



# ROTHESAY BENNETT

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## FINANCIAL PLANNING

MAY / JUNE 2019

# INHERITANCE TAX

NO LONGER SOMETHING THAT ONLY  
AFFECTS THE VERY WEALTHY

#### **NEW TAX YEAR**

The key changes  
you need to know

#### **WHY SILENCE ISN'T NECESSARILY BLISS**

Over six million adults refuse to  
discuss their Will with loved ones

#### **BUILDING A DIVERSE PORTFOLIO**

Time, patience and making  
informed decisions

#### **TRACING A LOST PENSION**

Nearly £20 billion unclaimed  
money and growing

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# INSIDE THIS ISSUE

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**At the time of writing this issue,** the uncertainty around the terms of Brexit have been extended to a new deadline set for 31 October. All we can do is expect the best, prepare for the worst and capitalise on what comes.

Inheritance Tax is no longer something that only affects the very wealthy, but the good news is that there are ways to limit the amount of Inheritance Tax your family may potentially face.

You worked hard to earn your wealth, so let us work hard preserving it. On page 08, we look at how you can help your family maintain its financial strength from one generation to the next.

You want to pay the minimum amount of tax legally possible. We want that for you, too. The 2019/20 tax year started on 6 April and, in general, taxpayers will have more money in their pocket after increases to allowances came into force. However, there are a few losers, in particular those selling shares and buy-to-let landlords. To find out more, turn to page 04.

Making a Will is very important if you care what happens to your money and your belongings after you die, and most of us do. On page 13, we consider why discussing your Will with beneficiaries means they are better prepared when the time comes, even though you may be nervous about raising the topic.

A full list of the articles featured in this issue appears opposite.

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## ACHIEVE YOUR FINANCIAL GOALS

We hope you find this issue useful. Whatever your goals in life are, careful planning and successful investing of your wealth can help you get there. If you would like to speak to us about your financial goals, please contact us – we look forward to hearing from you.

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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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# NEW TAX YEAR

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## THE KEY CHANGES YOU NEED TO KNOW

**You want to pay the minimum amount of tax legally possible. We want that for you, too.** The 2019/20 tax year started on 6 April and in general taxpayers will have more money in their pocket after increases to allowances came into force, but there are a few losers, in particular those selling shares and buy-to-let landlords.

### Increases to the tax-free personal allowance

announced in last year's Budget have now also come into effect, alongside a number of other proposals. We've provided our summary of the key changes.

### INCOME TAX

The tax-free personal allowance increased from £11,850 to £12,500, after Chancellor Philip Hammond announced in the 2018 Budget that he was bringing the rise forward by a year. The higher-rate tax band increased from £46,350 to £50,000 in England, Wales and Northern Ireland. But in Scotland, where Income Tax rates are devolved, the higher-rate tax band remains at £43,430 - £6,570 lower than the rest of the UK.

The National Insurance upper earnings limit has increased from £46,350 to £50,000, and all of the UK is now on the same level of 12% between the threshold of £8,632 and the upper earnings limit of £50,000 before this reduces to 2% on earnings above this level.

### INHERITANCE

The threshold at which the 40% Inheritance Tax rate applies on an estate remains at £325,000. However, the Residence Nil-Rate Band increased to £150,000. This is an allowance that can be added to the basic tax-free £325,000 to allow people to leave property to direct descendants such as children and grandchildren, taking the combined tax-free allowance to £475,000 in the current tax year. However, the allowance is reduced by £1 for every £2 that the value of the estate exceeds £2 million.

When you pass on assets to your spouse, they are Inheritance Tax-free, and your spouse can then make use of both allowances. This means the amount which can be passed on by a married couple is currently £950,000.

### PENSIONS

The State Pension increased by 2.6%, with the old basic State Pension rising to £129.20 a week, and

the new State Pension rising to £168.60 a week.

The minimum contributions under the Government's auto enrolment scheme have also increased to 8%. The increase means that employers must now pay in at least 3% of an employee's salary, and the employee pays the balance.

The level of the State Pension rises every year by the highest of 2.5%, growth in earnings or Consumer Price Index (CPI) inflation. This is due to the 'triple lock' guarantee, which was first introduced in 2010.

The pension lifetime allowance increased to £1,055,000 on pension contributions, in line with CPI inflation. This is the limit on the amount retirees can amass in a pension without incurring additional taxes. Anything above this level can be taxed at a rate of 55% upon withdrawal.

The overall annual allowance has remained the same at £40,000, along with the annual allowance taper which reduces pension relief for those with a yearly income above £150,000.

### INVESTORS

The Junior Individual Savings Account (JISA) limit increased to £4,368. All other JISA limits remain the same. The annual amount that can be sheltered across adult ISAs stays at £20,000 for the 2019/20 tax year.

The Capital Gains Tax annual exemption, which everyone has, increased to £12,000. Above this amount, lower rate taxpayers pay 10% on capital gains, while higher and additional rate taxpayers pay 20%. However, people selling second properties, including buy-to-let landlords, pay Capital Gains Tax at 18% if they are a basic rate taxpayer, or 28% if a higher or additional rate taxpayer.

Capital Gains Tax for non-UK residents has been extended to include all disposals of UK property.

Entrepreneurs' Relief gives a Capital Gains Tax break to those who sell shares in an unlisted company, provided they own at least 5% of the shares and up to a lifetime value of £10 million. The holding period to qualify for the relief is 24 months.

This is also the first tax year where claims can be made for Investors' Relief which, in a

similar way, gives Capital Gains Tax breaks to those who sell shares in unlisted firms. While the former is aimed at company directors, the latter is geared to encourage outside investment in firms.

There is no minimum shareholding to be eligible, but investors must have held the shares for at least three years. As the relief was introduced in 2016, this is the first tax year when it can be used.

### BUY-TO-LET LANDLORDS

On 6 April, the next stage of the phased removal of mortgage interest relief came into effect. Buy-to-let landlords used to be able to claim the interest paid on their mortgages as a business expense to reduce their tax bill. Now, they will only be able to claim a quarter of this amount as tax deductible ahead of the complete removal of the relief in the 2020/21 tax year. ◀

### WOULD YOU LIKE HELP WITH TAX PLANNING?



The UK tax system is very complex, but the benefits of structuring your finances tax-efficiently can be significant. We are here to ensure that you have made the best use of the reliefs and allowances available to your particular situation. There are a variety of planning ideas available for individuals, entrepreneurs and business owners. Should you need to discuss or require advice on tax planning ideas, please do not hesitate to contact us.

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# BUILDING A DIVERSE PORTFOLIO

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TIME, PATIENCE AND MAKING INFORMED DECISIONS

**Making sense of today's market headwinds and building a diverse portfolio should be key priorities for all investors.** Whether you have a lump sum to invest or want to invest regularly each month, it's important to know your money is working hard for you.

**HOLDING A NUMBER OF STRUCTURED PRODUCTS IN A PORTFOLIO NOT ONLY SERVES TO SPREAD RISK, BUT CAN ALSO IMPROVE THE SHAPE OF THE POTENTIAL OUTCOMES. PORTFOLIOS SHOULD TYPICALLY INCLUDE THE MAIN ASSET CLASSES NEEDED TO PROPERLY DIVERSIFY AND SPREAD RISK, AS WELL AS GROW MONEY IN LINE WITH THE INVESTOR'S ATTITUDE AND RISK TOLERANCE.**

**Growing your wealth is not something that happens automatically.** It takes time, patience and making informed decisions. Whatever your long-term wealth priorities are, planning and successful investing of your wealth can help you get there.

#### **DIVERSIFY AND SPREAD RISK**

Holding a number of structured products in a portfolio not only serves to spread risk, but it can also improve the shape of the potential outcomes. Portfolios should typically include the main asset classes needed to properly diversify and spread risk, as well as grow money in line with the investor's attitude and risk tolerance.

The four classes of assets are generally considered to be: stocks and shares or equities, fixed income or bonds, money market or cash equivalents, and property or other tangible assets. Depending on your attitude to risk, your portfolio may include some or all of these asset types, as they have different levels of risk and move in different ways relative to one another. There are no good or bad asset allocations; you need to find the one that's right for you based on your own situation and investment goals.

#### **DIFFERENT GEOGRAPHICAL AREAS**

Investors also need to consider holding funds invested in different geographical areas, to further spread risk and protect them from stock market corrections. But this exposes investors to foreign currency risk. This means that when sterling is weak, every pound invested will buy fewer foreign currency-denominated investments. However, if investors already have overseas investments, lower exchange rates can be beneficial, as this will boost values.

#### **BASIC DIVERSIFIED PORTFOLIO**

One of the basic building blocks of a solid portfolio is investment diversification. Put simply, this means investors shouldn't put all of their eggs in one basket. This is the basic principle behind asset allocation, which involves spreading money across different asset classes and diversifying how to allocate money within each sector.

