A E Thomson Ltd

Independent Financial Advisers

SEPTEMBER/OCTOBER 2017

NEW STATE PENSION AGE

How will it affect your retirement plans?

SHOPPING AROUND FOR A BETTER DEAL
Consumers lost £130 million by sticking with the same pension provider in 2016

INVESTING FOR INCOME
How certain innate behavioural traits influence our decision-making

LONG-FORGOTTEN PLANS
Managing your pension savings effectively and efficiently from a single pot

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COULD YOUR MONEY WORK HARDER?

We focus on achieving and maintaining a thorough understanding of your financial needs and aspirations.

We believe passionately that the best service is provided through personal, face-to-face advice. Our range of services is extensive, supported by a distinctive approach to investment management, enabling you to create financial plans that can adapt to your changing needs and circumstances.

CONTACT US TO DISCUSS YOUR REQUIREMENTS.

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INSIDE THIS ISSUE

Welcome to our latest issue. Will you be one of the six million men and women workers who will have to work an extra year before retiring after the Government announced that it would be extending the retirement age to 68?

On page 06, we look at the new plans announced in July this year and how they could affect you. A combination of increases in life expectancy and the growing number of retirees relative to the working-age population means that individuals will now have to save harder for their own retirement.

With historic ultra-low interest rates on savings, many investors over the past decade have turned to income-paying funds as an alternative to cash-based savings. On page 10, we consider how our changing life plans and priorities mean we now encounter varying income needs and goals throughout our life and, when investing, how certain innate behavioural traits influence our decision-making.

New research finds consumers could be missing out on thousands of pounds in retirement by not shopping around for their pension product. This means their pension pot may not stretch as far as they hope it will, yet a significant proportion of people expect their retirement income to cover much more than just the essentials. Turn to page 13 to read the full article.

The full list of the articles featured in this issue appears on page 03 opposite.

To discuss any of the articles featured, please contact us.

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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FINANCIALLY UNPROTECTED

Dads putting their family's financial security at risk if the unexpected were to happen

WHAT WOULD HAPPEN TO YOU AND YOUR FAMILY IN THE EVENT OF UNFORESEEN CIRCUMSTANCES, SUCH AS THE DIAGNOSIS OF A SERIOUS ILLNESS OR PREMATURE DEATH? WORRYINGLY, RESEARCH FROM SCOTTISH WIDOWS REVEALS THAT MORE THAN HALF (53%) OF MEN IN THE UK WITH DEPENDENT CHILDREN HAVE NO LIFE COVER, MEANING THAT 3.9 MILLION DADS[1] ARE POTENTIALLY PUTTING THEIR FAMILY'S FINANCIAL SECURITY AT RISK IF THE UNEXPECTED WERE TO HAPPEN.

Only 16% of dads have a critical illness policy, leaving many more millions at financial risk if they were to become seriously ill. Fathers are, in fact, more likely to insure their mobile phones (21%) than to insure themselves against serious illness.

More than a fifth (22%) of dads admit their household would be placed at financial risk if they lost their income due to unforeseen circumstances, and 28% say they could only pay their household bills for a maximum of three months. Two fifths (40%) say they'd have to dip into their savings to manage financially, but 42% say that their savings would last for a maximum of just three months.

BASIC LEVEL OF SUPPORT

The research shows that in the event of themselves or their partner dying, 22% of men with dependent children believe they could rely on state benefits to support their family. While this provides a basic level of support, we would firmly advise people to make their own provision for themselves and their families in order to provide peace of mind with the knowledge that there's a financial safety net in place.

Many fathers don't consider having insurance as a necessity, with 18% saying they don't see critical illness cover as a financial priority, 19% saying they don't think they need it and 17% saying they can't afford it.

BEREAVEMENT SUPPORT PAYMENT SYSTEM

With a new Bereavement Support Payment system now in place, it's more important than ever for dads to review their financial protection needs. You may be able to get Bereavement Support Payment if your husband, wife or registered civil partner died on or after 6 April 2017.

It's estimated that 91% of widowed parents will be supported for a shorter period of time (now just 18 months) than they would under the previous system, which could pay out until the youngest child left school, according to research from the Childhood Bereavement Network. In 2014, 70% of claimants were female[2], so it's important that fathers seek advice to make sure their household is covered.

NOT ELIGIBLE FOR BENEFITS

This is especially the case for cohabitees, who are not eligible to claim for bereavement benefits, despite the fact that 21% of couples with children are not married, according to figures from the Office for National Statistics for 2016.

There are many things to consider when looking to protect yourself and your family. Being diagnosed as suffering from a specified illness and the possible loss of income need to be considered as part of an effective protection planning strategy. ◂

DO YOU HAVE APPROPRIATE PROVISION IN PLACE TO PROTECT YOUR FINANCIAL PLANS?

No matter what our personal circumstances, it is vital for all of us to ensure we have an appropriate plan in place to protect our finances, helping avoid the need to dip into our savings, which could present even greater challenges further down the line. If you have any questions or queries, or you'd just like to know more about how to protect yourself and your family, get in touch with us and we'll be happy to help.

Source data:
Scottish Widows' protection research is based on a survey carried out online by Opinium, who interviewed a total of 5,077 adults in the UK between 16 and 27 March 2017.
[1] Percentage of adult population that are fathers with dependents = 735/5077 = 14.48%; 14.48% of adult population of 51,339,000 = 7.4 million; 53% of these don't have cover so 3.9 million
[2] Childhood Bereavement Network submission to the Commons Work and Pensions Select Committee

NEW STATE PENSION AGE

How will it affect your retirement plans?

WILL YOU BE ONE OF THE MILLIONS OF WORKERS WHO WILL HAVE TO WORK AN EXTRA YEAR BEFORE RETIRING AFTER THE GOVERNMENT ANNOUNCED THAT IT WOULD BE EXTENDING THE RETIREMENT AGE TO 68? NEW PLANS ANNOUNCED IN JULY THIS YEAR MEAN THAT THE RISE IN THE STATE PENSION AGE TO 68 WILL NOW HAPPEN IN 2039, AFFECTING PEOPLE BORN BETWEEN 6 APRIL 1970 AND 5 APRIL 1978.

The rise in the pension age will be phased in between 2037 and 2039, rather than from 2044 as was originally proposed. Those affected are currently between the ages of 39 and 47, but the exact date that you receive your State Pension will depend on the year you were born. This announcement is aimed at catching up with years of increasing life expectancy, even if recent indications suggest that growth has slowed.

HAVING TO WAIT A YEAR LONGER

Six million men and women will have to wait a year longer than they expected to get their State Pension, the Government has announced. The announcement was made by the Secretary of State for Work and Pensions, David Gauke.

WAITING FOR FUTURE ANNOUNCEMENTS

The announcement is based on the recommendations of the Cridland report, which proposed the change. The change will affect those born between 6 April 1970 and 5 April 1978. Anyone younger than 39 will have to wait for future announcements to learn what their precise pension age will be.

NO EXCEPTIONAL CHANGES TO THE DATA

John Cridland also said that the State Pension age should not increase more than one year in any ten-year period, assuming that there are no exceptional changes to the data used. This would give those generations affected by changes adequate time to save and plan.

PROTECTED FOR FUTURE GENERATIONS

'As life expectancy continues to rise and the number of people in receipt of State Pension increases, we need to ensure that we have a fair and sustainable system that is reflective of modern life and protected for future generations,' Mr Gauke told MPs.

SAVING HARDER FOR OUR OWN RETIREMENT

The Government has also committed to regular reviews of the State Pension age in the years ahead, which inevitably raises the prospect of further rises. It seems evident that the Government is taking a gradually declining role in supporting retirement income. A combination of increases in life expectancy, and the growing number of retirees relative to the working age population, means that individuals will now have to save harder for their own retirement. ◂

WHERE WILL YOUR RETIREMENT TAKE YOU?

To find out more about the different pensions and savings options you could utilise, or to discuss your requirements, please contact us.

STATE PENSION AGE UNDER THE LATEST PLANS (JULY 2017)

YOUR DATE OF BIRTH	STATE PENSION AGE
After April 6 1978	68
April 6 1970 to April 5 1978	67 years 1 month to 68 years*
April 6 1960 to April 5 1970	66 years 1 month to 67 years*
December 6 1953 to April 5 1960	65 years 3 months to 66 years*

**Depends on exact date of birth*

FAMILY SUCCESSION **PLANNING**

Taking advice early and developing a personal financial plan is crucial to meeting long-term goals

SUCCESSION PLANNING MAY BE ONE OF THE MOST CHALLENGING EXPERIENCES FACING ANY LEADER, ESPECIALLY AN ENTREPRENEURIAL BUSINESS PERSON WHO HAS BUILT A FAMILY BUSINESS FROM SCRATCH, SO IT IS CRUCIAL TO GET IT RIGHT. FOR A FAMILY BUSINESS, TRANSITION IS A ONCE-IN-A-LIFETIME DECISION. PERHAPS NO CHALLENGE HAS AS MUCH POTENTIAL TO EXACERBATE THE SPECIAL STRESSES – OR, CONVERSELY, HIGHLIGHT THE SPECIAL ADVANTAGES – OF OPERATING A FAMILY BUSINESS.

