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YOUR WINDOW ON FINANCIAL MATTERS

INSIDE THIS ISSUE

NEW YEAR, NEW YOU?

Once the festive season has passed, it's a good time to think about those financial resolutions we should all make and aim to keep in the coming year.

PENSION PLANNING

It seems unlikely that the state pension will ever represent more than a safety net for most people, and should in itself be one of the strongest incentives to any individual to make adequate pension provision on their own behalf. So review your pension regularly and aim to contribute as much as you can comfortably afford and are allowed to tax-efficiently under current legislation.

MORTGAGES

With the continuing uncertainty about the future level of interest rates, it's easy to overlook the need to review your mortgage. Those on standard variable rate mortgages often end up paying this rate by default once their fixed or tracker deal finishes. If your current deal is about to end, ask us to review your options.

MAKING A WILL

Anyone with a family should have a valid Will in place. If you die without having made one, your wealth will be distributed under the rules of intestacy. This can mean that those you might have wanted to inherit could receive nothing. If you already have a Will, it's worth considering if it needs updating.

KEEPING FINANCIAL PLANS UP-TO-DATE

Last year saw major changes in financial legislation, and your plans and goals may have changed too. It makes good sense to organise a review with your adviser to help ensure that your savings, investments, pension plans and life insurance needs are all properly taken care of.

Your home or property may be repossessed if you do not keep up repayments on your mortgage. A fee may apply for mortgage advice and, if applicable, you must ask your adviser for details before making any decision relating to a new mortgage as the actual amount will depend on your personal circumstances, but the typical amount is 1% of the loan value (on a typical £100,000 mortgage, this would be £1,000).

NEWS IN BRIEF

Why those in drawdown need an LPA in place

Flexi-access drawdown has become an increasingly-popular way to access pension savings. Unlike an annuity, it provides the flexibility to access funds from time to time, and in varying amounts, throughout retirement.

However, as we age, mental or physical problems can affect our ability or desire to manage our financial affairs. That's where having a Lasting Power of Attorney (LPA) in place helps. An LPA is a legal document that allows the donor to choose and appoint one or more people to help them make decisions, or act on their behalf, if they are no longer able to do so themselves.

It makes sense to do this when relatively young, fit and healthy. If you lose capacity and haven't created an LPA, a family member would have to apply to the Court of Protection to be appointed as your Deputy; this can be an expensive and time-consuming process.

As with all aspects of retirement planning, it usually pays to take advice and put plans in place early.

FINANCIAL SETTLEMENTS ON DIVORCE

A landmark decision taken by the Supreme Court last October looks set to have a major impact on divorcing couples. Husbands or wives who attempt to hide the true extent of their wealth could find that their settlements are subsequently set aside on the grounds of fraud.

The wives in this case, Alison Sharland and Varsha Gohil, were both awarded larger pay-outs as their former spouses hadn't fully disclosed the value of their assets at the time their settlements were made. This ruling may mean many more couples returning to the courts to revisit agreements that were made without all the facts and details having been disclosed.

FINANCES ON DIVORCE

There are no hard and fast rules governing how assets should be divided on divorce, although there is a broad starting point of 50:50. If the divorcing couple are unable to come to an agreement on the division of their financial assets, the court will decide how these should be apportioned between them based on factors such as their age, earnings ability, property and money, and role in the relationship (e.g. breadwinner or primary carer). The needs of any children of the marriage are always considered paramount.

By this ruling the court has sent out a clear message that those spouses who failed to give a true and accurate account of their financial means at the time of their divorce could find themselves being bound by a new and fairer financial settlement at a later date. Those looking for finality in their divorce proceedings should be careful to be transparent and honest in all their financial disclosures.

PLANNING FOR THE FUTURE

Post-divorce, it makes sense to discuss your revised circumstances with your professional adviser. You should consider your financial goals and review your mortgage, life insurance, savings and investment plans. You will also need to rewrite your Will. Reorganising your finances is an essential step in moving forward to a new life.

PLANNING AHEAD – RETIREMENT REALITIES

Why do some people put plans in place for their financial future whilst others do not? This is one of the questions that M&G Investments decided to probe in a survey conducted amongst the 350,000 members of the YouGov Plc UK panel in 2015.

