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MoneyMatters

Winter 2016

5 KEY RETIREMENT CONSIDERATIONS

The end of *HELP TO BUY*

Financial GIFTS For Christmas

Have you INHERITED A PENSION

INCOME PROTECTION Shouldn't you be covered?

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3 reasons that have helped the FTSE100 to reach 7,000

The FTSE100 has recently moved above 7,000 points. Below, we take a look at what the drivers behind the market's surge have been, and assess what this means for investors.

After first topping 7,000 points in March 2015, the FTSE is not entering uncharted waters. However, by breaking through the barrier at quite a rate of knots, the index is definitely making waves. Since closing below 6,000 at the end of June, it has taken less that 100 days to reach 7,000.

The fall of sterling

The gains in the FTSE100 can be partly explained by a sharp fall in sterling, which is now at a 31-year low against the dollar. The lower pound equates to a boost to earnings for companies with significant overseas business.

After the Brexit vote, investors realised that companies that do their business overseas, would be largely isolated from any negative impact on the UK, and their overseas earnings could be converted back to sterling at a preferable rate. This drove profit forecasts up overnight.

Lower interest rates

The second boost to the FTSE has been the cut in interest rates. The monetary policy committee unanimously voted to cut rates to 0.25% on 3 August 2016. A lower interest rate is designed to stimulate the economy by lowering borrowing costs for households and businesses. While banking may feel the pinch of tighter net interest margins, this cut, together with the Bank's extension of the quantitative easing plan, was a further boost to asset prices across the board, and shares proved no exception.

An improved outlook

Recent UK growth figures have been ahead of expectations. Figures released on 30 September 2016 suggest the services sector has shrugged off fears of a post-Brexit slump, and actually expanded by 0.4% in July, more than pre-Brexit rates of growth. With the OECD also revising forecasts upwards, the outlook for the UK looks brighter. As confidence has improved, many of the UK's more domestically focused stocks have joined in the post-Brexit rebound.

Where does it leave investors?

The FTSE100 was launched at 1,000 points on 3 January 1984. Passing 7,000 therefore means the value of the UK's one hundred largest companies is now seven times the value of the largest hundred 32 years ago. This rise serves as a timely reminder of the importance of a long-term approach to investing.

With interest rates set to stay low, it is believed that equities are an attractive option for investors with a longer-term plan. Although uncertainty around the UK and wider markets remains, and investors are unlikely to see linear growth, recent events have again demonstrated the stock market's resilience. It's worth remembering that generally speaking, time in the markets is preferable to timing the markets.

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The end of Help to Buy .... What now?

Philip Hammond the new chancellor confirmed in September that the Help to Buy mortgage guarantee scheme will close at the end of 2016. This decision brings to end three years of Government support for first-time buyers. But will it have an impact on your homeownership aspirations?

A successful policy

The scheme was first introduced in October 2013 in an attempt to boost and provide a deposit percentage of lending at high Loan-To-Values (LTVs). This helped first-time buyers get onto the property ladder. Records show that it appears to have had the desired effect: official figures show that the scheme has supported 86,341 purchases since its launch, with 79% of those being to first-time buyers, and has led to a surge in activity in the high-LTV sector with a welcome boost in competition and product choice across the market.

Chancellor Philip Hammond has now decided to write to Mark Carney, Governor of the Bank of England, to say that the scheme will now close to new loans at the end of 2016. He says that it has done the job it was intended to do in kick-starting the high-LTV market with the figures demonstrating that the purpose of the scheme "has been successfully achieved", and that given the average price of a home bought through the scheme stands at £157,000, it's been shown to support responsible lending.

The strategy

It was always intended to come to an end this year, but there had been calls for it to be continued, particularly given recent events that could create uncertainty in the market. There were fears that lenders could once again retreat on the LTV position which follows lesser deposits without a Government guarantee to act as support, so the decision to wind down the scheme has come as a bit of a surprise to some.