A basic diversified portfolio might include several investment categories such as stocks, bonds and cash. The allocation to each of these broad categories should be based upon the investor's investment goals, their tolerance for investment risk, and the time horizon for needing to access their investments.

#### **IMPACT ON FUTURE RETURNS**

Investment fees are one of the most important differentiators that lead to the eventual outcome of an investor's portfolio valuation. They can eat away at even the best-performing investments and have a real impact on investment returns.

Over the long term, differences in fees, however small, can have a big impact on future returns. Even when investment returns are the same, charges corrode and eat away at an investment portfolio. Investors can't control the way markets behave, but with professional financial advice they can definitely control one thing: costs.

#### **TIMING THE MARKET**

Even Warren Buffett, one of the most famous investors in the world, doesn't try to time the stock market. There will always be reasons not to invest, and one of the main arguments against market timing is that mistakes can be costly. Even not investing because investors fear a market

correction is an attempt to time the market that rarely pays off and may lead to investors missing out on gains while they wait patiently for just that right time to make an investment.

#### **CULTIVATE THE ART OF PATIENCE**

For investors to give their investments the best chance of earning a return, they need to cultivate the art of patience. It's not a prerequisite that they need perfect timing to achieve their desired investment returns; they simply need time.

Time in the market beats timing the market - almost always. But some investors do just the opposite. It's worth remembering that trying to move money into the market before it rallies and out before it declines requires a crystal ball that just hasn't been invented. ◀

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#### **GROW THE LONG-TERM VALUE OF YOUR WEALTH**



Your wealth should work in all the ways you want it to. Whether you want to grow the long-term value of your wealth to provide an income later in life or to pass it on to future generations, we can support you in different ways, depending on your requirements. Please contact us for more information.

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CHANGES IN THE RATES OF EXCHANGE BETWEEN CURRENCIES MAY CAUSE YOUR INVESTMENT, AND THE INCOME FROM THEM, TO DO DOWN OR UP.

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

# INHERITANCE TAX

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NO LONGER SOMETHING THAT ONLY AFFECTS THE VERY WEALTHY

**Inheritance Tax is no longer something that only affects the very wealthy,** but the good news is that there are ways to limit the amount of Inheritance Tax your family may potentially face.

**When someone dies,** Inheritance Tax is charged on their estate above a certain value. A person's estate is basically everything they own, including their main property, any other properties, cars, boats, life assurance policies not written in an appropriate trust and other investments, as well as personal effects such as jewellery.

Inheritance Tax is potentially charged at a rate of 40% on the value of everything you own above the Nil-Rate Band threshold. This is the value of your estate that is not chargeable to Inheritance Tax. The amount is set by the Government and is currently £325,000, which is frozen until 2021. When you die, your estate is not liable to tax on any assets up to this amount. However, anything over this amount may be taxed at a rate of 40%.

Since 6 April 2017, if you leave your home to direct lineal descendants, which includes your children (adopted, fostered and stepchildren) and grandchildren, the value of your estate before tax is paid will increase with the addition of the Residence Nil-Rate Band, currently £150,000 in 2019/20.

Inheritance Tax is an unpopular and controversial tax, coming as it does at a time of

loss and mourning, and it can impact on families with even quite modest assets. However, there are legitimate ways to mitigate against this tax. But be aware that some of the most valuable exemptions must be used seven years before your death to be

fully effective, so it makes sense to obtain professional financial advice and consider ways to tackle this issue sooner rather than later.

## **MAKING PLANS TO MITIGATE AGAINST INHERITANCE TAX**

### **MAKE A WILL**

Dying intestate (without a Will) means that you may not be making the most of the Inheritance Tax exemption which exists if you wish your estate to pass to your spouse or registered civil partner.

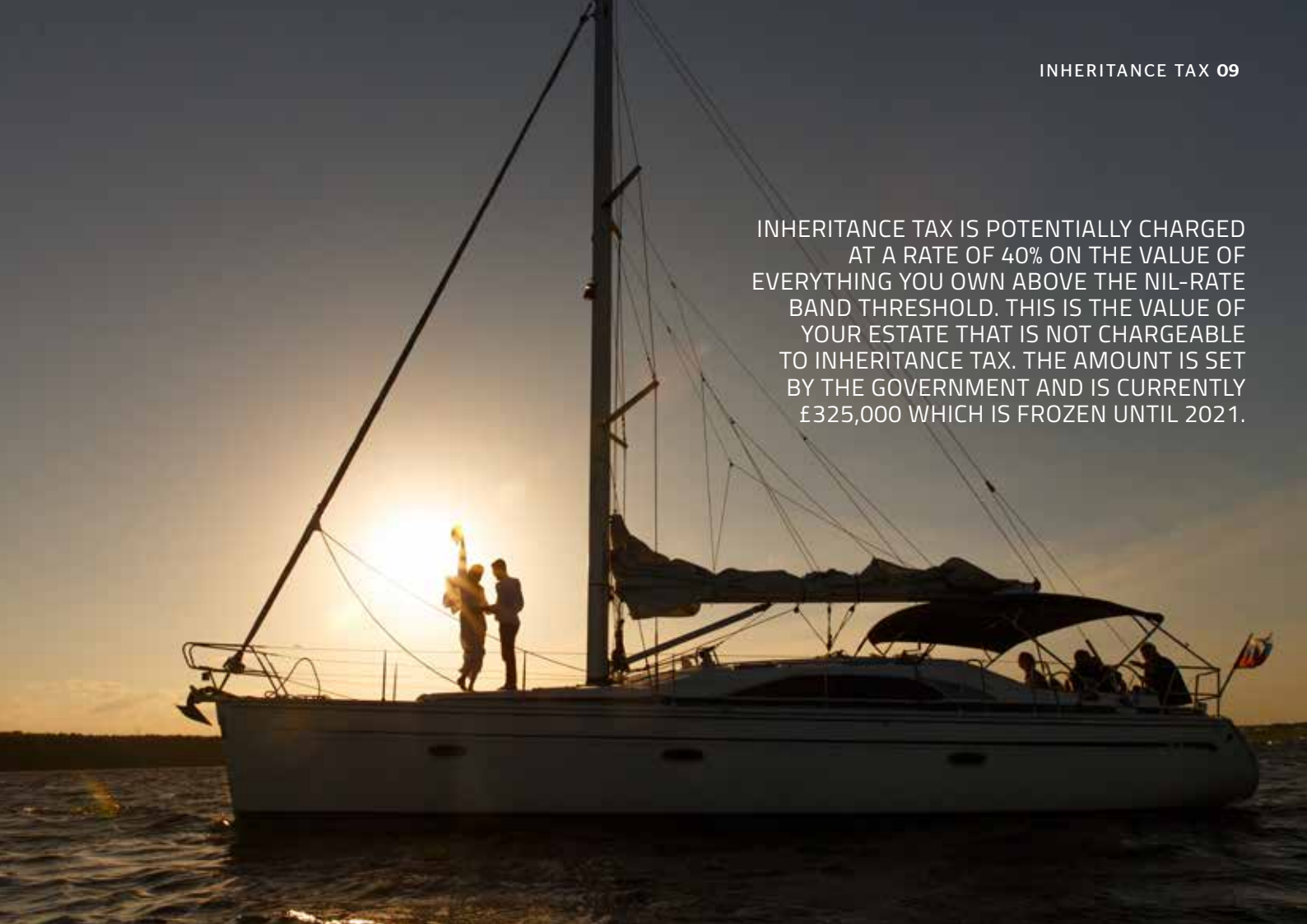
For example, if you don't make a Will, then relatives other than your spouse or registered civil partner may be entitled to a share of your estate, and this might trigger an Inheritance Tax liability.

### **THE FACTS:**

- Inheritance Tax is levied at a fixed rate of 40% on all assets worth more than £325,000 per person (0% under this amount) – or £650,000 per couple if other exemptions cannot be applied

**DYING INTESTATE (WITHOUT A WILL) MEANS THAT YOU MAY NOT BE MAKING THE MOST OF THE INHERITANCE TAX EXEMPTION WHICH EXISTS IF YOU WISH YOUR ESTATE TO PASS TO YOUR SPOUSE OR REGISTERED CIVIL PARTNER.**

INHERITANCE TAX IS POTENTIALLY CHARGED AT A RATE OF 40% ON THE VALUE OF EVERYTHING YOU OWN ABOVE THE NIL-RATE BAND THRESHOLD. THIS IS THE VALUE OF YOUR ESTATE THAT IS NOT CHARGEABLE TO INHERITANCE TAX. THE AMOUNT IS SET BY THE GOVERNMENT AND IS CURRENTLY £325,000 WHICH IS FROZEN UNTIL 2021.



