capital. Sometimes, a different beneficiary will get the capital – say, on the death of the income beneficiary. They're often set up under the terms of a Will to allow a spouse to benefit from the income during their lifetime but with the capital being owned by their children. The capital is distributed on the remaining parent's death.
Discretionary trusts – here, the trustees decide what happens to the income and capital throughout the lifetime of the trust and how it is paid out. There is usually a wide range of beneficiaries, but no specific beneficiary has the right to income from the trust.
A few trusts will now have to pay an IHT charge when they are set up, at ten-yearly intervals and even when assets are distributed. ◀

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THE SOONER YOU START PLANNING, THE MORE YOU CAN DO

We can work with you to ensure you make use of all the reliefs and exemptions you can. We can build a tailor-made succession plan based on your individual circumstances to make sure the allowances work best for you. We can give you the peace of mind of knowing that you have laid the firmest foundations for your family's future. Please contact us to discuss you situation.

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RETIREMENT INCOME

PLAN TO ENJOY THE KIND OF LIFESTYLE YOU WANT IN LATER LIFE

'Will I be able to afford the retirement lifestyle I want?' is a question that many people ask but struggle to figure out. There are many ways to assess your likely income in retirement and work out how much you need to put away now to enjoy the kind of lifestyle you want in later life. This is why more and more people, where appropriate, are turning to private pensions as a tax-effective way to build or enhance their retirement income.

A private pension is a product that you can use to save money for retirement. Private pensions are usually defined contribution pensions, which means the money you receive at retirement is based on the money you've paid in and the performance of your investments.

There are several different types of private pension to choose from. However, in light of government changes, the tax aspects can require careful planning. In the meantime, here are seven important things to know about private pensions.

1. NO PENSION SCHEME RESTRICTIONS

The term 'private pension' covers both workplace pensions and personal pensions. The UK Government currently places no restrictions on the number of different pension schemes you can be a member of.

Even if you already have a workplace pension, you can have a personal pension too, or even multiple personal pensions. These can be a useful alternative to workplace pensions if you're self-employed or not earning, or simply another way to save for retirement.

Any UK resident between the ages of 18 and 75 can pay into a personal pension – although the earlier you invest, the more likely you are to be able to build up a substantial pension pot.

2. TAX RELIEF ON PENSION CONTRIBUTIONS

A private pension is designed to be a tax-efficient savings scheme. The Government encourages this kind of saving through tax relief on pension contributions.

In the current 2018/19 tax year, pension-related tax relief is limited to either 100% of your UK earnings, or £3,600 per annum.

The current pension tax relief rates are:

- Basic rate taxpayers will receive 20% tax relief on pension contributions
- Higher rate taxpayers also receive 20% tax relief, but they can claim back up to an additional 20% through their tax return
- Additional rate taxpayers again pay 20% tax relief, but they can claim back up to a further 25% through their tax return
- Non-taxpayers receive basic rate tax relief, but the maximum payment they can make is £2,880, to which the Government adds £720 in tax relief, making a total gross contribution of £3,600

If you are a Scottish taxpayer, the tax relief you will be entitled to will be at the Scottish Rate of Income Tax, which may differ from the rest of the UK.

3. ANNUAL ALLOWANCE

The annual allowance is the maximum amount that you can contribute to your pension each year while still receiving tax relief. The current annual allowance is capped at £40,000, but may be lower depending on your personal circumstances.

In April 2016, the Government introduced the tapered annual allowance for high earners, which states that for every £2 of income earned above £150,000 each year, £1 of annual allowance will be forfeited. The maximum reduction will, however, be £30,000 – taking the highest earners' annual allowance down to £10,000.

Any contributions over the annual allowance won't be eligible for tax relief, and you will need to pay an annual allowance charge. This charge will form part of your overall tax liability for that year, although there is the option to ask your pension scheme to pay the charge from your benefits if it is more than £2,000.

It is worth noting that you may be able to carry forward any unused annual allowances from the previous three tax years.

If you have accessed any of your pensions, you can only pay a maximum of £4,000 into any un-accessed pension(s) you have. This is called the 'Money Purchase Annual Allowance' (MPAA). The MPAA applies only if you have accessed one of your pensions.

4. LIFETIME ALLOWANCE

The lifetime allowance (LTA) is the maximum amount of pension benefit that can be drawn without incurring an additional tax charge. From 6 April 2018, the lifetime allowance is £1,030,000.

What counts towards your LTA depends on the type of pension you have:

Defined contribution – personal, stakeholder and most workplace schemes. The money in pension pots that goes towards paying you, however you decide to take the money.
Defined benefit (also known as 'Final Salary') – some workplace schemes. Usually 20 times the pension you get in the first year plus your lump sum – check with your pension provider.

Your pension provider will be able to help you determine how much of your LTA you have already used up. This is important, because exceeding the LTA will result in a charge of 55% on any lump sum and 25% on any other pension income such as cash withdrawals.

This charge will usually be deducted by your pension provider when you access your pension.

5. PENSION PROTECTION

It's easier than you think to exceed the LTA, especially if you have been diligent about building up your pension pot. If you are concerned about exceeding your LTA, or have already done so, you should seek professional financial advice.

It may be that you can apply for pension protection. This could enable you to retain a larger LTA and keep paying into your pension:

- **Individual protection 2016 –** this protects your lifetime allowance to the lower of the value of your pension(s) at 5 April 2016 and/or £1.25 million. You can keep building up your pension with this type of protection, but you must pay tax on money taken from your pension(s) that exceeds your protected lifetime allowance
- **Fixed protection 2016 –** this fixes your lifetime allowance at £1.25 million. You can only apply for this if you haven't made any pension contributions after 5 April

OTHER WAYS TO SAVE

In addition to pension protection, if you have reached your LTA (or are close to doing so), it may also be worth considering other tax-effective vehicles for retirement savings, such as ISAs. In the current tax year, individuals can invest up to £20,000 into an ISA.