However, the Chancellor doesn't see this as a problem. He said in his letter that the high-LTV sector has become "less reliant on the scheme as confidence has returned," he went on to say that there are now over 30 lenders that offer 90-95% LTV mortgages outside of the scheme. He believes that the closure of the scheme "will be unlikely, in current market conditions, to affect significantly the provision of finance to prospective mortgagors, including high LTV borrowers".

Boom or bust

Many believe this is the exchequers fiscal 'drawing in of the horns' , so which is it – boom or bust? The Chancellor certainly seems to think that the high-LTV sector will continue to flourish without the scheme being there, but critics think he has got it wrong. Much of it could come down to how the mortgage market as a whole reacts to the uncertainty caused by the referendum, but more recent figures show that lenders are already becoming slightly more cautious about lending to those with only a 5% or 10% deposit.

All may not be lost, however, as it's worth pointing out that the Help to Buy Equity Loan scheme, the phase of the initiative that provides support to buyers in the form of a Government loan, is still going to be available, so first time buyers could still find some help. However, the market here is slightly different: although 81% of the 91,759 properties bought using the equity loan scheme have gone to first time buyers, the scheme is only open to those buying new build homes, which means the average value of those properties is far higher at around £225,000.

Not everybody wants to go down this road because there will be a lot more concern about future repayments and the possibility of securing a suitable mortgage in the future, particularly for those seeking a higher-value home, and as a result, many could miss the simplicity of the Government guarantee.

Move quickly

These 'help to buy' changes mean those who were thinking of taking the plunge with the Mortgage Guarantee scheme may want to move quickly before those Government-backed mortgages disappear from the market. But they shouldn't overlook the 95% LTV mortgages offered by those who aren't participating in the scheme , it may be possible to get hold of such a mortgage at a lower rate than that offered by the current scheme participants, so check both options first.

Philip Hammond believes that the closure of the scheme won't stop people from taking that all-important first step on the property ladder, as there should still be plenty of other options available. But, it is in all first time buyers interest to check out the best first-time buyer or Help to Buy mortgages to see what's on offer now.

Have you inherited a pension?

Many people born in the 1930s and 40s would like to leave an inheritance to their family after they have died. One way to do this is through pensions they may hold.
If you are left such an inheritance what are your options?

The inherited pension

If the pension inherited allowed the original policyholder to draw an income from it at anytime, for example a Self Invested Personal Pension (SIPP) or drawdown pension, you can usually choose between the following two options. However, be aware that if the previous policyholder was aged 74 or younger when they died, any withdrawals you now make will normally be tax free, if not, withdrawals will be taxed as income at your highest marginal tax rate.

Option 1. Move it into your own pension pot

Receiving the plan as your own 'inherited pension pot' allows you to invest the money as you wish through drawdown and take out as much or as little income as you want, when you want to.
The new pension investments within a SIPP can grow free of UK capital gains and income taxes.

You could also use the pot to purchase an annuity which will usually provide a secure regular income for the rest of your life. This can be at any age and you don't have to wait until you reach retirement to receive an income.

One rule to be aware of is: If you are classed as a certain type of dependant at the time you inherit the pension, for instance you are a child of the original policyholder and under the age of 23, income from the annuity or drawdown plan will cease once you reach age 23. This rule is due to be removed later this year, allowing such dependants to continue to receive the income for as long as it is available, however you should check that the government has not revised any current policy ideas nearer the time.

Remember that, drawdown is a higher risk option than an annuity, income is not secure and the value of investments can fall as well as rise. Poor investment choices or performance can deplete the fund. An annuity is purchased through an insurance company, and the income you receive will depend on your age, the fund value, and rates at the time of purchase. Annuities cannot normally be changed once set up.

Option 2. Lump sum payment

If you decide to take the inherited pension as a one-off lump sum payment, withdrawal could be taxable, so you need to be careful you don't unintentionally push yourself into a higher tax bracket.

Remember this payment counts as income, so will be in addition to any other income you have received in the same tax year, meaning you could end up paying 45% tax on all or part of the withdrawal.