One of the key findings was that some people are just more likely to take the right steps and, most importantly, they tend to be people who take heed of professional advice.

The reasons people gave for not having proper retirement plans in place were varied, and included not having the time and/or knowledge to carry this out successfully on their own.

64% of respondents had heard of the new pension reforms, but only 8% fully understood what they meant for them. Almost a third did not know how they intended to use their pension pot. However, there were signs that caution would prevail, with only 2% considering using the majority of their fund to purchase an expensive car or a luxury holiday.

TAKING ADVICE MATTERS

There were a number of areas highlighted in the results that strongly suggested that best advice is to take advice. Those who did not have access to an adviser thought their main option for achieving their financial goals would be to spend less, while those who had received advice were more aware of the benefits of taking some financial risk and developing a long-term strategy. In addition they were aware of financial assets such as stocks and bonds and how they could be used as savings vehicles alongside pensions.

What is evident is that we all need to prioritise making financial provision for retirement and that taking advice really could make a difference. Developing and actioning your strategy as early as possible, topping up contributions whenever circumstances permit and arranging a regular review with a professional adviser will help ensure that your retirement plans remain on track.

DON'T GIVE TOO MUCH MONEY AWAY

More and more parents and grandparents are helping their children and grandchildren get a start in life, often by helping with education costs or a deposit for a property. However, there is some evidence that by doing so they may be putting their own standard of living at risk.

A recent study* found that 32% of parents and grandparents aged over 55 are currently planning or already giving money to their children and grandchildren at an average of £5,026 a year. Of these, 18% plan to take advantage of the new pension legislation to free up cash to give to their family.

However, the danger is that in the process they are cutting back their own lifestyle expenditure - 18% believe that they are giving away too much.

INHERITANCE TAX

Giving money away at the wrong time or in the wrong way could result in your children or grandchildren facing a tax bill at a later date.

The new family home allowance is being introduced in stages over four years, with a limit of £100,000 from April 2017, rising to £175,000 per person in 2020. This is in addition to the individual allowance for Inheritance Tax (IHT) which remains unchanged at £325,000.

Everyone has a £3,000 IHT annual exemption, and you can make gifts of £250 to as many people as you like providing they aren't also the recipient of your £3,000 allowance. Making gifts on marriage (up to £5,000 to a son or daughter, £2,500 to a grandchild and £1,000 to anyone else) and gifts from your surplus income can be good ways of reducing exposure to IHT.

A QUESTION OF BALANCE

With the continued rise in life expectancy, it's important for donors to have enough capital for their own needs, remembering that there may be need for long-term care provision at some point in the future. Inheritance Tax is a complex matter and taking advice is essential as everyone's financial situation is different.

* Investec Wealth & Investment

THE PRICE OF BEING A HOMEMAKER

Recent research* has put a price on the value of services that the average stay-at-home wife or husband provide and has found that on average they spend 56 hours a week performing essential household tasks such as cooking, cleaning and doing the laundry. If childcare is taken into account, then that would add another 6 hours to each day.

When breadwinners were asked how they would cope if the homemaker wasn't able to do all these tasks, 48% said they would rely on the services of family and friends, 20% felt they would be forced to pay for help such as cleaning and child-minding services.

If the homemaker's services had to be replaced, the cost could be considerable. At the current minimum wage of £6.70 per hour, this could amount to over £19,000 a year – even more if you add in the cost of childcare.

COVERING THE COSTS

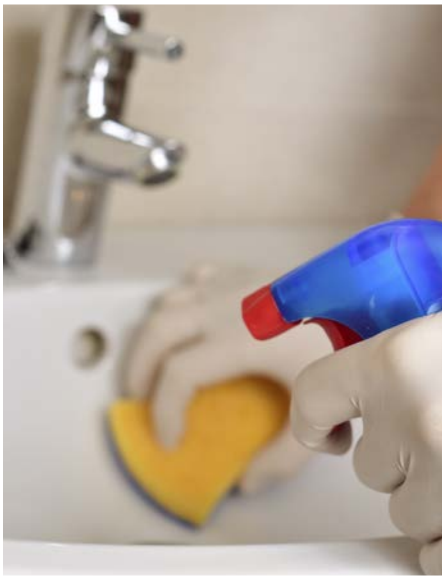
As every parent knows, raising a family takes a lot of time, energy and money. Hardly surprising then that some families keep putting off the decision to take out life cover to protect them against life's unexpected and unwelcome events.

