Clocktower
FUND MANAGEMENT

MAY/JUNE 2014

Greater choices for retirees

Fundamentally redesigning the UK private pensions system

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A tax-efficient way to help you minimise the tax you pay

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Financial planning is our business.

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

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

Contact us to discuss your current situation, and we'll provide you with a complete financial wealth check.

INSIDE THIS **ISSUE**

WELCOME

Welcome to the latest issue of our magazine post-Budget 2014.

The Chancellor of the Exchequer, George Osborne, gave his fifth Budget speech to Parliament on 19 March 2014. On page 06 we look at the plans he unveiled for makers, doers and savers. The changes announced are set to redefine financial planning, with the reforms aimed at boosting savings in the long term.

The way we access our pensions has undergone radical transformation and this was a big surprise announcement to come out of the Chancellor's speech. In this issue we have summarised and analysed the potential financial planning impacts on you and your family, as well as highlighting any actions you might now need to take.

Fundamental plans to redesign the UK defined contribution pension system (as opposed to workplace final salary schemes) were announced as part of the Budget 2014 speech. On page 10 we look at why this is the most far-reaching reform to the taxation of pensions since the regime was introduced in 1921, bringing new flexibility to the pensions system.

No one knew back in 1999 how popular Individual Savings Accounts (ISAs) would become but they've established themselves as a core option for saving and investing in a tax-efficient way to help minimise the tax you pay on the proceeds. To find out more about the 'New ISA', turn to page 07.

A full list of all the articles featured in this edition appears on page 03 and opposite.

WE HOPE YOU ENJOY READING THIS ISSUE. TO DISCUSS YOUR FINANCIAL PLANNING REQUIREMENTS OR TO OBTAIN FURTHER INFORMATION, PLEASE CONTACT US.

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Underestimating how long we are likely to live

Making adequate provision for retirement means not running out of money

Women have historically lived longer than men, but this is gradually changing. Life expectancy has continued to increase all round as all generations enjoy unprecedented wealth, better nutrition, healthier lifestyles and the benefits of advancing medical science.

Mortality rates at older ages are thought to be improving because of a combination of factors, including the reduction of circulatory diseases, such as heart disease and stroke, partly driven by changing smoking habits and medical and technological advances.

Approaching retirement age

Research[1] by MGM Advantage shows that 82% of people approaching retirement age are underestimating how long they are likely to live. Men aged 55-64 estimated their average life expectancy to be 81 years old and women in the same age group estimate theirs to be 79.

The figures[2] show that an average 55-64 year-old is expected to live until 86 if they are male and 89 if female, meaning that men could be in retirement five years longer than expected and women for ten.

Changing the pensions landscape

It is important that people have a realistic expectation about how long they are likely to live, so that they can make adequate provision for retirement. Budget 2014 potentially changed the pensions landscape forever, allowing people more freedom and choice with their pensions.

With increased choice comes the risk that individuals may live longer than they anticipated, meaning they could outlive their retirement savings. If you don't plan properly, then the funds built up could be exhausted in later life. This could lead to a decline in living standards and may come at the exact point when you need a regular income for expenses such as care fees. ■

Source data:
[1] MGM Advantage research among 2,028 UK adults, 314 of which were aged 55-64, conducted by Research Plus Ltd, fieldwork 17-22 October 2013. Respondents were asked, 'Being as realistic as you can, approximately how old do you think you'll live until?'
[2] MGM Advantage analysis of ONS cohort estimates of life expectancy - 2012.

Information is based on our current understanding of taxation legislation and regulations. The level of income you receive from your pension plan will depend upon a number of factors including the value of the plan when you decide to take your pension, which isn't guaranteed and can go down as well as up.

TIME TO REVIEW YOUR PARTICULAR SITUATION?

Many retirees are understandably conservative about such matters, so while increased flexibility may have some appeal, you are likely also to want to ensure that you have a long-term guaranteed income. If you are approaching retirement and have concerns about the best way to take your income during retirement, please contact us for more information.

A Budget for makers, doers and savers

The Chancellor of the Exchequer, George Osborne, gave his fifth Budget speech to Parliament on 19 March 2014. He unveiled plans to support economic recovery – including tax breaks to boost productivity, exports and manufacturing.

TIME TO REVIEW YOUR FINANCIAL PLANS POST BUDGET 2014?

The areas around pensions and the new tax-efficient NISAs are very significant. If appropriate to your particular situation, you should review your financial plans immediately. Don't delay. To discuss how the changes announced in Budget 2014 could impact on your financial plans in the future, please contact us for further information. We look forward to hearing from you.

What you need to know – the main talking points

The deficit Mr Osborne announced would be lower than expected this year at 6.6% – and he said the Government was on track to post a surplus of 0.2% in 2018/19, according to the Office for Budget Responsibility (OBR) forecasts.

This was a Budget billed for makers, doers and savers. The changes announced are set to redefine financial planning, with the reforms aimed at boosting savings in the long term. These reforms included the amount people can earn before tax going up by £500 to £10,500. There was an increase to the annual Individual Savings Account (ISA) allowance for 2014/15 from £11,880 to £15,000, from 1 July this year, which will combine Cash and Stocks & Shares allowances into a New ISA (NISA).

The Chancellor announced a series of radical reforms to the pension system, giving people unprecedented freedom over how they draw their pension. From April 2015, anyone who is aged 55 or over will be able to take their entire pension fund as cash – although only the first 25% will be tax-free. The remaining 75% of the fund will be taxed at the saver's marginal rate.

Pensioners will be able to drawdown as much or as little of their pension pot as they want, anytime they want. No caps. No drawdown limits. No one will have to buy an annuity.

AT A GLANCE

- **New ISA –** Cash and Stocks & Shares Individual Savings Account (ISA) to be merged into a single new NISA
- **Increased ISA allowance –** annual ISA allowance to be increased to £15,000 from 1 July 2014
- **Increased Junior ISA allowance –** annual allowance to be increased to £4,000 from 1 July 2014
- **Pension flexibility –** greater access to pension pots and no requirement to buy an annuity.
- **Savings –** 10p tax rate for savers to be abolished from April 2015
- **NS&I Pensioner Bonds –** launch of a choice of two fixed-rate, market-leading savings bonds for over-65s, available from January 2015

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. The Financial Conduct Authority does not regulate Tax Advice, Cash ISAs and National Savings and Investments.

New tax year, new ISA allowance

A tax-efficient way to help you minimise the tax you pay

No one knew back in 1999 how popular Individual Savings Accounts (ISAs) would become but with £443 billion[1] now held in ISAs, they've established themselves as a core option for saving and investing in a tax-efficient way to help minimise the tax you pay on the proceeds.