You can change pension provider

If you do decide for some form of drawdown, once the pension has been converted into your own name you don't have to remain with the original pension provider. If you were or are unhappy with the service you receive or the investment choices or costs, you can usually choose to transfer the inherited pension to a provider which better suits your requirements.

If you decide to transfer you should ensure you will not be subject to excessive exit fees, or lose out on valuable guarantees or benefits. Remember, pensions are usually transferred as cash so you will be out of the market for a period.

How to invest this cash windfall

After you have withdrawn the income you my consider investing the sum, but what are the options if you don't want to spend the money straight away:

1. **Add it to your own pension contributions**
   Adding more money to your pension has very generous tax benefits, you can receive up to 45% tax relief on contributions until you are 75. Paying in a lump sum and/or regular contributions can be a very tax efficient way of boosting the value of your pension, and therefore income at retirement. Once held in a pension, money is not usually accessible until you reach 55 (57 from 2028).
   The taxman will automatically add basic-rate tax relief to your contributions. For example, invest £1000, and the government automatically adds £250 (20%) increasing your total contribution to £1,250. Those currently paying higher- or additional-rate tax can claim back more through their tax return.
   Remember, contribution limits do apply, tax rules can change and any benefits depend on individual circumstances (it's important to note that money received from an inherited pension does not count as earned income).
2. **Use your ISA allowance in full**
   An ISA allows you to benefit from tax-efficient investing and actively pick from a wide variety of investments. You pay no Capital Gains Tax and no UK income tax on any growth generated from investments held within an ISA umbrella, which will act as a wrapper to shelter your money from tax as well as increase its value.
   This tax year you can invest up to £15,240 tax free (it has been announced this will rise to £20,000 for the tax year 2017/18).

Pension scams

Recent pension changes and freedoms have attracted scammers and fraudsters keen to get their hands on your money. Scams tend to be carried out by firms which are not FCA (Financial Conduct Authority) regulated and warning signs include cold calling or texting, the promise of unique or unusual opportunities offering quick, easy profits or something which seems too good to be true normally are – so be on your guard.

If you need help or are at all unsure of your options or whether any investment is suitable for your circumstances you should seek professional financial advice.
Investments can fall as well as rise in value so you may get back less than you invest.
Pension and tax rules can and do change and benefits depend on personal circumstances.
The government's **Pension Wise** service can help. Pension Wise provides free impartial guidance on pension options face-to-face, online or over the phone.
This article is not personal advice. We offer a range of information to help you plan your own finances and personal financial advice if requested.

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Five key retirement considerations to get right

The reasons people find it hard to decide when to retire is because there are tricky issues and challenges which make the planning difficult. Here we try to unravel some of these conflicts of how a professional financial adviser can give you the peace of mind that decisions are right for you.

Five considerations

1. Greater life expectancy

Most people always underestimate how long they are likely to live and therefore how long their money will have to last. A couple retiring today at age 65 have an almost 50% chance that one of them will live beyond 90 years old; a retirement of 25 years. This brings with it the consideration of coping with health issues. It is thought around one in four people will need some form of long-term care, at an average cost of over £29,000 per year, which is a significant cost to bear and plan for.

2. Inflation

As a consequence of the referendum, sterling's depreciation means many economists believe inflation will hit three or even four percent over the next couple of years. If you are 55 years old and retire today, your retirement is expected to last more than 30 years, which is a long time to live with the effects of such inflation. If you don't factor this in, inflation will almost certainly have a significant impact on your retirement, particularly in your later years.

3. Changing legislation

The new pension freedoms have dramatically improved the range of options now available but they have also added a level of complexity which can make choosing the right path seem almost impossible. Increased choice is always welcome but there is no single answer, because people have different circumstances and every retirement option has advantages and disadvantages.

4. Taxation

Many people pay more tax than is necessary, with better tax planning they can make greater use of their allowances and exemptions. Careful planning and the right circumstances can combine to achieve an income of up to £22,000 for an individual without incurring any tax.

However there are some individuals who are taking income from Life Assurance bonds without realising that their money is subject to tax on both income and gains which is reducing their overall returns.

