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YOUR WINDOW ON FINANCIAL MATTERS

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MISTAKES TO AVOID WHEN PLANNING YOUR PENSION

It's easy to think that if you have a pension, you can forget all about it until it's time to retire.

However, regular reviews with your adviser aim to help you enjoy a more financially-comfortable lifestyle in retirement. Don't make these costly mistakes...

BEING OVER-OPTIMISTIC ABOUT YOUR STATE PENSION

Although the basic state pension has risen to £155.65, not everyone will receive the full amount as it depends on your contribution record. In reality, it will never represent more than a safety net. Getting a pension forecast from gov.uk will show you what you're likely to receive.

NOT JOINING AN EMPLOYER SCHEME

If you can join a workplace pension scheme, you should jump at the chance. By 2018, all UK companies will have to offer one and will contribute to it on your behalf provided that you don't opt out of making your own contributions. As with your state pension, you need to keep an eye on the amount of benefits you'll receive.

NOT REVIEWING YOUR PLANS REGULARLY

The longer you delay, the more expensive it becomes to build up a reasonable pension. It really pays to review your contributions regularly to help ensure you're saving as much as you can comfortably afford and that your pension pot is invested in a diversified spread of funds. The earlier you save, the more opportunity there is for your pension to grow, and of course there's the added incentive of valuable tax relief.

THINKING YOU CAN WORK FOREVER

While you might want to do this, it might not be a realistic prospect. We all age at different speeds and as you approach retirement age you might not feel up to carrying on, and the opportunity to do so might not be open to you, so don't bank on this happening.

MAKING YOUR PROPERTY YOUR PENSION FUND

Relying on your home to fund your retirement is a risky strategy. It could mean downsizing to release cash and you might find it difficult to sell in a downturn. Plus, you've got the expense of finding alternative accommodation.

NOT SHOPPING AROUND FOR AN ANNUITY

If you decide to take an annuity, you have the right to shop around to see if you can get a better deal from another provider. Many people settle for what their pension company offers them; while this might be a good option, shopping around may produce a better deal and could mean you're hundreds of pounds better off as a result, especially if you have any health conditions.

NEWS IN BRIEF

Pensions – rules on serious ill-health lump sums eased

The Chancellor's March Budget contained some good news for those facing serious ill-health and wanting to access a lump sum from their pension. The rules have been changed so that those who have already accessed a portion of their pension plan can now obtain a serious ill-health lump sum on the remainder which has not yet been accessed. This applies both to Defined Contribution and Defined Benefits pension schemes.

These changes mean that lump sum payments can be paid tax free when a pension scheme member under 75 has less than a year to live and has pension schemes which contain benefits which have not yet been put into payment i.e. uncrystallised benefits.

When payments are made to a scheme member aged 75 and over, the changes mean that the tax treatment is brought into line with that of lump-sum death benefits; they will be taxed in the same way as their beneficiaries would have been taxed on their death.

These changes represent a slight change of the rules and will offer valuable assistance at a difficult time.

WHO MAKES THE FINANCIAL DECISIONS IN YOUR HOUSE?

Research from leading market research company, Mintel[1] underlines the role women play in influencing important financial decisions made for the family.

Proving what many households already knew to be true, that women hold the purse strings, more than 84% of mums surveyed say they typically have influence when it comes to making financial decisions for the family, compared to 49% who say their partner has influence.

NARROWING THE SAVINGS GAP

NS&I's Quarterly Savings Survey[2] issued in April shows that women continue to outpace men when it comes to savings. The data shows that month on month during the 2015-16 financial year, women saved continually more while men's saving levels fluctuated.

A recent survey from The Share Centre[3] shows that 60% of women take the lead when it comes to making decisions about stocks and shares Individual Savings Account (ISA) investing. When asked what they intended to use their ISAs for, 63% of women reported that they were investing for retirement, with the future needs of children and the wish to have money put aside for a rainy day mentioned as secondary goals.

MIND THE PENSION GAP

However, when it comes to pensions, the picture shows that many women have yet to make adequate provision for their old age. A 2015 report by Scottish Widows[4] shows, that although there are positive signs that women in their 20s are beginning to plan for their retirement, the gap between the provision made by men and women widens as they get older. By their 30s, 48% of men believe they are saving enough for retirement, compared with a figure of just 31% for women. This can be accounted for in part by the continuing gender pay gap and the high costs associated with raising a family, such as paying for childcare.

However, a lack of awareness around their retirement needs could play a significant part too, with 71% of women admitting that they don't know how much they'd need to save for a comfortable retirement, compared with 52% of men.

So, if you've yet to plan your pension, this could be a good time to sit down with your adviser.