- The Residence Nil-Rate Band is currently £150,000. This is an allowance that can be added to the basic tax-free £325,000 to allow people to leave property to direct descendants such as children and grandchildren - the allowance will be reduced by £1 for every £2 that the value of the estate exceeds £2 million

#### MAKE LIFETIME GIFTS

Gifts made more than seven years before the donor dies, to an individual or to a bare trust, are free of Inheritance Tax. So, if appropriate, you could pass on some of your wealth while you are still alive. This will reduce the value of your estate when it is assessed for Inheritance Tax purposes, and there is no limit on the sums you can pass on.

You can gift as much as you wish, and this is known as a 'Potentially Exempt Transfer' (PET). However, you will need to live for seven years after making such a gift for it to be exempt from Inheritance Tax. Should you be unfortunate enough to die within seven years, then it will still be counted as part of your estate if it is above the annual gift allowance.

You need to be particularly careful if you are giving away your home to your children with conditions attached to it, or if you give it away

but continue to benefit from it. This is known as a 'Gift with Reservation of Benefit'.

#### LEAVE A PROPORTION TO CHARITY

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

#### SET UP A TRUST

Family trusts can be useful as a way of reducing Inheritance Tax, making provision for your children and spouse, and potentially protecting family businesses. Trusts enable the donor to control who benefits (the beneficiaries) and under what circumstances, sometimes long after the donor's death.

Compare this with making a direct gift (for example, to a child), which offers no control to the donor once given. When you set up a trust, it is a legal arrangement, and you will need to appoint 'trustees' who are responsible for holding and managing the assets. Trustees have a responsibility to manage the trust on behalf of and in the best interest of the beneficiaries, in accordance with the trust

terms. The terms will be set out in a legal document called 'the trust deed'. ◀



#### WILL YOUR LOVED ONES BE FACED WITH A LARGE TAX BILL?

Without making provision for Inheritance Tax, your loved ones could be faced with a large tax bill when you die. They may even have to sell assets, such as the family home, in order to pay the bill. With some forward planning, we can help ensure that the people you want to benefit from your estate actually do. To assess whether you need to consider making plans to mitigate a possible Inheritance Tax liability, please contact us.

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

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



# TRACING A LOST PENSION

NEARLY £20 BILLION UNCLAIMED MONEY AND GROWING

## The scale of the UK's lost pensions mountain has been exposed by the largest study yet on the subject<sup>[1]</sup>. The Pensions Policy

Institute surveyed firms representing about 50% of the private defined contribution pensions market<sup>[2]</sup>.

**From this, the Pensions Policy Institute found 800,000 lost pensions** worth an estimated £9.7 billion. It estimates that, if scaled up to the whole market, there are collectively around 1.6 million pots worth £19.4 billion unclaimed – the equivalent of nearly £13,000 per pot.

### FINDINGS HIGHLIGHT THE SCALE OF THE PROBLEM

This figure is likely to be even higher as the research did not look into lost pensions held in the public sector, or with trust-based schemes typically run by employers. These findings highlight the scale of the lost pensions problem. Unclaimed pensions can make a real difference to millions of savers who have simply lost touch with their pension providers.

Providers make considerable efforts and spend millions every year trying to reunite people with lost or forgotten pensions. In 2017, more than 375,000 attempts were made to contact clients, leading to £1 billion in assets being reunited with them. However, firms are unable to keep pace with a mobile workforce that moves jobs and homes more often than ever before. Prevention is better than cure, so be sure to keep all your pensions paperwork in one place. You should also tell your previous pension scheme administrator about any changes of address.

### NUMBER OF PEOPLE WITH MULTIPLE PENSIONS TO INCREASE

Nearly two thirds of UK savers have more than one pension, and changing work patterns means that the number of people with multiple pensions will increase. People typically lose track of their pensions when changing jobs or moving home.

The average person will have around 11 different jobs over their lifetime, and move home eight times. The Government predicts that there could be as many as 50 million dormant and lost pensions by 2050.

**NEARLY TWO THIRDS OF UK SAVERS HAVE MORE THAN ONE PENSION, AND CHANGING WORK PATTERNS MEANS THAT THE NUMBER OF PEOPLE WITH MULTIPLE PENSIONS WILL INCREASE.**

### TRACKING DOWN UNCLAIMED PERSONAL OR WORKPLACE PENSIONS

If you have lost track of a pension, it's important to write down the dates and contact details of the companies you had pensions with. If you have all the information, then you can contact the pension provider directly to find how much there is in your pension pot.

Alternatively, you can contact the Pension Tracing Service. They will help you find the addresses and details you need and can help you locate or trace any pensions that you may have lost or misplaced.

You can also contact them to track down unclaimed personal or workplace pensions for deceased relatives. It's possible that their estate or a surviving partner or relative could be eligible to claim a percentage. The Pension Tracing Service telephone number is: 0800 731 0193 (from outside the UK: +44 (0)191 215 4491; textphone: 0800 731 0176). ◀

### THE SOONER YOU TRACE A LOST PENSION, THE BETTER



It's not always easy to keep track of a pension, especially if you've been in more than one scheme or have changed employer throughout your career. But it's important that you do claim your pension, so the sooner you trace a lost pension, the better. If you would like to discuss any concerns you may have, please contact us.

#### Source data:

[1] The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry.

[2] The Lost Pensions Survey includes data from 12 large insurers, covering around half of the defined contribution pensions market.

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. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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.

# F R E E T I R E E S

## PENSION FREEDOMS USHER IN A NEW GENERATION

**The introduction of pension freedoms has been a huge enabler for over-55s**, allowing millions to draw income from their pensions flexibly. Pension freedoms offer the opportunity to transition into retirement by continuing to work with reduced hours beyond traditional retirement age.

**This emerging trend enables you to choose a middle path**, allowing for reduced working hours and more flexible quality leisure time, while also receiving your retirement benefits. Taking a phased approach to retirement, new research<sup>[1]</sup> shows, was the preference for half of UK workers over 50, or five million workers<sup>[2]</sup>.

### TAILOR RETIREMENT TO YOUR OWN INDIVIDUAL REQUIREMENTS

The flexibility that pension freedoms gives means that older workers can tailor their retirement to their own individual requirements, giving rise to a new distinct and more 'free' stage of life in between work and retirement.

A quarter (26%) of over-50s could see themselves continuing to work while collecting their pension, but their motivation for doing so isn't driven solely by economics. Keeping their brain active and an enjoyment of work as well as the benefits of social interaction all play their part.

### WORK-LIFE BALANCE HAS NEVER BEEN MORE IMPORTANT

Earning an income later in life also provides workers with the opportunity to continue saving, which can mean higher retirement benefits in the future. The research highlights that a work-life balance has never been more important to those over 55. Pension freedoms have allowed them to throw off the shackles of a traditional retirement and follow a plan that suits their individual needs. While historically people benefitted from generous final salary pensions, one drawback of these was that they didn't offer much flexibility to decide how and when to take benefits.

The pension freedoms have changed the way people think about retirement and are enabling the rise of a more flexible transition into retirement, including allowing people to choose to start accessing some retirement savings to support a reduced working pattern.

### FREEDOM TO CONTINUE TO LIVE LIFE ON YOUR OWN TERMS

Pension freedoms have allowed older workers to be more flexible, creating a distinct phase in their later life where they can alter their working pattern to their needs. This allows them to continue working beyond traditional retirement age while also having more time for leisure, for family, for volunteering and to pursue hobbies and travel.

The research also highlights another point that older workers want to be able to continue to live life on their own terms, and pension freedoms allow an increasing number to enjoy a new life stage where they can combine reduced working hours with enjoying more leisure time. ◀

### WHAT IS YOUR FINANCIAL ACTION PLAN?



For some people, it's not clear where their money will come from when they no longer receive a salary – and that can be stressful. But don't worry. With our help, you can create a plan of action you can take today to prepare for the life you want tomorrow. Speak to us to arrange a meeting.

### Source data:

[1] Research conducted by Aegon in conjunction with Opinium, based on responses from 1,007 UK workers aged 50+ earning £20k+ between 30 November and 6 December 2018.

[2] Of the 10.3m people over 50 in employment in the UK, 49% want to transition – 5 million. [www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employmentunemploymentandeconomicinactivitybyagegroupnotseasonallyadjusteda05nsa](http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employmentunemploymentandeconomicinactivitybyagegroupnotseasonallyadjusteda05nsa)

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.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND YOUR ENTITLEMENT TO CERTAIN MEANS TESTED BENEFITS AND ARE NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

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

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

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.