5. Passing on wealth to loved ones

We would all like to see our loved ones pay less Inheritance Tax and making this possible means we need to select the right options without impacting on our own financial security. The pension freedoms have created more opportunities for passing money on to loved ones without a significant inheritance tax charge.

The good news is that with the right forward planning it is possible to significantly reduce the impact of each of these challenges.

A professional financial adviser has the specialist knowledge to show how to navigate through the new rules, minimise the tax you pay and increase the amount paid to your loved ones. Please remember all investments can fall as well as rise in value so you could get back less than you invest. Tax rules can change and any benefits depend on personal circumstances.

What you do with your pension is a very important decision and the government's **Pension Wise** service can help. Pension Wise provides free impartial guidance on your retirement options face-to-face, online or over the phone - more on Pension Wise.

This article is not personal advice. We offer a range of information to help you plan your own finances and provide personal advice if requested.

It's worth checking to see if we can help

The wide range of investments, strategies and income options available to you at retirement can be numerous and complex. An expert can help you calculate your income needs, and plan how to reach your goals. An adviser will also consider the best strategy to draw an income, the level of risk that is right for you, long-term care considerations and how your estate will be passed on to loved ones.

It costs nothing to find out if you could benefit from personal advice at retirement, so it is worth checking to see if we can help you achieve your retirement goals.

Is spreading your investment the road to success?

The problem with investing a lump sum amount in one go, is the timing of the stock market., if it is high then it will be a while before those investments increase further. Making smaller regular payments by drip-feeding money into your investments on a monthly basis can be a much better and highly effective strategy.

Here we highlight some of the main benefits of investing smaller amounts on a regular basis.

Getting 'pound cost averaging' right

Investors are not happy when they experience falls in their values. However, short-term falls in share prices can actually provide opportunity and prove advantageous over the long-term for regular savers.

By investing smaller amounts every month, investors average out the buy price of investments and benefit from a phenomenon known as 'pound cost averaging'. This means your investment buys more units or shares when the price goes down, as per the table below and allows you to benefit from bigger returns if and when the share price recovers.

Month	Amount investment	Share price	Number of shares
1	£100	£5.00	20
2	£100	£4.00	25
3	£100	£2.50	40

Based on the table above, the average price purchased over the 3 months is £3.53 per share which is £300 investment divided by 85 shares. However, if you had invested the full £300 lump sum in one go during the first month, you would only have received 60 shares, which is £300 investment divided by £5.00. Of course had the market risen each month, your monthly investment would have bought fewer shares and actually have been worse off than if you'd invested a lump sum at that time. It is fair to say, investing is as much about timing as picking the right stock.

Benefits of regular savings

Some people believe that you need lots of money to start investing. In fact, drip-feeding money into investments over a longer period of time can build a very substantial sum. If you invested £250 per month for ten years, you would have a total of over £37,500 (based on a medium growth rate and a 1% charge).

Affordability - you can start investing from as little as £25 per month and it often costs no more in dealing charges

No fear - Instinctively you will watch the shares as the move up and down and probably want to buy quickly and more when shares are rising and less when they are falling. With smaller investing the money can be automatically taken from your bank account via direct debit and invested every month, regardless of price and movement, which removes the fear factor.

Flexibility - you can alter your investment choices and the amount you invest from month to month. You can even suspend payments for a period if you wish.

The sooner you start the more you will have invested on share platforms, you can choose to invest monthly into a wide selection of investments including, FTSE shares and eligible investment trusts. It's easy to get started and you can set up a direct debit with some companies from just £25 per month and drip-feed money into your investments. You can also set up a regular savings instruction into Stocks & Shares ISAs, Fund & Share Accounts, SIPPs, Pensions or a Junior Stocks & Shares ISAs with many companies.

This guide and article are not advice. If you are unsure of that suitability of an investment for your circumstances please seek advice. Once held in a pension money is not usually accessible until age 55, which is rising to 58 in 2028.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Bare Trusts

tax-efficient investing

Over recent years the government has set up many savings and investment accounts for children. Most are aimed at parents, with have limits on how much can be paid in each year. For grandparents wishing to pass on invested wealth to younger generations, the options are much more limited.

