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Suite 6 | Brewers Yard | Ivel Road | Shefford | Bedfordshire | SG17 5GY
Tel: 01462 815095 | Fax: 0870 3835530 | Email: info@cogentfp.co.uk | www.cogentfinancialplanning.co.uk

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YOUR WINDOW ON FINANCIAL ISSUES

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PENSIONS – MAKE SURE YOU GET COMPREHENSIVE ADVICE

From April 2015, around 320,000 individuals with defined contribution pensions will be able to access their pension savings as they wish, subject to their marginal rate of income tax.

The new pension rules are set to give us all unprecedented freedom when it comes to planning our retirements, but freedom inevitably brings with it responsibilities.

There are many factors that need to be taken into account to ensure a financially-comfortable retirement. No-one wants to risk running out of funds in later life, especially not at a time when they may need to pay for nursing or care services.

GOVERNMENT GUIDANCE

The Government has announced that guidance will be made available to those over 55 or about to retire in a face-to-face interview with their local Citizens Advice Bureau. Alternatively, a telephone service will be provided by The Pensions Advisory Service. There will also be information online at the PensionWise website. However this information is accessed, it will only cover the basic options available on retirement, and will not include personal product or provider recommendations.

In-depth personal advice is, without doubt, the key to a financially-secure retirement. Whilst the Government is offering guidance, guidance and advice are not the same. Everyone approaching retirement deserves the best and most comprehensive advice which looks not only at their pension requirements but at their wider financial planning needs. This should include a review of existing investments and savings, and financial goals, such as passing money on to future generations.

BEWARE THE SCAMMERS

Fraudsters have been quick to seize the opportunities for scams that these pension changes provide. With many policyholders understandably unsure as to what the changes might mean for them, or what the right investment choices for their particular circumstances might be, unscrupulous operators have stepped in to exploit the situation, offering dubious advice and unsafe investments.

The Actuarial Post reported that pension savers are almost three times more likely to receive an approach from bogus or fraudulent operators than they were nine months ago. The various scams currently being promoted try to persuade those about to retire that they can get a better deal by moving money abroad, or by investing in fictitious or unregulated investment schemes.

In addition, many unscrupulous businesses are offering customers the opportunity to 'unlock' their pension for cash before they reach 55, without making them aware of the fees charged for this service which can be as high as 30%, in addition to the 55% tax charge they will incur for taking money from their pension early.

HOW TO PROCEED

It pays to consult an expert adviser. That way, you can avoid paying more tax than you need to, make sure you have a strategy in place to secure your pension into the future, and reduce the risk of running out of cash later in life.

THE BUDGET IN BRIEF

On 18th March, Chancellor of the Exchequer, George Osborne, delivered his last Budget before May's General Election. Here, and on page 4, we highlight some of the headlines.

- Income Tax Personal Allowance rises to £10,800 in 2016/17
- Higher rate threshold will rise to £43,300 in 2017/18
- Transferable tax-allowance for married couples raised to £1,100
- Corporation Tax reduced to 20%
- Self-employed Class 2 National Insurance contributions abolished in next Parliament
- Employer's National Insurance contributions abolished for under-21s
- Tax-free personal savings allowance of £1,000pa from April 2016 for basic-rate payers (£500pa for higher-rate payers)

PENSIONS – PLANNING YOUR RETIREMENT UNDER THE NEW RULES

Much of the recent media coverage surrounding the reform of pension legislation has highlighted the needs of those due to retire in April 2015. However, the revised rules also create new scenarios for those whose retirement is some way off.

As life expectancy rises, many of us can look forward to around 45 years in employment followed by 30 years of retirement, possibly living into our nineties.

THE NEW WORLD OF WORK

The recession changed a number of aspects of our working lives. More companies abandoned their defined benefit pension schemes in favour of defined contribution arrangements. People move jobs more frequently, often having a 'portfolio' career which can include time as an employee and time spent being self-employed.

Against this background, it makes good sense at all stages of your working life to keep an eye on your pension arrangements, especially if you intend to retire before State Pension age. You need to be in a position to answer the following questions:

- When do I want to retire?
- How much will I need in income and savings to fund my lifestyle in retirement?
- Are my plans on track? Am I currently saving enough?

