Thomas & Co Financial Services

INDEPENDENT FINANCIAL ADVISERS

MoneyMatters

Summer 2016

Lifetime ISA
What you need to know

EQUITY RELEASE
Is it a sensible option?

WITHDRAWING MONEY *from a pension*

How to make the most of your PENSION POT

Good Financial *ADVICE*

● Lifestyle Protection ● Creating Wealth ● Tax Rules ●

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TIME FOR A financial health check

Now that the new tax year is well under way, it is the most opportune time to review your finances. A professional financial adviser could significantly improve your returns and put your portfolio in better shape to meet your financial goals. The result will be that you will have peace of mind that your financial future structure is in the best health for both you and your family.

Do I really need a financial 'health check'?

It is a fast moving world we live in, where the financial world rapidly changes; even the best-planned portfolios need to be reviewed regularly. The asset allocation of your portfolio will change over this time period, as could the level of risk you are exposed to. A regular financial health check provides the opportunity to realign your investments with your investment goals and objectives. Over time your goals and financial needs may have changed since you last reviewed your portfolio, it could be you are nearing retirement, your income has changed, or you have recently received a lump sum to invest. Rebalancing your portfolio makes sure your needs, goals and risk appetite are correct and gives you peace of mind.

When is the best time to review?

New tax years always introduce new changes and a fresh set of tax rules and allowances of which you could take advantage, although any benefits depend on individual circumstances. A financial adviser can review your investments alongside these changes and maximise how you save for your future in a tax efficient way. Your financial adviser will cover the following during your full review:

1. This year's tax allowances
2. Reduction to pensions annual allowance
3. Updated personal savings annual allowance
4. New tax-free dividend allowance

Step by step review map

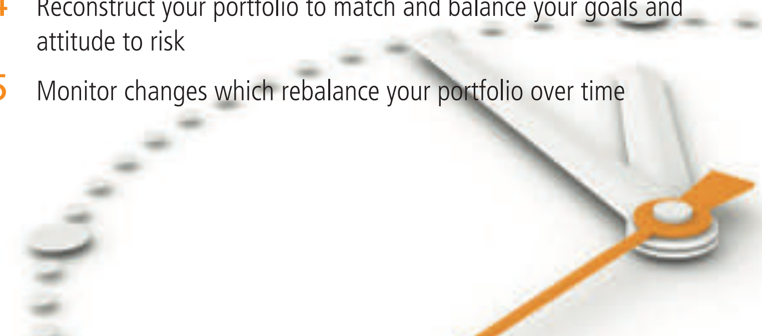
Step 1 Identify your current financial position

Step 2 Highlight the changes you need to consider to reach your goals

Step 3 Select those investments to spread the risk in your portfolio across different asset classes or sectors.

Step 4 Reconstruct your portfolio to match and balance your goals and attitude to risk

Step 5 Monitor changes which rebalance your portfolio over time



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Withdrawing money from a pension

Since the chancellor's pension reforms last year, the two most popular alternatives to taking an annuity have emerged as drawdown and Uncrystallised Funds Pension Lump Sum (UFPLS).

Both options allow people the flexibility to access their pension from age 55 (57 from 2028), but the two options have distinct differences which investors should consider when deciding which of the two options is best for their circumstances.

Tax on withdrawals

With drawdown, usually 25% of the money is taken tax free as a lump sum. Future withdrawals are subject to income tax.

UFPLS payments work differently with each segment taken 25% of the payment will usually be tax-free and the rest taxed as income.

The decision is yours and will depend on your circumstances Drawdown would allow you to access all the tax-free cash from your pension without requiring you to take the rest as taxable income straight away. If you accessed your entire tax-free amount with a single UFPLS payment, the rest of your pension, which is taxable, would be paid out at that time too, depending on the size of your pension; this could push you into the top rate of tax (45%).

If you prefer to take just part of your tax-free sum, either option can be used. You could move part of your pension into drawdown and take the tax-free cash from that portion. With UFPLS you could take a partial payment from your pension, 25% of which would normally be tax free and the rest taxable. With both options the remaining pension stays invested in your plan.