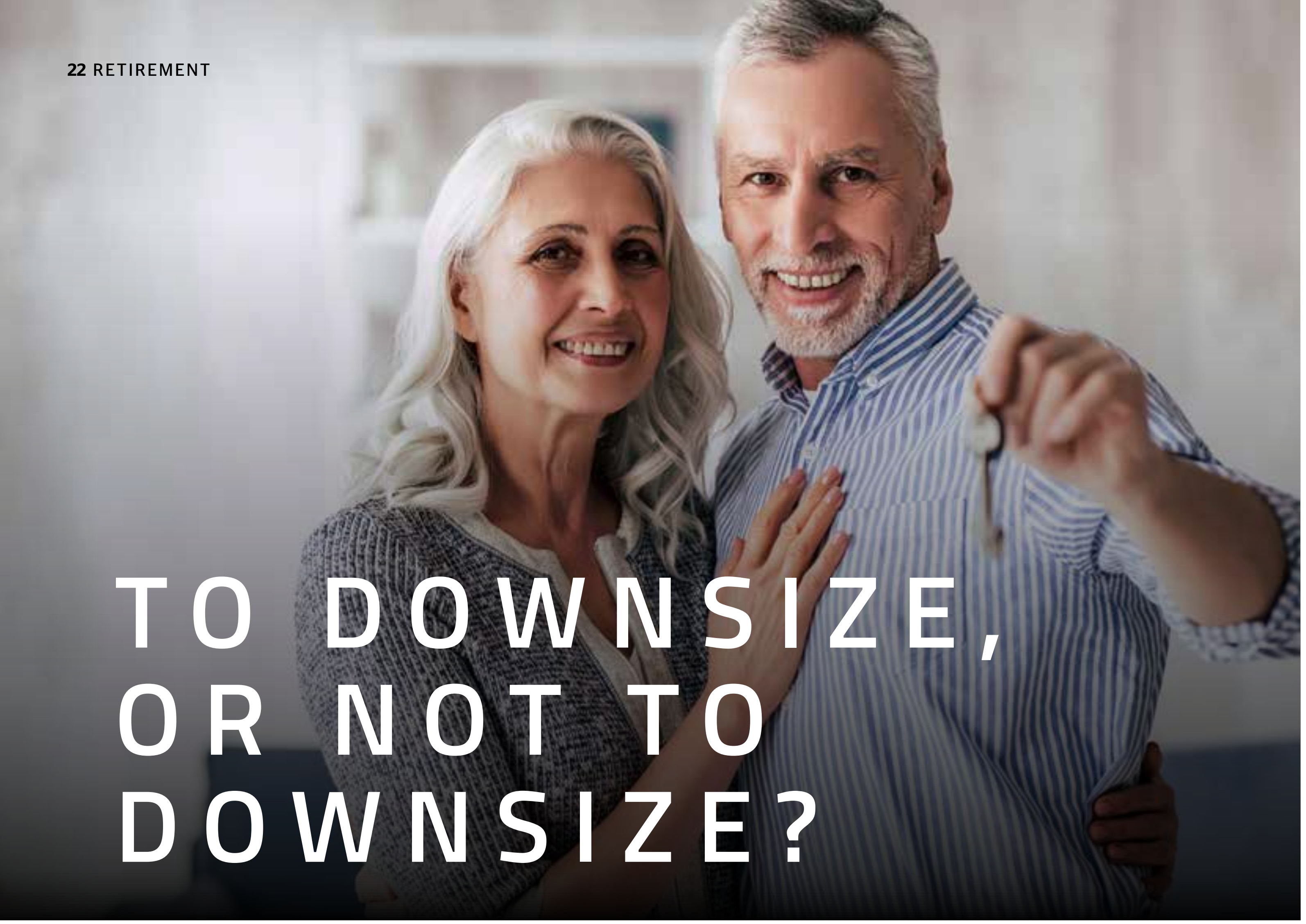
The Lifetime ISA, launched in April 2017, is open to UK residents aged 18–40 and will enable younger savers to invest up to £4,000 a year tax-free – and any savings you put into the ISA before your 50th birthday will receive an added 25% bonus from the Government. After your 60th birthday, you can take out all the savings tax-free, making this an interesting alternative for those saving for retirement.

PASSING ON YOUR PENSION

Finally, it is worth noting that there will normally be no tax to pay on pension assets passed on to your beneficiaries if you die before the age of 75 and before you take anything from your pension pot – as long as the total assets are less than the LTA. If you die aged 75 or older, the beneficiary will typically be taxed at their marginal rate. ◀

WHAT ARE THE NEXT STEPS?

As life expectancy rises, we're all likely to spend more time in retirement than our parents and grandparents before us. That means it's never been more important to sort out your pension. There is no one-size-fits-all, tax-efficient solution for private pensions, so if you want further information about changes to pensions taxes and the variety of schemes on offer, please contact us – we look forward to hearing from you.



TO DOWNSIZE, OR NOT TO DOWNSIZE?

PLANNING YOUR NEXT MOVE FOR A COMFORTABLE RETIREMENT

It can be a daunting prospect to think about selling the family home, but it is a decision that many decide is the right choice for them once the children have long moved out and the upkeep seems too onerous. However, people don't often consider the impact this could have on their retirement, according to new research[1].

This has revealed that if people have decided to downsize, they could unlock value from their home, providing the often-overlooked solution to helping them achieve a comfortable retirement. The new report found that UK adults would like an annual retirement income of £39,773 to be comfortable in their later years. This is up from £26,184 in 2016.

UK ADULTS' RETIREMENT SAVINGS EXPECTATIONS

Expectations for larger incomes in later life may stem from retirement savings increasing substantially over this time. The research found that the average size of a pension is up 7% over two years, from £174,555 to £186,617. In keeping with this, UK adults expect to have retirement savings of £215,852 by the time they stop work – up 27% from 2016 – when the expected amount was £169,594.

After the State Pension of £8,546 per year[2], £31,226 per year extra would be needed to meet people's desired income target of £39,773. At current low annuity rates, this income would need a pension pot of £600,515 for a level annuity.

MIND THE GAP – FUNDING A DESIRED LIFESTYLE

Despite the increase in pensions savings, the bigger increase in expectations for income in retirement has meant that the pensions gap – the shortfall from what people will need to fund their desired lifestyle, if they bought an annuity, and what they expect to have in their pension pot at retirement – has gone up from £370,000 to £385,000 over two years.