A NISA way to save or invest

Alongside the major reforms announced in Budget 2014, from 1 July 2014 ISAs will be reformed into a simpler product, the 'New ISA' (NISA), with an overall limit of £15,000 per tax year. The Government is also abolishing the rule that says only half can be saved in cash.

The limits for Junior ISAs and Child Trust Funds are also to be raised from £3,720 to £4,000.

NISA limits

- From 1 July 2014, the overall New ISA (NISA) limit for 2014/15 will be £15,000, up from the current £11,880
- The NISA will also offer you the option to save your whole NISA allowance of £15,000 in cash, stocks and shares, or any combination of the two

For example, from 1 July you could choose to save or invest:

- £15,000 to a Cash NISA and nothing to a Stocks & Shares NISA
- £15,000 to a Stocks & Shares NISA and nothing to a Cash NISA
- £5,000 to a Cash NISA and £10,000 to a Stocks & Shares NISA
- £10,000 to a Cash NISA and £5,000 to a Stocks & Shares NISA – under the new rules you will be able to split the NISA allowance as you wish between a New Cash ISA and New Stocks & Shares ISA

Transferring existing savings from a Stocks & Shares NISA to a Cash NISA

From 1 July 2014, any money you have in a Stocks & Shares NISA can be transferred to a Cash NISA. You should not withdraw sums from your Stocks & Shares NISA in order to deposit it into a Cash NISA yourself. If you do, any amount that you pay in will count as a fresh payment against the overall NISA limit of £15,000.

Different transfer rules will apply, depending upon when you paid into your Stocks & Shares account but if you put money into your Stocks & Shares account between April and July 2014, this sum must be transferred as a whole.

Other amounts from previous years may be transferred as a whole or in parts, as you wish; however, not all ISA providers will allow part transfers. ■

Source data: [1] www.hmrc.gov.uk/statistics/isas/statistics.pdf

The value of investments can go down as well as up and you may not get back the amount invested. The value of tax savings in an ISA depends on individual circumstances. 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.

Junior ISAs are only available to UK resident children under 18 who do not have a Child Trust Fund (CTF). Please note that if your child was born between 1 September 2002 and 2 January 2011 the Government would have automatically opened a CTF on your behalf, so your child will not be eligible for a Junior ISA. The investment is locked away until the child reaches 18 years old.

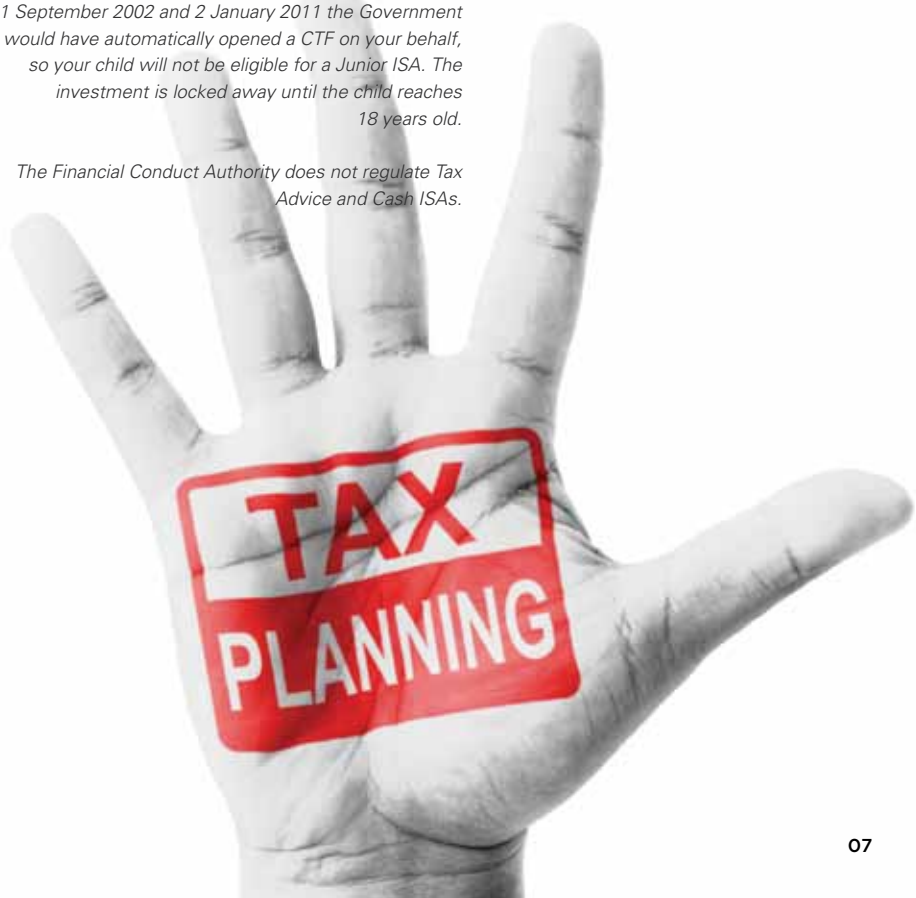
The Financial Conduct Authority does not regulate Tax Advice and Cash ISAs.

DID YOU KNOW?

You are able to open one Cash NISA and one Stocks & Shares NISA each tax year. However, once open, you can transfer your Cash or Stocks & Shares NISA between providers as many times as you wish. Annual NISA allowances are aligned with the tax year, from 6 April to 5 April.

WHY PAY TAX ON YOUR SAVINGS AND INVESTMENTS IF YOU DON'T NEED TO?

Whether you're new to ISAs or looking to grow your ISA portfolio, we can help. Please note that amounts invested between 6 April and 30 June will count towards your increased £15,000 allowance for the 2014/15 tax year which will be introduced on 1 July. To discuss the options available, please contact us.



MIND THE SAVINGS GAP

Having a plan for the future can make the present feel less stressful

The number of people in the UK with no savings at all has risen year-on-year from eight million to over nine million, or 1 in 5 of the UK adult population, according to the 2014 Scottish Widows Savings Report. This brings the proportion of people who have savings (67%) down to a level not seen since 2011.

ACHIEVING FINANCIAL WELL-BEING AND SECURING YOUR FUTURE

Having a plan for the future can make the present feel less stressful as it provides you with the knowledge that you have a helpful buffer for any unexpected events that may come your way. It's also essential to achieving financial well-being and securing your future. There are many different ways of accumulating wealth for your future. To discuss how we can help you, please contact us.

Saving less

The total number of people who are managing to save something has dropped from 14.8 million to 14.4 million (31% and 30% of the adult population respectively), and more than half (54%) of those surveyed said they were saving less than they did two years ago.