A good succession plan can be the first step in maintaining the strength of an enterprise and the family's prosperity for generations to come. Discussing how a family business should continue beyond the career, or even the life, of the founder can be difficult, as it often crosses business and personal spheres. Issues around succession planning make up four of the top ten worries keeping family business owners awake at night, according to research from Close Brothers Asset Management (CBAM), conducted by Family Business United.

SECOND AND THIRD GENERATIONS

The challenges faced by the second and third generations are substantially different from that faced by the first generation. Also, given that the first generation of business owners are often highly entrepreneurial, they may tend to overlook succession planning until the last moment. This makes the process even harder.

MAINTAINING FAMILY VALUES

A survey of family businesses found that management succession planning was a worry for 39% of business owners, while 35% cited engaging and developing the next generation as a concern. Ownership succession and developing responsible future owners were stated as worries by more than a third (34%) of business owners. The same number also highlighted identifying and maintaining family values as an ongoing concern.

REMAINING A PROFITABLE BUSINESS

The day-to-day running of the business came in as the top worry for family business owners, with 40% saying that continuing to develop and remain a profitable business was a key concern. Personal finances also stood out, with worries about planning for later life highlighted by 38% of owners.

RED TAPE, REGULATION AND LEGISLATION

Outside of family businesses' immediate control, four in ten (39%) business owners said red tape, regulation and legislation were worries. Family businesses employ almost 12 million people[1] and turn over an estimated £1.3 trillion each year, over a third of the turnover of the private sector[2].

FAMILY-OWNED SMALL BUSINESSES

UK Small and Medium-sized Enterprises (SMEs) face a multitude of challenges, and family-owned small businesses can have an especially hard time navigating regulation and adapting to changing policy while remaining loyal to their unique set of family values. All this must be done in addition to running a profitable business.

CRUCIAL TO ALLEVIATING ANXIETY

Succession planning is naturally a significant concern for family businesses and requires careful consideration. Not only must owners consider developing their replacement, and ensure family values are adhered to, but they must also plan for their own retirement. Taking advice early and developing a personal financial plan is crucial to alleviating anxiety and meeting long-term goals. ◂

LOOKING TO DEVELOP A SUSTAINABLE ORGANISATION FOR YEARS TO COME?

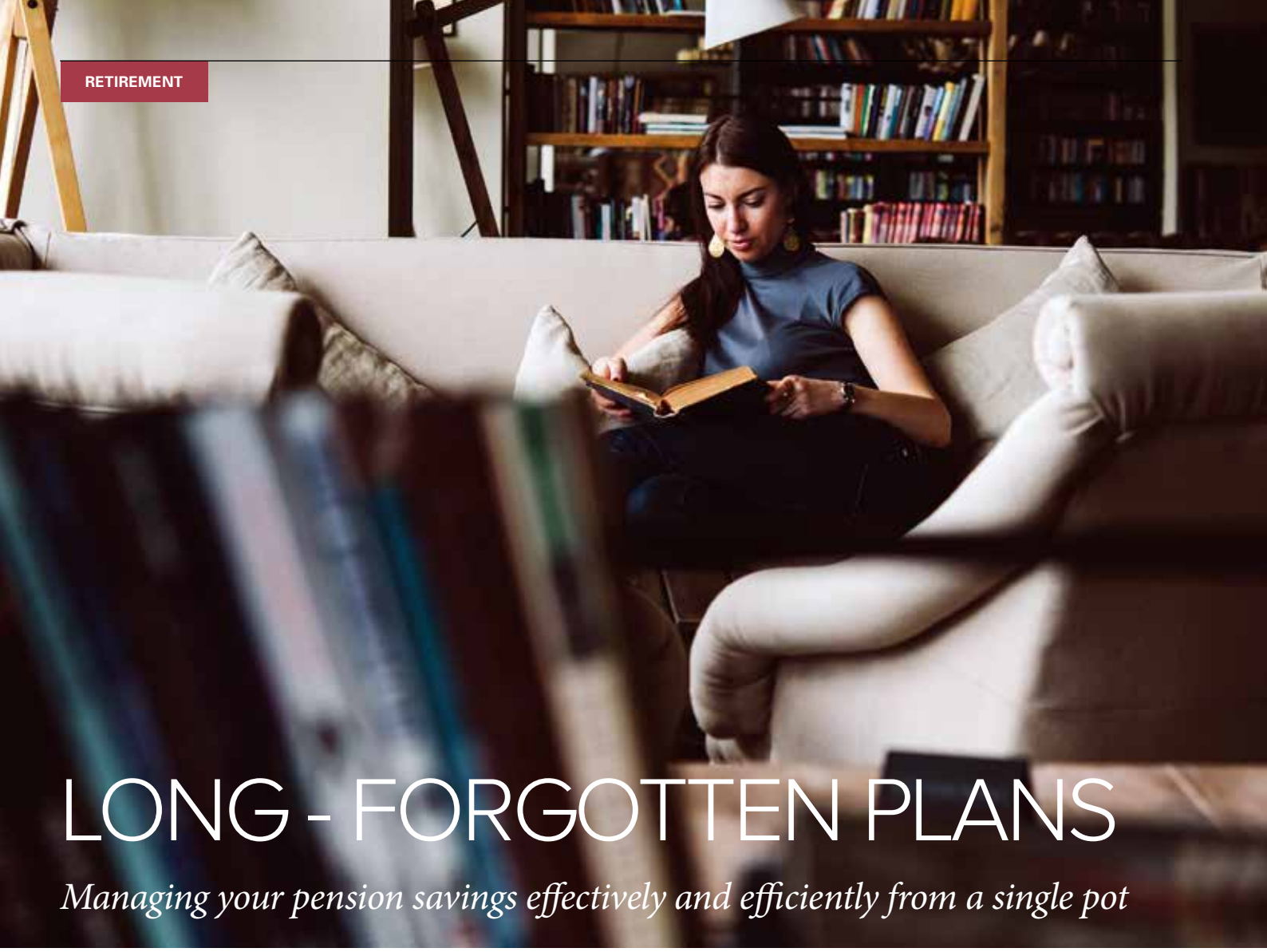
Handing a family business to the next generation is a major process, from selecting and developing the successors to protecting the brand reputation and retaining knowledge. However, the effort is crucial to developing a sustainable organisation for years to come. To discuss your requirements, please contact us for further information.

Top ten worries keeping family business owners awake at night

1. Continuing to develop and remain a profitable business
2. Management succession planning
3. Red tape, regulation and legislation
4. Planning for later life
5. Engaging and developing the next generation
6. Ownership succession and developing responsible future owners
7. Identifying and maintaining family values
8. Extracting value from the business
9. Taxation
10. Developing effective marketing, social media and PR strategies

> A SURVEY OF FAMILY BUSINESSES FOUND THAT MANAGEMENT SUCCESSION PLANNING WAS A WORRY FOR 39% OF BUSINESS OWNERS, WHILE 35% CITED ENGAGING AND DEVELOPING THE NEXT GENERATION AS A CONCERN.

Source data:
The research was commissioned by Close Brothers Asset Management and conducted by Family Business United in Q4 2015. 173 family businesses were surveyed across the UK.
[1] Figures from Oxford Economics for the Institute of Family Business (IFB)
[2] Figures from research conducted by Family Business United (2015)



LONG - FORGOTTEN PLANS

Managing your pension savings effectively and efficiently from a single pot

IF YOU'VE WORKED FOR TWO OR THREE DIFFERENT EMPLOYERS, IT'S POSSIBLE YOU COULD HAVE A WORKPLACE PENSION FROM EACH OF THEM. YOU MIGHT ALSO HAVE SET UP A PERSONAL PENSION, SO THEY CAN ADD UP QUICKLY.

Pension consolidation lets you simplify your pension arrangements and makes it easier to manage your pension savings effectively and efficiently from a single pot. There is a danger that long-forgotten plans could end up in expensive, poorly performing funds, and the paperwork alone can be enough to put you off becoming more proactive.

EASY-TO-MANAGE

So, is transferring or consolidating everything into one easy-to-manage pension the way to go? There are advantages to switching your pensions, but there are also pitfalls. The best course of action will depend on what kinds of pension you have and how long you have until retirement.

Having lots of different pensions could mean paying lots of different charges. It also means you've got to think about where you've invested the savings in each of your different pensions to make sure you're keeping an eye on performance. And to get valuations, re-arrange your investments or alter your contribution levels, you'll have to deal with numerous pension providers.

THE PROS AND CONS

Pensions are important, so it's crucial that you take time to understand exactly what you've got and exactly what you'd be giving up when you transfer out of an existing pension.

Before you transfer any pots, you need to be sure that you're not giving up any protected benefits like tax-free cash or low pension age. You should also consider any features your plan has, like guarantees or life assurance benefits.

Remember that what you get back depends on several things, for example, how your investments perform and how they're taxed, and you may get back less than you invested.

If you are considering consolidating your pension accounts, this is a very specialist area, and you should obtain professional financial advice. There are a number of issues to consider before you decide to consolidate. ◂

GETTING IT RIGHT COULD MEAN A HIGHER INCOME

Making the most of your pensions now will have a significant impact on your happiness in retirement; getting it right could mean a higher income, or even an earlier retirement date. If you would like to review your current options, 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.