Post-pension freedoms, there are several options for retirees to consider rather than having to buy an annuity, providing myriad ways for retirees to meet their income goals. For example, the research showed that figures revealed that those choosing to move to a smaller property, or 'downsizing', could release a significant amount of capital that could help them achieve the lifestyle in retirement that they really want.

PROVIDING MOTIVATION FOR A MOVE TO A SMALLER PROPERTY

Once the children have left home, moving closer to public transport links or to a single-story home can often provide motivation for a move to a smaller property that may be more suitable. Using average UK house prices for homes of different sizes, figures show that the £385,000 shortfall could be significantly plugged if downsizing from a four-bed to a two-bed property.

This would immediately increase savings by £287,286, or if invested over five years could be worth nearly enough to fill the gap, at £349,527[3]. If the decision to downsize is made earlier in life, then the funds could be invested over ten years[3], amounting to £425,253.

PLANNING TO FUND RETIREMENT BY CONTINUING TO WORK

Despite the benefits of downsizing and increasing retirement savings, 83% of those surveyed said they did not intend to downsize to fund their retirement, increasing to 87% for over-55s. More people said that they plan to fund their retirement by continuing to work, either in their current role (11%) or by taking up a new job (9%), than by downsizing their property.

Considering the maximum annual pension contribution per tax year of £40,000, releasing a large amount of cash in one go from downsizing your property would mean only a portion can be invested directly into a pension. However, any money that is invested in this way would benefit from 20% tax relief before any investment return. The remainder can be invested or held in cash based on appropriate advice for that individual.

MONUMENTAL LIFE DECISION THAT CAN BE UNNERVING

Making the choice to downsize is a monumental life decision that can be unnerving to think about, but it can also have a great financial impact, providing a major boost to your retirement fund. Deciding on the right time to downsize can also be difficult, but the process can be easier if not left too late.

Moving to a smaller home nearby will lower the pressures that come with the upkeep and expenditure of a large property while keeping you near to any friends or family who live in the same area. Also, moving wealth from an illiquid asset such as property to a liquid asset such as cash has the added benefit of enabling tax planning, which could reduce any potential Inheritance Tax liability. It can be useful to take emotion out of the equation and try to be as pragmatic as possible – it's easier said than done, but it can help with some very tough decisions that need to be made.

LOOKING TOWARDS A PATCHWORK OF SAVINGS AND ASSETS

The research showed greater realism about how long it might take to accumulate assets to fund retirement, and what will be needed to reach financial goals in retirement. On average, people would like to retire at age 61, up five years from when the survey was last undertaken in 2016, when this was 56. However, many admit that early retirement is unrealistic, with 67 being the average at which respondents think they will have enough money to stop working, coinciding with the rising State Pension age.

Many people are now looking towards a patchwork of savings and assets to fund retirement. While only 17% of people expect to downsize, over one in three (34%) expect to draw on other savings to fund their retirement, and a fifth (20%) expect to at least part-fund their later years by continuing to work. In addition, 14% hope to use inherited money or property.

COMPLEXITIES AROUND OPTIMAL FINANCIAL PLANNING

Despite the complexities around optimal financial planning for retirement, 52% of people do not seek advice regarding retirement and do not plan to. This number increases to 70% for retirees, which may be why one in ten (10%) of them still don't know how they will fund their retirement.

Pensions have long been seen as the foundation of retirement saving, but many people now recognise that they will need to draw on other available assets to finance their retirement. The answer used to be to 'buy an annuity'. Whilst annuities still have a place as one of the few ways to guarantee an income, they are expensive. A successful retirement plan involves making the most of not just your pension, but all your savings, other investments and assets. ◀

WANT TO DISCUSS YOUR OPTIONS?

Clearly, there is a lot to consider, and making the wrong retirement decisions can be costly. Many people approach retirement with little or no idea how much money they will need or the best way to take an income. Obtaining professional financial advice in the lead-up to and at retirement is essential. To discuss your requirements, please contact us.

Source data

[1] Research conducted by Opinium Research amongst 5,000 UK adults between 30 August and 5 September 2018.

[2] Full State Pension 2018, https://www.gov.uk/new-state-pension/what-youll-get

[3] This assumes a 4% p.a. growth rate with dividends re-invested net of charges and no Capital Gains Tax to pay on the property sale.

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DOUBLE WHAMMY

NEW SOCIAL PHENOMENON – THE ‘SANDWICH GENERATION’

In recent years, a growing realisation has formed that we’re in the middle of a new social phenomenon – the ‘sandwich generation’. The term ‘sandwich generation’ is often used to refer to those who care for both sick, disabled or older relatives and dependent children.

With an ageing population and many people starting families later in life, ‘sandwich caring’ responsibilities are on the rise. However, new research from the Office for National Statistics (ONS) has highlighted the fact that a pensions injustice could be making life even more difficult for this group.

TWIN RESPONSIBILITY

The report shows that almost 27% of sandwich carers show symptoms of mental ill health[1] while caring for both sick, disabled or older relatives and children. With life expectancy increasing[2] and women having their first child at an older age, around 3% of the UK general population[3] – equivalent to more than 1.3 million people – now have this twin responsibility.

Sandwich carers are more likely to experience symptoms of mental ill health – which can include anxiety and depression – than the general population (22%), according to the ONS analysis for 2016 to 2017[4].

The prevalence of mental ill health increases with the amount of care given. More than 33% of sandwich carers providing at least 20 hours of adult care per week report symptoms of mental ill health, compared with 23% of those providing fewer than five hours each week.

HEALTH SATISFACTION

People providing fewer than five hours of adult care each week report slightly higher levels of life and health satisfaction, relative to the general population. Some of the differences between the two groups could be explained by demographic differences. For example, more than 72% of the sandwich generation are aged between 35 and 54 years, while 62% are women. Whereas among the general population, 38% are aged 35 to 54 years, and 51% are women.

Around 76% of those providing fewer than five hours of adult care say they’re satisfied with life, while just 10% are dissatisfied. Meanwhile, 74% of the general population are satisfied with life, with 16% saying they’re dissatisfied. However, when sandwich carers spend more than five hours a week providing adult care, they report lower levels of life and health satisfaction than the general population.