# STATE PENSION

## HALF A MILLION WORKERS PAST PENSION AGE COULD BE PAYING UNNECESSARY TAX

**A significant number of people working past the State Pension age could be paying unnecessary tax on their State Pension, according to new research<sup>[1]</sup>.** This is because they failed to take up the option of deferring their State Pension until they stopped work. As a result, their entire State Pension is being taxed, in some cases at 40%.

**If they deferred taking their State Pension,** they would also receive a higher pension when they do eventually retire, and their personal tax allowance would then cover all or most of their State Pension, dramatically reducing the amount of tax they have to pay on their pension.

Those who defer their State Pension can receive an extra 5.8% per year on their pension for the rest of their life for each year that they defer.

Comparing someone who draws their State Pension immediately while going on working, with someone who waits for a year until they have retired before drawing their State Pension, the research finds:

- A man who defers for a year and has an average life expectancy at 65 of 86 will be around £3,000 better off over retirement than someone who takes his State Pension immediately and pays more tax
- A woman who defers for a year and has an average life expectancy at 65 of 88 will be around £4,000 better off. As well as the tax advantage, she also enjoys two extra years of pension at the higher rate

All is not lost for those who have started to draw their State Pension, as they have the option of 'un-retiring' - they can tell the Department for Work and Pensions (DWP) to stop paying their State Pension and then resume receiving it at a higher rate when they stop work.

There has been a significant increase in the number of people working past the age of 65, and the research identified that most of these people are claiming their State Pension as soon as it is available. For around half

a million workers, this means every penny of their State Pension is being taxed, in some cases at the higher rate.

If an individual's earnings are enough to support them, it could make sense to consider deferring taking a State Pension so that less of their pension disappears in tax. A typical woman could be around £4,000 better off over the course of her retirement by deferring for a year until she has stopped work, and a typical man could be £3,000 better off. ◀

### WANT TO DISCUSS YOUR FUTURE RETIREMENT PLANS?



Traditional retirements are a thing of the past. We're living longer and have more flexible income options to make our money work harder at retirement. If you would like to discuss any elements of your future retirement plans, please speak to us.

### Source data:

*[1] Royal London Policy Paper 33 - 'Are half a million people paying unnecessary tax on their state pension?' is available from [www.royallondon.com/policy-papers](http://www.royallondon.com/policy-papers). The analysis is based on the Family Resources Survey for 2016/17, which is a representative sample of nearly 20,000 households from across the United Kingdom.*



# WHY SILENCE ISN'T NECESSARILY BLISS

OVER SIX MILLION ADULTS REFUSE TO DISCUSS THEIR WILL WITH LOVED ONES

**Making a Will is very important if you care what happens to your money and your belongings after you die**, and most of us do. But have you tried to talk with your children about your Will? If that conversation isn't happening, you're not alone.

**And it's not only parents who are uncomfortable.** Adult children may also be nervous about raising the topic of their parents' finances for fear they appear greedy or nosy. Understandably, talking about dying can be seen as 'taboo' and it is not always easy to bring it up. However, discussing your Will with beneficiaries means they are better prepared when the time comes.

However, worryingly, almost six and half million adults refuse to discuss their Will with loved ones according to new research<sup>[1]</sup>. A quarter (26%) of people with a Will say they will not discuss it as they do not want to think about dying, and one in four (27%) do not want to upset beneficiaries by discussing the contents of their Will<sup>[2]</sup>.

It is also hugely important for family members to be aware of vital decisions in your Will, such as who will look after your children. By overcoming 'death anxiety', the natural fear of talking about death and the emotions associated with it, these important conversations can ensure your beneficiaries are aware of your wishes and understand them.

Nearly half (45%) of UK parents, the research identified, with adult children

believe their Will is 'no one's business' but their own or a partner's. But sharing the contents of a Will makes the financial and practical consequences of death easier for those left behind. Losing someone can have a huge impact on finances for months or even years to come, so it is crucial for families to be prepared.

## 'WHEN I'M GONE' CONVERSATION WITH YOUR PARTNER OR FAMILY

- Avoid talking to someone when they're busy. Look for opportunities to broach the subject, such as when you're discussing the future or perhaps following the death of someone close to you
- Consider beginning the conversation with a question such as, 'Have you ever wondered what would happen...?'; 'Do you think we should talk about...?'
- Think about how you would manage financially should the worst happen. What impact would losing a partner or family member have on your household income and your expenses? Be aware that your financial situation may change in the future

- Make sure you know where all important documents such as Wills, bank details, insurance policies, etc. are kept, so that you have all the information you might need
- Prepare in advance - would you know how to manage the day-to-day finances? If not, consider how you could start to learn about them now so this doesn't come as a shock

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## IN THE EVENT OF AN ILLNESS, LOSS OF CAPACITY OR DEATH - ARE YOUR PLANS IN PLACE?

Many of us will eventually reach a point in our lives when we require specialist assistance to ensure that our family will be able to cope better and manage their affairs in the event of an illness, loss of capacity or death. If you would like to review your particular situation, contact us to arrange an appointment

### Source data:

[1] Royal London - six million figure is based on ONS adult population stats of 52.8million. Our research shows 47% of UK adults have a Will - 26% of this figure equates to 6,458,535.05

[2] Opinion on behalf of Royal London surveyed 2,006 adults between 26 and 29 October 2018. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

# WEALTH CREATION

## SPREADING RISK BY ACCESSING DIFFERENT TYPES OF ASSETS

**Investing for the long term means persisting through market swings.** History shows that when people invest and stay invested, they're more likely to earn positive returns in the long run. When markets start to fluctuate, it may be tempting to make financial decisions in reaction to changes to your portfolio.

**Investing in a pooled investment**, also known as a 'collective investment scheme', enables investors to access investments through a fund, rather than buying direct assets on their own. Investing in a fund, such as a unit trust, an Open-Ended Investment Company (OEIC) or an investment trust, can give investors exposure to a wide range of companies and enables the spread of risk by providing access to different types of assets. Fund managers make the decisions about when to buy and sell assets.

### HIGHER OR FASTER GROWTH

Different funds take different levels of risk. Some are relatively low risk - for example, they might invest mostly in cash. Others are very risky, investing in new, uncertain companies or markets with the aim of higher or faster growth. And there's everything in between. By obtaining professional financial advice before you invest, you can ensure that your fund choices offer the right level of investment risk.

Dipping in and out of the market and trying to pick the best times to invest is an extremely risky strategy, as no one knows for certain which way markets are likely to move next. One aspect of long-term investing is that it almost entirely removes your emotions from the equation.

### AVOID MAKING UNWISE DECISIONS

Staying invested over the longer term, preferably five years but ideally longer, gives investments a greater chance of positive returns, though there can be no guarantees. This means investors don't need to focus on daily or short-term volatility

that might occur. By monitoring performance only occasionally, investors should avoid making unwise decisions to cash them in earlier than necessary. Instead, the focus should be on the long-term growth potential of the investments.

Investing on a regular basis not only suits most people's income streams, but it also helps to create discipline. Making a commitment to set aside an affordable amount each month is unlikely to affect someone's lifestyle. Regularly investing money into the stock market rather than putting in a lump sum could also smooth returns over time, because investors can benefit from so-called 'pound-cost averaging'.

### SMOOTH OUT MARKET VOLATILITY

Investing regularly enables investors to take advantage of pound-cost averaging. By investing each month, investors benefit from times when the markets are falling and are able to buy more units in a fund. This means the investment can acquire more shares when prices are low, and fewer when they are more expensive, with the theory being that investors effectively pay the average price over a fixed period, which can help smooth out market volatility. However, this strategy, as with any other, won't always work and could lead to lower returns than if the investor had invested one lump sum at the outset.

Investors should consider investing in a variety of assets - including cash, fixed-interest bonds, equities and property. This provides diversification and avoids relying on one particular investment to produce gains. This also helps reduce the risk of losing money, as the asset types that are performing well can hopefully offset those that at the same time are experiencing a period of lower performance. ◀

### REVIEWING YOUR INVESTMENT PORTFOLIO

Building a diversified portfolio can seem an onerous task. Successful investing isn't just a question of allocating your savings to various assets and then sitting back to wait for the profits to roll in. If only it were that simple. To discuss your investment goals, please contact us - we look forward to hearing from you.

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# BANK OF MUM AND DAD

## INNOVATIVE PRODUCTS TO BE CREATED FOR WOULD-BE HOME OWNERS

**The Building Societies Association (BSA)** have recently published a raft of recommendations as to how the mortgage industry can support the Bank of Mum and Dad in their endeavours to help first-time buyers onto the property ladder.

**They have called for more innovative products** to be created to enable parents and grandparents to loan or gift money to family members who are would-be home owners. The BSA also wants building societies to provide clearer communication to help explain all the options, and it wants regulatory and tax barriers to be broken down.