How you take your income

When your pension has been moved into drawdown you can start receiving regular income as well as requesting one-off payments. If you don't need or want regular income at this time you can simply take your tax-free cash and provide income instructions when you are ready.

UFPLS are for those people who want to take one-off payments from their pension. This leaves the rest of the pension untouched. Each withdrawal needs to be requested separately as and when required.

The risks

Both drawdown and UFPLS, after withdrawals, keep the remaining pension invested. This means the fund value and any future income is not secure, it moves as the market moves.

The upside is the potential for growth but your income and fund value could reduce or even run out if you withdraw too much, or if investments perform badly or you live longer than expected. Investors who are looking for a secure income for life should consider an annuity.

Taxation on death

Drawdown and UFPLS are the same when it comes to tax on death. The tax that applies to the remaining pension fund on death depends on the age of the investor when they die. If under age 75 the pension can usually be passed on tax free. If age 75 or older, the beneficiaries will pay income tax on the income or lump sum taken.

You should consider all aspects of pension investing carefully ensuring you understand your options and check any decision you make with a professional financial adviser for 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 - more on Pension Wise.

	Drawdown	UFPLS
Considerations	Allows you to keep the pension invested and draw a variable income from it. You must be comfortable that the pension remains invested which means future income is not guaranteed and lose value, or even run out.	Allows you to withdraw a lump sum directly from the pension, and have not yet taken any tax-free cash or income from that part of the fund. As with drawdown the remaining pension stays invested which means future income is not secure and could lose, or even run out.
What percentage of the fund is tax free?	Usually up to 25% of the fund you are using for drawdown is paid as a tax-free lump sum at the beginning. Leaving the remaining drawdown funds invested and taking what income you like when you like. There is no minimum or maximum withdrawal limit.	Usually 25% of each lump sum segment you take will be tax free. You will be paid your lump sum in one go. Usually 25% of this will be tax free and the rest taxable. The remaining fund stays invested.
Does it need to be my entire pension fund?	No – funds can move into drawdown in stages, known as partial or phased drawdown and you retain full control.	You can take the lump sums as and when you need to, so it doesn't need to be the full fund and you remain in full control.

Do I have to 'drawdown' once in drawdown?

The shake up to pensions and the introduction of new Pension freedoms introduced last April mean investors have unprecedented flexibility at retirement. So how has this shaped up for drawdown?

It is believed that nearly half of people in drawdown take their tax-free cash but don't withdraw any income.

Here are some options which are now available for taking income from a drawdown plan.

Holders of a pension pot who are over 55 now have the freedom to access their pension and can now decide how best to manage it. They can still buy a secure income for life, which is an annuity, or use a more flexible riskier option such as drawdown.

Drawdown means you can apportion sections of your pension pot but doesn't mean you have to draw down from the pension after you have taken the 25% tax-free cash. You could leave it and take nothing else afterwards.

Take tax-free cash and drawing down

You don't have to move all your pension pot in one go to drawdown but when you do move your pension fund into drawdown you can usually take up to 25% of this fund as tax-free cash. This is yours to spend or save as you wish.

You can then draw a taxable income from the rest at any point. You choose how much and when to take your income, if any, and can start, stop or vary the amount you take out. This gives the flexibility to vary your income to meet your needs any particular year, or to keep within certain tax bands or allowances.

You could, if you preferred, take the whole pension pot as a lump sum, although less than 9% of people are using the new rules to do this via drawdown, according to recent financial reports.

The rest of the pension will remain invested and can always go up or down with the stock market. Income is not secure and could fall if you take too much out or your investments don't perform as you expected.

Tax-free cash and not drawing down

Many pensioners have approached drawdown by just taking the tax-free lump sum of up to 25% and then leaving the balance of the pension pot invested. These investors have adopted a longer term strategy by keeping their pension fund invested for the future, hopefully to grow. It is worth remembering the value of investments can fall as well as rise and for this reason drawdown does not provide any guarantees of fixed income as seen within annuities.

Tax free cash with drawdown but not from the whole pension

Investors can take lump sums directly from their pension as they require. This is known as taking an Uncrystallised Funds Pension Lump Sum (UFPLS). Each segment withdrawn will have 25% of the withdrawal tax free and the rest taxed as income. The remaining segments of your pension remain invested, similar to drawdown, which means the fund value and future income is not secure. As with full drawdown the risks in taking too much too soon could result in your pension becoming depleted or even running out.

