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YOUR WINDOW ON FINANCIAL MATTERS

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MILLIONS OF WOMEN WILL BE POORER DUE TO STATE PENSION CHANGES

More than a million women are now worse off by an average of £32 a week because of changes to the state pension, according to recent research by the Institute for Fiscal Studies[1].

It found that the phased increase in the state pension age for women was saving the government billions, but having a marked effect on household incomes. Many of the affected women are worse off each week by the full amount of their previously forecast state pension.

Due to the changes, many more women have stayed in work. However, the report concludes that the extra wages have only partially offset the potential pension income they would have received. In other words, many women are working when they weren't expecting to be and are still worse off than if they had received the state pension to which they were told they would be entitled – until the changes were initiated at relatively short notice a few years ago. This situation prompted the creation of the campaign group Women Against State Pension Inequality (WASPI).

The government increased the state pension age in response to the challenge the public finances face in paying pensions for longer as life expectancy increases. A spokesman for the Department for Work and Pensions said: *"Women retiring today can still expect to receive the state pension for over 24.5 years on average – which is more than any generation before them, and several years longer than men. By 2030, more than three million women stand to gain an average of £550 per year as a result of the new state pension."*

Around seven million people in their late 30s and 40s are likely to be affected by planned further rises in pension age, to 66, 67 and eventually 68, affecting men and women, so it's particularly important that younger workers are aware of this and plan accordingly.

A huge number of people in the UK rely on the state pension to underpin their retirement income. So, if the change in pension age is likely to affect your finances, then getting some good advice as early as possible in your working life will help you get a full picture of the amount you will have to live on when you retire.

Keeping an eye on your pension planning throughout your working life can help ensure you have a financially-comfortable retirement. If you'd like some advice, get in touch.

[1] Institute of Fiscal Studies, Aug 2017

TREASURY CONFIRMS LIFETIME ALLOWANCE WILL GO UP IN LINE WITH INFLATION

In his 2015 Budget, the then Chancellor George Osborne announced that the Lifetime Allowance (LTA) for pension contributions would be reduced from £1.25m to £1m from April 2016. It was also announced that the LTA would be indexed by inflation from April 2018.

As there had been a change of government in the meantime, there was doubt in some quarters as to whether the Treasury would implement this change. However, it has now been confirmed that the allowance will rise in line with inflation from April 2018.

The Treasury spokeswoman also confirmed that the increase will be based on the increase in the Consumer Price Index in the year to the previous September, and where this is not a multiple of £100, it will be rounded to the next £100.

So, although the increase is unlikely to be huge, it will bring some relief to those who are currently on the threshold of exceeding their LTA. If you'd like advice on any aspect of your pension and retirement planning, then do get in touch.

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

WINTER IS COMING – WHAT LIES AHEAD?

What do the last few months of the year have in store for investors? 2017 has so far been interesting, to say the least. We have all become much better at expecting the unexpected; experience has certainly taught us that.

Many investors are getting used to a variety of political, financial and economic factors and hopefully learning to look through the 'noise' to focus on what really matters. What we do know is that market volatility will continue and areas of value exist, which makes asset allocation a key tool when planning your portfolio.

A HEALTHY INVESTOR APPETITE

Investors started the year confidently as the 'Trump reflation rally' continued from the tail end of 2016. Although fading a little more recently, global equity markets hit all-time highs in the summer with over $10 trillion added to their value in the first half of the year, exemplifying a healthy investor appetite. Based on measures of volatility, investors' tolerance for risk across many different asset classes was at a three year high in the summer.

DOMESTIC FOCUS

With a backdrop of modest global growth at home, there are mixed signals of growth for the UK economy. We, of course, have the added complication of ongoing Brexit negotiations to contend with. Weak sterling remained the key driver of UK blue chip companies with high overseas earnings, nudging the FTSE100 higher. The FTSE250 has experienced more modest growth; its domestic focus benefitting less from the uplift of weaker sterling. The weaker currency has particularly benefitted those industries which export goods and services. Despite inflation remaining above target, many economists do not expect UK interest rates to rise until 2019.

WHAT REALLY MATTERS?

As traditional macro concerns return to the fore, portfolio diversity holds the key to approaching your investments and managing risk. Having different assets

in your portfolio from different sectors and global regions is helpful in achieving this. It is important to think about longer-term timescales instead of focusing too intently on short-term events and market fluctuations. What is clear is that financial advice is essential to help position your portfolio in line with your objectives and attitude to risk. Remember to get in touch if you have any changes in your personal circumstances which may affect your objectives, risk and capacity for loss.