### HELPING YOUNGER HOMEBUYERS CLIMB ONTO THE HOUSING LADDER

The BSA's report recognises the contributions of the Bank of Mum and Dad to date, highlighting the billions of pounds that have been gifted and lent to help younger homebuyers climb onto the housing ladder.

They also confirmed that 90% of all building societies expect this form of financing to play an increasing role in helping first-time buyers over the next five to ten years. Their priority now is to help create an environment whereby the financial well-being of the older generation is not put at jeopardy due to their generosity in helping younger family members achieve their housing objectives.

- 86% of people surveyed wanted to own their own home, but the financial challenges facing first-time buyers meant many thought they would never achieve this aspiration
- In 2017, there were 360,000 first-time buyers - but the minimum should be nearer 450,000. The ability to buy was increasingly concentrated on dual-earning households and those with higher incomes
- More than half of aspiring first-time buyers expected the Bank of Mum and Dad to support them onto the housing ladder

### SUPPORT BETWEEN GENERATIONS REMAINS A FUNDAMENTAL AMBITION

The report also highlighted how the Bank of Mum and Dad wasn't just about family members handing over cash in the form of gifts and loans - many customers wanted support between generations through guarantees or using their property or savings as security. Indeed, it also identified equity release or downsizing from larger properties as ways to support the younger generation.

Robin Fieth, Chief Executive of the BSA said: 'Home ownership remains a fundamental ambition for the majority of people...against the challenging backdrop of high prices, a woefully inadequate supply of homes and a growing intergenerational divide, new ideas and strong debate are essential. Family help - the so-called "Bank of Mum and Dad" - is great for those fortunate enough to have this option, but innovations in underwriting could help all potential first-time buyers.' ◀

### MUMS AND DADS - ARE YOU PLANNING TO LEND MONEY TO YOUR CHILDREN?

It goes without saying that lending money to your loved ones shouldn't endanger your own financial status. But if this is your plan, then it requires professional financial advice to assess all of your options. If you would like to discuss this subject with us, please contact us.



YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

APPLICATIONS ARE SUBJECT TO STATUS AND LENDING CRITERIA.

# RETIREMENT MATTERS

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## FREEDOMS TO GAIN ACCESSING YOUR PENSION POT

**Changes to pension rules introduced in 2015** mean you've now greater access to your pension. It might seem like a far-off prospect, but knowing how you can access your pension pot can help you understand how best to build for the future you want.

**Under government rules**, you have a range of choices for how you use your pension money. If you have a defined contribution pension and are aged 55 or over, you now have the freedom to choose how you take your pension. What you choose is up to you, but we can help you to understand how it works and what's possible. You can usually take 25% of your pension as tax-free cash whichever option you choose.

### HOW TO TAKE YOUR PENSION

There are several ways you can take your pension. But with the increased choice, it can often mean increased confusion. When considering how you'll take your pension, think ahead about how much you might need to live on in retirement – and how you'll make your money last.

With all of the options, you can normally take up to 25% of your pension pot as a tax-free lump sum if you wish to do so. The rest will be taxed as an income as and when you receive it, so look at the tax implications of each option carefully.

### SO WHAT ARE YOUR OPTIONS?

#### RECEIVE A SECURE, REGULAR INCOME FOR LIFE WITH AN ANNUITY

If you want to use your pension to provide a guaranteed regular income for life, you can purchase an annuity with your fund. There are different types of annuity to choose from, with income options to suit your needs, perhaps those of your partner when you die – or maybe an increased income if you or your partner have certain health conditions.

#### RECEIVE A FLEXIBLE INCOME WITH A FLEXI-ACCESS DRAWDOWN PLAN

Drawdown lets you have access to your pot as you need. You take flexible cash amounts from your pension pot, while the rest stays invested. But like any investment, the value could go down as well as up, and you may not get back what you put in. Any money you have left in the fund can be passed on when you die.

#### TAKE YOUR MONEY AS CASH

You can do this all in one go, or as a series of smaller lump sums, whilst the rest remains in your pension fund. If you opt for smaller lump sums without taking your tax-free cash up front, then each payment will be 25% tax-free. The remainder will be added to your income for the year and taxed accordingly. This could result in you paying a higher rate of tax.

#### COMBINATION OF OPTIONS

It may be possible to mix and match what you do with your pension pot at different points in your retirement. Before combining any options, though, take time to think about the benefits and considerations of each option on its own. You'll need to check with your providers to see that you're not losing out on any guarantees on your plan by combining options.

#### LEAVE IT WHERE IT IS

If you don't need the money just yet, you could leave it invested for now. As long as your money stays in your pension pot, you won't pay tax on it,

and you'll get tax relief on contributions you make into your plan. There's no guarantee you'll get more when you take your money out, as your fund value can go down as well as up while it remains invested, and so you may not get back what you put in. You should also check with your provider to find out about charges and penalties. ◀

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### YOUR PENSION OR RETIREMENT OPTIONS



If you're looking for help with your pension or retirement options, we can help you decide what is right for you. To arrange an appointment, please contact us. We look forward to hearing from you.

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# WHY DO YOU WANT TO INVEST?

## REACHING SPECIFIC LIFE GOALS REQUIRES PLANNING

**If you don't know where you want to go**, you'll find it tricky getting there! Investment goals cover everything from the old adage of saving for a rainy day to planning for a comfortable retirement.

**Goal-based investing** emphasises investing with the objective of reaching specific life goals – such as buying a house, saving for your child's education or building a nest egg for retirement – instead of comparing returns to a benchmark.

Whatever your personal investment goals may be, it is important to consider the time horizon at the outset, as this will impact the type of investments you should consider to help achieve your goals. It also makes sense to revisit your goals at regular intervals to account for any changes to your personal circumstances, for example, the arrival of a new member to the family or salary increases.

Investment strategies should often include a combination of various fund types in order to obtain a balanced approach to investment risk. And maintaining a balanced approach is usually key to the chances of achieving your investment goals, while bearing in mind that at some point you will want access to your money.

### SHORT TERM

#### LIFESTYLE PLANNING

Knowing you're prepared for life's surprises can take a burden off your mind – and your bank balance. An emergency fund is a pot of money set aside to help you cover the financial surprises that life throws at you – surprises such as losing your job, needing to make unexpected home repairs, replacing your car or unplanned emergency travel. These events can be stressful and costly, but preparing in advance can be a big help.

### MEDIUM TERM

#### SCHOOL AND UNIVERSITY FEES PLANNING

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

For this reason, many parents and grandparents often start planning when a baby is born, which provides a better way to pay fees in monthly payments, making the cost of an independent education or university education more manageable.

### LONG TERM

#### RETIREMENT PLANNING

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

### FACTORS TO HELP YOU DEVELOP YOUR INVESTMENT GOALS

#### YOUR GOAL

What are you investing for, and how much are you hoping to get back?

### YOUR ATTITUDE TO RISK

How comfortable are you with taking risk with your money, as you may get back less than you invested?

### YOUR TIME HORIZON

How long are you prepared to put your money away for?

### INCOME, GROWTH OR BOTH

Do you want to look at funds that aim to make regular payments through dividends or interest (like an income), or at those that aim to increase in value over time? ◀

### THE IMPORTANT THING IS TO DO SOMETHING



Setting goals makes it more likely that you'll save for – and achieve – every goal. You'll also be more motivated to reach a goal since you can gauge its progress. To discuss your future plans and discover how to achieve them, please speak to us.

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# DO YOUR NUMBERS ADD UP?

## TAX-EFFICIENT WAYS TO FUND THE NEXT GENERATION

**It's natural we may want to give younger members of our family a financial start in life**, especially when we hear about some students graduating with eye-watering levels of debt. If you are able to help your children or grandchildren without risking running out of money yourself, it's important that you do so effectively.

**The most obvious way** is by funding university tuition fees and maintenance costs. By funding a student's three-year course upfront, parents or grandparents can prevent the student from taking on a 30-year debt and the interest costs associated with that. Two tax-efficient ways to do this are:

### INDIVIDUAL SAVINGS ACCOUNT (ISA)

When the child or grandchild is still very young, if the investment is allowed to grow, it could build up into a sizeable sum. The money can then be given to the grandchild as an adult. The capital could be enough to cover tuition fees, and possibly board and lodging as well. If the ISA is a Junior ISA, set up in the child's name, any gains will not incur Capital Gains Tax, and they will not be considered part of the parents' or grandparents' estate for Inheritance Tax purposes.

Nevertheless, the child will automatically gain access to the money when they turn 18 and can choose what to do with it. If the ISA stays in the

parents' or grandparents' names, however, the parents or the grandparents would be able to decide how the money from the ISA is used, but it would be considered part of their estate for Inheritance Tax purposes for seven years after it has been gifted to the adult child or grandchild.