PLANNING FOR YOUR RETIREMENT

Getting ready to slow things down

ONE OF THE CRITICAL ASPECTS OF RETIREMENT PLANNING IS HOW YOU STRUCTURE YOUR FINANCIAL AFFAIRS TO MAKE SURE YOU HAVE SUFFICIENT MONEY IF AND WHEN YOU STOP WORKING.

Making sure you have enough money in retirement to enable you to spend your time the way you want to, doing those things you always intended to do, is likely to be at the heart of planning for your retirement.

TOO COMPLICATED TO THINK ABOUT

People surveyed for BlackRock's Investor Pulse survey stated that their biggest financial priority was 'funding a comfortable retirement'. Yet many people spend more time planning their holiday than their own retirement – perhaps because planning for retirement seems too complicated to think about?

DON'T KNOW WHERE TO START

We are all living longer, the State Pension Age is increasing and pensions legislation is ever-changing. Understandably, we want an active, comfortable retirement but often don't know where to start the savings process. If confusion and a lack of understanding around your retirement needs have led you to put off planning and saving anything, you're not alone. In fact, over half of people in the UK are in the same position.

You can start now though. Planning will help you think about the changes you could make and enable you to take steps towards securing a better future. ◂

HOW CLOSE ARE YOU TO ACHIEVING YOUR RETIREMENT GOALS?

We will help you understand your own situation using our expertise, because only then can you start to talk about what you want and need in order to form your retirement goals. When we know these, we can identify how close or not you are to achieving those goals based on your current planning. Don't leave it to chance – contact us to discuss your requirements.

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Step 1 – Target

Know what you need – set yourself a target.

The closer you are to retirement, the more likely you are to know how much income you will need to cover your outgoings. If you have longer to go until retirement, it is still good to have an idea of what you are aiming for – and you can review this each year as you get closer.

Step 2 - Plan

Know what you already have.

The second step is simple – understanding what you have already saved. Knowing what you already have will help you to understand how far you are towards your retirement target. If you have a lot of different pensions, it may be worth considering bringing those all together into one account if appropriate.

Step 3 - Action

What you need to think about.

- ▷ Are you paying in the right amount?
- ▷ Are you invested in the right kind of fund?
- ▷ When can you realistically retire?

Don't put off planning for retirement. By following these simple steps and reviewing your retirement plan at least once a year you are planning for a better future.

> THERE ARE VARIOUS WAYS IN WHICH CAPITAL CAN BE USED TO GENERATE INCOME. EACH HAS ITS PROS AND CONS AND FOR MOST PEOPLE THE IDEAL SOLUTION, WHERE POSSIBLE, IS TO SPREAD MONEY AMONG SEVERAL DIFFERENT TYPES OF INVESTMENTS, PROVIDING A BALANCE AND DIVERSIFYING RISK.

INVESTING FOR INCOME

How certain innate behavioural traits influence our decision-making

WITH HISTORIC ULTRA-LOW INTEREST RATES ON SAVINGS, MANY INVESTORS OVER THE PAST DECADE HAVE TURNED TO INCOME-PAYING FUNDS AS AN ALTERNATIVE TO CASH-BASED SAVINGS. CHANGING LIFE PLANS AND PRIORITIES MEAN WE NOW ENCOUNTER VARYING INCOME NEEDS AND GOALS THROUGHOUT OUR LIFE AND, WHEN INVESTING, CERTAIN INNATE BEHAVIOURAL TRAITS WILL INFLUENCE OUR DECISION-MAKING. FOR MANY PEOPLE SEEKING TO GENERATE INCOME FROM SAVINGS, THE TEN YEARS SINCE THE FINANCIAL CRISIS IN 2007/08 HAVE BEEN A MAJOR CHALLENGE.

SEEKING INCOME

Our reasons for seeking income tend to shift throughout life. Shorter-term goals, such as supporting a business start-up or funding children's education, may be a priority in earlier years before making way for a longer-term focus on boosting retirement income and providing an adequate cushion for later life. The key is working out how much income you need at each stage, and then finding an appropriate investment strategy to help you meet your goals.

CLEAR OBJECTIVES

It's essential to work out what you need to achieve and to set clear objectives. Your savings objectives should reflect the aims of your income plan. If you would like to enjoy a reasonable standard of living in retirement, for example, a useful rule of thumb is to try to save enough to provide an income of between half and two thirds of your final salary. While some of your expenses may fall when you stop working, such as the cost of commuting and servicing a mortgage, the retirement years could bring greater spending on utilities and healthcare, among other things.

REDUCE RISK

It's important to aim for an income solution that's truly appropriate for your circumstances, objectives, risk attitudes and capacity for loss, rather than simply sticking to what you're familiar with. Considering a broad range of investments can help you to reduce risk and increase your chances of achieving your objectives.

USEFUL ALTERNATIVE

Interest rates on savings accounts have plummeted. In the UK, bank base rates fell to 0.5% in 2009 and stayed there for seven years until they fell even further, to 0.25%, in 2016. Government and corporate bonds have offered a useful alternative, but overwhelming demand has driven prices up and yields down. Investors in shares have generally fared much better thanks to rising company dividends. Although some companies had to cut back their payouts after the financial crisis, dividends as a whole have risen in recent years.

INCOME CHOICES

There are various ways in which capital can be used to generate income. Each has its pros and cons, and for most people the ideal solution, where possible, is to spread money among several different types of investment, providing a balance and diversifying risk.

BANKS AND BUILDING SOCIETIES

Savings accounts have traditionally been a clear favourite for many people who rely on the interest payments as a supplementary income. Deposits are seen as a secure option because the monetary value of savings does not go down, and there is protection under the Financial Services Compensation Scheme for deposits up to £85,000 in any one institution should they not be able to meet their commitments.

However, interest rates fluctuate so the income from savings accounts cannot be relied upon to remain stable. Not only do the returns depend upon the general level of interest rates (which has only fallen over the last decade), but banks and building societies are also able to apply their own discretion to the interest they pay on their accounts. Rates are often inflated by introductory bonuses which then fall away, typically after a year. Inflation can also erode the value of cash on deposit.

EQUITIES

By investing in equities, savers can back companies which have the potential to pay out significant dividends – a share in the profits – to shareholders. There are many such companies which have historically provided not only reasonable dividends, but a track record of growing profits and consequently improving those dividend payments over time.

It is also possible to grow your original capital if the share price increases in value over the time you are invested, although it may go down as well as up along the way. Investments in equities can be volatile. Their values may fluctuate quite dramatically in response to the results of individual companies, as well as general market conditions. ◂

PROPERTY

In recent years, there has been a growing demand for rented property as the cost of housing has risen. Many investors have profited from the buy-to-let market, buying residential property that they then let out in order to generate a rental income. However, property is not as liquid an investment as some others. There is also the risk of periods without income between lets and the ongoing costs of maintaining the properties.

More significantly, the taxation burden on UK buy-to-let investors and the properties themselves increased in 2016 following a government rule change. There was a sharp increase in stamp duty payable by homeowners purchasing a second home as well as an increase in the level of taxation faced by landlords buying to let. These changes, together with stricter lending criteria imposed by lenders and wider economic uncertainties, stand to make investing in property less attractive than it might have been.

FIXED INCOME SECURITIES/BONDS

A bond is a loan that the bond purchaser, or bondholder, makes to the bond issuer. Governments and corporations issue bonds when they need to raise money. An investor who buys a bond is lending money to the government or corporation.

Like a loan, a bond pays interest periodically and repays the principal at a stated time, known as the 'maturity date'. Certain government securities are regarded as the most secure, though corporate bonds can pay higher rates of interest depending on the deemed creditworthiness of the issuing companies. Over the long term, shares have tended to provide a greater total return, but bonds are generally regarded as less risky. In the event of bankruptcy, a bondholder will get paid before a shareholder. ◂

DO YOU HAVE AN HONEST UNDERSTANDING OF WHAT YOU WANT TO ACHIEVE?

Making use of income investing requires a thorough and honest understanding of what you want to achieve, both personally and financially, and the level of risk you're prepared to take with your money. There are a number of different investments available that produce an income. To discuss your options, please contact us.

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 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.

PENSION FREEDOMS

Will the new retirement rule of 'no rules' offer people a better financial future?

FOLLOWING PENSION REFORMS, THERE ARE NOW MORE OPTIONS FOR USING YOUR PRIVATE PENSION POT. SINCE APRIL 2015, SOME PEOPLE OVER 55 HAVE GREATER FREEDOM IN HOW THEY CAN ACCESS THEIR PENSION POTS – THE MONEY THEY'VE BUILT UP DURING THEIR WORKING LIFE.

The changes to private pensions affect those in a defined contribution pension scheme. This is one where you build up savings (your 'pension pot') throughout your life to fund your retirement. Before making any decisions, it's important that you consider your options and the impact that your decision could have on your tax bill or benefit entitlements.

WHAT BEST SUITS YOUR NEEDS

If you have a defined contribution pension, you have more options for how to use the money according to what best suits your needs. You are no longer restricted to simply buying an annuity. Instead, you can withdraw some or all of the money as a lump sum.