The report found that family pressures are continuing to have a big impact on people's ability to save for the future. 41% of the population said they had loaned 'a substantial amount' of money to family members. A quarter of people had lent money to their children, most commonly to cover living expenses (35%), to put towards a house deposit (34%) or to pay off debt (28%).

Lending money

The study found that lending to family members had a serious effect on parents' and grandparents' finances: a quarter (23%) of all parents and grandparents said they were saving less as a result of lending money to family members, and a fifth (17%) said they had to cut back on day-to-day living costs due to family lending.

Perhaps as a result of family pressures from generations above and below, those in the middle age bracket were found to be least likely to be saving anything at all. 1 in 4 (24%) 35-44 year-olds have no savings whatsoever, the highest of any age bracket, and those aged 35-44 years old and 45-54 years old had the lowest proportion of people who said they were saving at the moment (34% and 35% respectively).

Major contributor

Debt was found to be a major contributor to this middle age group's inability to put money away for the future – a third of 35-44 and 45-54 year-olds (33% and 30% respectively) said they would be encouraged to save more were it not for the debt they currently owe.

It is concerning that despite economic improvements, the number of people who are able to set something aside for a rainy day is actually falling. The widening gap in fortunes between savers and non-savers highlights the impact that getting on the path to saving can have, even if it is just by putting aside a small amount every month.

Short-termism

The research clearly shows that many people are still only thinking in the short term. For instance, worryingly, almost half of the people surveyed said they still prefer to spend their money rather than save, and almost two thirds said they know they are not saving sufficiently for their long-term needs. This problem is exacerbated by family pressures that eat further into people's savings, particularly for those in the middle age groups. ■

Source data: The survey was carried out online by YouGov who interviewed a total of 5,221 adults between 30 October and 8 November 2013. The figures have been weighted and are representative of all UK adults (aged 18+). The statistics used (8 million, 9 million, 14.8 million and 14.4 million) are based on the 2011 Office of National Statistics (ONS) Census results whereby the UK adult population is stated to be 48.084 million.

Unhappy headlines for savers

Higher returns generally come with higher risk

It seems incredible that the Bank of England base rate has stood at 0.5% since March 2009. It's made unhappy headlines for savers looking to generate income over the previous five years.

The reality is that the potential for higher returns generally comes with higher risk. All investments are not equal, and knowing what to invest in, when to invest in it and how much to invest are difficult questions to answer. That why it's essential to receive professional advice to assess the different options available to you.

The golden rule about not putting all your eggs in one basket is essential – in more ways than one.

Collective investment schemes

One way to gain access to a wider range of assets is to use a collective investment scheme. This allows you to pool together your contributions, and to share the costs and benefits of investing. Typically these collective investments will include unit trusts and investment trusts.

Active and passive investing

Investment funds are either actively or passively managed. In an active fund, the manager uses their skills to pick the best performing stocks to try to beat the index that they belong to. A passive fund simply tracks the index and seeks to match its performance as closely as possible.

It's important to consider your attitude towards risk and the investments required to help plan for your goals and as your life changes. While you are aiming to beat inflation and achieve the returns you are looking for, you need to think about where you are putting your money.

If you are looking for income or growth, you don't want that to be eroded by tax – so make the most of tax-efficient savings such as an Individual Savings Account, for example. You can also invest in your pension, which has a number of tax benefits. Other products such as offshore bonds, if appropriate, can also offer tax benefits in certain circumstances. ■

The value of investments and the income from them can go down as well as up and investors may not get back the amount invested. This information does not constitute investment advice and should not be used as the basis of any investment decision, nor should it be treated as a recommendation for any investment.

FINDING THE BEST STRATEGY

A number of factors should be considered before deciding on what kind of investment is most suitable for you. These include the purpose of the investment, the length of time your money can be tied up and your attitude towards risk. As all investments carry some degree of risk, we recommend that you seek professional advice to find the best strategy to achieve your long or short-term goals. To see how we could help you, please contact us to discuss your requirements.

Greater choices for retirees

Fundamentally redesigning the UK private pensions system

Fundamental plans to redesign the UK defined contribution pension system (as opposed to workplace final salary schemes) were announced as part of the Budget 2014 speech. This is the most far-reaching reform to the taxation of pensions since the regime was introduced in 1921, introducing new flexibility to the pensions system.

By further relaxing the rules around income withdrawals from pension funds, which will be introduced from April 2015, people will have greater flexibility and choice about how they can access their money. Those who want to guarantee a regular income for life will still be able to purchase an annuity of course.

Taking pension savings

This announcement means that people will be in a position to choose how they take their pension savings: for example, they could take all their pension savings as a lump sum, draw them down over time or buy an annuity.

The Government also intends to explore with interested parties whether those tax rules that prevent individuals aged 75 and over from claiming tax relief on their pension contributions should be amended or abolished.

In the meantime, as a first step towards this reform, a number of changes have been announced to the rules. These came into effect from 27 March and now allow people greater freedom and choice over accessing their defined contribution pension savings at retirement. The changes are:

- reducing the amount of guaranteed annual income people need in retirement to access their savings flexibly, from £20,000 to £12,000
- increasing the amount of total pension savings that can be taken as a lump sum, from £18,000 to £30,000
- increasing the capped drawdown withdrawal limit from 120% to 150% of an equivalent annuity income
- increasing the maximum size of a small pension pot which can be taken as a lump sum (regardless of total pension wealth) from £2,000 to £10,000 and increasing the number of personal pots that can be taken under these rules from two to three

MAKE THE MOST OF YOUR PENSION POT

This radical announcement to give retirees more choice as to how they take the income from their pension fund will mean that other options may now be given more consideration. These changes make it even more important for those approaching retirement to seek professional advice in order to make the most of their pension pot. If you would like to find out how the changes could affect your future retirement plans, please contact us.

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of and reliefs from taxation are subject to change. Tax treatment is based on individual circumstances and may be subject to change in the future.

Why we are happy to work past the default retirement age

New living patterns require retirement income solutions that offer greater flexibility

More than half of over-55s currently in the workforce are happy to work past the default retirement age of 65, according to new research[1] from MetLife.

Its nationwide study found 54% of those aged 55 and over who are currently in jobs want to keep working when they get to 65. However, one in four wants to reduce their hours and work part-time either in their current job or with a new employer.

Appropriate advice

The study found nearly one in five (19%) of those aged 55 and over regret not having taken professional advice on their retirement income planning while 29% say they have taken such advice. That leaves more than two fifths who have not taken any advice.

As life expectancy is rising and working lives are getting longer, the demands on retirement income have evolved and the demand for part-time working reflects that. New living patterns require retirement income solutions that offer greater flexibility to ensure sufficient income will be provided in later life.

Income choices

The research shows that people are not taking, or getting, the sound professional financial advice that is central to their ability to make the right retirement income choice.