SANDWICH CARERS

Those providing between 10 and 19 hours of adult care per week are least satisfied according to both measures, even compared with those giving at least 20 hours each week. This could be because 69% of carers in the 10 to 19-hour category are in work (either employed or self-employed), compared with 41% of those providing at least 20 hours a week.

Similarly, many sandwich carers are not satisfied with the amount of leisure time they have. Those looking after their relatives in their own home – half of whom provide at least 20 hours of adult care per week – are least satisfied.

GENERAL POPULATION

Overall, around 61% of the general population are happy with their amount of leisure time, compared with 47% of sandwich carers looking after their relative outside the home and 38% of those providing care within their own home.

As well as reporting a lack of leisure time, 41% of sandwich carers looking after a relative within their home say they’re unable to work at all or as much as they’d like. The ONS report also shows that women sandwich carers – who account for 68% of those providing at least 20 hours of adult care per week – are more likely to feel restricted than men. Around 46% of women feel unable to work at all or as much as they’d like, compared with 35% of men.

LABOUR MARKET

Women sandwich carers are also much more likely to be economically inactive than men – 28% are not part of the labour market, compared with just 10% of men in the same situation. It should be said, though, that the majority of sandwich carers are able to balance their job with caring responsibilities. More than 59% of those providing care at home say this does not prevent paid employment.

Clearly, caring for two generations could have an impact on carers’ finances. One in three sandwich carers say they are ‘just about getting by’ financially, while one in ten are ‘finding it difficult’ or ‘very difficult’ to cope. Meanwhile, only 17% say they are ‘living comfortably’, compared with 32% of the general population. ◀

PREPARING FOR A MORE SECURE FINANCIAL FUTURE

As concern grows among sandwich carers, so too does the need to financially plan for ageing dynamics and family relationships. To discuss any concerns you may have, please contact us. We look forward to hearing from you.

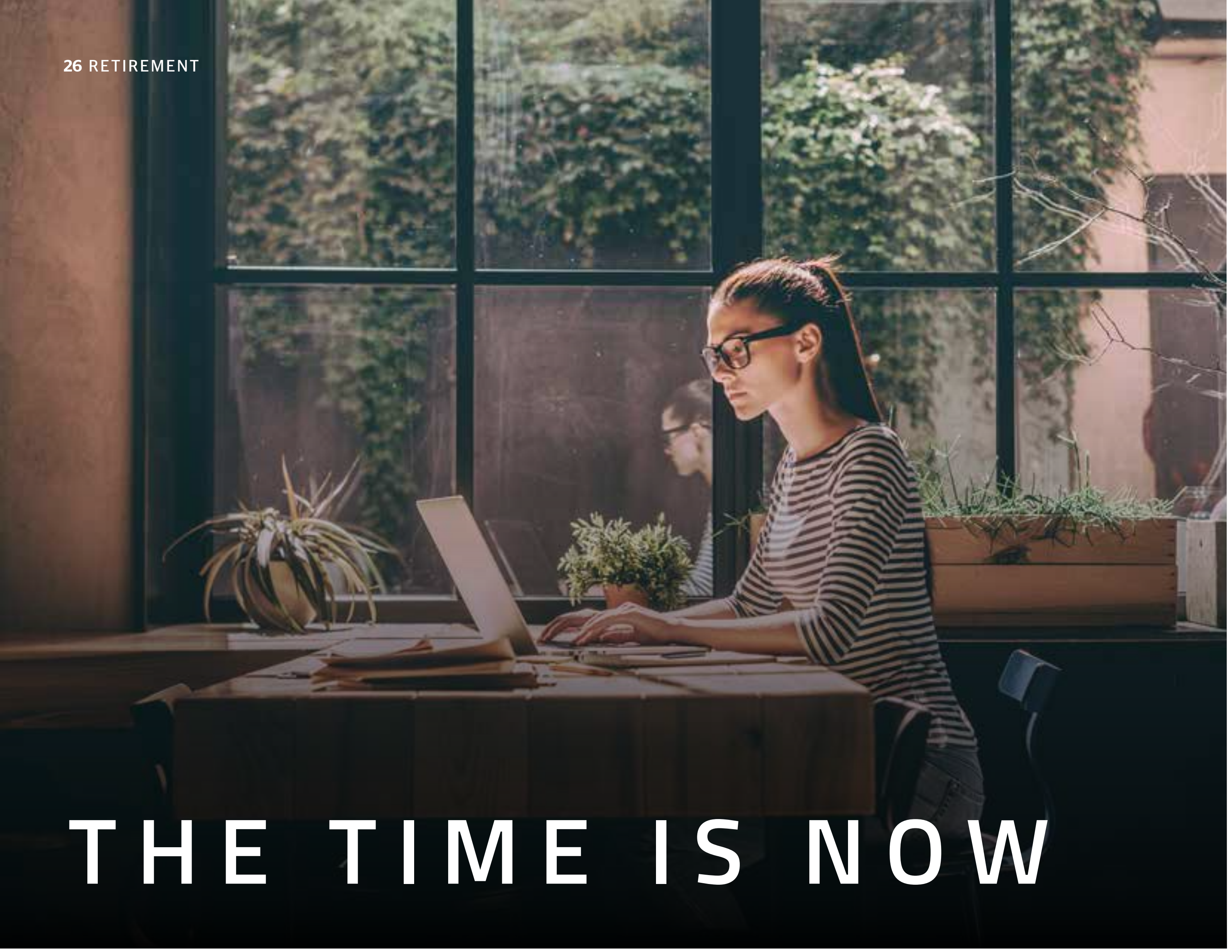
Source data

[1] This is based on the General Health Questionnaire (GHQ), where a score of four or more indicates symptoms of mild to moderate mental illness such as anxiety or depression. The GHQ is self-reported.

[2] Life expectancy at birth in the UK did not improve in 2015 to 2017, having risen consistently for decades beforehand. The ONS investigated the stalling of improvements in life expectancy and its links to mortality rates.

[3] For the purposes of this article, the general population is all adults (including sandwich carers) aged 16 to 70 years.