It's important to obtain professional financial advice before making any decisions, as the options you choose could affect your income, overall retirement savings, benefits entitlements and how much tax you pay.

MOST POPULOUS AGE-GROUP

New population data[1] shows that the new pension freedoms will face their peak test in the coming five years. The most populous age group in the UK today consists of those aged 51 – a total of 945,000 people. This group will gain access to the pension freedoms in 2020. This year will test if the new retirement rule of 'no rules' will offer people a better financial future.

In the tax year 2016/17, 393,000 individuals took advantage of the freedoms across the UK, withdrawing £6.45 billion from their pensions. As the number of people reaching the age of 55 in the coming five years peaks – at 945,000 in 2020 – the pension freedoms will face their greatest test on whether they can offer a sustainable financial future[2].

SERIOUS CONSIDERATION OF FUTURE NEEDS

Recent government research identified that only one in three (34%) people in the 45-54 age group had given any consideration to how many years of retirement they may need to fund[3]. Entering the arena of the pension freedoms without serious consideration of future needs could spell trouble for many savers.

Thursday 6 April 2017 marked two years since the introduction of some of the most radical reforms to UK pensions in a generation. You can only take advantage of the pension freedoms from age 55. Anyone thinking of withdrawing lump sums from their pension fund should consider the impact this will have on future retirement income. ◄

Source data:

[1]www.ons.gov.uk/releases populationestimatesforukenglandand walesscotlandandnorthernirelandmid2016

[2]www.gov.uk/government/uploads/system/uploads/attachment_data/file/610451/Pensions_Flexibility_April_2017.pdf

[3]https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/earlyindicatorestimatesfromthewealthandassetssurvey/attitudestowardssavingforretirementcreditcommitmentsanddebtburdenjuly2014tojune2016#attitudes-towards-saving-for-retirement

HOW WILL YOU DECIDE ON THE BEST COURSE OF ACTION?

The choices you make for your pension fund can determine the level of income you receive for the rest of your life. For this reason, you should seek professional financial advice and guidance to decide the best course of action to take. For more information, 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.

SHOPPING AROUND **FOR A BETTER DEAL**

Consumers lost £130 million by sticking with the same pension provider in 2016

NEW RESEARCH FINDS CONSUMERS COULD BE MISSING OUT ON THOUSANDS OF POUNDS IN RETIREMENT BY NOT SHOPPING AROUND FOR THEIR PENSION PRODUCT. THIS MEANS THEIR PENSION POT MAY NOT STRETCH AS FAR AS THEY HOPE IT WILL, YET A SIGNIFICANT PROPORTION OF PEOPLE EXPECT THEIR RETIREMENT INCOME TO COVER MUCH MORE THAN JUST THE ESSENTIALS.

Research conducted by the Pensions Policy Institute for LV= has found that, in 2016, there were around 30,000 people who took out an annuity with their existing provider and missed out on additional income by not shopping around. In total, they lost out on an additional £130 million, which equates to on average £4,000 over the course of their retirement[1].

SHOPPING AROUND TO GET THE BEST DEAL

Buying an annuity is a way of turning all your pension savings that you've built up over the years into an income to last you the rest of your life. Since April 2015, you've been able to withdraw as much of the money as you want when you reach age 55, although above 25% it will be taxed as income. Arranging an annuity is a complicated process, so it's important to know what you need to do at each stage. And it's vital that you shop around to get the best annuity rate, as you could miss out on a boost to your income if you fail to do so.

The research also identified that people are increasingly expecting their retirement income to cover more than just the essentials, which means their money needs to work even harder. Nearly six in ten (57%) of those planning to retire in the next five years want their retirement income to also cover home maintenance costs, while 53% want it to cover holidays and a quarter (24%) say they'd like to leave money behind as an inheritance. In addition, one in six (17%) want to be able to use their retirement income to help their children or grandchildren with a property purchase, and 14% would like care costs to be covered as well.

PROFESSIONAL FINANCIAL ADVICE

Taking professional financial advice is the best way for someone to ensure their retirement savings meet all their needs throughout retirement. While some people may not understand the need for advice, the value of it is clear to consumers who have used it. Nearly nine in ten (87%) of those who took advice feel confident they made the right choice about what to do with their money, while three quarters (75%) say financial advice helped get more for their money. Revealingly, one in five (19%) who didn't take financial advice say that even though they don't regret not using it now, they worry that they might regret it in the future.

Last year alone, consumers missed out on a staggering £130 million over their retirement by sticking with the same provider when taking out an annuity. This is echoed across the retirement space with consumers failing to access the best retirement products. People are expecting their pension pot to stretch even further nowadays, so it's crucial they take control and get support to help them make the most of their savings. ◂

MAKE SURE YOU CHOOSE THE OPTION THAT'S RIGHT FOR YOU

If you don't know what to do about your retirement options, let us help. We'll give you the information you need to make an informed decision based on your individual needs. Please contact us to review your situation – we look forward to hearing from you.

Source data:

Methodology for consumer survey: Opinium, on behalf of LV=, conducted online interviews with 2,404 UK adults between 12 and 27 March 2017. Data has been weighted to reflect a nationally representative audience.

Methodology for amount missed out on in retirement: The Pensions Policy Institute (PPI) reported that around 80,000 annuities are purchased each year, of which 52% are purchased from the existing provider. PPI calculated that if 80% of those who purchased an annuity from their existing provider continue to lose around 6.8% of retirement income, that could represent a loss of around £130 million over the lifetimes of those purchasing annuities in 2016.

[1] LV= calculated that 52% of 80,000 annuities were taken out each year with existing providers, 80% of which would lose out on retirement income, equating to 30,000 people. With 30,000 people missing out on £130 million, that works out at around £4,000 per person throughout retirement.

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SAVINGS BEHAVIOUR

UK pension system is sustainable but inadequate

IT'S BEEN ESTIMATED THAT 18% OF EARNINGS NEED TO BE SAVED EACH YEAR TO ACHIEVE AN ADEQUATE INCOME DURING RETIREMENT, AN INTERNATIONAL LONGEVITY CENTRE (ILC) REPORT HAS CONCLUDED.

It said the contribution level, which is nine times higher than current auto-enrolment rates, would help savers accumulate an income of 70% of their pre-retirement earnings.

INCOME ADEQUACY

The results also showed 20% of earnings must be saved every year to match the income adequacy that is enjoyed by current retirees. The international report, which was conducted between November 2016 and January 2017, explored the pension systems of 30 high income countries and regions, measuring performance according to affordability, adequacy and intergenerational fairness.

SAVINGS BEHAVIOURS

In addition, a bespoke survey was commissioned to examine savings behaviours in five different countries. Collected by Ipsos Mori, this found just 12.4% of 1,100 people in the UK were saving over 15% of earnings, and more than 30% of people between the age 25 and 44 had no savings whatsoever.

ECONOMIC ENVIRONMENT

Backed by Prudential, the ILC report said young people today are faced with monumental savings challenges to ensure a decent retirement income. It argued that low investment returns and interest rates, sluggish economic and wage growth, and the gradual decline of defined benefit (DB) schemes means those entering the workforce today will face a hostile economic environment in which to build their pension funds.

FAILING TO SAVE

The report further suggested, despite auto-enrolment, that many are still failing to save adequately and argued many who are self-employed or in part-time work are left out of such initiatives.

PENSION COVERAGE

ILC UK assistant economist Dean Hochlaf said this combination means today's young people will need to save more to enjoy their retirement. He argued: 'The Government must do more to extend pension coverage and ensure that contributions towards private schemes are sufficient, especially amongst overlooked groups such as the self-employed and those on low incomes who have yet to benefit from initiatives designed to improve private savings.' ◂

LOOKING FOR A TAX-EFFICIENT WAY OF SAVING FOR RETIREMENT?

Saving as much as possible as early as possible throughout our working life is the best way to ensure that we have control over our financial futures and are well-prepared for a comfortable retirement. To review the options available to you, please contact us.