Don't forget income from pensions is taxable and as such will be taxed on top of any other income you are receiving. Tax rules can change and will depend on your individual circumstances.

What you decide to do with your pension is a very important decision. You must fully understand your options and ensure your chosen option is suitable for your individual circumstances. It is advisable to take appropriate professional financial advice or guidance on such matters.

The government's free 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.

Good financial advice

Many investors are happy managing their own investment portfolios. However, there are some common events where we typically find advice is likely to save time, reduce tax and add value. People only want to pay for a service where they see a return and a service they trust and value.

Deciding what is best to do with a lump sum can be difficult. Your strategy will naturally depend on your objectives and attitude to risk, but the one thing you will want to make sure is that your money works as hard as possible and in a tax-efficient way. A good financial adviser will make recommendations based on your personal situation and goals, and will work with you to provide the most of any tax allowances and reliefs you are entitled to.

Understanding what your pension will pay will be worth

In 20 years time, today's 40 somethings could be living into their 90s and have a retirement extending into their 100s. So how much retirement income, will I need, you might ask:

1. How much will I need to be able to live comfortably?
2. How do I know if this amount is realistic?
3. How will I achieve this retirement goal?

This is where the experience of a financial adviser can help; producing a tailored plan and outlining the steps you could take to ensure you reach your goal.

What if I have many pension plans?

Having multiple pension pots can make it harder to plan for retirement as you juggle from one to the other. It is more efficient to consolidate your pensions into one place.

When considering consolidation it is vital to understand what you hold, where it is invested, whether any exit charges or other reductions apply and the valuable benefits, which are in the small print, as you may be giving up by transferring. This can be a time-consuming process, but a financial adviser can help as they understand the issues and percentages of tax free cash which each pension policy allows.

Have you considered inheritance tax planning?

Inheritance tax is on track to raise around £4.4bn this tax year, the first time it has ever broken the £4bn barrier, according to the OBR (Office for Budgetary Responsibility's). There are a number of ways to reduce your potential liability, many of which are easy enough to implement yourself, such as using your annual gift exemption.

However, as personal estates grow larger and become more complex, advice from a professional will help you navigate your way through your options. This becomes more relevant with extended families, or where your estate has multiple properties or business interests. A financial adviser is able to support you with thoughts and ideas of how best to proceed.

When you invest .... you want it to grow

Lifetime ISA ... What you need to know

The lifetime ISA is a new approach to tax-free savings or investments vehicles designed to help the under 40s buy their first home or save for retirement. George Osborne announced in his 2016 Budget that the lifetime ISA will be available for those aged 18-39 from April 2017.

This latest member to the ISA family will join cash ISAs, stocks and shares ISAs, junior ISAs, Help to Buy ISAs and innovative finance ISAs, making this area of saving increasingly complex for savers.

In order to understand the new ISA and its complexity, we explain what you need to know in order to take advantage of all the options available.

When is the lifetime ISA available? The start date is 6 April 2017.

Who can open a lifetime ISA? Any adult between the age of 18-39.

What are the advantages? For every £4 you save, the government will add an additional £1 (worth up to £1,000 per year) paid at the end of tax year, right up to the age of 50.

Can I invest in stocks & shares? Yes, you can invest in stocks and shares or even cash.

What is the limit? You can save up to £4,000 a year this will be eligible for a 25% bonus from the government (you can add more but it won't receive a government contribution).

Is this my overall ISA limit? No, your overall annual ISA limit will be £20,000 in 2017/18 for all payments into a cash ISA, stocks and shares ISA, innovative finance ISA, or lifetime ISA.

Can I spend the money in my lifetime ISA on whatever I like? No, Under the age of 60 you must use the cash to purchase your first property worth up to £450,000. After age 60, you can spend the money on whatever you want.

Are withdrawals tax-free? Yes, as with other ISAs, any and all withdrawals are tax-free.

What penalties are there? Providing you use the money to purchase a first property, or after the age of 60, there are none. However, should you spend the money on non-property and you're under the age of 60, you will be subject to a 5% penalty and must return the bonus plus interest or growth on that bonus.