If you're the main homemaker, it makes good sense to ensure that money would be available if you weren't in a position to provide those services that your family rely on you for every day. If you're the main breadwinner you should think about increasing your life cover so that it includes risks like life-threatening illness, accident or unemployment.

WHY REGULAR REVIEWS MAKE SENSE

The right insurance can protect your finances, your home and your family in the event of incapacity, a serious illness, an accident or death. It's a common misconception that premiums are expensive, but the earlier you take out a plan, the lower the cost is likely to be.

If you have insurance in place, it's a good idea to review it from time-to-time, that way you can be sure that as your life changes your cover changes to match your circumstances.



*Research carried out by Opinium Research for LV=

THE NEW PENSION RULES – FAQs

The new pension rules applying to defined contribution pensions can seem quite complex; there's a lot of information to take in. Here we look at some of the frequently-asked questions.

DO I HAVE TO RETIRE TO ACCESS MY DEFINED CONTRIBUTION PENSION?

No, you don't. There's no need to wait until the state retirement age. As long as you're over 55 you can access your pension. It doesn't matter whether you're still in work, about to retire or already retired.

WHAT'S TO STOP ME WITHDRAWING MY ENTIRE PENSION POT AT AGE 55?

Whilst it's true that you can from age 55 take up to a quarter of your defined contribution pension as a tax-free lump sum, withdrawals over and above this figure are taxable. They will be added to the rest of your income in that tax year, and so you could find yourself pushed into a higher tax bracket. It's also important to bear in mind that pensions shelter your savings from income tax and capital gains tax until you take that money out, and it makes sense to keep this tax-efficient status going for as long as possible. Remember too that life expectancy is rising and you could spend 30 years or more in retirement and you'll want your retirement income to last as long as you do.

PUT SIMPLY, WHAT IS FLEXI-ACCESS DRAWDOWN?

Flexi-access drawdown is a way of taking an income from the money you have built up in your pension while still keeping it invested. As the remainder of your pension fund remains invested, you still have the potential for the fund to grow free of income and capital gains tax. You have the flexibility to take money as and when you need it – you can choose to take up to 25% of your pension pot as a tax-free lump sum or gradually over time taking a quarter tax-free each time. You then move the rest into a fund or funds to allow you to take an income at times to suit you.

WHAT IS THE DIFFERENCE BETWEEN DRAWDOWN AND AN UFPLS?

An UFPLS is an uncrystallised funds pension lump sum, and is a one-off lump sum taken from an 'uncrystallised' defined contribution pension pot. In this case 'uncrystallised' means the benefits have yet to be accessed. The amount of the pot deemed 'crystallised' depends on how much of the tax-free lump sum has been taken. On the face of it, UFPLS are similar to drawdown, but you can't take 25% of the fund and leave the rest of the fund invested; for that to happen you'd need to go the drawdown route.

Under an UFPLS, 25% of each pay-out is tax-free, and each individual withdrawal is crystallised against the lifetime allowance (LTA). If you reach that threshold, you would have to pay tax on the amount over and above the LTA, initially at emergency rate, whereas with drawdown, the act of making a fund available for drawdown crystallises the whole pot from the outset. Taking an UFPLS will trigger the money purchase annual allowance, which would reduce the amount you could contribute to your pension from £40,000 to £10,000. As ever, taking advice is absolutely essential to help ensure you select the most suitable option for your individual needs and circumstances.

IS MY PENSION FUND TAXABLE WHEN I DIE?

Any money left in your pension fund at your death can be passed on. This will be free of tax if you die before age 75 and the funds are paid out within a two year window. If you die at 75 or over, the person you name as your beneficiary will pay income tax on what they receive.