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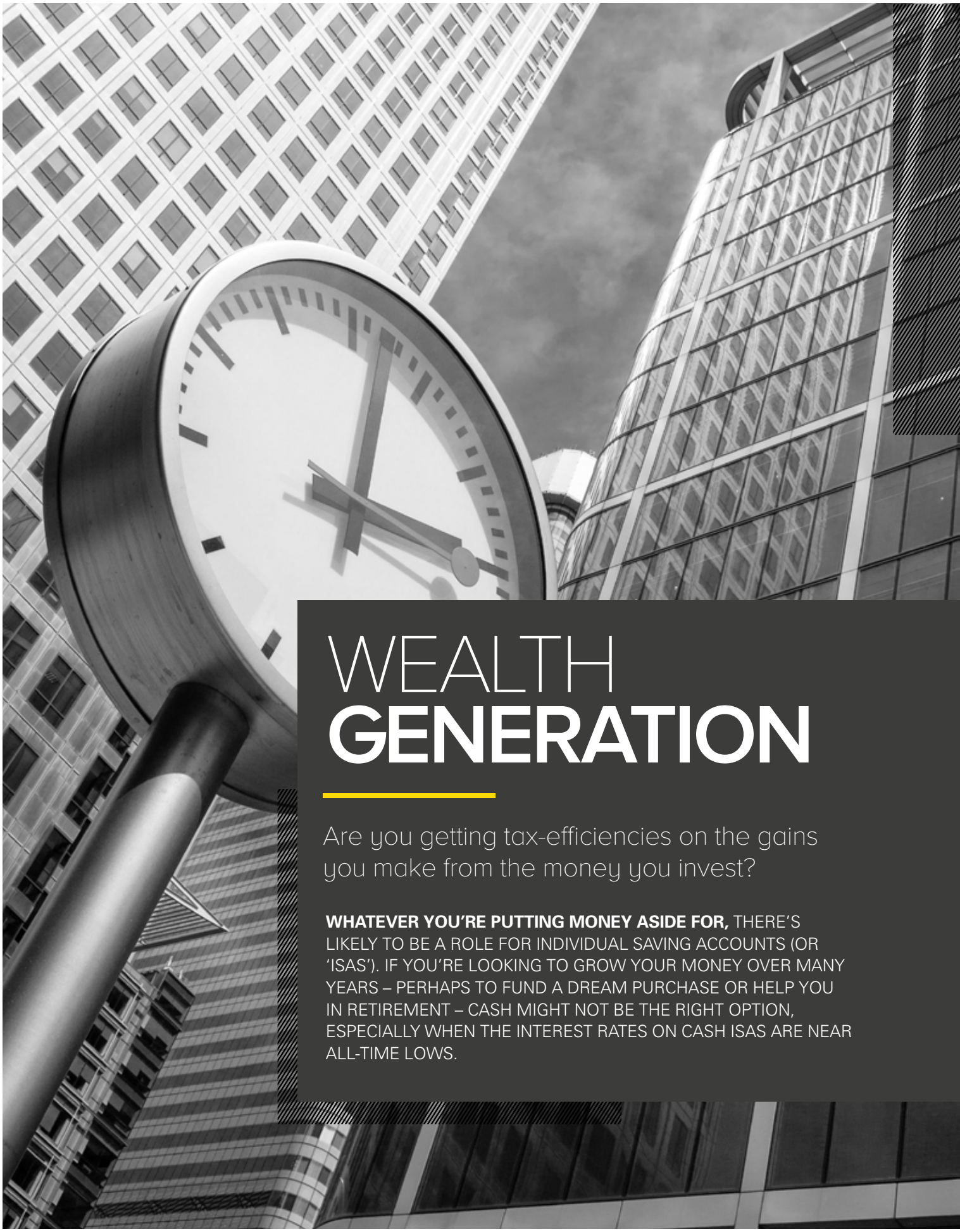
LOOKING FOR AN EXPERT, FLEXIBLE APPROACH TO MANAGING YOUR WEALTH?

Trust, tax and insurance solutions to ensure your financial goals can be achieved.

Whether your wealth comes from building a business, successful investments or family inheritance, robust family and estate planning is essential for protecting your wealth. We'll work to understand your requirements and bring them together as part of a coordinated financial approach.

CONTACT US TO DISCUSS YOUR REQUIREMENTS.



WEALTH GENERATION

Are you getting tax-efficiencies on the gains you make from the money you invest?

WHATEVER YOU'RE PUTTING MONEY ASIDE FOR, THERE'S LIKELY TO BE A ROLE FOR INDIVIDUAL SAVING ACCOUNTS (OR 'ISAS'). IF YOU'RE LOOKING TO GROW YOUR MONEY OVER MANY YEARS – PERHAPS TO FUND A DREAM PURCHASE OR HELP YOU IN RETIREMENT – CASH MIGHT NOT BE THE RIGHT OPTION, ESPECIALLY WHEN THE INTEREST RATES ON CASH ISAS ARE NEAR ALL-TIME LOWS.

> RELYING ON ANY ONE ASSET COULD EXPOSE YOU TO AN UNNECESSARY RISK OF LOSING MONEY. THE KEY TO MANAGING RISK OVER THE LONG RUN IS HOLDING THE RIGHT BLEND OF ASSETS THAT CAN COLLECTIVELY PERFORM IN DIFFERENT CIRCUMSTANCES.

Here are five reasons why you might consider investing some, or more, of your savings in a Stocks & Shares ISA, which could help you realise your long-term financial ambitions.

1. INFLATION CAN BE THE ENEMY OF CASH SAVINGS

One of the appeals of cash savings is that you can access them when you want. Your interest is also generally fixed, so their value won't swing up and down like share prices can. It's sensible to keep enough cash to cover any short-term needs, but keeping too much of your savings in cash can carry a cost. However, when the price of goods and services or inflation is rising faster than the rate of interest you receive on, say, your cash savings in a UK bank or building society, the 'real' value of the amount is eroded, which could leave you worse off.

By accepting some level of risk and investing your money in assets such as company shares, bonds and property, you could potentially achieve higher returns than cash alone can offer.

2. DIVERSIFY YOUR ASSETS

Relying on any one asset could expose you to an unnecessary risk of losing money. The key to managing risk over the long run is holding the right blend of assets that can collectively perform in different circumstances.

A wide range of investments can be held in a Stocks & Shares ISA. As well as individual company shares and bonds – both government and corporate – you can invest in funds that package several assets. Some funds focus on one type of asset, and sometimes even one region, while others hold a mix of assets from around the world. A broad and diversified portfolio should help spread the risk of individual assets failing to deliver returns or falling in value.

3. PROTECT YOUR INVESTMENTS FROM TAX

When you invest through an ISA, any income you receive and any capital gains from a rise in value of your investments will be free from personal taxation, irrespective of any other earnings you have.

It's important to remember that ISA tax rules may change in the future. The tax advantages of investing through an ISA will also depend on your personal circumstances.

4. ISA PORTFOLIOS CAN BE FLEXIBLE

Professional fund managers are constantly preparing for and reacting to changing market conditions, adjusting their portfolios accordingly. Your circumstances – and attitude towards investment risks – are also likely to evolve, meaning different types of assets will become more or less appropriate over time.

For example, if you're close to retirement, you may want to reduce the level of risk in your portfolio or move towards income-generating assets. It's sensible to review your investments regularly – even as a long-term investor.

Within an ISA, you can reallocate your portfolio according to your outlook and needs at any time without losing any of the tax benefits. You can also move money from your Cash ISA to your Stocks & Shares ISA, or vice versa, as your short-term cash needs change.

5. INVESTING IN A STOCKS & SHARES ISA

You can choose to invest a lump sum or set up a regular savings plan that fits your circumstances and your financial goals. It's important that you only invest in products that are suitable.

For the tax year starting 6 April 2017, the ISA allowance is £20,000 for Cash ISAs or Stocks & Shares ISAs, and £4,128 for Junior ISAs. ◂

GET THE MOST FROM YOUR ISA ALLOWANCE

Whether you're a novice or an experienced investor, we could help you get the most from your 2017/18 Stocks & Shares ISA allowance. To help you establish an investment approach that is right for you, please contact us.

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STOCKS & SHARES ISA INVESTMENTS DO NOT INCLUDE THE SAME SECURITY OF CAPITAL THAT IS AFFORDED WITH A CASH ISA.

UK PENSION **SAVINGS GAP**

The need for a greater awareness of what must be saved today

IF SAVERS WANT A PARTICULAR STANDARD OF LIVING AT RETIREMENT, THEN THEY WILL NEED A GREATER AWARENESS OF WHAT MUST BE SAVED TODAY.

Despite efforts by the Government to tackle the savings gap through auto-enrolment and raising the pensions age, challenges still exist. People are living longer, many would rather spend today rather than save for tomorrow, and few know how much they actually have tucked away. Separately, the Government is no longer as generous with tax incentives. As a result, we've seen significant changes in pensions over the last few years.

SECURITY IN RETIREMENT

A report from the World Economic Forum (WEF) has calculated that the UK pension savings gap will rise from £6 trillion to £25 trillion by 2050. With people born today having a life expectancy of more than 100, the WEF said the cost of providing security in retirement for a rapidly ageing population was the financial equivalent of climate change.

BIGGEST PENSION CRISIS

The WEF has warned the huge and spiralling cost would imperil the incomes of future generations and set the industrial world up for the biggest pension crisis in history. The retirement age in Britain and other leading developed countries will need to rise to 70 by the middle of the century to head off the biggest pension crisis in history, according to the WEF.

PRE-RETIREMENT INCOME

The three primary reasons for the stark forecasts are increasing life expectancy, lower birth rates and, crucially, not enough being saved for retirement. The report based its estimates of the pension savings gap on the amount of money needed to provide every person with a retirement income equal of 70% of their pre-retirement income.

STANDARD OF LIVING

According to the Organisation for Economic Co-operation and Development, a target of 70% of pre-retirement income roughly equates to an unchanged standard of living, because once people retire they save less and pay less tax.

AN AGEING POPULATION

The WEF said the funding gap would continue to grow at a rate higher than the expected economic growth rate, often 4% to 5% a year, driven in part by the effects of an ageing population – a growing population of retirees who are expected to live longer in retirement.

PENSION SYSTEM STRAIN

Although Britain's retirement age is due to rise to 68 in 2039, the WEF said further increases would be needed to forestall a predicted increase in the pension savings' gap, with half the children born in 2007 expected to live until they are 103, putting a strain on the pension system.