[4] The ONS analysis defines sandwich carers as people aged 16 to 70 years who have a dependent child (one aged under 16 years, or 16 to 18 years, who is in school or non-advanced further education, not married and living with parent) in their home, and also provide regular service to a relative (usually parents, parents-in-law, grandparents, aunts or uncles, or another relative) who is ‘sick, disabled or elderly whom you look after or give special help to’. The analysis is taken from Understanding Society, the UK Household Longitudinal Study. Households are surveyed each year either through a face-to-face interview or a self-completed online survey. Data collection takes place over a 24-month period, and the sample size for the general population in the 2016 to 2017 period was 34,000 individuals.



THE TIME IS NOW

A MUCH NEEDED BOOST TO THE NATION'S SAVINGS

A million more women in their 20s could be saving adequately for retirement if they were able to access emergency cash from their pension, according to new research[1]. The latest Women & Retirement report highlights that the current lack of flexibility in pensions is a barrier to saving and that introducing the ability to access funds for unexpected bills could provide a much-needed boost to the nation's savings.

AGE BRACKET

Four in ten (40%) women aged 22–29 who have a pension say they don't save as much into it as they would like, because they want ready access to money in case of emergencies. This compares to just under a quarter (24%) of men aged 22–29. Around 357,000 women in this age bracket would start saving into a pension for the first time if they could have the option to access some of their savings should they need it[2].

The report revealed that more than two thirds of women aged 22–29 (67%) are not saving enough for retirement, and 25% aren't saving anything at all. Men of the same age are better prepared, with 46% saving adequately for retirement and fewer not saving at all (17%). The current minimum employer pension contribution through auto-enrolment is 8%. However, Scottish Widows suggests a combined 12% employer and employee contribution as an adequate level of saving[3].

MATERNITY LEAVE

At every age, men's savings outpace women's. This could be for a number of reasons, including the gender pay gap, women taking maternity leave or even choosing to work part-time. The gap widens as savers reach their forties, when women have an average of around £23,000 in savings and investments, but men have more than £50,000.

Men's savings continue to grow well into their seventies, where they reach an average of almost £130,000, yet women have around £48,000. Women in their sixties begin to see their savings dip, which could suggest they are accessing their pensions much sooner than men.

FINANCIAL DIFFICULTIES

While problems with money can affect anyone, the research shows that young women are more likely to face financial difficulties than men of the same age[4]. More than half of women aged 22–29 (56%) say they have been

in financial difficulty, versus 50% of men aged 22–29. More than a quarter (27%) of women aged 22–29 also said their money problems were caused by an unexpected bill.

A fifth of women in this age group (21%) say a drop in their income put them into financial difficulty, and one in seven (13%) has faced financial hardship following the breakdown of a relationship.

UNEXPECTED BILL

For a young woman in Britain today, an unexpected bill of £270 would be enough to put them into the red, while young men say they could comfortably manage no more than a £315 bill. Beyond this age group, the gender gap persists with women of all ages (18+) expecting a £308 bill being enough to force them into debt, versus £367 for men.

One in five working women (20%) aged 22–29 feel insecure in their job, compared to one in ten (13%) men, which may affect their attitudes towards saving into a pension. Women also feel less confident in their ability to find a new job if they needed to. Nearly three in ten (28%) say they would not be confident finding a new job within three months, versus 24% of men.

FINANCIAL HARDSHIP

It's good news that more women are saving for their retirement, and undoubtedly auto-enrolment has played a big part in encouraging that shift. However, it appears that a disproportionate number of women are facing financial hardship.

Many women fall into debt because they simply don't have the savings or financial resilience to manage life's income and expenditure shocks, so women can be particularly vulnerable if they face situations like job loss, divorce or large unexpected household bills. ◀

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LOOKING TO BOOST YOUR PENSION?

As part of our service, we take the time to understand your unique needs and circumstances so that we can provide you with the most suitable solutions in the most cost-effective way. If you would like to discuss the range of services we offer or you have a specific topic you would like to discuss, please contact us.

Source data

[1] There are 3,404,279 women aged 22-29 in Great Britain, according to ONS population estimates to mid-2017. According to data from the Scottish Widows Women and Retirement Report 2018, 75% have a pension and of these, 40% say they don't save as much into their pension as they would like to because they feel they need the flexibility to access savings if they need them. This equates to 1,021,284 women aged 22-29.

[2] 25% of women aged 22-29 in the UK don't have a pension. Of these, 42% say they would be likely to start saving into a pension if they were allowed to make a limited number of withdrawals from it during times of financial difficulty. This equates to 357,449 women aged 22-29.

[3] Scottish Widows suggests a combined 12% employer and employee contribution as an adequate level of saving.

[4] 'Financial difficulties' is defined as not being able to pay for your current obligations.

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FINANCIAL FREEDOM

EXPERIENCING A GOLDEN AGE WITHOUT MONEY WORRIES

Saving enough during our working life will not just give us freedom to manage our finances more flexibly, but it will also help us to secure a more comfortable lifestyle in retirement. Even though the baby boomers (the generation born between 1946 and 1964) are better off than any other generation, according to a new report[1], one in three (33%) people nearing retirement in this age demographic still don't feel confident they'll have enough funds to live on[2].

MONEY WORRIES

The Income Roulette Report reveals that more than a quarter (28%) of people expecting to retire within the next five years don't know how much they have in their pension pot. In addition to money worries, some did not feel emotionally ready for retirement, with one in six (16%) admitting they were worried they would not be as intellectually stimulated, and one in ten (12%) worried they would not know what to do with their time.

The research also reveals that two in five (42%) of those who have already retired feel their financial situation has significantly worsened since doing so. Furthermore, over a third (35%) of retirees feel they're often hit with unexpected costs like home maintenance, car repairs, or helping their children or grandchildren, meaning they frequently find themselves financially vulnerable.

GREATER CONFIDENCE

It's essential that people start planning and seeking the necessary professional financial advice earlier so that they can make the transition into retirement with greater confidence. A robust advice process will include encouraging anyone considering their retirement financial planning to compare their current monthly outgoings with their expected outgoings in retirement. This will give a clear indication of the level of income required.

It's often said that over-55s are experiencing a golden age when it comes to their finances. Entering retirement should be an exciting time, but the research shows this doesn't automatically mean this group is confident about their retirement plans – both from a financial and emotional perspective.