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INHERITANCE TAX: THE GOVERNMENT RAKES IN £5BN

The amount of revenue that the government raises from inheritance tax (IHT) continues to rise year by year. In 2016-17, the figure rose again to over £4.9bn[1], with experts expecting it to be even higher in this financial year.

Controversially, the threshold at which IHT applies has been stuck at £325,000 since 2009. Over the same time, house prices have mainly continued to rise, meaning that more families than ever have found themselves drawn into the IHT net.

Help has come in the form of the family home allowance that reduces the amount of IHT payable on a main residence being left to defined direct descendants. Referred to as the 'main residence nil rate band', it is being introduced in stages over four years, with a limit of £100,000 applying from April 2017, rising each tax year until it reaches £175,000 per person in 2020. This is in addition to the individual allowance for IHT of £325,000.

WHY PLANNING MATTERS

There are several ways in which you can reduce your potential liability to IHT. Many families consider giving assets away during their lifetime. However, you must outlive the gift by seven years, if not they count as part of your estate, although taper relief applies so that if you die, say, within six years the tax would be less.

USING YOUR ANNUAL ALLOWANCES

Each financial year you can make gifts of up to £3,000 (in total, not per recipient) and if you don't use this in one tax year, you can carry it over to the next year but not beyond, which means you could give away £6,000.

Gifts of £250 per recipient per tax year to any number of people are exempt. Each parent of a bride or groom can give up to £5,000; grandparents or other relatives can give up to £2,500 and any well-wisher can give £1,000. Gifts to registered charities and political parties are also exempt.

Every family's circumstances are different, so taking bespoke professional advice is essential in planning your estate.

Not all Inheritance Tax Planning solutions are authorised and regulated by the Financial Conduct Authority.

[1] HMRC, Jul 2017

RETIRED HOUSEHOLDS HAND OVER £7,400 TO THE TAXMAN

In further evidence that pensioners are seeing their incomes rise, those in retirement have seen their annual tax bill grow by 5.7% to an average £7,410 (2015-16 tax year)[1].

Nearly 30% of pensioner household income was taken up with paying the taxman, and this figure includes income tax, council tax, VAT, insurance premium tax and vehicle excise duty in the 2015-16 tax year. This compares with 34% of average annual income paid by working households.

PENSIONER INCOMES ON THE RISE

Pensioners' incomes have been steadily rising over the last few years. In a remarkable turnaround, more people in their 70s now earn enough to pay tax at the higher rate of 40% than those in their 30s. This can be due in some cases to generous final-salary pensions, as well as the comparatively higher wages and regular bonuses they were more likely to receive during their working lives than today's workers. It can also be down to the financial acumen of the baby-boomer generation who managed their finances well, saved hard and paid off their mortgages as soon as they could.

Although many in their 70s are reaching the end of their working lives, and have often been collecting their state pension for several years, more than 11% of women in this age group still have a job, as do 15.5% of men.

AVOID THE PENSION TAX TRAP

Retired people can find themselves paying more income tax because of the new pension regulations, which allow them to access their defined contribution retirement savings from age 55. That's why it's important to take professional advice before accessing your pension pot. Please get in touch. Taking too much cash out in one go can mean that you end up paying high rates of tax, when with a little careful planning you could be paying less.

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

[1] Prudential, Jun 2017

WILL YOUR PENSION GO TO THE WRONG PERSON?

It can come as a surprise to many people to learn that their pension doesn't form part of their estate on death. Unlike property, savings and investments which can all be dealt with under the terms of your Will, who gets your pension savings depends on who you nominated when you were asked to complete an 'expression of wishes' form by your pension provider.

As it isn't compulsory to provide beneficiary details and return the form, some people overlook this important step. This can mean a considerable delay in the payment of pension benefits to dependants.

Other complications can arise. If you nominated a previous spouse to receive your pension benefits but subsequently remarry and don't update the form, then this could mean that your ex-spouse would end up benefitting instead. It could also mean that children and stepchildren may not be provided for.

INVESTIGATIONS

If on your death the situation isn't clear, then pension scheme trustees and administrators can carry out their own investigations to decide who should receive your pension benefits. They can consult the Will, contact family, friends and colleagues to establish your personal circumstances. However, this can be a lengthy process.

The best way to guard against your pension savings going to the wrong person is to make sure you keep your pension nomination form updated, otherwise there is no guarantee that the decision reached by your pension company will be what you had intended to have happen.