AUTO-ENROLMENT SAVINGS

The WEF report praised the UK for its decision to ensure that 8% of earnings will automatically be saved in a pension for each individual after 2019, noting that auto-enrolment had already boosted saving for 22 to 29-year-olds and low income workers by £1.91 billion a year. ◂

HOW WILL YOUR FINANCES STAND UP TO THE CHANGING FACE OF RETIREMENT?

With the Government shifting financial responsibilities onto the individual, it is more important than ever to make sure you close any retirement savings gap that might apply to your particular situation. One way to build a larger income for retirement is to increase your pension contributions or the amount you set aside in other savings. To review your retirement planning options or for further information, please contact us.

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YOU'VE PROTECTED YOUR MOST VALUABLE ASSETS.

But how financially secure are your dependants?

Timely decisions on how jointly owned assets are held, the mitigation of Inheritance Tax, the preparation of a will and the creation of trusts can all help ensure your dependants are financially secure.

CONTACT US TO DISCUSS HOW TO SAFEGUARD YOUR DEPENDANTS, WEALTH AND ASSETS – DON'T LEAVE IT UNTIL IT'S TOO LATE.

GENDER INCOME GAP

Minimising the impact on your retirement income

THE GAP BETWEEN WOMEN'S AND MEN'S ANNUAL AVERAGE EXPECTED RETIREMENT INCOMES IN 2017 HAS GROWN BY £1,000 IN THE LAST YEAR, ACCORDING TO NEW RESEARCH[1].

The unique annual research has, over the last ten years, tracked the future financial plans and aspirations of people planning to retire in the year ahead. This year's Class of 2017 research shows that women expecting to retire this year will be £6,400 a year worse off on average than their male counterparts, and nearly £200 a year worse off than women who retired in 2016.

ANNUAL RETIREMENT INCOME

Women this year expect an average annual retirement income of £14,300, which is the second highest on record, although slightly down on the £14,500 for those retiring in 2016. However, this year's female retirees are feeling slightly more confident about their finances, with 50% saying they are financially well-prepared for retirement, compared with 48% in 2016.

WOMEN'S INCOMES STAGNATE

Meanwhile, as women's incomes stagnate, men's expected retirement incomes have shown a fifth consecutive year of growth. Men retiring this year expect an annual retirement income of £20,700 – £900 a year more than last year, which is helping drive the gender gap to its highest level for three years.

TRACKED RETIREMENT INCOME

The study, which has tracked the retirement income gender gap for ten years, shows that men retiring this year will be 45% better off than women. The gender gap was at its widest in 2008 when the average expected retirement income for men was 84% higher than that expected by women.

FINANCIALLY WELL PREPARED

It is encouraging that many women planning to retire this year feel financially well prepared for their years in retirement. In fact, women's expected retirement incomes this year are the second highest on record.

PERSONAL PENSION POTS

However, the gender gap in retirement incomes continues to grow, probably reflecting the fact that many women will enter retirement having taken career breaks and changed their working patterns to look after dependants. Unfortunately, as a result, many women will end up with smaller personal pension pots, and some are also likely to receive a reduced State Pension.

MINIMISE THE IMPACT

For anyone who takes a career break, maintaining pension contributions and, where possible, making voluntary National Insurance contributions after returning to work should help to minimise the impact on their retirement income. The best way to secure a good quality of life in retirement is to save as much as possible from as early as possible in your working life. ◂

LOOKING FOR A TAX-EFFICIENT WAY OF SAVING FOR RETIREMENT?

To explore which options which could work for you and your retirement goals, please contact us for a personal review, and we'll help you make the right informed choices.

Source data:

[1] Research Plus conducted an independent online survey for Prudential between 8 and 22 November 2016, among 10,605 non-retired UK adults aged 45+, including 1,000 planning to retire in 2017.

NAVIGATING MARKET VOLATILITY

Protecting your portfolio from the ups and downs of investing

NO PARTICULAR INVESTMENT CONSISTENTLY OUTPERFORMS OTHER INVESTMENTS. ONE OF THE MOST EFFECTIVE WAYS TO MANAGE INVESTMENT RISK IS TO SPREAD YOUR MONEY ACROSS A RANGE OF ASSETS THAT, HISTORICALLY, HAVE TENDED TO PERFORM DIFFERENTLY IN THE SAME CIRCUMSTANCES. THIS IS CALLED 'DIVERSIFICATION'.

While it cannot guarantee against losses, diversifying your portfolio effectively – holding a blend of assets to help you navigate the volatility of markets – is vital to achieving your long-term financial goals while minimising risk.

Although you can diversify within one asset class – for instance, by holding shares (or equities) in several companies that operate in different sectors – this will fail to insulate you from systemic risks, such as an international stock market crash.

INSIDE ASSET CLASSES

As well as investing across asset classes, you can further diversify by spreading your investments within asset classes.

For instance, corporate bonds and government bonds can offer very different propositions, with the former tending to offer higher possible returns but with a higher risk of defaults, or bond repayments not being met by the issuer. Similarly, the risk and return profiles of shares in younger companies in growth sectors like technology, for example, contrast with those of established, dividend-paying companies.

INSULATE YOUR PORTFOLIO

Effective diversification is likely to also allocate investments across different countries and regions in order to help insulate your portfolio from local market crises or downturns. Markets around the world tend to perform differently day to day, reflecting short-term sentiment and long-term trends.

There is, however, the added danger of currency risk when investing in different countries, as the value of international currencies relative to each other changes all the time. Diversifying across assets valued in different currencies, or investing in so-called 'hedged' assets that look to minimise the impact from currency swings, should reduce the weakness of any one currency, significantly decreasing the total value of your portfolio.

PROFESSIONALLY MANAGED FUNDS

Achieving effective diversification across and within asset classes, regions and currencies can be difficult and typically beyond the means of individual investors. For this reason, many people choose to invest in professionally managed funds (typically with up to several assets) rather than building their own portfolio of individual investments.

Individual funds often focus on one asset class, and sometimes even one region, and therefore typically only offer limited diversification on their own. By investing in several funds, which between them cover a breadth of underlying assets, investors can create a more effectively diversified portfolio.

LESS VOLATILE RETURNS

One alternative is to invest in a multi-asset fund, which will hold a blend of different types of assets designed to offer immediate diversification with one single investment. Broadly speaking, their aim is to offer investors the prospect of less volatile returns by not relying on the fortunes of just one asset class.

Multi-asset funds are not all the same, however. Some aim for higher returns in exchange for assuming higher risk in their investments, while others are more defensive, and some focus on delivering an income rather than capital growth. Each fund will have its own objective and risk-return profile, and these will be reflected in the allocation of its investments – for instance, whether the fund is weighted more towards bonds or equities. ◂

DO YOUR CURRENT INVESTMENTS MATCH YOUR ATTITUDE TOWARDS RISK AND RETURN?

As with all investments, you should always check whether the strategy and underlying investments of any fund, or combination of funds, match your own attitude towards risk and return. Whatever phase of investment you are in, from capital accumulation to drawing upon your savings, there is always a valuable role for effective diversification. To review the options available to you, please contact us.

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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

RETIREMENT **TAXATION**

Understanding the bottom line

RETIRED HOUSEHOLDS HANDED OVER AN AVERAGE OF £7,400 EACH IN TAX LAST YEAR – THE EQUIVALENT OF NEARLY 30% OF THEIR ANNUAL INCOME, ACCORDING TO ANALYSIS OF NEWLY RELEASED DATA[1] BY PRUDENTIAL.

The total annual tax bill for the UK's 7.1 million retired households was £52.7 billion from direct and indirect taxes, according to the most recent available figures from the ONS.

RETIRED HOUSEHOLD TAXES

The average retired household saw its tax bill rise by around £400 in the 12 months to April 2016, increasing the total tax received by the exchequer from pensioners by around £1.7 billion. But the good news is that average retired household incomes, including the State Pension, private pensions, benefits and other earnings, increased by around £1,200 to just over £25,000.

DIRECT TAXATION INCREASE

Retired household tax bills mount up from direct taxes such as Income Tax and council tax which cost an average of just over £3,050 during the same period, and indirect taxes such as VAT, insurance premium tax and vehicle excise duty which cost an average of £4,360. The majority of the increase came from direct taxation.

AVERAGE WORKING HOUSEHOLD

Pensioners paid a slightly lower proportion of their income in taxes than those who were still working – the total tax take for retired households was around 4 percentage points lower than the 34% paid by the average working household.

GIVING UP WORK

It's important not to forget that stopping working doesn't mean you'll no longer be paying taxes, and many retired people will still need to consider Income Tax bills as well as all the other indirect taxation on expenditure that they will continue to face when they give up work.

WANT TO FIND OUT MORE?

Even in retirement, there is still the issue of tax to reckon with, making it best to be prepared and to take steps to ensure you don't pay any more than is due. If you are planning to give up work, you should make sure you don't underestimate the impact that tax will have on their income in retirement. To find out more, contact us to review your situation.