FINANCIAL AFFAIRS

On the one hand, 'pension freedoms' offer people more flexibility and choice, while on the other, it demands they take greater responsibility for their own financial affairs. It can also help for people to think about where their different pension pots are and if they would be better off bringing them all together in one place. This can ensure they enter retirement with confidence and control over their savings, and greater choice about how to take an income that will provide everything they hope for from retirement.

Trying to figure out how much money you will need to retire can be one of the most difficult financial questions to answer. We can no longer assume that we will be mortgage-free homeowners in retirement. For those unable to get on the property ladder during their working life, a large private rental bill needs to be factored into retirement planning. As a 'broad rule of thumb', retirees shouldn't see a huge change in their standard. ◀

THE SOONER YOU PLAN, THE BETTER

Whatever your goals in life are, careful planning and successful investing of your wealth can help you get there. There are a range of options available to help you prepare for your retirement. To find out how we can help, please contact us – we look forward to hearing from you.

Source data:
[1] ONS March 2018, 'How do the post-World War baby boom generations compare?'
[2] Methodology for consumer survey: YouGov, on behalf of LV=, conducted online interviews with 8,529 UK adults between 20 and 26 June 2018. Data has been weighted to reflect a nationally representative audience.

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SPRING INTO ACTION

TAKING A CLOSER LOOK AT WHAT YOU'RE SPENDING AS A FAMILY CAN HELP MAKE SIGNIFICANT SAVINGS

It will not be too long before spring is finally upon us, and those winter months (even though we've had a really mild winter) will start to become a distant memory. But with spring comes a new tax year – the 2019/20 tax year is just around the corner.

It may be tempting to leave the family finances ticking along. However, while you may feel the urge to give your home a spring clean as we move into this time of year, why not take the same approach with your finances?

Here are some simple tips on how you can take a closer look at what you're spending as a family and help make significant savings.

CREATE A BUDGET AND TRY TO STICK TO IT

The best financial planning begins with a piece of paper and a pen (okay, you may want to use a computer and spreadsheet). By working out your family incomings alongside your outgoings, you'll soon spot easy ways for saving cash, such as cutting down on takeaways or shopping trips for a single item.

If you're looking to track your finances more closely, you could use an app to help keep on top of your income and expenditure budget. This will instantly show you how much money is spare so you don't overstretch yourself.

CLEAR LOANS OR CREDIT CARDS WITH SAVINGS

If you're just clearing the minimum payment on loans and credit cards despite having cash in the bank, then it's worth doing the maths to work out what's actually doing more for you. Your savings could be earning little or no interest, while your payments are costing you money in interest.

While it's good to keep a nest egg for an emergency, in this scenario you're paying for the privilege of doing so – money that would be better spent elsewhere.

TAKE A LOOK AT YOUR CREDIT REPORT

Whether you want to take out new lines of credit or not, it pays to stay on top of your personal financial data. In the UK, the three main credit reference agencies (CRAs) are Experian, Equifax and Callcredit. Be aware that repeatedly applying for credit can harm your chances of getting credit, because lots of credit searches might indicate you're having problems. You can apply for your credit record as often as you like, though.

REVIEW YOUR INSURANCE COVER

Being underinsured or overinsured will cost you money either way. Whether it's life insurance, policies for your home, car, medical bills or travel, or just a backup in case products break down, put a date reminder in your diary a month before the renewal. You'll then have enough time to shop around and ensure you get the best possible quote for your specific needs.

DON'T FORGET ABOUT YOUR PENSION POT

For many people, retirement may feel a long way off, but with UK life expectancy increasing it pays to think ahead. Many people choose to pay off their mortgage with surplus cash rather than invest in a pension. But for many, owning a home is still a dream.

Whether you're a millennial or nearing the end of your working life, you need to keep a constant eye on how much your pension is performing and whether it needs topping up. This is especially important with the latest changes to the State Pension age.

CHECK YOUR COUNCIL TAX BAND

Some homes are in the wrong Council Tax band, as houses in England and Scotland were put into valuation bands in the early 1990s – bands that don't accurately reflect what the house is worth today. You can check what band your property fits into on the Government's website and, if you feel the band is incorrect, challenge it as well.

USE THE INTERNET WISELY TO SAVE BIG

Online comparison sites are one quick way to save money, but consider using voucher code websites or buying online through sites where you can receive cashbacks on purchases from many top brands and stores, so you could soon see the savings mount up.

Also, don't forget to empty your browser's history and cache when shopping for the best deals. Some sites remember if you've already looked at a product and won't give you the best price, presuming you want the goods too much already – a tactic common among airlines and holiday websites.

GET YOUR CHILDREN INVOLVED IN SAVING

Teaching kids the value of money can instil the financial skills they'll need as an adult and even stop them from wanting you to spend so much. Set up jars around the home for them to put coins into instead of buying sweets or toys.

Visually seeing the coins mount up encourages them to save and skip impulse buys. You could even write a monetary goal on the jar to incentivise them further – either the amount to reach or what will be bought, whether it's a video game or a new bike. ◀

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GETTING YOUR FAMILY FINANCES IN ORDER

These tips are just a few simple ways to spring-clean your finances – and there's no time like the present to start. Keep a list of what you save each day, and you'll soon be encouraged to save harder and faster as the amount grows. Please contact us to find out more about our services and how we could help you make the most of your hard-earned money.

WHERE ARE YOU ON YOUR RETIREMENT JOURNEY?

DON'T FALL FOUL OF THE TAX RULES AND END UP FACING A SIGNIFICANT TAX BILL

Are you approaching or in retirement? Are you confused about how much you're allowed to contribute to your pension and what to do if you've been hit with an unexpected tax bill?

Well, you're not alone, as new research[1] has revealed that due to levels of awareness of the Money Purchase Annual Allowance (MPAA), those approaching or in retirement could be faced with such an issue. In the survey of non-advised over-55s who are taking an income from drawdown, 22% said they were unaware there is an annual limit to the amount you can continue paying into your pension once you start drawing it.

WHAT IS THE MPAA?