[1] Mintel, Mum's both queen and king of the household as she leads purchasing decisions across all categories, 2016

[2] NS&I, Britain's savings levels rise over the year, 2016

[3] The Share Centre, Women and Investing – Taking Charge of the decisions, 2016

[4] Scottish Widows, Women and Retirement Report, 2015

SOPHISTICATED SCAMS ARE ON THE INCREASE

Over 5,000[1] people were conned into sending planned payments to scammers' bank accounts last year. Attempts to defraud people of their savings and pensions are rising, constantly evolving and becoming increasingly sophisticated; we all need to guard against fraud.

It's always important to think twice before giving out personal information online or to callers. You might initially feel cautious but find yourself swayed by a convincing conman with the poise and apparent financial knowledge that makes you believe that he or she really is the bank staff, or other official, they are pretending to be. Here are two of the newest scams that should be on everyone's radar.

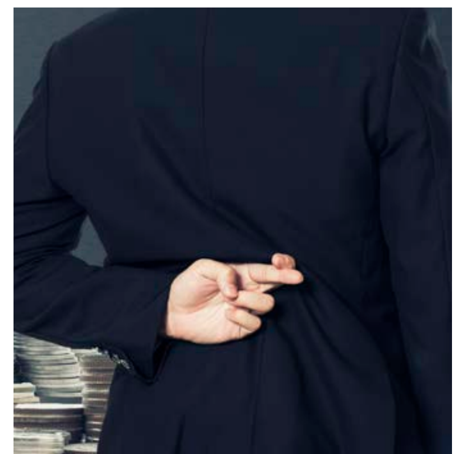
CAPE VERDE PROPERTY

This involves fraudsters offering a highly risky investment that isn't covered by the Financial Services Compensation scheme, meaning your money is unprotected. Cold calling 'pension companies' may suggest you invest in alternative investments such as hotel developments or property in Cape Verde. They will be neither regulated nor qualified to give advice but typically classify themselves as a 'trustee', 'consultant' or an 'independent adviser'. They are likely to promise very high returns for investors willing to transfer their pension before retirement. Avoid.

EMAIL SCAMS

Email scams are also on the increase. People buying and selling properties have been warned to exercise extreme care when communicating with their solicitors and conveyancers following several incidents where fraudsters hacked into email accounts and diverted large payments.

Here, the criminal gains access to either the client's or the solicitor's email account. They intercept mail containing bank account details, substituting them with their own information. They send emails to clients that look as if they have come



from the solicitor, requesting payment to a specified account – the fraudster's. These scams are most likely to occur when details are sent by email rather than post to speed up a transaction ahead of a weekend or Bank Holiday. Where possible, use alternative forms of communication or check the details given directly with the company.

[1] City of London Police figures, reported on Radio 4's You & Yours programme, April 2016

YOUR TEENAGER AND PERSONAL FINANCE

In recent years secondary schools have been required to teach pupils how to manage their money. Lessons in 'financial mathematics', covering problems such as percentage changes and calculating interest, are now included in the national curriculum. Within their citizenship classes, pupils are learning how public money is spent as well as how to manage their own money and approach some of the financial planning decisions they often need to make in later life.

Parents also have an important role to play in influencing their children's attitudes to personal finances. Letting your child see you make responsible financial decisions and helping them to appreciate the difficult skill of 'delayed gratification' is invaluable in a consumer society that encourages us to fritter away cash. Kids can also learn practical lessons in managing money if they receive pocket money or rewards for helping around the house. A regular, set amount soon teaches your child lessons about how to budget and that money is not an unlimited resource! As your children become teenagers, you could explain your everyday financial management in more detail, by involving them in working out a monthly household budget, or when shopping around for a better deal.

When your kids get their first job, it's a great time to talk to them about saving, whether for a set goal or just to have some money put away for a rainy day. You could help them to set up a direct debit into a savings account from their first pay check, for example. By explaining how interest works, they should be able to understand that a savings habit begun early should result in greater rewards down the line. Older teenagers should also be able to grasp the risks and rewards of investing

in shares, rather than cash. You can also explain the benefits of saving in an ISA or even the Help to Buy ISA, when the Government boosts savings by 25% for first-time buyers.

Teenagers are known to be influenced by their parents' attitude to personal finance, so setting a good example and highlighting the dangers of financial mismanagement are lessons that they will (hopefully) listen to.

LIFE INSURANCE – KEEP IT SIMPLE

It may be one of those jobs you've been meaning to tick off your to-do list for a while. Don't delay, making sure your dependants are provided for should anything happen to you, must be a financial planning priority.

The statistics indicate that one in 29 children will lose a parent before growing up. The loss experienced by a family when someone dies is incalculable. From a practical perspective if the main breadwinner passes away, this is likely to be compounded by the loss of income. Similarly, the death of a partner who doesn't work has its own financial implications, especially where dependants are involved.

Fortunately, life cover can provide an affordable solution.