Starting early can have a real impact on the ultimate size of your pension fund. Take the example of someone saving £100 a month for 40 years (25 until 65), whilst they would put away the same amount into their pension pot as someone starting 20 years later putting in £200 a month, the early starter stands to accumulate a much bigger fund. Based on (a projected but not guaranteed) 6% investment growth throughout, the early starter would have a fund of around £190,000 whilst the later starter would have built up around £90,000.

Pensions currently offer generous tax breaks to encourage us all to provide adequately for retirement. If you are a basic-rate taxpayer making a pension contribution, every £100 you pay in will in effect only cost you £80 once income tax relief has been applied. If you are a higher-rate taxpayer, every £100 contributed would cost just £60.

If you haven't looked at your pension plan recently, then arrange to see you your adviser for a review.

HOW TO MEET THE RISING COST OF BRINGING UP A CHILD

The cost of raising a child from birth to age 21 rose by almost £2,000 in 2014, bringing the figure to an eye-watering £230,000 according to research carried out by the Centre for Economics and Business Research in Dec 2014. The increase in cost was largely driven by the continuing rise in childcare fees. The cost of education (to 21) stood at around £75,000, up by 128% since 2003.

So little wonder then that parents and grandparents are thinking ahead and looking for ways to provide cash to help meet these expenses when the time comes.

THINKING AHEAD

If you have sufficient time in hand, you can save tax-efficiently in a Junior Individual Savings Account (JISA). Designed to help parents save for their children's future, tax free, the allowance is £4,080 in 2015-16. Withdrawals can't be made from a Junior Individual Savings Account, so they should be regarded as a long-term investment. Children can gain control of the fund at age 16 and have access at 18, when the account turns into an adult ISA.

You can save through your own ISA and pass the funds onto your child. This route also lets you save more per year than under the Junior Individual Savings Account rules; the allowance for 2015-16 is a generous £15,240.

Alternatively, you could invest a lump sum in shares, bonds or funds. There are many options currently available in the market, so you should consult your adviser for guidance. Writing these investments in trust for the child means that income tax and capital gains tax on any gains is payable by the child and not the parent. If the gain falls within their personal allowance, no additional tax would be paid.

So, if you're planning to provide for a child's future, it pays to get good advice and start making plans as early as possible.

CARE COSTS – WHY IT PAYS TO PLAN AHEAD

It's estimated that one in four of us will require care or nursing support in old age. Whilst pensions and savings will go some way to meeting the bills, many people look set to face a funding shortfall.

Research carried out by the Centre for Economics and Business Research shows that the typical resident of a care home will stay there for two years and four months, and pay on average £69,000 in fees. Meanwhile, a nursing home resident stays for one year and five months, paying on average £57,000 in fees during that period.

If you have very serious and complex health needs, the NHS should pay for your nursing care, but this isn't guaranteed. The government has promised a new social care regime with a cap of £72,000 on the total care cost payable, but even so, the amount of money that may be needed is substantial, as any accommodation element will not be counted within the cap.

BUILD UP A RESERVE

Saving over the years in an Individual Savings Account enables your money to grow free from income tax (except the 10% deducted at source from share dividends) and capital gains tax. The annual allowance is set at £15,240 for tax year 2015-16.

There are also life policies and (insurance investment) bonds available on the market designed to produce a lump sum, or a series of lump sums, to meet fees.

USE YOUR PENSION

Saving extra into your pension to release cash for care at a later date can be an effective strategy, especially given the income tax benefits on contributions and release of funds. Immediate care annuities are an often-used method of providing cash to cover fees.

USING YOUR HOME TO RAISE CASH

Selling your property is a common solution, as is downsizing to a less

expensive property to release capital. With the rise in property prices, more people are using equity release to raise funds for care services and stay on in their own home. Whilst this solution works well for many people, it's important to consider the potential impact there might be on entitlement to state benefits.

Choosing how to fund long-term care is a big decision. Exploring the various options available with your financial adviser will help you make the right choice.