The MPAA was introduced in April 2015 to prevent people using the pension freedoms to recycle money through a pension and effectively receive additional tax relief on those savings. The MPAA restricts the amount available to save into a pension once it has been 'flexibly accessed', with the limit triggered, for example, by taking an income from drawdown. In practice, this relates to anyone who has withdrawn either a cash lump sum or income in excess of their 25% tax-free lump sum from defined contribution type pensions.

If you start to take money from your defined contribution pension, this can trigger the lower annual MPAA allowance. The restrictions include any payments into a pension, both made personally or via an employer. The MPAA is currently £4,000 in the tax year 2018/19.

While not everybody that was surveyed would potentially still be paying into their pension, it is nonetheless concerning that many people are unaware of the restrictions and potential tax implications if they continue to do so. The severe restrictions on the amount that can continue to be paid into a pension once benefits have been drawn are likely to catch many people out, leaving them vulnerable to large tax bills.

Navigating the various rules around pensions and retirement can leave people exposed, especially if they have chosen a 'DIY retirement'. Many people are taking advantage of the pension freedoms and yet have no plans to fully retire for many years, so the MPAA is likely to catch out the unwary.

HMRC[2] admits it isn't collating data on this issue, and says it is incumbent on individuals to declare additional savings via the self-assessment process. This might sound sensible until you consider the many people who have flexibly accessed pensions without advice who have previously never experienced the self-assessment process and remain blissfully unaware of the problem.. ◀

WANT TO EXPLORE YOUR OPTIONS?

Before deciding what to do with your retirement savings, it's a good idea to take some time to fully understand all your options. To discuss your requirements, please contact us.

Source data

[1] The research was conducted online by Censuswide between 5 and 9 November 2018 among 500 respondents aged 55+ with income drawdown investments.

[2] Canada Life Freedom of Information Request dated 10 August 2018.

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TAX ACTION

GETTING YOUR TAX AFFAIRS IN ORDER BEFORE 5 APRIL

This time of year is your last chance to get your tax affairs in order before the end of the 2018/19 tax year. We've provided a summary of some key tax and financial planning areas which may be appropriate to certain taxpayers and should be considered prior to the end of the tax year on Friday 5 April 2019.

Tax planning might not sound very exciting, but it can have a dramatic effect on your personal finances. The UK tax system offers many different tax reliefs and allowances for individuals. Reviewing your tax affairs to ensure that available reliefs and exemptions have been utilised, together with future planning, can help to reduce a potential tax bill.

IDENTIFYING ANY TAX PLANNING OPPORTUNITIES

Personal circumstances differ, so if you have any questions or if there is a particular area you are interested in, please do not hesitate to contact us. It is important to ensure that, if you have not done so already, you take the time to carry out a review of your tax and financial affairs to identify any tax planning opportunities and take action before it's too late.

TIPS TO HELP YOU GET AHEAD ON MANAGING YOUR TAX AFFAIRS

Income Tax - if your income is nearing the different tax thresholds, you could reduce your tax liabilities by reducing your taxable income. There are a variety of ways this can be achieved, from changing income into non-taxable forms, making pension contributions, making tax-incentivised investments and making donations to charity.

Transfer income-producing assets - consider transferring income-producing assets to your spouse or registered civil partner in order to use the Income Tax personal allowance and possibly lower Income Tax bands of the transferee. In order to be effective for tax purposes, the transfer must be a genuine and unconditional gift to your spouse.

Individual Savings Accounts (ISAs) - fully utilise your tax-efficient ISA allowance. The allowance for 2018/19 is £20,000 per person, whilst the Junior ISA (JISA) allowance is now £4,260 for children under 18, as is the Child Trust Fund (CTF) allowance for those with a CTF instead of a JISA – for any child with a CTF, the CTF must be closed and transferred to a JISA before contributions can me made to a JISA.

Capital gains - use the capital gains annual exemption of £11,700 (2018/19) to realise gains tax-free. The allowance cannot be transferred between spouses or carried forward, although assets can be transferred between spouses in order to utilise more than one annual exemption (as long as the transfer is a genuine unconditional gift).

Pension contributions - maximise contributions amount and tax relief. Take full advantage of increasing pension contributions by utilising the annual allowance, which is £40,000 (tapered if you have income, including employer pension contributions, over £150,000) less any contributions made by your employer or the value of your whole earnings – whichever is lower. Unused annual allowances may also be carried forward from the previous three tax years, if eligible.

Pension contributions for spouses and children - consider contributing up to £2,880 towards a pension for your non-earning spouse or children. The Government will add £720 on top – for free. You could contribute more if your spouse (or child) earns more than £3,600 per annum (up to 100% of their earnings, less any contributions they make personally).

Remuneration strategy - if you run your own company, it's a good idea to determine your pay and benefits strategy sooner rather than later. For 2018/19, the dividend nil-rate band is reduced from £5,000 to only £2,000 – it's really important to consider the tax implications of your chosen approach to salary, benefits, pensions and dividends.

Gifting - you can act at any time to help reduce a potential Inheritance Tax (IHT) bill when you're no longer around. Make use of the IHT annual exemption that allows you to give away £3,000 worth of gifts and for them to be immediately outside of your estate. If unused, the exemption can be carried forward one year if the current year's allowance is also fully used.

Overpayment and capital loss claims - submit claims for overpaid tax and capital loss claims for the 2014/15 year before 5 April 2019, after which such claims will be time-barred.

Landlords - for 2018/19, the restriction on deductibility of mortgage interest and other finance costs doubles from 25% to 50%. For 2019/20, the restriction will apply to 75%, and then from April 2020, 100% of finance costs incurred by individual landlords. ◀

LET'S TALK TAX

Tax planning is a perpetual process. However, our tips are especially relevant to consider just before the end of the financial tax year. The tips we have provided are general in nature and should not be relied upon without seeking specific professional financial advice. To enable us to assist you with your own specific tax planning requirements, please do not hesitate to contact us – we look forward to hearing from you.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS.

ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

BREAKING UP IS HARD TO DO!

HOW MUCH MONEY WILL YOU WILL NEED TO LIVE ON LATER IN LIFE?