In addition, the research shows that those aged 55 and over who want to carry on working full-time overwhelmingly want to stay with their existing employer – more than 90% say they want to continue in their current job. On the other hand, those who want to work part-time are more likely to switch to a new employer – nearly 60% would move to a new part-time role. ■

Source data: [1] Research conducted online by Consumer Intelligence among 2,065 adults between 7-14 August 2013.

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. Tax treatment is based on individual circumstances and may be subject to change in the future.

A continuing role for annuities

Peace of mind for a lifelong secure regular income

A huge reform of the defined contribution pension system (as opposed to workplace final salary schemes) announced in Budget 2014 means that under the proposals, from next year, millions of people reaching retirement age will be able to spend their pension pot in any way they want.

The pension reform proposals are set to come into force in April 2015 and they will provide a wider choice over how you eventually use your accumulated pension pot.

Given the significance of these changes, there is still however a continuing role for annuities, especially where you seek the peace of mind for a lifelong secure regular income.

Thinking about retirement?

Covering a minimum level of living costs and regular outgoings – for life

An annuity provides a fixed, guaranteed income, however long you live for. As part of your retirement planning, if you favour income drawdown you may still want to purchase an annuity to cover a minimum level of living costs and regular outgoings. It is important that you shop around for the best annuity rates to ensure that you are able to benefit from the highest retirement income available for life.

A pension annuity converts the funds built up in your pension scheme(s) into a regular income. The income is then payable for the rest of your life. So why would you still consider an annuity as part of your retirement plans?

Qualifying for an enhanced annuity

A significant number of people at retirement could qualify for an enhanced annuity. These typically offer rates from between 15% to 20% higher on average than a standard annuity if you are suffering from certain specified health or even lifestyle conditions. This could make them very attractive if you are seeking the maximum guaranteed income throughout your life.

Security and reassurance

With an annuity, the income is guaranteed, regardless of market movements, how long you live for or any changes in your circumstances. This can provide security and reassurance for you during your retirement.

Unlike many other investment products, the quoted rate has no ongoing costs, fees or charges deducted. In addition, annuities are simple to understand, and do not need to be reviewed or managed on an ongoing basis. Once the annuity is set up, there is nothing more for you to do. A fixed payment is made to your bank account each and every month, for the rest of your life.

Tax matters

If you were born between 6 April 1938 and 5 April 1948 the personal allowance is currently £10,500 (2014/15 tax year). This means that in retirement you could potentially pay less or actually no income tax. Taking your entire pension fund as a lump sum before you have considered all of your options could result in a significant tax bill. In addition, you may also potentially pay more tax than necessary on your future income. Withdrawing the fund as cash, apart from the 25% tax-free element, could generate a tax charge. Annuities are purchased gross, so no tax is payable on the fund when it is used to buy your annuity.

Tax is subject to change and depends on individual circumstances.

The Financial Conduct Authority does not regulate Tax Advice.

Scheme guarantees

Regulatory capital requirements mean annuity providers have to be financially robust and well capitalised. In the unlikely event that a provider cannot meet their obligations, a Government-backed scheme guarantees to pay 90% of the amount promised. ■

Information is based on our current understanding of taxation legislation and regulations. The level of income you receive from your pension plan will depend upon a number of factors including the value of the plan when you decide to take your pension, which isn't guaranteed and can go down as well as up.

THE PENSION REFORM PROPOSALS ARE SET TO COME INTO FORCE IN APRIL 2015 AND THEY WILL PROVIDE A WIDER CHOICE OVER HOW YOU EVENTUALLY USE YOUR ACCUMULATED PENSION POT.

HELPING YOU CHOOSE THE RETIREMENT INCOME OPTIONS

We each have our own ideas about how we want to live in retirement, and how much money we'll need. You may be at the point of retiring or just reducing the amount of time you are at work. If so, you may also want to access the pension you have built up and convert it into an income. Setting up an annuity is easy and straightforward, enabling your income needs to be met with no need for ongoing support or advice. To find out more about annuities and the vital role they could still play in effective retirement planning, please contact us to discuss your requirements.

You've protected your most valuable assets.

But how financially secure are your dependents?

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

Contact us to discuss how to safeguard your dependents, wealth and assets, don't leave it until it's too late.

Generating a retirement income

Taking on the risk of managing your own pension

New research[1] from MGM Advantage shows the risk people are willing to take managing their own pension savings. 28% of the over-55s said they were not comfortable taking on the risk of managing their own pensions to provide a suitable income throughout retirement.

The research shows that only 26% of adults aged 55 and over are very comfortable managing their own pension savings and 41% are somewhat comfortable, while 5% don't know.

Cause for concern

A key concern for adults aged 55 and over who aren't comfortable managing their own pension savings is the thought of running out of money. Two thirds (69%) said running out of money in retirement is a cause for concern, while making poor choices when investing and the consequences of this were an issue for 64% of adults in this age group. One in two said budgeting for the whole of retirement is a reason to be concerned, as is assessing how long they would live and therefore need to plan for.

Maximise pension savings

From this research we can see that although many people are comfortable managing their own money to provide a suitable income throughout retirement, almost one in three are not. People approaching retirement will have to make some crucial decisions about how they can maximise the pension savings they have. With the welcome increased choice and flexibility comes more complexity. This is where receiving financial advice will be key. ■

Source:
[1] All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,470 UK adults aged 18+ of which 908 were adults aged 55 and over. Fieldwork was undertaken between 24-25 March 2014. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

> **A KEY CONCERN FOR ADULTS AGED 55 AND OVER WHO AREN'T COMFORTABLE MANAGING THEIR OWN PENSION SAVINGS IS THE THOUGHT OF RUNNING OUT OF MONEY.**

THE BEST WAY TO MANAGE YOUR PENSION SAVINGS

If you are approaching retirement and have concerns about the best way to take manage your pension savings, please contact us for more information. We look forward to hearing from you.

'Save smart'

Focused on managing costs

We're becoming increasingly good when it comes to cost cutting, according to the latest findings of an annual online survey from long-term savings and investment specialist Standard Life by YouGov PLC.

Today, more than 9 out of 10 of us (92%) actively manage our costs to make our money go further. There has been a strong growth in the number of people reviewing phone tariffs, internet tariffs and utility providers, and these days more people are looking online to find the best deals.

Controlling costs

More young people in particular have taken steps to actively control their costs in the past year. 42% more under-25s are regularly reviewing their phone and internet tariffs to save money, and 33% more are making sure they pay off their credit cards each month.

Meanwhile, 21% more people aged 55 and over report that they set themselves a weekly or monthly budget. However, as a nation, the number of people budgeting has declined by 5% this year.