PENSION FREEDOMS

Following the changes to the rules governing defined contribution pensions in April 2015, your pension savings can be passed to anyone you choose to nominate, and that doesn't have to be your spouse or dependants. In the event of your death before age 75, the money will be passed on free of tax, and if death occurs after age 75, then income tax is payable when your beneficiaries start to withdraw the money, at their marginal rate.

MAKING LIFE EASY FOR THOSE YOU LEAVE BEHIND

When completing the nomination form, it's a good idea to provide the full names of all your intended beneficiaries, so rather than just nominating your children, for example, it makes sense to name them individually. Make sure you have a current copy of your nomination form and keep it in a safe place with your Will and other important documents.

HOW MUCH WILL YOU SPEND IN RETIREMENT?

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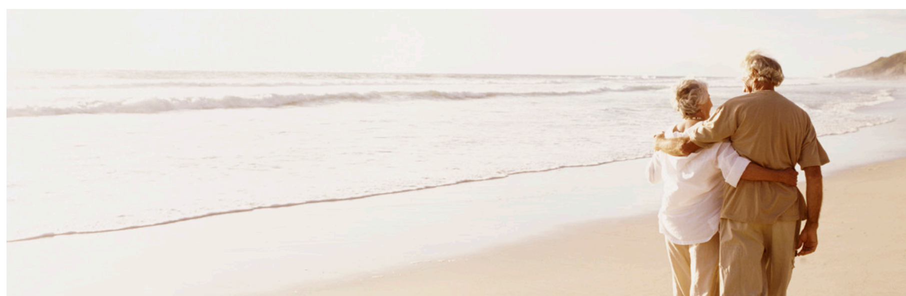
The good news is that, due to the increase in life expectancy in the UK, the average time spent in retirement is currently 22 to 25 years. This means we all have more time to enjoy life, but equally means that we need to think quite carefully how we plan our finances, and budget accordingly.

To enjoy a comfortable old age means doing some in-depth thinking about how much you'll need to spend under a variety of headings such as basic living costs, spending on your family and most importantly, enjoying life to the full.

Consumer magazine Which? recently surveyed thousands of its retired members to see where their money is being spent. They found that households spent on average a little under £2,200 a month or around £26,000 a year[1]. This expenditure covered all the usual basics and provided for a few luxuries such as European holidays, hobbies and meals out. They estimated that if long-haul trips and the purchase of a new car every five years were to be included, the figure would increase to around £39,000.

Everyone has different retirement goals, but here are some commonly-used headings that can be helpful when working out your likely annual expenditure.



SURVIVAL

This heading covers all your likely regular expenditure and running costs. If you've paid off your mortgage, then your living costs will obviously be lower. However, you should still think about how much you'll need to spend on maintenance costs, repairs and refurbishments. If you're renting, and more and more retirees are, you'll clearly need to factor in your rent.

Your utility bills are likely to rise, as you'll probably spend more time at home and need to heat your house for longer. Your travel costs may go down dramatically if you no longer need to factor in the expense of travel to work. However, commuting could give way to more days out and the opportunity to travel further afield.

FREEDOM

Under this heading goes all the likely costs of doing and enjoying all those things that you never had time to do before you retired. So, if you're planning a trip, a major purchase or want to indulge yourself in other ways, this is the amount you feel you'll need.

SAFETY FUND

Typically, expenditure under this heading would include health and later-life care costs, loss of income and any emergency financial help you might want to give your family.

GIFTS

This is the amount of money you may want to pass onto your children and grandchildren during your lifetime. This could include help with education costs or a deposit on a property.

[1] Which?, April 2017

CUT IN MONEY PURCHASE ALLOWANCE RETROSPECTIVE

When the snap general election was called in May, several measures were withdrawn from the Finance Bill pending the outcome. One was the reduction in the money purchase annual allowance from £10,000 to £4,000 a year.

The Treasury has now confirmed the reduction will be back-dated to the start of the current tax year, meaning that those over 55 who have accessed their pension savings will now find that the amount they can contribute to their money purchase pension will be restricted to £4,000. This limit includes tax relief and employers' contributions.

However, in most cases those who have yet to access their pensions savings will still have an annual allowance of £40,000 on which they will continue to be able to claim tax relief, though this allowance is tapered for high earners (£150,000+ per year).

Those most likely to be affected by this move are those still in work who have decided to dip into their pension early. But if they have only taken their 25% tax-free lump sum and nothing else, then this restriction won't apply.

Pensions can be complex, if you'd like advice – get in touch.

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

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

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

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