Source data:

[1] The Effects of Taxes and Benefits on Household Income: Financial Year Ending 2016
www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/theeffectsoftaxesandbenefitsonhouseholdincome/financialyearending2016

FINANCIAL ADVICE IS OUR BUSINESS.

We're passionate about making sure your finances are in good shape.

Our range of financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

CONTACT US TO DISCUSS YOUR REQUIREMENTS. OUR DETAILS APPEAR ON THE FRONT COVER.

TAX MATTERS

Improving your chance of a better retirement income

EVERY CLIENT'S STORY IS DIFFERENT. EACH ONE IS UNIQUE. WE INVEST SIGNIFICANT TIME TO UNDERSTAND YOUR VERY PERSONAL CIRCUMSTANCES. WE DO THIS FOR ALL OUR CLIENTS, AND SETTING YOUR RETIREMENT INCOME TARGET IS AN ESSENTIAL PART OF THIS PROCESS. THE INCOME YOU RECEIVE IN RETIREMENT WILL DEPEND UPON FOUR FACTORS: HOW MUCH IS CONTRIBUTED, HOW WELL YOUR INVESTMENTS PERFORM, WHEN YOU RETIRE, AND HOW YOU TAKE YOUR INCOME.

The good news is that if you are part of your workplace pension, the likelihood is your employer will be contributing to the pension for you, and one factor you can change is how much you contribute. Additional contributions to your pension account will improve your chance of a better retirement income.

Making contributions to your employer's pension plan is a tax-efficient way to save for your retirement. You can currently receive tax relief on contributions of up to 100% of your earnings in the United Kingdom. However, if the total contributions paid by you and your employer in a tax year exceed your annual allowance, you may have to pay a tax charge.

ABOVE THE ANNUAL ALLOWANCE

The annual allowance (generally £40,000) is the maximum amount that can be contributed in total from all sources (for instance yourself, your employer) into all your pensions in a tax year. Contributions above the annual allowance are taxed as income, unless you are able to carry forward unused annual allowance from any of the last three tax years. The annual allowance does not apply to any pension transfers.

Tax relief can be applied in different ways, as follows.

NET PAY ARRANGEMENT

Your employer deducts your contributions from your pay before it is taxed, therefore you only pay tax on your earnings after your pension contribution has been deducted. This means you receive full tax relief at the highest marginal rate of Income Tax that you pay, unless you do not pay Income Tax in the United Kingdom – for example, if your earnings are below the current personal allowance.

Marginal rate means that tax relief is at the rate of Income Tax you would have paid if you had received income rather than make a pension contribution, therefore your contribution could receive tax relief at different rates depending upon your level of income.

SALARY SACRIFICE ARRANGEMENT

You may have the option to participate in a salary sacrifice arrangement (sometimes called 'salary exchange') whereby contributions are paid by your employer on your behalf. You agree to sacrifice part of your salary, and your employer agrees to pay an equivalent amount into your pension account as an employer contribution.

Salary sacrifice also reduces your National Insurance payments (if you pay them), and therefore increases your take-home pay compared to other methods of making contributions. This means you receive full tax relief at the highest marginal rate of Income Tax that you pay unless you do not pay income tax in the United Kingdom – for example, if your earnings are below the current personal allowance.

Your employer deducts your contribution from your pay after it is taxed. Your pension scheme will then automatically add basic rate tax relief to your pension account when it receives your contribution. If you pay the higher or additional rate of Income Tax, you will need to contact HM Revenue & Customs to claim the additional tax relief.

If your earnings are below the personal allowance, or you do not pay Income Tax in the United Kingdom, you will not benefit from the tax relief a taxpayer would normally receive. However, this does not affect the amount that is paid into your pension, and you will continue to benefit from the money that your employer pays in.

Your pension scheme will automatically add basic rate tax relief to your pension account, irrespective of whether you pay Income Tax or not.

If you pay tax at the higher rates and your employer uses relief at source, your pension scheme will automatically add basic rate tax relief to your pension account. If you pay a higher rate of tax on some of your earnings, you may be entitled to further tax relief. ◂

MAKING THE MOST OF YOUR MONEY

We can help you navigate through the maze of legislation, avoid paying unintended tax and make the most of your money. If you would like to talk to us about your retirement planning needs, please contact us – 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.

AVERAGE AGE OF DIVORCE AT AN ALL-TIME-HIGH

Forecasting the long-term effects of the settlement

THE FINANCIAL RAMIFICATIONS OF A DIVORCE CAN BE DEVASTATING. THE AVERAGE AGE OF DIVORCE HAS REACHED AN ALL-TIME HIGH AT 45 YEARS AND 11 MONTHS FOR MEN AND 43 YEARS AND SIX MONTHS FOR WOMEN, ACCORDING TO DATA RELEASED FROM ONS[1].

Obtaining professional financial advice is essential during a divorce, as it will set you on the right path towards a more secure future. This process is likely to be a reality check whereby you have to translate your various life choices into real numbers and consider how much money it is going to take to achieve your future plans.

LIFE-CHANGING EVENT

This could involve selling your home and starting a new life or taking some of the equity out of the home, starting a pension, ensuring that you are covered by insurance, paying university fees, or changing your career path. We all have dreams, but sometimes it takes a life-changing event such as divorce for us to seriously consider them.

Private pension wealth is the biggest component of household wealth in the UK[2], and agreeing a fair separation of this pension wealth at a time of divorce will be important to the future financial well-being for both parties.

THE RISING AGE OF DIVORCE

In good news, the overall number of divorces is down to 101,000 – a number not seen since the early 1970s.

The average age of divorce, however, is rising to over 45 and 43 for men and women respectively. For both sexes, the average age of divorce has been rising by about three months every year over the past decade – it has risen by about ten years since records began in 1950.

PENSIONS – OUR BIGGEST ASSET AT A TIME OF DIVORCE

The UK holds a massive £11.1 trillion pounds in household wealth[3]. Private pensions represent the biggest single component of this wealth – at about 40% of the £11.1 trillion total.

Agreeing a fair separation of pension wealth at a time of divorce is therefore important for both parties. It is estimated that a typical couple could have about £120,000 in combined private pension assets if they were to divorce in their 50s, assuming they married when aged 30[4].

LARGER POOL OF WEALTH

It is typical for our wealth to grow as we age. A rising average age of divorce will therefore typically bring with it a larger pool of wealth to separate. With the average age of divorce at an all-time high, it is fair to assume levels of wealth at a time of divorce may also be at an all-time high.

Those in their 50s today will typically have married in the late 1990s, when aged about 30. Sadly, about one in three of those marriages have since ended in divorce. Many in their fifties may have combined private pension assets worth more than £120,000. Agreeing a fair separation of this pension wealth will be a key step in finalising a divorce, and will be critical to the future financial well-being of both parties. ◂

AGREEING A FAIR SEPARATION OF PENSION ASSETS IS MORE IMPORTANT THAN EVER

With the average age of divorce higher than ever, agreeing a fair separation of pension assets is more important than ever. For in-depth information on all key issues related to later-life divorce, please contact us for an assessment of your situation.

Source data:

[1]www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/divorce/bulletins/divorcesinenglandandwales/2015

[2]www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/compendium/wealthingreatbritainwave4/2012to2014

[3]webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/dcp171776_428683.pdf

[4] Aviva – £120,000 calculation: for someone aged 50 today (i.e. born in 1967), their average age of marriage was about 30. This suggests that, if divorcing at age 50, they may have been married for about twenty years. Average contribution rates to a defined contribution workplace pension are assumed to be 4% from the employee and 4% from the employer. For a basic rate taxpayer on an average salary of £28,000 who contributes the aforementioned averages, they could expect to amass about £60,000 in their pension pot after twenty years. (Source of average age of marriage –www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/marriagecohabitationandcivilpartnerships/datasets/marriagesinenglandandwales2013 Source of average private pension contribution rates –www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/datasets/occupationalpensionschemessurvey

SLEEPWALKING INTO A **PENSION SHORTFALL**

Auto-enrolment shouldn't be seen as a silver bullet

HOW MUCH MONEY YOU SHOULD BE SAVING FOR YOUR RETIREMENT IS A KEY QUESTION WHEN VISUALISING THE TYPE OF RETIREMENT LIFESTYLE YOU WANT. HOWEVER, THE 13TH ANNUAL SCOTTISH WIDOWS RETIREMENT REPORT REVEALS THAT, DESPITE THE SUCCESS OF AUTO-ENROLMENT – 80% OF 22 TO 29-YEAR-OLDS ARE PAYING SOMETHING INTO A PENSION – 70% OF THEM ARE NOT PUTTING AWAY ENOUGH. THIS PUTS AT RISK THEIR ABILITY TO ACHIEVE THEIR DESIRED INCOME OF JUST OVER £23,000 A YEAR FOR A COMFORTABLE RETIREMENT.

The research was carried out online by YouGov across a total of 5,314 nationally representative adults in April 2017. The report found that average contributions are £184 a month (including employer contributions), meaning they can expect an annual pension of just £15,200 including the current State Pension[1].

ANNUAL RETIREMENT INCOME

A 30-year-old contributing the current minimum of 1% to their workplace pension (matched by their employer) will achieve an income in retirement of £9,734. And even when the minimum contributions rise to 8% (employee and employer combined) in 2019, they will only achieve an annual retirement income of £14,047. This is a shortfall of almost £9,000 on expectations[2].