GETTING THE RIGHT COVER

There are numerous life cover products available. A straightforward level term life insurance policy, where a pre-determined lump sum pays out on death (or under many policies if diagnosed with a terminal illness) within a stated period of time – is among the simplest and most affordable solutions.

It is usually recommended that life cover protection should provide ten times the main breadwinner's income. This is paid tax-free, but is added to the deceased's estate. The policy can be written in trust if there are IHT implications.

The level of cover should be calculated considering numerous factors including any outstanding debts (including mortgage), regular outgoings, potential education fees and inflation. The term should reflect the needs of your dependants; children will require financial protection until they leave full-time education and a partner may need the cover to last until pensionable age.

JOINT OR SINGLE COVER?

A joint policy will cover the lives of yourself and your partner, paying out once on the first death within the policy term. Both partners can arrange separate single life policies, which is usually more expensive but would potentially provide two payments.

It's important to be transparent about your lifestyle, especially if you have pre-existing medical issues.

Your adviser can help find an affordable policy for most circumstances.

CHANGES TO PERSONAL TAXATION

The introduction of the Lifetime Individual Savings Account (LISA) by the Chancellor, George Osborne, in his March 2016 Budget was a major and welcome surprise, giving yet another way for young people to save tax-efficiently for their first homes.

The Budget delivered more good news in other areas including income, ISAs, bonds and capital gains tax.

INCOME TAX

For the 2017-18 tax year, the personal allowance will be increased to £11,500 (£11,000 in 2016-17). This will take 1.3 million of the lowest paid out of paying tax altogether. The Chancellor reiterated that the target is to reach £12,500 by 2020. The basic rate limit will increase to £33,500 for the 2017/18 tax year (£32,000 in 2016-17).

ISAs

To qualify for a LISA from April 2017, savers will need to be aged between 18 and 40, and any savings put in before their 50th birthday will receive an added 25% bonus from the Government at the end of the tax year. There is no maximum monthly contribution, but instead an annual limit of £4,000. The LISA can be used to buy a first home or saved until age 60 and used in retirement, otherwise a 5% charge will apply and the bonus will be withdrawn if the funds are taken out for any other reason. The money can be saved in a cash LISA or invested in a stocks and shares LISA. Income and gains within a LISA are tax free.

In addition, the contribution limit for all ISA accounts will increase from the current level of £15,240 to £20,000 in April 2017.

BOND FUNDS

The Chancellor announced plans to radically simplify the taxation of fixed income funds. From April 2017, bond fund managers will stop automatically collecting 20% tax from their income payments to investors.

CAPITAL GAINS TAX

Here, the Chancellor introduced changes that took effect from April 2016, announcing that the rate would fall from 28% to 20% for higher rate taxpayers and from 18% to 10% for basic rate taxpayers. However, these new rates do not apply to gains made on residential property. The tax free allowance for capital gains remains £11,100 in the current tax year.

PENSION ALLOWANCES

Although it had been widely predicted that the Chancellor would put forward proposals to reform pension tax relief, it was announced before Budget day that he had scrapped plans to do so. As previously announced, the Lifetime Allowance was reduced from £1.25m to £1m and the annual allowance remained at £40,000. From April 2016, the £40,000 annual allowance was reduced for those in receipt of income over £150,000, including their own and employer's pension contributions.

NATIONAL INSURANCE

From April 2018, Class 2 National Insurance contributions will be abolished, which the Government says will give a tax cut of more than £130 a year to three million self-employed workers.

PENSIONS ADVICE

The Government announced a consultation over the introduction of a 'pensions advice allowance' to allow people over 55 to withdraw up to £500 tax free from defined contribution pensions to redeem against the cost of financial advice.

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation, are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.

The information contained within this newsletter is for information only purposes and does not constitute financial advice.

NEWS IN BRIEF

Thinking about your different pots for retirement

Many people are concerned about running out of money in retirement. A sustainable, well-structured retirement income strategy is desirable for any retiree. One simple, yet effective approach worth adopting to plan your retirement income is the bucket strategy. By clearly segmenting your retirement assets into certain categories you can link portions or buckets of money directly to goals and objectives. One of the most common bucket strategies is time-segmentation, which involves assigning each bucket to a defined time period in retirement, based upon the retiree's risk tolerance and time horizon. It anticipates that the allocation will shift over time to traditionally more conservative asset classes.

For example with three buckets, the first bucket would contain cash and cash equivalents, to satisfy current spending up to the first five years of retirement. Bucket two would cover spending needs in years 6 to 15 of retirement and would contain mostly fixed income investments, usually more volatile than cash. Bucket three would meet the expenses 15+ years into retirement and contain mostly equities, traditionally a more volatile and risky asset which would benefit from a longer term time horizon.

Buckets need to be kept fluid and will need to be redistributed to lower risk assets as time goes by.