Do lifetime ISAs have 'pass on' rules? Your spouse or civil partner can inherit the value of your lifetime ISA as an 'additional permitted subscription,' or APS allowance.

How do you open a lifetime ISA? Same as with a standard ISA, you will be able to open a lifetime ISA with a bank, building society or with an investment broker. Also as with other ISAs you can open more than one lifetime ISA, but, you can only pay into one lifetime ISA in each tax year.

The same applies with ISA transfers, you can transfer money from existing ISAs and any money you move across from previous years' ISAs will not affect your overall ISA limit for that year.

How do you pay into a lifetime ISA? If you open a lifetime ISA you can still have a regular cash ISA, a stocks and shares ISA, and an innovative finance ISA as long as your overall contributions are within the annual ISA limit. This limit is set to increase to £20,000 from April 2017.

Will money invested into a lifetime ISA money grow tax-free? As with other ISAs, you money invested within an ISA wrapper will grow tax free.

Parents and grandparents will be able to pay into a lifetime ISA opened by their child or grandchild which could be a useful part of inheritance tax planning for them.

The biggest advantage of lifetime ISAs is that the government gives you cash. If you could save the maximum £4,000 a year from age 18-50 you would receive a £32,000 in bonuses over the 32 years from the government.

What's best a lifetime ISA or a pension? Don't make the mistake of mixing up the advantages of a company contributory pension with the new lifetime ISA. You can put your lifetime ISA savings and bonuses towards a deposit on your first property, or to help fund retirement, although you won't benefit from employer contributions as you would if you have a company pension.

When can first time buyer make withdrawals? You can withdraw some, or all, of your ISA money at any time after 12 months of opening the account – as long as you are using it to buy your first home in the UK (valued up to £450,000).

Withdrawals are tax-free.

Lifetime ISAs are limited to the person, not the home, so if you have a partner you can both open a lifetime ISA and benefit from the government bonuses before buying property together.

If you're under 60, and do not intend to use it to purchase property, there will be a 5% charge applied and the bonus, plus any interest or growth on that bonus, will be returned to the government.

The only exception to this is if you were to be diagnosed with a terminal illness, in which case you can withdraw all of the funds (including the bonus) tax-free, regardless of age.

Help to Buy ISAs and lifetime ISAs Help to Buy ISAs will still be available until 30 November 2019. You can if you wish choose to open a lifetime ISA alongside a Help to Buy ISA. However, you can only use the government bonus from one of these accounts to purchase your first home.

In the 2017/18 tax year, anyone with a Help to Buy ISA will be able to transfer any savings into the new lifetime ISA and still save an additional £4,000.

Are all details finalised? The government is still considering whether money held within a lifetime ISA can be withdrawn in full for other specific life events, in addition to buying a first home, which they have said will be confirmed with the question of whether you can borrow funds against your lifetime ISA without incurring a charge, as long as you repay the money in full. Further details will be announced in the autumn.

- How to open the new lifetime ISA for under 40s
- The rules on lifetime ISA top-ups and withdrawals
- How the lifetime ISA works alongside the Help to Buy ISA
- Plan for your £20,000 ISA allowance in 2017

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.

Another way to invest tax efficiently

Venture Capital Trusts (VCTs) invest in small companies, often at an early stage of their development. We have all heard of companies such as Zoopla, Virgin Wines and Secret Escapes, these have all benefited from VCT investment.

Most investors are familiar with ISAs and SIPPs as tax-efficient ways to invest, but there is another option for adventurous investors who have maximised their ISA and SIPP allowances; Venture Capital Trusts (VCTs). There are many key considerations, risks and potential benefits of investing in VCTs, below are some we have outlined.

What is VCT investing?

VCTs invest in small companies, which are often not listed on the stock market, meaning investors would not normally be able to invest in them directly. It also makes them a much higher risk as some will fail and investors may get back much less than they originally invested.

The VCT will seek to invest in a company for between 5-10 years before selling, hopefully for a profit. To increase the chances of their investments performing well, the VCT will use its resources and expertise to help the company grow sales and profits. It does this by making improvements to marketing, operations, efficiency and recruitment.