There is also evidence that more people will begin to opt out of pension schemes as contributions increase through auto-escalation from April 2018. When 22 to 29-year-olds were asked if the planned increases would affect how they save, less than half (48%) committed to staying enrolled.

THE LATER YOU START, THE HARDER IT GETS

If someone starts saving into a pension at 25 years of age, they would need to put aside £293 each month to reach a £23,000 annual income. Not starting to save until 35, monthly savings would need to jump to £443, and at 45 this would be £724. For someone who left retirement saving to their 50s, they would need to put away £1,445 a month to enjoy a £23,000 annual pension[3].

There is no doubt auto-enrolment has been a success in kick-starting the savings habit for millions – but it is not a silver bullet. Auto-enrolment may well be lulling people into a false sense of security that they are putting away enough for a comfortable retirement. For many, that is simply not the case, particularly given retirement is looking more expensive than ever. With one in every 12 private rental sector tenants now a pensioner, 'Generation Rent' is headed for a more expensive retirement than previous generations[4].

YOUNG PEOPLE ARE MAXED OUT

Despite the dangers of pensioner poverty, half of those in their 20s (53%) say they can't afford to save for the long term because of competing financial priorities[5]. Those in their 20s are saddled with twice as much debt as other age groups, on average owing more than £20,000. Almost four in ten (37%) have student loans eating into their monthly pay cheques, one in five (21%) have unpaid credit card bills, and 15% have other loans to pay off. ◂

HOW WILL YOU APPROACH SAVING FOR RETIREMENT?

Finding the right approach to saving for retirement and generating an income from your pensions in retirement has become a whole lot more complicated because of changes to pension rules. Whether you need to set up or review existing retirement planning strategies, we can help you make the most of your retirement opportunities. To review your options, please contact us for further information.

Source data:

[1] Based on someone in their 20s looking to retire at 68 and saving £184 each month

[2] The estimates are derived using the Pensions Calculator on the Money Advice Service website, assuming someone earning the UK average of £27,271 a year

[3] The estimates are derived using the Pensions Calculator on the Money Advice Service website, assuming someone earning £30,000 a year, with contributions being supplemented with a 4% employer contribution. The calculations allow for inflation, both in discounting back the final results so they're in 'today's money' and in assuming that contributions increase with earnings each year.

[4] Countrywide research released June 2017

[5] Research carried out by Opinium across a total of 5,077 nationally representative adults from 16 to 27 March 2017.

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FINANCIAL PROTECTION

Are you prepared if life throws something unexpected your way?

A CRITICAL ILLNESS COULD HAPPEN TO ANY ONE OF US. IF IT DOES HAPPEN, HAVING THE RIGHT COVER COULD HELP TO MINIMISE THE FINANCIAL IMPACT ON YOU AND YOUR LOVED ONES. MORE THAN A THIRD OF PEOPLE (36%) BELIEVE THEY WOULD GET NO KIND OF SUPPORT FROM THEIR EMPLOYER IF THEY WERE DIAGNOSED WITH CANCER, ACCORDING TO NEW RESEARCH FROM CANADA LIFE[1].

Shockingly, this figure rises to 45% of employees who have cancer, or have suffered from cancer in the past. The research reveals a harsh reality that employers are not doing enough to provide help for staff who develop a serious, long-term illness.

DIAGNOSED WITH THE CONDITION

Cancer now affects one in two people during their lifetime, and incidence rates among those aged 25–49 have risen by 20% in the past 20 years. Despite the growing occurrence of cancer among working age people, a fifth of respondents have no idea if their employer would offer any support if they were diagnosed with the condition.

Less than a third of respondents think they would be granted flexible working and time off when needed if they had cancer, falling to just over a quarter of those who have experienced cancer before. People with cancer do not feel they can fit their work around the need for treatment, recuperation or even just bad days. Just 25% think they would be given return-to-work support on recovery, and only around one in six anticipate access to occupational health services or adjusted workloads and performance targets. Only one in ten think their employer provides financial benefits such as critical illness cover.

UK EMPLOYEES WOULD BE UNCOMFORTABLE APPROACHING THEIR BOSS OR COLLEAGUES ABOUT CANCER

Two in five respondents would be uncomfortable talking to their employer and/or colleagues about a cancer diagnosis. Why do so many still see a cancer diagnosis as taboo, or worry about how the conversation could go? Cancer is common – 85% of our respondents had some experience of cancer in their life – yet when it comes to the world of work, respondents feel empathy and flexibility seem to be sorely lacking.

Over one in ten say they would be scared to tell their employer about a diagnosis in case it appeared they were no longer up to the job, while almost a fifth would feel uncomfortable asking for time off.

OPEN AND HONEST DIALOGUE

A sizable minority of respondents would not be willing to tell their colleagues about a diagnosis, with 15% saying they would prefer to keep it to themselves. Slightly more would feel awkward discussing cancer with their employer. This is unfortunate, if understandable, because help and care begins with open and honest dialogue.

The fact that more than a third of people think they would get absolutely no support from their employer if diagnosed with cancer is extremely worrying. Hundreds of thousands of people are diagnosed with cancer each year in the UK, and it is becoming more common among those of working age. The likelihood of having cancer increases with age – and with an ageing workforce, this is a problem that is going to get much worse.

GETTING BETTER AS THE MAIN PRIORITY

Cancer treatment can cause many to have to work reduced hours or stop working altogether. Sufferers should be able to make getting better their main priority without worrying about job security and financial stability.

People who have personally experienced cancer are more sceptical about the support of their employer, which is particularly damning. While many employers might feel they are understanding and accommodating when it comes to cancer, it is clear that more needs to be done in terms of support. ◂

PROTECTING YOU AND YOUR FAMILY FROM THE FINANCIAL FALLOUT

The good news is that many critical illnesses that used to be fatal are now survivable. However, it makes sense to protect you and your family from the financial fallout, as you'll need time out to recover – and that can have a big impact on you and your family. To find out more, please contact us.

Source data:

[1] Canada Life Group Insurance 11 July 2017

LONG -TERM INVESTING

How to fund a fulfilling life beyond our working years

HEALTHIER LIFESTYLES AND MEDICAL ADVANCES MEAN THAT MANY OF US CAN EXPECT TO ENJOY LONGER LIFESPANS THAN PREVIOUS GENERATIONS. HOWEVER, THIS CREATES A SIGNIFICANT CHALLENGE BOTH FOR SOCIETY AS A WHOLE AND FOR US ALL AS INDIVIDUALS – HOW TO FUND A FULFILLING LIFE BEYOND OUR WORKING YEARS.

The projections from the Organisation for Economic Co-operation and Development (OECD) suggest that the average man will live to 83.5 by 2052, while a woman can expect to live to 87.2 years old[1].

The UK General Election brought further uncertainty to markets which are still adjusting to an increasingly uncertain global political landscape. Investors should plan to invest for at least ten years. How can investors protect themselves and keep their long-term goals on track?

CASH ISN'T ALWAYS KING

Some investors think of cash as a safe haven in volatile times, or even as a source of income. But the ongoing era of ultra-low interest rates has depressed the return available on cash to near zero, leaving cash savings vulnerable to erosion by inflation over time. With interest rates expected to remain low, investors should be sure an allocation to cash does not undermine their long-term investment objectives.

Cash left on the sidelines earns very little over the long run. Investors who have parked their cash on deposit are likely to have missed out on the impressive performance that would have come with staying invested over the long term.

COMPOUNDING AND GROWTH

One of the advantages associated with long-term investing is the potential for compounding. When your investments produce earnings, those earnings can be reinvested and can earn even more. The more time your money stays invested, the greater the opportunity for compounding and growth. Keep in mind that while compounding can have a significant long-term impact overall, there may be periods where your money won't grow.

While there are no guarantees, the value of compounded investment earnings can turn out to be far greater over many years than your contributions alone. The difference between reinvesting and not reinvesting the income from your investments over the long term can be significant.

> "VOLATILITY IN FINANCIAL MARKETS IS NORMAL AND INVESTORS SHOULD BE PREPARED FOR THE UPS AND DOWNS OF INVESTING, RATHER THAN REACTING EMOTIONALLY WHEN THE GOING GETS TOUGH."

THE LESSON IS: DON'T PANIC

Volatility in financial markets is normal, and investors should be prepared for the ups and downs of investing rather than reacting emotionally when the going gets tough. The lesson is: don't panic. More often than not, a stock market pullback is an opportunity, not a reason to sell.

Market timing can be a dangerous habit. Pullbacks are hard to predict, and strong returns often follow the worst returns. Some investors may think they can outsmart the market – or they let emotions like fear and greed push them into investment decisions they later regret. Even missing a handful of days in the market can have a major effect on an investor's total returns. ◂

IT'S GOOD TO TALK

While markets can always have a bad day, week, month or even a bad year, history suggests investors are much less likely to suffer losses over longer periods. To discuss how much you'd like to invest, how you feel about risk and what your objectives are, please contact us.

Source data:

[1] OECD, Life expectancy links – the quiet revolution in pension policy, 2007.

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 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.

Published by **Goldmine Media Limited**
Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL

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