Bare trusts, could be the answer for grandparents as they provide a flexible, convenient and tax-efficient way to invest their money for a child's future.

How does a Bare Trust work?

A Bare Trust is a simple and binding legal arrangement, where all assets are held by a trustee, which is often the parent/s or grandparent/s of a beneficiary (e.g. a child). They can also be known as absolute trusts, as typically the beneficiary has an immediate and 'absolute' right to the assets. This of course is not the case when investing for a grandchild under 18 years old, as the child would be underage to hold the assets.

What are the main benefits of a Bare Trust?

The main motivations behind setting up a trust centred on retaining control of the assets, according to research by HMRC, are managing investments until a child turns 18. Tax consideration tended to be of secondary importance, even though around 50% of people said tax was an important factor in setting up a trust.

What are the tax benefits of a Bare Trust?

As soon as any assets, normally money or investments, are put into a Bare Trust they are taxed as if they belong to the child, which usually means there is little or no tax to pay on any income or gains. Most children can 'earn' income (including interest) up to £17,000 a year and not pay any tax.

There is an exception to this rule and it concerns monetary gifts from parents. If the income from such a gift exceeds £100 per year the parent will have to pay tax on all the trust's income. This is another reason grandparents often use Bare Trust arrangements.

Longer term, Bare Trusts can help with inheritance tax planning, as assets paid into the trust will either fall within an IHT exemption or be a PET (Potentially Exempt Transfer). PETs mean that if the donor survives seven years beyond making the gift, it will not form part of their overall estate when they eventually pass away and no IHT will need to be paid.

Any additional benefits of Bare Trusts?

There are a few additional benefits that can make Bare Trusts particularly attractive to grandparents. Firstly, unlike other tax-efficient accounts for children, which includeJunior ISAs and child pensions, anybody can set up a Bare Trust.

Secondly, assets such as money can be withdrawn at any time, although it must be used for the benefit of the child.

Finally, there are no limits on how much can be put into the Bare Trust, which is not the case for some accounts for children that have annual subscription limits, like Junior ISAs or Junior SIPPs.

How to open a Bare Trust

Open a Junior Investment Account. In essence, it is a Fund & Share Account set up as a Bare Trust and designated to a child.

If you are happy making your own investment decisions, you can start investing for a grandchild from as little as a £100 lump sum or £25 per month. To open a Junior Investment Account, grandparents can download and return a form, which includes an 'Election for Bare Trust' form. This confirms their intention to create a Bare Trust.

Please remember all investments can fall as well as rise in value so a child could get back less than invested. If you are unsure whether an investment is suitable for your or the child's circumstances contact us for personal advice.

> *"unlike other tax-efficient accounts for children, which include Junior ISAs and child pensions, anybody can set up a Bare Trust"*

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Income protection

Shouldn't you be covered?

How would you cope if you couldn't work due to a serious illness?

If you couldn't work due to a serious illness, how would you manage? Have you enough savings or will sick pay from work cover it all? If not, you may need some other ways to keep your head above water when it comes to paying the bills. A 'peace of mind' option could be to consider income protection insurance. It is considered that most UK households are at risk of their income falling by at least a third if the main earner can no longer worked due to ill health and this only gets worse if it is long term.

Long-term absence

Whether or not you have children or other dependants, if illness would mean you couldn't pay the bills, you should consider income protection insurance; with over one hundred million days lost to sickness absence every year, the reality is long-term absence could be a real possibility. You are very likely to require income protection insurance if you are employed or self-employed and you don't have a sick pay arrangement to fall back on.

What is Income Protection Insurance?

Income protection insurance is a long-term insurance policy that provides a monthly payment if you can't work because you are ill or injured, and typically pays out until you can return to work, or until you retire, die or the end of the policy term, whichever comes first.

Is there a waiting period before payments start?

There is a waiting period before the payments begin. You generally see the payments start after your sick pay ends, or after any other insurance stops which may be covering you. Usually, the longer you wait, the lower the monthly payments.