Potential for higher returns

While most Britons are busy cost-cutting – buying things second hand, reviewing insurance premiums, budgeting and ensuring they get the best deals all round – those who are 'saving smart' by using an Individual Savings Account (ISA), either a Cash ISA (41%) or a Stocks & Shares ISA (11%), remain in the minority. Even fewer say they plan to actively save in a Cash ISA (38%) or a Stocks & Shares ISA (9%) this tax year.

From July this year, you will be able to save up to £15,000 in the New ISA, and you will also be able to transfer ISA savings freely between cash or stocks and shares. Therefore, rather than putting all of our money away in a savings account, you now have a chance to save smart with even more of your money. The higher ISA limit also increases the opportunity you have to invest in stocks and shares tax-efficiently, with the potential for higher returns than if you keep everything in cash.

Helping you 'save smart':

1. Use as much of your ISA allowance as possible each tax year. Between 6 April and 1 July, there are temporary limits of £5,940 for Cash and £11,880 for Stocks & Shares ISAs. After this, the new ISA (NISA) rules apply and you will have the chance of greater tax-efficient growth over the longer term by being able to invest £15,000 each tax year.

2. Always hold some money in cash to cover your outgoings (such as your rent, mortgage, food and utilities) in case of emergencies, before looking to invest for the longer term. But make sure you are getting the best interest rate on your cash by looking at both savings accounts and Cash ISAs.

3. If you are dipping your toe in the stock market for the first time, you should obtain professional advice when it comes to choosing funds for a Stocks & Shares ISA.

4. The important thing is to think about how much risk you are willing to take. You may also want to consider 'risk-managed funds', which have been growing in popularity with some investors. They provide you with a diversified portfolio that is managed for you, with the aim of providing the best possible return, in line with your chosen level of risk. ■

Tax rules and legislation can change and the information given here is based on our understanding of law and current HM Revenue & Customs practice. The value of an investment can fall or rise, so you may not receive back the amount you invested.

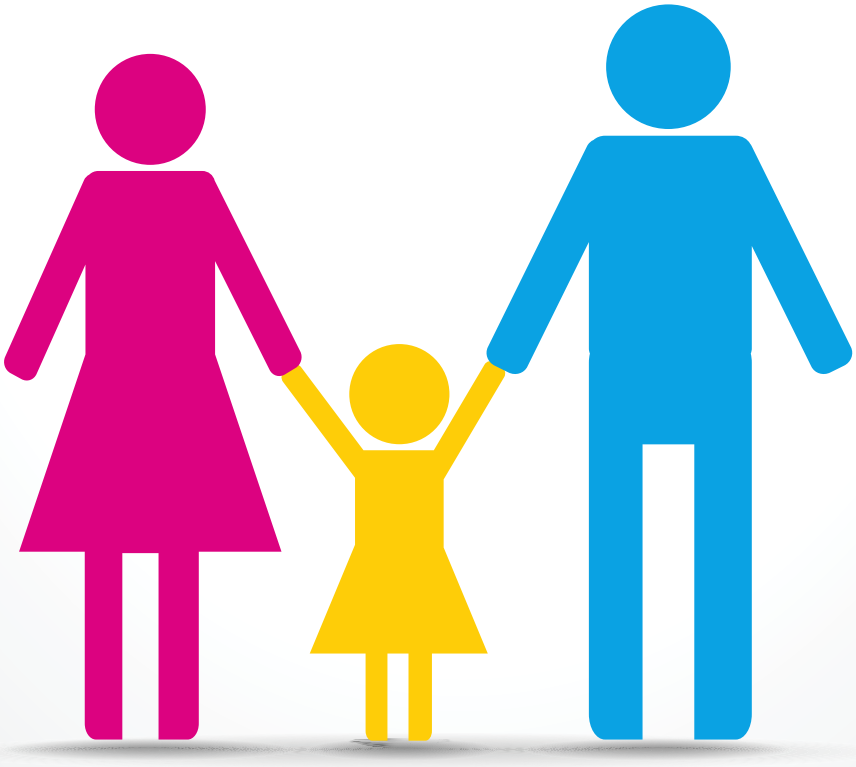
Source:
All figures, unless otherwise stated, are from YouGov Plc. Total sample size for the 2014 survey was 2,591 adults, 2009 adults in 2013 and 2,004 adults in 2012. Fieldwork was undertaken between 5–7 March 2014, 25–28 January 2013 and 23–27 February 2012. The surveys were carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

"MORE YOUNG PEOPLE IN PARTICULAR HAVE TAKEN STEPS TO ACTIVELY CONTROL THEIR COSTS IN THE PAST YEAR. 42% MORE UNDER-25S ARE REGULARLY REVIEWING THEIR PHONE AND INTERNET TARIFFS TO SAVE MONEY, AND 33% MORE ARE MAKING SURE THEY PAY OFF THEIR CREDIT CARDS EACH MONTH."

First-time parents

Preparing for the arrival of your first baby

First-time UK parents spend more than £492 million[1] each year preparing for the arrival of their first baby, according to research from Aviva. This equates to £1,619 per family and shows a 17% increase to the £1,389 total in March 2012[1].



Essential purchases

The new study of 2,000 recent parents found that this is the average amount spent on baby essentials such as prams, baby clothes, cots, car seats and nappies, as well as other nice-to-haves like nursing chairs and mum-to-be treats[1].

However, six out of ten parents admit that, with hindsight, they had bought things that they either didn't use or could have done without. The most common 'unnecessary' items were revealed as mum-to-be toiletries (14%), Moses baskets (13%) and baby slings (12%).

In addition, more than a quarter of expectant or new parents (27%) said they bought or changed their car, with an average spend of £5,298 (up from £2,658 in 2012). A further one in five (20%) moved to a bigger house, with the majority paying around £40,000 in the process, but with one in seven movers spending more than £150,000 to upsize.

The study also showed a worrying proportion of new parents could be risking their children's financial futures by skimping on life cover, with just one in five saying they'd taken out life insurance or reviewed their protection needs at this time. New parents were twice as likely to start a savings account for their new arrival, with two out of five (38%) saying they'd taken this step.

Protecting your children

New parents are shown to be rightfully vigilant at protecting their children against risks within the home. A third (33%) of new parents install life-saving smoke alarms and over a quarter (31%) fit carbon monoxide monitors. Stair gates are a must-have for over half of new parents (53%), and four in ten fit safety catches on kitchen cupboards. Many, however, are not considering the importance of also protecting their family's financial future.

The data shows that almost two thirds (64%) of families have no life insurance in place, and the typical family only has £2,773 in savings[2] which, without any other income, would last less than two months on average. Yet if a 'typical' family paid £15 a month on a standard life insurance policy for both parents for 18 years, they could receive more than £224,000 tax-free if a parent died or was diagnosed with a terminal illness within that period[3].