MAKING A CHARITABLE GIFT CAN REDUCE IHT

Leaving money to charity not only helps a deserving cause, but can help cut the inheritance tax (IHT) bill payable by your heirs.

With property prices continuing to rise, more estates are passing the threshold at which Inheritance Tax (IHT) becomes payable (£325,000 in 2015-2016) so it makes sense to make any gifts as tax efficiently as possible.

INCREASING YOUR GIFT

Money left to charity is exempt from IHT. But there is an added benefit in doing so. Leaving at least 10% of the net value of an estate to charity automatically reduces the IHT rate from 40% to 36%, so the gift has the added benefit of reducing the amount of tax payable by your heirs.

As an example, on an estate worth £825,000 after the application of the £325,000 nil rate band, the net estate of £500,000 would be liable to IHT at 40%. Leaving nothing to charity would mean a tax bill of £200,000. The beneficiaries would receive £625,000 in total.

Based on the same example, if 4% of the net estate is left to charity, it would receive £20,000 and the beneficiaries would receive £613,000 in total. But if 10% is left to charity, it receives £50,000 and the beneficiaries still receive £613,000 because of the reduction in IHT to 36%.

OTHER TAX EFFICIENT WAYS TO GIVE

There are other ways to claim tax relief on charitable donations during your lifetime. For instance, if you give land, property or qualifying shares to a charity, or if you sell them to a charity at less than their market value, you can claim income tax relief, as well as getting capital gains tax relief on the gift element.

IHT planning is a complex topic, and therefore seeking expert advice is essential.

FINANCES ON DIVORCE

It's a fact of modern life that as many as 40% of all marriages in the UK end in divorce. The break-up can be a traumatic time for all concerned, and brings with it the need to make financial arrangements that can have ramifications for years after the settlement is made.

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

THE MARITAL HOME

One spouse can buy the other out and keep the house, or the property could be sold and the proceeds divided. But if there are children, a parent will often want to remain there with them. In which case, any existing mortgage arrangements will need to be reviewed, especially as the other partner may wish to buy their own property. It's worth exploring all the options with a mortgage adviser, especially if both parties intend to purchase a property after the divorce.

PENSIONS

Many people think that a pension solely belongs to the party named on the policy, but that's not the case. A pension has to be considered in the division of assets. Pension assets can be apportioned in various ways, by:

- offsetting the value of one spouse's fund by transferring a lump sum, or other assets, to the other spouse
- splitting the pension fund into two separate pensions
- arranging that when a pension comes to be paid, a portion goes to the other spouse.

LIFE POLICIES

A decision will need to be reached as to whether policies are surrendered or retained. If they are retained, you will have to consider if the name on the policy needs to be altered and if the beneficiaries of any life cover need to be changed. If maintenance is payable and funded from the income of one party, it may be appropriate to take out further life insurance in case they die or become incapacitated and unable to continue to make payments.

A CLEAN BREAK

It's important to have a Consent Order in place as part of the divorce settlement. Without one, either side could make further demands for income or assets. This could include demanding a share of any inheritance, lottery win or pay rise.

PLANNING FOR THE FUTURE

Post-divorce, it makes sense to discuss your revised circumstances with your financial adviser. You'll need to reconsider your financial goals and review your mortgage, life insurance, savings and investment plans and you'll need to remake your will. Reorganising your finances is an essential step in moving forward to a new life.

THE BUDGET IN BRIEF

- Withdrawals from ISAs to retain status if replaced in-year
- New 'Help to Buy ISA' with Government adding £50 (max £3,000) for every £200 saved by prospective new home buyers
- Access to value in existing annuities from April 2016
- Lifetime allowance for pension contributions cut from £1.25m to £1m in April 2016, with transitional protection
- National Debt, as a % of GDP, to drop to 71.6% by 2019/20
- Government borrowing, at £150bn in 2010, to become a surplus of £23bn by 2019/20
- GDP forecast to be 2.5% in 2015
- Petroleum Revenue Tax on older fields reduced from 50% to 35%
- Alcohol Tax: Beer down 1p a pint, cider down 2p a pint, spirits down 2%
- Diverted profits tax on multi-national companies to raise £3.1bn