Policies may cover most illnesses that leave you unable to work, either in the short or long term, which of course depends on the type of policy and its definition of incapacity. You can claim as many times as you need to while the policy lasts.

Recent surveys show that the average UK household spends approximately £1,500 on living expenses per month, and any Employment Support Allowance would only provide up to £115.00 a week (if you were in a couple) .

The majority have no protection

It is thought that around 40% of people have any knowledge of how to protect their income should they become unable to work due to health reasons, and few have any form of protection in place.

Most people carry the misconception that their chances of being unable to work because of medical reasons, believing they are 'bulletproof' when it comes to health and thinking it will occur later in life. Just under half believe that those aged between 45 and 54 are at highest risk when, in reality, the likelihood increases from the age of 40 to almost one in five, and by 55, as many as 28% can no longer work.

Can you maintain your current lifestyle?

When asked about the impact long term illness would have on their finances, 44% of Britons anticipate their income would be cut by up to half if they became unable to work due to disability, and a staggering 15% say they could maintain their current lifestyle with this reduction, according to a recent survey by Zurich.

State benefits are considered to be the main source of alternative income, though only 20% believe they would be eligible for support if their household income dropped by a third.

Don't count on your employer

Interestingly, payments by employers are thought to play a minor role, with many saying their employers didn't offer income protection or no cover at all.

In reality, only a small proportion of the working age population in the UK suffer a disability that prevents them from working and approximately 300,000 people a year cease work and move into the welfare system because of health-related issues.

> Having a plan in place makes for a softer financial landing and easier transition at a time when most people have more worrying concerns to occupy their minds.

Financial gifts for Christmas

Give your children or grandchildren a financial present they will treasure forever

Christmas is a time of opportunity for investing for your children or grandchildren, it is a great time to give them a financial present and start in life, which will last for years to come. The smallest amounts can really add up if you save regularly from the child's youngest years, and there are many ways to invest on behalf of a child.

Junior Individual Savings Account (JISA)

The first and most common option is a Junior Individual Savings Account (ISA), if the child is eligible. Junior ISAs are flexible, tax-efficient and can only be accessed by the child when they reach the age of 18. Parents and other relatives can save up to £4,080 in the 2016/17 tax year in a Junior ISA, and like adult ISAs, Junior ISAs can be held in cash or stocks and shares, or you can divide the allowance between both.

Child Trust Fund (CTF) transfer into a Junior ISA

With recent changes to CTF regulations you can now transfer existing Child Trust Funds into Junior ISAs. Junior ISA tax advantages may depend on your individual circumstances, and tax rules may change in the future.

Check first with your CTF provider to make sure there are no charges for carrying out a transfer. If your child does not qualify because they have already used their Junior ISA allowance for the current tax year, or they have a CTF that they do not wish to transfer into a Junior ISA, then there are other options you could consider.

NS&I Children's Bond

You can invest between £25 and £3,000 tax-free for five years at a time until the child reaches 16, at which point they will gain control of the bond. The interest rate is guaranteed, therefore you will know how much the investment will produce at the end of the five-year term.

There is however a penalty if you need access to the money before the end of the five years, which is normally the equivalent of 90 days' interest on the amount you cash in.

Regular savings

If you're able to commit to making monthly contributions, then you can often benefit from higher rates of interest with a regular savings account.

In the present climate you will need to shop around to find the best deals. They are very flexible and ideal for savers who are saving for something specific and prefer to deposit cash into their account in a set way, but these accounts will usually limit the number of withdrawals you can make each year and restrict the amount of money you can invest each month.

Tax free allowances for children

During the 2016/17 tax year, each child is entitled to a tax-free allowance of £11,000. Complete a HM Revenue & Customs form R85, so that any interest will be paid free of tax. If you haven't done this, you can reclaim it for them using form R40.

Parents have a special rule to be careful of which doesn't apply to other family members, if they give their children money and it makes more than £100 a year before tax in interest (£200 if both parents give money), all the income will be taxed as if it were your own.