What are the benefits?

Helping start-ups and small companies grow is vital for the economy, but it is substantially high risk, much more than investing in larger companies and mainstream investments. In recognition of this the government offers certain tax benefits to investors. We believe the tax benefits should always be seen as the icing on the cake, rather than the main reason for investing in VCTs.

Income tax relief of up to 30% is available when you invest in a new issue of VCT shares. If you invest £10,000 you can receive £3,000 as tax relief, which reduces your tax bill and means the net cost of the investment is just £7,000.

Tax-free dividends are the main income from VCTs as profits from selling successful companies are usually distributed as dividends. Many VCTs offer yields in the region of 5% or more, completely tax free.

No capital gains tax (CGT) to pay when you sell shares in a VCT.

Up to £200,000 can be invested in VCTs in any tax year, yielding a maximum income tax rebate of £60,000. However, the maximum rebate is limited to the amount of tax you pay. You have to hold the VCT for at least five years to keep the tax rebate. Please remember tax rules will change over time and benefits depend on individual circumstances.

Positioning VCTs in a portfolio

VCTs are only really a consideration for investors who have used their full ISA and pension allowances and already have large, well-diversified portfolios and have the capacity to sustain losses. VCTs should account for no more than 10% of an equity portfolio unless you are a very high risk investor.

Tax-free dividends are the primary source of returns from VCTs, so they are likely to appeal to investors seeking the majority of their returns as high income. Remember, dividends are variable and not guaranteed. With the levels of income tax relief available VCTs are likely to appeal to most high earners and those facing large income tax bills, although the benefits will depend on personal circumstances.

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How to make the most of your PENSION POT

Whatever the size of your pension pot at retirement, maximising its value is critical. Just what are the retirement options facing a pension saver and how can you make the most of these important savings.

Take the tax-free cash?

If you will be a taxpayer in retirement, it could make a lot of sense to take as much as possible of your pension tax-free depending on your individual circumstances. Once you reach age 55 (57 from 2028), up to 25% of your pension can normally be taken as a tax-free lump sum and you can then choose what to do with the balance.

If you were to take 25% tax-free cash in one go from an average pension pot of £43,500, you could have £10,875 paid out as a tax-free lump sum and £32,625 left to provide a taxable income. Remember, tax rules can change and benefits depend on individual circumstances.

Do you need a regular income?

Fundamental living costs, like utilities, food, last for your whole retirement. This means it's important to have some regular income in retirement.

Regular income can come from many places like your State Pension or investments. However, if you need more you can exchange some or all of your pension for an annuity. To ensure you receive the best annuity income, shop around and provide your full health and lifestyle details. It can make a big difference to the amount of income you receive, as the chart below shows.

Annual annuity income

Remember once an annuity is set up it cannot usually be changed or cancelled. You should also consider how the income might be affected by inflation and whether you want your income to continue after you die. (Annuity rates can rise or fall and quotes are only guaranteed for a limited time).

Taking flexible income

If you have enough secure income to cover your essential expenses, taking a flexible income could be beneficial.

You can use drawdown for all or part of your pension. It lets you keep your pension invested whilst having the option of making unlimited withdrawals. Drawdown offers the chance of an increasing income through investment returns but it's a higher risk option than an annuity. Income is not secure and it could fall with the market, or even run out, especially if investments don't perform as you thought, you take too much out or you live longer than expected.

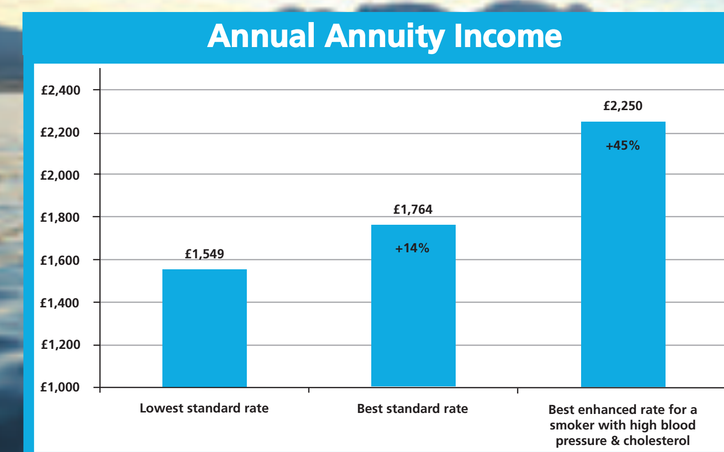
A good rule of thumb is to ensure your drawdown income doesn't run out is to limit your withdrawals to the income your investments produce. This is called taking the "natural yield". This strategy could help shelter the value of your pension pot as your income withdrawals won't be eating into the capital value of your pension.