Planning for the unexpected

It's only natural that people want to give their baby the best of everything, particularly when they're about to become parents for the first time, but it's also important to think about planning for the unexpected. Life insurance should be seen as just as much an essential as the pram or the car seat, as it's there to protect your loved ones' futures. ■

Source:
[1]Aviva research, conducted by One Poll, among 2,000 parents with children under five in April 2014.

[2]The Aviva Family Finances Report, December 2013.

[3]Aviva Standard Life Cover on a level term plan for a husband and wife aged 28 (the average age of first-time mothers in the UK), non-smokers, with monthly premiums of £15 over an 18-year period, information correct on 15 April 2014. Amount of cover purchased: £224,224 if either parent were to die or be diagnosed with a terminal illness within the term of the plan. Aviva life insurance includes terminal illness benefit. This means we pay the policyholder a guaranteed lump sum if he or she is diagnosed with a terminal illness and is not expected to live more than 12 months.

[4]Terms and conditions apply.

"THE STUDY ALSO SHOWED A WORRYING PROPORTION OF NEW PARENTS COULD BE RISKING THEIR CHILDREN'S FINANCIAL FUTURES BY SKIMPING ON LIFE COVER, WITH JUST ONE IN FIVE SAYING THEY'D TAKEN OUT LIFE INSURANCE OR REVIEWED THEIR PROTECTION NEEDS AT THIS TIME."

PEACE OF MIND OF KNOWING YOUR FAMILY WILL BE PROVIDED FOR

Most new parents admit they've spent money on items they didn't need or never used. Life insurance is of course another thing that people hope they'll never have to make use of, but the peace of mind of knowing your family will be provided for, should the worst happen, is absolutely invaluable. To discuss how we can help you, please contact us today.

Isn't it time you had a financial review?

We'll make sure you get the right advice for your individual needs.

We provide professional financial advice covering most areas of financial planning, including, tax-efficient savings, investment advice, retirement planning, estate & inheritance tax planning, life protection, critical illness cover and income protection.

To discuss your options, please contact us.

Measuring our appetite for risk

More than twice as many men choose the highest possible risk option to boost their savings compared to women

Findings recently published in the Zurich Wealth Risk Report show that more than twice as many men choose the highest possible risk option to boost their savings compared to women (13% vs 6%)[1].

The study, tracking investor attitudes and behaviour, questioned consumers about their willingness to take risk and capacity to accept a loss on their investments. It found that although people's attitude to risk tends to shift very little throughout their lives, their overall appetite for risk will change. This is influenced by a wide range of factors, including age, location, use of advice and life stages such as marriage.

Gender breakdown

Four different investment types have emerged from the study. Men make up the majority of the groups with a higher appetite for risk, but when it comes to the lower risk groups, the split is less defined, as shown below in the gender breakdown within each investment type:

- Stags, opting for the highest risk option – 76% men vs 24% women
- Bulls, willing to take high risk – 65% men vs 35% women
- Owls, sticking to a low-risk portfolio – 55% men vs 45% women
- Squirrels, playing it safe – 54% women vs 46% men

Higher levels of risk

It also seems that the wealthier a man is, the more likely he is to be a Stag – with 15% of those with investable assets worth over £100k or more opting for higher levels of risk compared to just 1% of women from the same group.

In addition, age appears to impact on our appetite for risk. While the findings show that we're more willing to take risk when we're younger – with one in five Stags being under 35 – this falls over time to just 4% of 65–69 year-olds. However, the percentage of Stags leaps threefold to 12% when investors hit 70, suggesting a higher level of disposable wealth and higher capacity for risk.

Risk attitude shift

It is particularly interesting to see the shift in risk attitude for investors over the age of 70, although this may reflect the fact that they generally have fewer financial responsibilities with mortgages paid off and no dependents living at home – which in turn is likely to have an impact on their levels of disposable income and their view of higher-risk investments.

The findings also highlight the fact that while attitude to risk is likely to remain static throughout our lives, our ability to take risk differs depending on life stage and our personal circumstances. ■

Source:
[1]This is based on research commissioned by Zurich for NMG Consulting to conduct 1,000 online interviews with investors with savings and investments worth £10k or more. 24 September–4 October 2013

Tax rules and legislation can change and the information given here is based on our understanding of law and current HM Revenue & Customs practice. The value of an investment can fall or rise, so you may not receive back the amount you invested.

"IT IS PARTICULARLY INTERESTING TO SEE THE SHIFT IN RISK ATTITUDE FOR INVESTORS OVER THE AGE OF 70, ALTHOUGH THIS MAY REFLECT THE FACT THAT THEY GENERALLY HAVE FEWER FINANCIAL RESPONSIBILITIES WITH MORTGAGES PAID OFF AND NO DEPENDENTS."

ACHIEVING YOUR SAVINGS GOALS

To help understand your attitude to risk and achieve your savings goals, please contact us for further information.

Spending on luxuries in retirement

The reality of living on a pension is taking new retirees by surprise

The reality of living on a pension is taking new retirees by surprise, with many under-budgeting their first five years of retirement and overspending by an average of £6,500, according to LV=. This is leading to a surge in older retirees taking out new credit or extending previous credit commitments.

Amongst pensioners six years or more into their retirement, 33% have taken out a credit card, one in 10 (10%) have taken out a loan and a similar number (9%) have not yet paid off their mortgage, according to the research.

New-found freedom

The average new retiree aged 65 to 70 – typically the first five years of retirement – will make the most of their new-found freedom and dip into their nest eggs to the tune of almost £33,000 on 'non-essential purchases', such as electronic goods, foreign holidays, going to the theatre and eating out. This is almost £900 more a year than the current State Pension pays out. This means that the average savings pot of a retiree (£38,000), excluding any pension, will last just six years, despite the average retirement lasting 17 years.

During the average year, a new retiree will spend £1,280 on holidays[2], £1,814 on recreational activities including going to the theatre and museums[3], and £900[4] on dining out as they make the transition to a life of leisure. In fact, in the first five years of retirement, the average person will spend 20 nights of the year on holiday – a significantly higher number of nights than any other age group, according to the Living Costs and Food Survey (LCF) which collects information on spending patterns and the cost of living by age, carried out by the Office of National Statistics.

When interviewed by LV=, a fifth of people (22%) over 50 and still working say that they will take a luxury holiday when they retire, 15% will purchase a new vehicle, 12% will take a cruise, 8% will pay for property renovation and one in twenty (5%) plan to buy a property abroad.