### INVESTMENT ACCOUNT

For tax reasons, this approach may be best suited to grandparents. Grandparents can set up a designated account for a grandchild and invest a capital sum in it. The grandchild's initials are put in the designation box when the account is set up, creating a bare trust. A bare trust, also sometimes known as a 'simple trust,' is one where the beneficiary (the person who benefits from the trust) has an immediate and absolute right to both the trust capital and the income received by the trust from that capital.

HM Revenue & Customs will view income and gains from the investment as being attributed to the minor, who will have their own Income Tax and Capital Gains Tax allowance, so there will be no

tax implications for the grandparents. Any money invested in this way leaves the grandparents' estate seven years after it has been gifted. At 18, the grandchild is legally entitled to the money, however, and can use it however they see fit - which may not necessarily be for education.

Many parents and grandparents want to set up their children or grandchildren to enjoy a secure financial future, yet paying down student debt is not necessarily the best option if they have a spare capital sum to invest. They could also consider helping their children or grandchildren to save towards a house deposit or start a pension for them so that they have security in later life. ◀

### LOOKING FOR HELP TO GROW YOUR MONEY?

To help you make better-informed investment decisions, please speak to us about your investment goals - we look forward to hearing from you.

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# GREEN LIGHT FOR NEW TYPE OF HOME LOAN

## PRODUCT CHOICE BROADENED IN THE LATER LIFE LENDING SECTOR

**In an effort to broaden product choice in the later life lending sector,** the Financial Conduct Authority now treats Retirement Interest Only (RIO) mortgages as standard mortgages, instead of being regulated under Equity Release rules. This factor, among others, has resulted in several lenders adding RIO mortgages to their offering.



**These deals could help thousands of people** who have an interest-only home loan that's coming to an end, but don't know how they are going to pay back what they owe. Interest-only mortgages became virtually extinct following the credit crunch, but during the past few years some older homeowners with these mortgages and a big shortfall understandably have been worried they could lose their homes.

### NEW TYPE OF INTEREST-ONLY DEAL

Partly in order to help these people, the Financial Conduct Authority last year gave the green light to a new type of interest-only deal. These products are known as 'retirement interest-only' (RIO) mortgages and are a little more pricey than standard home loans.

RIO mortgages are best suited to those who have an interest-only deal that is coming to the end of its term, but who have been left

high and dry because the investment plan that was supposed to pay off their debt has underperformed - or maybe they never set one up in the first place. In theory, you can simply remortgage from your existing deal on to a RIO mortgage.

### RETIREMENT INTEREST ONLY (RIO)

RIO mortgages are an interest-only mortgage that either has no specified end date, or one a very long way into the future (so as to be highly unlikely that it will be reached). The borrowed capital sum will typically require repayment in the event of one of the following:

- A sale of the property
- The homeowner having to move into residential care
- The individual finding alternative accommodation, such as moving in with family

### UNLOCKING EQUITY TO FINANCE HOME IMPROVEMENTS

These home loans may also appeal to people who want to unlock some equity in their home to finance home improvements or to help their children or grandchildren buy their first home. Equity release has been around for years and can help both these categories of people.

RIO mortgages are effectively standard home loan deals with one key difference - the mortgage does not have a set end date and carries on until 'a specified life event' is triggered, for example, on the borrower's death or the date they move into a care home. Until then, they continue to pay the interest each month, and the loan is ultimately repaid from the sale of their property.

### PASSING AFFORDABILITY CHECKS TO PROVE MONTHLY INTEREST PAYMENTS

There is usually a minimum age for these mortgages - typically 55 - and you will need to pass affordability checks to prove you can manage the monthly interest payments. There are also limits on what you can borrow: the maximum loan is typically between 40% and 60% of your property's value.

RIO deals are assessed for affordability in the same way as a standard mortgage, with the use of income multiples, and existing commitments are also taken into consideration. ◀

### IT'S GOOD TO TALK

If you would like to discuss any areas of your financial situation, or to find out how we can assist you with your requirements, please get in touch.

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# PREPARING FOR YOUR UPCOMING RETIREMENT

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CONSIDERING THE PRACTICALITIES OF  
FULFILLING YOUR DESIRED LIFESTYLE

**If you are aiming to retire within the next five years,** it's time to get into the mindset of considering the practicalities of fulfilling your desired lifestyle and making plans.

**You now have just 60 pay packets left until you retire.** This is a time when you'll need to obtain up-to-date pension forecasts and obtain professional financial advice to make sure your retirement plans are on track.

### ARE YOU READY TO RETIRE?

The first step is to ask yourself if you are ready to retire. There are many factors to consider. Your financial affairs are the big factor to begin with. Your ability to afford retirement depends on your lifestyle, your family situation and home ownership. If you have dependent children, or have 15 years left on your mortgage, the time might not be quite right.

You have to ensure retirement is the right move for you. Work can be stressful, but it can be rewarding and give you a sense of achievement. People may miss the routine of working life and the day-to-day interaction with people.

### TAKING A DIFFERENT PATH

What you need might not be retirement, it could be change. A chance to get out from behind your desk to do something meaningful. Perhaps retirement is your ticket to achieving this - taking a different path where money is no longer the prime motivation.

If you are afraid about having time on your hands after retirement, explore options for filling it well before you take the leap.

### MAJOR CHANGE IN LIFESTYLE

Retirement means a major change in lifestyle. You need a clear idea of what you want your life to look like and how to spend your time. Then, you can work on arranging your finances to suit.

Decide on your priorities for retired life. Do you want to travel, or split your time between home and somewhere hot and exotic? Is there a particular hobby you want to immerse yourself in? What kind of leisure and social activities matter to you?

### LATER YEARS IN YOUR RETIREMENT

Try not to get caught up in what happens right after you end work - also consider the later years in your retirement. Will long-term travel continue to be feasible as you get older? Will you need such a large house, or will it become a burden? And what about in the latter stages of life? Should you need to fund care?

You must also have a clear picture of what kind of life you would like to lead in retirement and what it will cost. Then, you can start to dig a little

deeper into what you might be able to afford. This means getting to grips with your sources of income once your earnings stop.

### REQUEST UP-TO-DATE FORECASTS

Your first port of call is your pension - or pensions. Contact previous pension trustees to request up-to-date forecasts. If you've lost details of a pension scheme and need help, the Pension Tracing Service (0800 731 0193) may be able to help.

You should also find out what your likely State Pension entitlement would be - you can do this by completing a BR19 form or by visiting [www.direct.gov.uk](http://www.direct.gov.uk).

### CONSOLIDATE EXISTING PENSIONS

If you have personal pensions, you need to find out where they are invested and how they have performed. Also, check if there are any valuable guarantees built into the contracts. It may make sense to consolidate existing pensions, making it easier for you to keep track of everything and reduce the amount of correspondence you receive.

With investments in general, it is important to review your strategy before you take the leap into retirement. You don't need to suddenly become an ultra-conservative investor - you still want your portfolio to grow over the next few decades. Should the investment markets make a correction, you may want to limit your downside. Don't forget, there may be another 30 years ahead.

### DON'T PUT OFF CONFRONTING THE TRUTH

If your investments don't look on course to give you the income you'd hoped for in retirement, don't put off confronting the truth. You may need to revise your projected living costs. Alternatively, there's still time to change your investments, and you could also cut back on spending while you are still earning to generate more savings.

Your income can be used in other ways besides topping up your savings as you prepare for retirement. Clearing debts, including your mortgage, should be a priority before you retire. Whatever you owe on credit cards and loans, focus on paying off the debt that charges the most interest first. Debt will be the biggest burden once you do not have a regular working income.

### CONSIDER RE-ADJUSTING YOUR FINANCES

Having no mortgage to pay is a major step towards re-adjusting your finances for a post-salary life. You might also decide you want to sell up, whether to downsize, to give you a lump

sum of cash to live off, or to fund your dreams of moving abroad. Either way, use your working income while you can to improve your home, maximising potential revenue when you come to sell it.

Finally, retirement is a huge change, both personally and financially - so big it might be too much to take in all at once. It makes good sense to practise at being retired before it becomes a reality, especially if you will have to make certain adjustments and sacrifices to compensate for a reduced income. You might even consider a phased retirement, cutting back on your hours gradually. This will not only soften the financial effect, but it will also get you used to having more spare time to fill. ◀

### CAN YOU FINALLY SEE RETIREMENT ON THE HORIZON?



Retiring is a huge life event and can sometimes leave us feeling like we've lost our identity. After decades of working and saving, you can finally see retirement on the horizon. But now isn't the time to coast. If you plan to retire within the next five years, we can ensure you take the right steps today to help ensure that you have what you need to enjoy a comfortable retirement lifestyle. To arrange a meeting, please contact us.