Set up a trust

Even where children are involved, it is a good idea to invest in areas that give exposure to a broad spread of companies and sectors. It is important to get the right balance between good growth potential and not taking too much risk.

You can hold investments on behalf of your child in a Bare Trust or a designated account. A designated account will be earmarked for your child but will be in your name and treated as your investment, as such, any income of over £100 will be taxed at your nominal tax rate, whereas a Bare Trust will be treated as your child's income for tax purposes. A designated account set up correctly (i.e. irrevocable) is treated in the same way as a Bare Trust and with both these cases, if funds originate from a parent and income exceeds £100pa, it will be taxed on the parent. The trustees of a Bare Trust have legal control until the child reaches the age of 18 (age 16 in Scotland).

Start a pension

If you want to take a longer-term approach, you could take out a pension on behalf of your child and pay in regular amounts.

You can currently contribute up to £2,880 each tax year, which is increased to £3,600 including tax relief. When your child reaches the age of 18, ownership of the pension would transfer to them, and they could start making their own pension contributions.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Levels, bases and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. NS&I Childrens Bonds are not regulated by the Financial Conduct Authority. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Retirement questions every couple should discuss

Choosing when to retire is not easy, you have to make some tough decisions. Discussing your options as early as possible with your partner could make things clearer and you will then be able to enjoy your retirement. To help, we address some important questions you should discuss with your partner when it comes to planning your retirement.

Can we afford to retire at our chosen time?

The first thing to do is to estimate what proportion of your current combined income you will need in retirement. A good rule of thumb is that you will need about two thirds of your combined salaries. However, what you actually need will depend on your retirement goals.

You normally find in retirement that there is a cut in some monthly outgoings, you may not have a mortgage or you may not have to pay for an expensive commute to work.

Once you have calculated your needs, you can now start to estimate how much taxable income you might need throughout retirement. Don't make the mistake of underestimating your life expectancies. Doing so could leave you short of money later.

How much risk can we take with our pension income?

It is important to decide how you intend to withdraw your pension savings. One option is to buy a secure income in the form of an annuity and the second option is to access your funds through drawdown .

An annuity provides a secure and guaranteed income for life, regardless of how long you live. This makes it a low risk option but the income is not flexible if your circumstances change.

Providing your lifestyle and medical details also means you could increase your income by qualifying for an enhanced annuity. Once set up, an annuity normally can't be changed so it's vital you choose your options carefully and shop around for the best deal.

If you're looking for a more flexible way to access your pension you may want to consider the very popular drawdown option. This option allows you to amend your income, and withdraw lump sums at any time. However, it does carry more risk than the annuity option.

Unlike an annuity, drawdown doesn't provide a guaranteed income for life. Your funds will usually be invested and your income could reduce or even run out if you take out too much or if you live longer than expected or your investments perform badly. Where you invest and how much you withdraw is entirely up to you, but if you are at all unsure you should seek personal advice.

You could in fact use both options, you could use some of your pot to buy an annuity and move the rest into drawdown. This kind of approach could appeal to couples who have different attitudes towards risk.

Will my partner be financially secure if I die first?

If you are considering buying an annuity, it might be tempting to opt for the higher income gained with single life annuities, but this would mean the income would not continue to your spouse or partner if you die first.

Joint life annuities can provide an answer. The income will be lower than an equivalent single life annuity but a proportion of the income you received before your death will continue to be paid to your partner. A joint life annuity can be particularly helpful if your partner doesn't have their own pension arrangement.

With drawdown any remaining funds can be passed on to someone else, making it much more flexible on death. If you die before age 75 your remaining funds can usually be passed on tax free. If you die after age 75 your beneficiaries are subject to income tax on each withdrawal at their normal tax rate.

Is there help available?

Always seek professional financial advice before making any pension decision.

The government's Pension Wise service can help. Pension Wise provides free impartial guidance on your retirement options face-to-face, online or over the phone.

This article and our guides are not personal advice. We offer a range of information to help you plan your own finances and personal advice if requested.