Whenever your investment income falls you should consider reducing the income you take or sell investments to fund the income payments. To avoid depleting the value of your plan by selling investments, you may wish to consider keeping a cash buffer of around one or two years' worth of income payments. This could allow you to maintain the level of your withdrawals for a period of time but would mean less money is invested to hopefully grow over time.

Taking a lump sum

Another option within pension provision for taking money flexibly is to withdraw a lump sum. This option is called an Uncrystallised Funds Pension Lump Sum (UFPLS), this allows you to take money from any part of your pension which you have not used for drawdown or to purchase an annuity. You can take as much as you like but only 25% of each payment is tax free, the balance is subject to income tax.

What you do with your pension is an important decision. Therefore, we strongly recommend you understand your options and check any decision you make is suitable for your individual circumstances - take appropriate advice or guidance if you are at all unsure.



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BUDGET

The ISA budget

In his 2014 Budget, George Osborne announced the pension freedom reforms. In his 2016 Budget, he has given a major lift to the ISA system. He has also reduced the amount of capital gains tax investors will pay on their profits, with the exception of buy-to-let landlords.
On the whole this was a Budget which savers and investors will cheer, as it allows them to keep more of their money from taxation. However, some key details still need to emerge from the announcements; these are the key points which affect investors the most.

Announcement to help savers and investors

- The ISA limit will increase to £20,000 in April 2017.
- A new Lifetime ISA will be introduced in April 2017 for the under-40s.
- The allowance will be £4,000, which will form part of the £20,000 total ISA allowance.
- Investors will receive a 25% government top-up for each £4 saved, added at the end of each tax year.
- Investors can withdraw their capital tax-free to buy their first house, to a maximum value of £450,000,
- Withdrawals at any other time will have a 25% charge.
- A reduction in Capital gains tax on investments
- From 6 April 2016 the higher tax rate will be 20% and the basic tax rate will be just 10%.
- This reduction will not apply to a gain made on a residential property which is not the individual's main home, such as a second homes or buy-to-let.
- With the election referendum just around the corner, pensions tax relief has been left alone, so there is still a big upfront incentive to save into a pension.

What stands out?

After this Budget, ISAs just got even better. Investors will now be able to shelter even more of their savings from the taxman in a conventional ISA, and the new Lifetime ISA adds an extra option to help people get on the housing ladder or boost their retirement income.

As widely expected the chancellor has left pension tax relief alone, so there is still a big upfront incentive to save into pensions, particularly when the employer contributes.

The new Lifetime ISA will help to supplement the existing pension system, and will be particularly attractive to self-employed people, who have been left behind by the private pension system. Indeed pension saving amongst the self-employed has collapsed in recent years, with just 10% of them now saving for retirement in a pension. It could also be attractive for non-working spouses or partners.

Economics

Yet again growth forecasts were downgraded as expected, but the chancellor was at pains to point out that despite these downgrades, UK growth is set to be faster than any other major advanced economy, with record employment levels. He also said that despite the recent gloom he is on course to deliver a budget surplus.

The Office for Budgetary Responsibility's cuts to the growth forecasts were significant, highlighting that the UK economy looks considerably weaker than it did at November's autumn statement. Lower forecast productivity growth and a slowing global economy were cited as primary causes. Growth in 2016 is now forecast to be 2.0%, down from 2.4% as predicted in November and 2017's forecast has now been downgraded from 2.5% to 2.2% and growth has been revised down in every year thereafter.

Lower growth will impact on tax receipts, but Mr Osborne says he has identified savings in government spending of £3.5bn by 2020, by when the OBR forecast a budget surplus of £10.4bn.