Yet this spending could leave retirees at risk of having little money left for their later years, forcing them into a life of frugality. Almost a third (32%) of retirees entering their sixth year of retirement said they have had to significantly cut down on spending to avoid running out of their savings, and more than a third (34%) worry that they will run out of savings. One in five (20%) strongly regret overspending during their first few years of retirement.

Financial flexibility

This peak in spending is in part thanks to many retirees prioritising 'having a good life and having as much fun as possible' (32%), believing they have earned the right to spend after working for many years. As many as one in ten retirees buy themselves a 'retirement' present, and one in five (22%) say they simply want to treat themselves.

While retirees started to wind down once they left work in previous years, today's retirees quite rightly want to make the most of the free time they suddenly have. It's great to see that people are enjoying themselves in retirement; however, these numbers highlight the need for retirees to ensure they have financial flexibility in retirement. The average retirement is now 17 years – much longer than past generations – meaning that their lifestyle and associated costs are likely to change over this period. For this reason, it is important that they consider structuring their income in a way that allows them to adapt to their changing needs. ■

Source:
All research unless stated otherwise was conducted by Nelson Research for LV=. Original survey data was used in conjunction with The Wealth & Assets Survey 2012, extrapolated to 2013 on basis of 2006–2010 trends, the Expenditure and Food Survey 2011–2012 extrapolated to 2013 on basis of 2008–2011 trends, the Institute Fiscal Studies, house prices 2005–2013.

Additional research was conducted by Pure Profile Research. Pure Profile questioned 2,003 adults online aged 50–80 in GB in February 2014.

[1]Expenditure and Food Survey also known as the Living Costs and Food Survey (LCF), ONS 2011 extrapolated to 2013 on basis of 2008-2011 trends
[2]Includes the average cost spent on foreign holidays and UK holidays based on two retirees going together, according to the Expenditure and Food Survey or LCF 2011–2012 extrapolated to 2013 on basis of 2008–2011 trends
[3]Includes the average cost spent on recreational services, books equipment for sport, according to the Expenditure and Food Survey or LCF 2011–2012 extrapolated to 2013 on basis of 2008–2011 trends
[4]Includes the average cost spent on alcohol, eating out and drinking out based on two retirees dining together, according to the Expenditure and Food Survey or LCF 2011–2012 extrapolated to 2013 on basis of 2008–2011 trends

"AMONGST PENSIONERS SIX YEARS OR MORE INTO THEIR RETIREMENT, 33% HAVE TAKEN OUT A CREDIT CARD, ONE IN 10 (10%) HAVE TAKEN OUT A LOAN AND A SIMILAR NUMBER (9%) HAVE NOT YET PAID OFF THEIR MORTGAGE, ACCORDING TO THE RESEARCH."

STRUCTURING YOUR RETIREMENT INCOME

There are many ways that someone can structure their retirement income. As no two retirees' situations are the same, we would encourage those approaching retirement to seek professional financial advice to ensure they are able to make the most of their savings and pension funds by selecting the best solution for them. To see how we could help you, please contact us today.

Working past the default retirement age

Adapting to changes in working patterns

More than half of over-55s currently in the workforce are happy to work past the default retirement age of 65, according to new research from MetLife[1].

Its nationwide study found 54% of those aged 55 or over who are currently in jobs want to keep working when they get to 65. However, one in four want to reduce their hours and work part-time, either in their current job or with a new employer.

New thinking on pensions

The demand for part-time work appears to highlight the need for changes in retirement income solutions to enable people to adapt to new working patterns and reductions in income. Solutions could include the use of deferred income guarantees, enabling savers to plan ahead for retirement and guaranteeing a level of income.

The nationwide study found nearly one in five (19%) of those aged 55 or over regret not having taken financial advice on their retirement income planning, while 29% say they have taken financial advice. However, that leaves more than two fifths who have not taken any advice.

New living patterns

As life expectancy is rising and working lives are getting longer, the demands on retirement income have evolved, and the demand for part-time working reflects that. New living patterns require retirement income solutions that offer flexibility to ensure sufficient income will be provided in later life.

However, the research also shows that people are not taking or getting the advice they need to adapt. Sound independent financial advice is central to people's ability to make the right retirement income choice.

The research shows those aged 55 or over who want to carry on working full-time want to stay with their existing employer – more than 90% say they want to continue in their current job. However, those who want to work part-time are more likely to switch to a new employer – nearly 60% would move to a new part-time role. ■

Source:
[1]Research conducted online by Consumer Intelligence among 2,065 adults between 7-14 August 2013

"ITS NATIONWIDE STUDY FOUND 54% OF THOSE AGED 55 OR OVER WHO ARE CURRENTLY IN JOBS WANT TO KEEP WORKING WHEN THEY GET TO 65."

TAKE THE TIME TO REVIEW YOUR PENSION

The closer you get to your retirement, the more important your pension fund becomes. Having said that, even if you have 10 or 15 years to retirement, you should always take the time to review your pension, as it could be worth a substantial amount more over the years by doing this. For more information, please contact us.

Achieving a comfortable retirement.

Do you need a professional assessment of your situation to make this a reality?

If you are unsure whether your pension is performing in line with your expectations, and that you've made the right pension choices – don't leave it to chance.

Contact us to discuss these and other important questions, and we'll help guide you to a comfortable retirement.

Boosting retirement savings

Are investors failing to think long-term about their futures?

Boosting retirement saving is the key goal for investors in 2014, yet despite this long-term objective, almost three fifths (61%) of those surveyed say they are looking for satisfactory investment returns within just five years, with just 5% taking a longer-term view of ten years or more.

This mismatch between investors' goals and the investment decisions that they are making could jeopardise many people's ability to build the retirement pots they are seeking to achieve.

Key investment goals

The findings come from the Schroder's Global Investment Trends Report 2014[1], a survey of 15,749 investors across 23 countries, which reveals that almost half (46%) of those polled are prioritising pensions and retirement planning as a key investment goal for 2014.

In the UK, where radical savings and pension reforms have been announced in the recent Budget, those planning for retirement will have the freedom to invest their pension as they please and have a much larger tax-free savings allowance, supporting the 59% who identify saving for retirement as a priority for them this year. However, the survey also demonstrates that investors are holding a significant proportion of their investments in cash and much less in high-growth assets such as equities, despite improving economic conditions and stock market performance.

Higher-risk assets

Investors polled say they are allocating only around 20% of their portfolios to higher-risk assets (such as equities) while holding around a third (35%) of their portfolio in medium-risk assets, with 44% of their portfolios still held in low-risk asset classes, such as cash.

These investment allocations have remained broadly unchanged from 2013, despite significantly different economic headwinds this year. The report also highlights that many investors are not seeking advice from a professional adviser, with 40% of investors saying they will look for professional financial advice in 2014. When making financial decisions, almost the same proportion (38%) say their previous investment experience will influence them, almost a quarter (24%) decide based on gut instinct, and 14% turn to friends and family for advice.