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# PROTECTING THE VALUE OF YOUR MONEY

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DON'T IGNORE THE CORROSIVE IMPACT RISING  
PRICES CAN HAVE ON YOUR INVESTMENTS

**Inflation is an economy-wide sustained trend of increasing prices from one year to the next.** The rate of inflation is important as it represents the rate at which the real value of savings and an investment is eroded and the loss in spending power over time. Inflation also tells investors exactly how much of a return their investments need to make for them to maintain their standard of living.



**To avoid losing value, your savings and investments need to grow at the same rate as prices are rising. In the current climate of lower interest rates,** however, achieving this could be a challenge. During periods of rising inflation, those who save into deposit accounts may look to redirect their savings into investments in a bid to achieve potentially better returns, but it's important to appreciate the risks. Unlike cash bank accounts, investments can fall as well as rise, and you could get back less than you invest, or lower returns than you might otherwise have achieved.

Interest rates on deposits in Cash Individual Savings Accounts (ISAs) have generally remained below inflation over the past few years. Some savings accounts offer higher rates, but most pay interest below the current rate of UK inflation – even if you tie your money up for three years.

## INVESTING IN BONDS

If you are prepared to take on some investment risk, you could consider investing in a bond fund. Bond funds invest in a basket of IOUs issued by governments and/or companies looking to raise cash. When someone invests in a bond, they are essentially lending the bond issuer their money for a fixed period of time. During the bond's life, they will receive a fixed rate of interest, known as the 'coupon', and when it matures, those who invested when the bond was first issued should get their original capital back.

However, it's important to understand that your investment is not guaranteed. If the issuer gets into financial trouble, it could fail to meet its interest payments or even repay your capital. If that happens, you could get back less than you invest or nothing at all.

While you can invest in an individual bond at launch, they are also bought and sold on the open market, so you can invest at any stage in a bond's life. But remember, if you buy a bond after it has been first issued, you will pay its market price, which could be higher or lower than its issue price.

On the secondary market, bond prices change regularly, and as a result the yield on offer will also alter, so the rate of interest you receive will be dependent on its price at any given time. In addition, when it matures, the capital repayment will be the amount which was paid when it was initially issued and again – this could be higher or lower than what you paid. If

you sell, you will get the market price, and that may be less than you paid.

Broadly speaking, bonds are typically viewed as a lower-risk than shares and generally offer a relatively steady and predictable income, though some bonds do carry higher risk than some shares.

Opting for a bond fund can help you diversify your risk, but these portfolios come in many guises, and as such some will carry greater investment risk than others. Generally, they will all hold bonds that are at various stages of their life and therefore will vary in value.

## INVESTING IN SHARES

An inflationary backdrop may be less harmful for equity investors because during such periods, companies will often increase their product prices when the underlying costs start to rise. As a result, company earnings may have the potential to keep up with inflation, but there can be no guarantee of this, and some companies may fail in inflationary times. If you are considering investing in the stock market, remember that the value of the shares that you buy can fall as well as rise, and you could get back less than you invest.

But opting for a fund which invests in a wide spread of stocks is going to be less risky than putting your money into just a handful of shares. While you could invest in a low-cost tracker fund, which will simply mirror the performance of a particular index, such as the UK's FTSE 100, equity income portfolios also aim to deliver a steady income stream as well as capital growth.

These vehicles invest in the shares of dividend paying firms, or companies that tend to share their profits with their shareholders, and investors can opt to either take the income or instead re-invest it. It is vital to understand that dividends are not guaranteed: they depend on the companies' profits and those companies can decide to cut or cancel their payouts altogether, all of which can also cause share prices to fall.

## INVESTING IN PROPERTY

Property in general is another asset class known for typically staying ahead of the cost of living over the long term. But while buying a property outright is quite an elaborate step to take to beat inflation, you can still access the asset class by going for a

fund, which invests directly in bricks and mortar.

By doing so, it helps you to not only diversify your portfolio away from just bonds and shares but also spread your money across a broad range of properties, such as office buildings as well as industrial and retail parks. This can help with diversification by ensuring that if one or more buildings are unoccupied for a period of time, the other properties can still generate income.

The rents paid by tenants, which are often linked to inflation, can provide a stable and sometimes rising income, while over time property values could potentially appreciate. However, commercial property prices can be volatile, and when the economic backdrop becomes uncertain, many buildings may fail to attract a sufficient number of tenants, or tenants could become insolvent and default on rents, which means values and investment returns are very likely to fall.

In addition, it is vital to remember that property is an illiquid asset – in other words, it cannot be sold quickly. This means that if values start to fall and investors en masse try to get their money out, fund management groups can impose so-called 'lock-in' periods, which means you will have to wait until the firm sells some of its assets before you can get your money back. ◀

## TIME TO REVIEW YOUR CURRENT PORTFOLIO?



Inflation can have a corrosive effect on the money that you've set aside for your future. Rather than rising in value, as you might hope, your savings could be being slowly diminished. If you would like to review your current portfolio, please speak to us – we look forward to hearing from you.

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# MAKING PLANS FOR YOUR RETIREMENT

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TAILORED TO MATCH YOUR PARTICULAR  
NEEDS AND ASPIRATIONS

**One of the most important stages in life which everybody has to save for is retirement.** We work hard to enjoy our current lifestyle, but are we doing enough to ensure that we can continue to enjoy it in our retirement? Many of us live for today, but saving into a private pension plan can help us retire sooner rather than later.

### **Pension plans are as individual as the people who invest in them.**

There is no one-size-fits-all, tax-efficient solution for private pensions. Instead, they should be tailored to match your particular needs and aspirations.

### **ENJOY THE LIFESTYLE YOU WANT IN LATER YEARS**

Private pensions are a tax-efficient way of saving money during your working life so that you have an income when you want to retire. With proper planning, your private pension will allow you to enjoy the lifestyle you want in later years. A private pension plan, also known as a 'personal pension', is a good option if you're self-employed, as you won't have the option to be automatically enrolled in a workplace pension.

The term 'private pension' covers both workplace pensions (also known as 'occupational' or 'company' schemes), arranged by your employer, and personal pensions, which you manage yourself. There is no restriction on how many pensions you can have, and some people will have both.

### **CAP ON THE AMOUNT YOU CAN SAVE EVERY YEAR**

A personal pension operates in a similar way to a workplace scheme, except that you make the contributions yourself into a plan of your choosing. You can make monthly payments, one-off payments or a combination of the two. But the Government places a cap on the amount you can save every year, upon which you can earn tax relief. This cap is known as the 'annual allowance', which is currently £40,000 in the 2019/20 tax year.

In addition, the lifetime allowance is a limit on the value of payouts from your pension schemes - whether lump sums or retirement income. The lifetime allowance currently for most people is £1,055,000 and applies to the total of all the pensions you have, including the value of pensions promised through any defined benefit schemes you belong to, but excluding your State Pension. The standard lifetime allowance is indexed annually in line with the Consumer Price Index (CPI).

### **RADICAL REFORM GIVES PEOPLE GREATER PENSION FLEXIBILITY**

To take advantage of your available allowances, typically you should contribute as much as you

can into your pension, as early as you can and for as long as you can. This will allow you to take advantage of any compounding effects and long-term rises in the market. You should also consider increasing your payments in line with your earnings to help make maximum use of your annual and lifetime allowances.

In March 2014, the then Chancellor of the Exchequer announced a radical reform of the pensions system to give people greater flexibility to access their pension savings. The new pensions freedoms took full effect from 6 April 2015. To access your pension pot, you must have reached the normal minimum pension age - currently 55 (or earlier if you're in ill health or if you have a protected retirement age). Up to 25% of your accumulated fund can be withdrawn as a tax-free cash lump sum with the balance used to provide an income.

### **THERE ARE DIFFERENT TYPES OF PENSION SCHEME.**

#### **DEFINED CONTRIBUTION (DC) - ALSO KNOWN AS A 'MONEY PURCHASE SCHEME'**

This is the most common type of pension today and works like a tax-efficient, long-term savings scheme. The idea is to build up your savings over your working life. When you come to retire, as early as 55 years old, you can take up to 25% of the total pot out as a tax-free lump sum. The remaining amount can be left to build up further until you decide what to do depending on your scheme.

#### **STAKEHOLDER PENSION**

This is a simplified form of the defined contribution scheme, which allows you to pay low minimum contributions and is very flexible. Charges are capped, and providers offer default investment strategies.