DIVORCE CAN HAVE A HUGE FINANCIAL IMPACT ON PEOPLE'S LIVES. MANY MAY NOT REALISE THAT THE COST OF DIVORCE CAN LAST WELL INTO RETIREMENT, AS DIVORCEES EXPECT RETIREMENT INCOMES OF NEARLY £4,000 LESS EACH YEAR THAN THOSE WHO HAVE NEVER BEEN DIVORCED.

Divorce is undoubtedly one of the most difficult subjects to talk about. When relationships come to an end, there are so many things to consider – children, home and support are naturally the first things you would focus on. In fact, when you begin the process of separating a shared life, the sheer number of things to deal with can seem very daunting. And the cost of divorce can have a lasting impact on your plans for later in life.

What is likely to be a divorcing couple's most valuable asset? The family home will spring to most people's minds first. But with the value of final salary pensions soaring, that forgotten 'defined benefit' income could well be the biggest single asset in the relationship.

A new study[1] has revealed that divorcees retiring this year can expect to receive up to 18% less in retirement income. While it may not be the first thing you need to think about, a pension fund is likely to be one of the most difficult assets a couple will have to split in the event of a divorce, so it's best to start early.

Average expected annual income:

- Never suffered a marriage breakup – £21,400
- Divorced – £17,600

That difference means that divorcees can expect to receive up to 18% less in retirement income.

Divorce can have a huge financial impact on people's lives. Many may not realise that the cost of divorce can last well into retirement, as divorcees expect retirement incomes of nearly £4,000 less each year than those who have never been divorced. And with the Office for National Statistics[2] confirming that divorce rates are increasing for men and women over 55, it is an issue likely to affect a growing number of the baby boomer generation.

The stress of getting through a divorce can mean people understandably focus on the immediate priorities like living arrangements and childcare, but a pension fund and income in retirement should also be a priority. Before planning how to separate your pension assets, you may want to consider how much money you think you will need to live on later in life.

SO WHAT ARE YOUR OPTIONS?

It's never easy when things come to an end, but support and advice can make the journey clearer. So what are the options available when you are ready to look at separating your assets?

Firstly, it is important that you both list the different pensions you and your ex-civil partner or spouse have. Then you can start to explore the options.

Across the UK, there are three core options to consider when you are separating pension assets:

- Pension sharing orders
- Pension attachment orders (called 'pension earmarking' in Scotland)
- Pension offsetting

Some of these options need to be administered by the courts, and not all of them will be suited to your individual circumstance.

PENSION SHARING ORDER

Pension sharing is one of the options available on divorce or the dissolution of a civil partnership. Each party owns a share of the pension fund but is able to decide what to do with their share independently. This provides a clean break between parties, as the pension assets are split.

PENSION ATTACHMENT ORDER

This redirects some or all of the pension benefits to you or your ex-civil partner or spouse at the time of payment. When the person who owns the pension receives their benefits, the pension provider makes a payment to their ex-civil partner or spouse. With this option, you don't get the clean break as you would from the pension sharing order.

PENSION OFFSETTING

With pension offsetting, the total assets are considered and then divided up. For example, if your ex-partner has a large pension pot, they may decide to keep this, as you may agree to receive an asset of similar value (for example, the house).

Divorce can be a difficult and uncertain time, and the retirement you have planned may differ from the reality ahead. ◀

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AT THE MOST DIFFICULT OF TIMES, WE'RE HERE TO HELP

A pension fund is one of the most complex assets a couple will have to split, so anyone going through a divorce should seek legal and professional financial advice to help them do so. For many more couples, the increase in value of pensions means that it is often the largest asset. It goes without saying that this advice is crucial as early as possible in any separation where couples have joint assets. To find out how we can help, please contact us.

Source data

[1] Research Plus conducted an independent online survey for Prudential between 29 November and 11 December 2017 among 9,896 non-retired UK adults aged 45+, including 1,000 planning to retire in 2018.

[2] Latest divorce statistics from the Office of National Statistics, published 18 October 2016

IMPROVING YOUR RETIREMENT INCOME

LOOKING FORWARD TO HAVING MORE TIME TO EXPLORE FARAWAY PLACES?

Retirement is a time for you to do the things you've always wanted to do. Perhaps you're looking forward to having more time to explore faraway places. Or maybe you dream of simply waking up each day and doing whatever takes your fancy. However you see your future, it helps to start planning for it as soon as possible.

The ways that you can take your pension savings changed in April 2015, giving you more choice over how you can access and use the money you've saved up. Deciding what to do with your pension is a big decision. To help you in your planning, here are some tips that could help you increase the money you have available in retirement.

MAKE SURE YOU HAVE DETAILS FOR ALL YOUR PENSION POTS

- Locate pension pots that you may have forgotten about. The Pension Advisory Service and the Pension Tracing Service can help you to trace forgotten pension pots
- Remember to take your State Pension into account. Find out more about your State Pension, including what you might be entitled to and how to claim, on the gov.uk website

CONSIDER TOPPING UP YOUR PENSIONS

- Think about topping up your pension in the years leading up to your retirement. That little bit extra could make a difference
- Remember: you might be eligible to top up your State Pension too. This could be particularly beneficial if you're self-employed or a woman, because it's possible your State Pension entitlement may be low
- From age 55, you can draw your pension savings as and when you need them and still pay into your pension. You'll continue to receive tax relief on your payments up to age 75, although taking benefits flexibly will limit how much you can put in

CONSIDER RETIRING A LITTLE LATER THAN YOU'D ORIGINALLY PLANNED

- Delaying your retirement might give your pension fund more chance to grow. Remember, though, if your pension fund remains invested, the value could go down as well up, and you may not get back what you put in. If you defer your retirement, it's also important to check whether this will affect any state benefits you're entitled to
- Working part-time for a while after you finish full-time work might enable you to delay drawing money from your State Pension or your pension, meaning your money may last longer when you do retire
- Maybe you fancy trying something new, like setting up your own business. Becoming your own boss could be a good way to stay active and keep earning

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PLAN FOR THE RETIREMENT YOU WANT

As well as deciding what to do with your pension, there are other things to think about when it comes to making sure you have the retirement lifestyle you want. To fully realise the possibilities that retirement can bring, contact us today – we look forward to hearing from you.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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