Asian investors are the most open to placing funds into higher-risk assets, but even here, investors say they intend to allocate only a quarter of their money to assets that provide higher growth potential this year.

Proportion of investments allocated to low/medium and high-risk assets

Region	Low risk	Medium risk	High risk
Global	44%	35%	21%
Europe/UAE	49%	33%	18%
Americas	40%	41%	20%
Asia	40%	35%	25%

Saving more for retirement

Ageing populations, greater life expectancy and the scaling back of government pension arrangements and related tax concessions in a number of countries seem to be focusing the minds of many on the need to save more for retirement. However, achieving your investment goals requires a dynamic and diversified approach to managing portfolios, and the fact that investors' asset allocations are largely unchanged from last year, despite significant changes in global economic conditions, should be a concern, as should the proportion of investors who are not seeking professional financial advice. ■

Source:

[1]Schroder's commissioned Research Plus Ltd to conduct an independent survey of 15,749 investors in 23 countries around the world who intend to invest 10,000 (or the equivalent) or more during the next 12 months. The survey was conducted online between 2–24 January 2014 and these individuals represent the views of investors in each country involved in the survey.

Tax rules and legislation can change and the information given here is based on our understanding of law and current HM Revenue & Customs practice. The value of an investment can fall or rise, so you may not receive back the amount you invested.

"THE FINDINGS COME FROM THE SCHRODER'S GLOBAL INVESTMENT TRENDS REPORT 2014[1], A SURVEY OF 15,749 INVESTORS ACROSS 23 COUNTRIES, WHICH REVEALS THAT ALMOST HALF (46%) OF THOSE POLLED ARE PRIORITISING PENSIONS AND RETIREMENT PLANNING AS A KEY INVESTMENT GOAL FOR 2014."

TAKE THE TIME TO REVIEW YOUR OBJECTIVES

Investors should take the time to review their objectives to ensure they are structuring investments to achieve their required outcomes and to tap into the economic growth opportunities emerging around the world. It is also important to take a long-term view where possible, particularly where retirement goals are concerned, and to mitigate against short-term economic fluctuations such as those caused by the instability in Ukraine and recent concerns about the level of Chinese economic growth and the strength of the Eurozone recovery. For further information, please contact us.

‘Silver-splitters’

More couples are deciding to part later in life

Divorce is not purely exclusive to the young or middle-aged, and we’re seeing a steady increase in what have been dubbed the ‘silver-splitters’ – couples who are deciding to part in later life.

This growth in 'silver-splitters' brings into sharp focus the impact divorce can have on retirement income. Pensions can be a significant source of accumulated wealth for those in their 60s. For that reason, it's important that pensions are carefully considered in the context of a divorce.

Here are four important matters you might want to consider if you're a 'silver-splitter' in this situation:

1. Make sure you have income for your retirement

Sometimes, one party wants to keep the house – after all, there might be memories of happier times there with young children.

But taking on the whole mortgage can carry risks if you can't afford it. Sometimes, downsizing and sharing a partner's pension is a safer option.

This is especially significant for women who have been stay-at-home mums, as they may not have their own pension, giving them a real gap in terms of what income will support them in retirement.

2. How to deal with a pension during a divorce

There are basically three ways in which a pension can be divided. Which one is right for you depends on your circumstances and the types of pensions involved. Taking legal and financial advice will help you make the right decision.

Pension offsetting: This is where a couple balance how much the pension is worth against another asset, such as the matrimonial home. For example, if one partner has a large pension and the couple jointly own a home worth the same amount, they may agree that one partner can keep the property and the other the pension.

Pension earmarking: A couple can arrange that when one party's pension eventually comes into payment, a portion of it will be paid to the other party. Bear in mind, however, that divorce usually indicates the desire for a clean break, but earmarking means you have to keep an eye on your ex's pension.

Pension sharing: This involves splitting a pension into two new funds, with each partner getting their own pension pot for the future. Since it involves more of a clean break, it's often a preferred method.

3. Make a new will

As well as reviewing your pension during a divorce, it's also essential to think about a new will. If you don't already have a will, then separating from your spouse is certainly a trigger event to prompt you to make one. Your new will should reflect your new situation to ensure the right people inherit from you.

4. Don't forget to keep an eye on tax

If your divorce leaves you with assets worth more than £325,000, Inheritance Tax (IHT) could affect your estate in a way it didn't when you were married, because your estate on death won't get the spouse exemption, after you divorce. Assets which one spouse leaves to another are usually exempt from IHT. ■

HELPING YOU DURING THIS DIFFICULT TIME

Divorce is never easy, but we can help you during this difficult time to arrange your financial affairs on the most appropriate way. Please contact us today for more information.

First-time buyer's average age continues to rise

One in three will be paying off mortgage in their 60s

Nearly one in three people with a mortgage will not clear the debt until they are 60 or older, according to mortgage brokers Ocean Finance.

Of these, almost 5% will be over 70 – and past the current pension age in the UK – by the time their debt is clear. Not so long ago, most homeowners would have paid off their mortgage by the time they reached their 50s, and so could enjoy living a few years mortgage-free before they retired, or even choose to retire early.

However, as the average age of first-time buyers continues to rise, millions are now in a situation where they won't have finished repaying their mortgage until they're about to retire.

Mortgage customers in the East Midlands are most likely to still be paying off debt when they're over 60 – 19% will find themselves in such a situation if they continue repayment at their current rates, while residents of the South West are most likely to have paid off the entire debt by their 61st birthday. ■

It's easy to lose track of pensions

Helping you take full control of your retirement savings

People change jobs, employers change their names but, more importantly, we all forget things from time to time. With that in mind, it is easy to lose track of pensions that you have paid into over the years.

If you do not actively look for your lost pensions, then you take the risk of relying on them looking for you! This can be difficult for them to do if, for example, you have changed your name through marriage or moved home yourself.

To locate a lost or forgotten pension you can contact The Pension Tracing Service, part of The Pension Service. They have details of more than 200,000 personal and company pension schemes and will search through these free of charge on your behalf.

For the best chance of being reunited with a lost scheme, you need to provide as much information as possible. This can include the type of scheme; the name of the employer, and any new name it may have, and the nature of its business; the name of the pension company; and when you belonged to the scheme.

Once located, they will provide you with the latest contact details to help you track it down and take full control of your retirement savings. ■

GOT A QUESTION OR NOT SURE HOW TO APPLY?

Contact The Pension Tracing Service, call FREEPHONE 0800 1223 170. Operator service is available between 9am to 5:30pm Monday-Friday.

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