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Could you save money by *transferring your drawdown plan?*

Drawdown was introduced to the world of pensions in 1995 and was aimed mostly at the wealthy. The high charges attached meant it wasn't a practical option for those with small to medium pension pots.

Things have changed since 1995 and now the charges have come down significantly, but they can still vary dramatically across many providers. Many investors who are in drawdown could now save money by looking to transfer to lower cost providers.

Low-cost drawdown plans offer those clients who are looking for secure income, affordable access to a flexible alternative.

There are no fees to transfer into or set up drawdown with some providers and no charge for making withdrawals. You will have to do your research first though as not all drawdown providers are low cost. Many plans will have administration and adviser charges built in, as well as set up and transfer in costs, it's very important to consider the all aspects when comparing how much you will pay in total.

Also, be aware that professional advice my not come without its costs as is standard in a SIPP. It is always wise to seek professional financial advice, this is something we can help you with and you will always remain in full control. It is you that will determine how much advice you receive and therefore how much you pay for it.

Choosing a drawdown provider

The fees which some providers have applied over the years are very high when it comes to some extra flexible drawdown policy costs, but remember, drawdown is intended to be a long-term investment so costs aren't all you should consider. It is also very important to consider the total service you will receive, which includes investment choice, account accessibility and the support available to you. You should also investigate any restrictions that might apply or you may find that this new plan may not meet your future expectations.

Thinking of transferring?

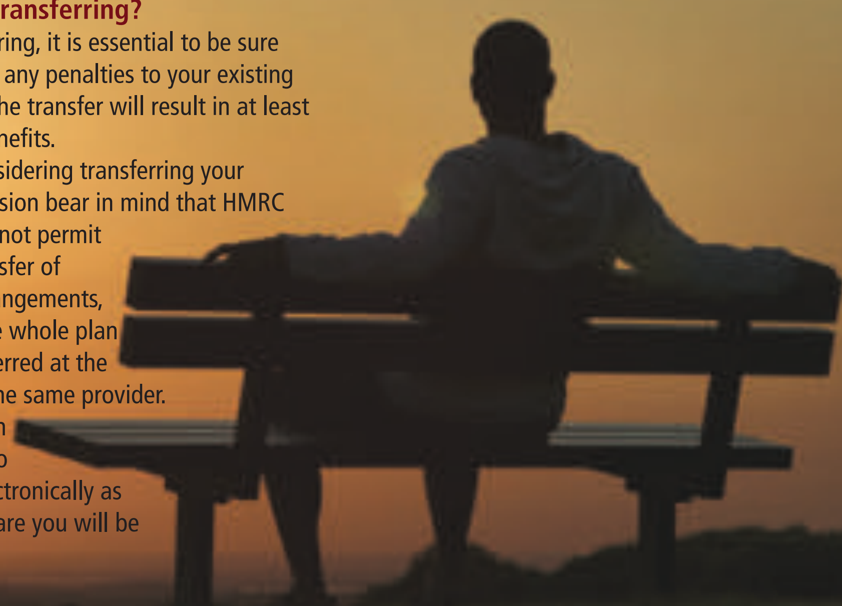
Before transferring, it is essential to be sure you wont incur any penalties to your existing plan and that the transfer will result in at least comparable benefits.

If you're considering transferring your drawdown pension bear in mind that HMRC regulations do not permit the partial transfer of drawdown arrangements, so normally the whole plan must be transferred at the same time to the same provider.

Most pension policies are also transferred electronically as cash, so be aware you will be out of the market for a period. Some SIPPs may be able to accept the direct transfer of investments if your provider offers this service.

Whatever you decide to do with your pension is a very important decision. Therefore, it is vital you understand all the options available and check your chosen option is suitable for your circumstances: you should take appropriate professional advice or guidance if you are at all unsure.

The government's Pension Wise service can help. Pension Wise provides free impartial guidance on your retirement options face-to-face, online or over the phone.



This article is not personal advice. We offer a range of information to help you plan your own finances and personal financial advice if requested.

For more information on any subject that we have covered in this issue, or on any other subjects, please tick the appropriate box or boxes, include your personal details and return this section to us.

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