#### **SELF-INVESTED PERSONAL PENSION (SIPP)**

A SIPP is a specialist type of personal pension that allows you to invest in a wider range of assets than a standard personal pension, which is limited to a restricted list of funds. A SIPP can hold individual shares, commercial property and exchange traded funds, for example. As the name suggests, it is self-invested, meaning that you can have the flexibility for managing your own investment portfolio. This approach in particular requires professional financial advice, unless you are an experienced investor

### **DEFINED BENEFIT (DB) SCHEME**

Defined Benefit pensions (also known as 'Final Salary schemes') are a type of workplace pension that guarantees a generous, index-linked fixed pension income for life. Nearly all of these schemes are now closed to new members. The amount of pension received is calculated as a percentage of the member's salary typically in the last year of employment, usually the highest earning year though some schemes use other calculations such as the average career earnings. ◀

### **TIME FOR A PENSION WEALTH CHECK?**



It's never too early to start saving for your retirement. With people living longer than ever before, we all need to save more. But because there's always something more urgent to pay or save for, it's something that many of us rarely think about.

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# DREAMING OF ESCAPING A WORKING LIFE FOR RETIREMENT?

## GETTING YOUR DATE RIGHT WILL HELP YOUR PLANS STAY ON TARGET

**Some people will have set their retirement date when they were in their 20s or 30s**, and a great deal will have changed since then, including their State Pension age and perhaps their career plans.

**It may seem like a finger-in-the-air** guess when you're younger, but the date that you set for retirement on a pension plan does matter. It will often dictate how your money is being invested and the communications you receive as you get nearer to that date.

### MATCHING HOPES FOR THE FUTURE

But according to new research<sup>[1]</sup>, most over-45s are not making plans to match their hopes for the future. The vast majority (86%) of those aged 45 or over are already dreaming about escaping their working life for retirement, but only 8% of the same age group have recently checked the retirement date on their pension plans to make sure it is still in line with their plans.

Over half (56%) don't have a clear idea when they want to retire, and only one in ten (10%) have worked out how much income they'll need when they decide to stop working. The study reveals it doesn't get much clearer as you go up the generations: less than a fifth (17%) of those aged between 55 and 64 have recently checked to see if the retirement date on their pension policy is still fitting in with their plans.

### FOUR REASONS TO KEEP YOUR RETIREMENT PLANS UP TO DATE

- **Right support, right time:** if the date you plan to retire changes, or you simply want to take some of your pension without stopping working, it's important to tell your pension company. Otherwise you may not receive information and support about your pending retirement at the most helpful times, as they'll be basing this on your out-of-date plans.

- **De-risking investments:** some investment options will start to move your pension savings into lower-risk investments as you get closer to retirement. If you don't have the right retirement date on your plan, you could be moving into these investments at the wrong time. For example, if you move into them too early, you could potentially miss out on investment returns which could increase the value of your pension savings. But if you move too late, you could be exposing your life savings to unnecessary risk.
- **Investment pot:** the size of pension pot you need to build up to maintain your lifestyle when you come to retire will depend on when you plan to do so.
- **Income:** if you're planning to buy an annuity at retirement, which will guarantee you an income for the rest of your life, the amount of income you'll get will depend on the size of your pot and annuity rates at that time. If you prefer to use your pension savings more flexibly, you can keep your money invested and take it as and when you need. You're then responsible for making sure your life savings last as long as you need them to.

### WORKING LONGER, OR RETIRING EARLIER

Reviewing your retirement date regularly as you get older makes real sense, and most modern pension plans enable you to change and update this date whenever you choose. It needn't be the same as your State Pension age – you might want to work longer, or retire earlier.

Some people who plan to slow down or stop work earlier are using money from their private pension savings to bridge the gap until they can start claiming State Pension. All you need to do

is inform your pension company of your plans, even if they change again in future. ◀

### RETIREMENT IS YOUR TIME



We'll provide you with both guidance and advice around your retirement options. If you are looking to access your pension for drawdown, guaranteed income via annuities or tax-free cash, we can help. To arrange a meeting, please contact us.

### Source data:

*[1] The research was carried out online for Standard Life by Opinium. Sample size was 2,001 adults. The figures have been weighted and are representative of all GB adults (aged 18+). Fieldwork was undertaken in November 2017.*

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# PENSION FREEDOMS

OVER ONE MILLION UK SAVERS EMBRACE RELAXATION OF RULES

**The Government's announcement on the relaxation of pension rules** changed the investment landscape, and pension freedoms show no sign of losing their popularity.

**HM Revenue & Customs** latest figures<sup>[1]</sup> on the flexible withdrawals from pensions shows that the number of savers who have embraced their freedoms now exceeds one million (1.04 million).

## INDIVIDUAL WITHDRAWALS

A record-breaking sum of £783 billion was withdrawn in 2018, up from £6.54 billion in 2017. It is reported that there have been 5.49 million individual withdrawals since the pension freedoms were introduced in Q2 2015.

More than one million savers have embraced their new freedoms since 2015, and a record £783 billion of taxable payments were withdrawn in 2018<sup>[2]</sup>.

## DASH-FOR-CASH

There is, however, no evidence of an uncontrolled 'dash-for-cash', as was feared by some when the freedoms were introduced. The 2018 figure of £783 billion needs to be seen in the context of a total private pension wealth in the UK of approximately £5,000 billion<sup>[3]</sup>.

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

## MAKING THE MOST OF THE PENSION FREEDOMS

### UNDERSTAND YOUR STATE PENSION

The State Pension continues to be most peoples' biggest source of income in retirement. But the State Pension and age at which you are entitled to this money is changing. Ask for a free State Pension forecast to ensure you understand your entitlements - [www.gov.uk/check-state-pension](http://www.gov.uk/check-state-pension)

### TAKE YOUR TIME

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

### CONSIDER YOUR LIFE EXPECTANCY

Pension savings are intended to last the rest of your life, yet we typically underestimate how many years we may live.

### APPROACH FINAL SALARY PENSIONS WITH CAUTION

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

## MAKE INFORMED RETIREMENT CHOICES



We'll help you to understand the retirement income options available and give you the information you need to make an informed choice. Speak to us to find out more.

### Source data:

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

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

[3] <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/wealthingreatbritain>

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

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# LIFETIME ALLOWANCE

## BREACH MAY IMPACT ON MORE THAN A MILLION WORKERS

**An estimated 1.25 million people are set to breach the current lifetime allowance (LTA) limit of £1.055 million for pension tax relief over the course of their working life, according to new research published<sup>[1]</sup>.**

**The LTA is a limit on the amount of pension benefit that can be drawn from pension schemes** – whether lump sums or retirement income – and can be paid without triggering an extra tax charge. It has been cut three times since 2010, and this research estimates that around 290,000 workers already have pension rights above the limit, and well over a million more people are at risk of breaching it by the time they retire.

### FACING A TAX CHARGE OF UP TO 55% ON PENSION SAVINGS

Those who exceed the LTA could face a tax charge of up to 55% of their pension savings above this level at the time of testing. Around 290,000 non-retired people have already built up pension rights in excess of the LTA. Fewer than half of these are thought to have applied for ‘protection’ against past reductions in the LTA and so could face significant tax bills when they draw their pension. Worryingly, many may be unaware of this.

Almost half of these people who are already over the LTA are continuing to add to their pension wealth, thereby storing up an even bigger tax charge with every passing year. And amongst non-retired people who are not currently over the LTA, an estimated 1.25 million can expect to breach the LTA by the time they retire.

### GROUPS LIKELY TO BREACH THE LIFETIME ALLOWANCE

The two main groups likely to breach the LTA are relatively senior public sector workers with long service, whose Defined Benefit pension rights will exceed the LTA, especially as they now have to work to 65 or beyond rather than 60 as in the past, and relatively well-paid workers in a Defined Contribution pension arrangement where their employer makes a generous contribution into their pension pot.

### HIGHEST EARNERS MAY BE LESS AFFECTED BY THE LIFETIME CAP

Typical salary levels of those affected are in the range £60,000–£90,000 per year. But ironically, the very highest earners may be less affected by the Lifetime Cap because they are now heavily limited by the amount they can put into a pension each year.

The data suggests that only a couple of thousand people exceeded the LTA in the latest year for which figures are available (2016/17). The number likely to face a tax charge could therefore increase more than a hundredfold, purely based on those who have yet to retire but who have already exceeded the LTA.

### WORKERS WHO WOULD NOT REGARD THEMSELVES AS ‘RICH’

The research finds that one of the reasons why so many people will exceed the LTA is that current policy is simply to increase it each year in line with price inflation (as measured by the CPI).

By contrast, wages will tend to grow faster than inflation, and the money invested in pension pots should grow faster than inflation over the long term. This means that the LTA will ‘bite’ progressively more severely over time and will affect hundreds of thousands of workers who would not regard themselves as ‘rich.’ ◀

#### Source data:

*[1] Research conducted for Royal London is based on detailed analysis of data on more than 7,700 workers from Wave 1 and Wave 5 of the ‘Wealth and Assets Survey’ March 2019.*

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