Equity release
... Is it a sensible option?

We would all like to have substantial income so that we can stop or cut down on the amount of time we spend at work or even retire altogether. But what if you are facing a pension shortfall or need to meet an unexpected expense. Equity release may be an option to consider, as it allows you to unlock some of the wealth accumulated in your property without having to downsize. However, before you consider taking this option, there are key aspects of it which you must consider.

There are two main types of equity release scheme:
Lifetime mortgage – which is a loan secured on your home, it is repaid by selling your home when you die or go into long-term care.
Home reversion - Where you sell all or part of your home to a scheme provider in return for regular income or a cash lump sum, or both, and continue to live in your home for as long as you wish.

To qualify for equity release you have to be usually 55 or over and own your own home.

If you do have an outstanding mortgage and want to take out equity release, you will need to settle your mortgage first, which will affect the amount you then have access to for other purposes.

You will receive tax-free cash as a lump sum, a regular income, or both, to use as you wish and you can continue to live in your own home. Remember though that it is still your responsibility to maintain the home.

Your equity release questions answered

Q: Is there a minimum amount I have to take?
A: There could be a minimum amount you have to take, it will depend on the scheme and provider. But you may not have to take it all at once. Drawdown loans can be taken in smaller amounts over time.

Q: What happens to my partner if I die?
A: The scheme should be in both your names then the arrangements will continue. If you are using equity release to increase your income, make sure you consider the situation should you or your partner die.
If the property and scheme were in your sole name, the property would have to be sold and your partner would have to move out, unless they could repay the lifetime mortgage in full.

Q: Does equity release reduce the amount of Inheritance Tax (IHT) due on my estate?
A: Equity release will reduce the value of your estate when you die, which may reduce a potential IHT liability. If you are considering using an equity release scheme as part of your planning for IHT, you should obtain professional financial advice.

Q: Is a sale-and-rent-back scheme the same as a home reversion?
A: No, because if you rent you may have to leave your home after the end of the fixed term in your tenancy agreement, which may only last a few years and you may have to pay a much higher rent than under a home reversion plan, and the rent could go up.

Q: What happens if we need long-term care?
A: Your equity release scheme will usually continue unchanged if care is provided in your own home or just one of you moves to a residential or nursing home. If you both move into a care home, the scheme will usually end and the property will be sold.

Releasing equity from your home is a very big lifetime commitment, so ensure you have included your family in any decision you make.

Equity release may involve a lifetime mortgage or a home reversion plan.

To understand the features and risks, it is crucial to obtain a personalised illustration from a professionally qualified adviser because equity release is not right for everyone and it may affect your entitlement to state benefits and will reduce the value of your estate.

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.

3 steps for natural yielding income

Markets are dynamic by their very nature and we all seek to find those income generating investments which are the most popular. Some investors lock solely into dividends to supplement their sources of income, while others reinvest the natural yield to buy more shares which in turn generate more dividends, whilst at the same time protecting the base value.

This reinvesting of dividends is a highly effective strategy to grow wealth over the long term and taking natural yields may prove valuable for everyday expenses.

In the global economy volatility is never far away and in the UK we see this world of ultra-low interest rates which is a challenge for building a portfolio which generates regular and reliable income. So how can we best steer through these peaks and troughs?

1. Hold a good mix of assets to avoid over-reliance on too few investments and balance out your risks. Many investors have painful memories when the banks cut dividends after the financial crisis; so spread your investments across different sectors.

2. Hold sufficient high-yielding investments which will generate a higher now, but also hold some investments with the potential to offer future income growth. At this time inflation is low but it may not be in 20 years' time. Over the long term, you want your income payments to keep pace with the rising cost of living.

3. Always regularly review your portfolio and move into different areas of the market when necessary. Remember the right mix of investments held now may not be the only right ones for the future; 20 years ago, 10 year gilts had a yield of 7.5% while today they yield less than 1.5%.

Putting these considerations place, should see investors being able to take the portfolio's 'natural yield' – which is the income generated by the investments themselves. This leaves the underlying investments intact, improving the prospects for capital growth and a rising income over the longer term.

Every investment is about timing, so re-investing of income or natural yield is usually received in the form of dividends from shares, or interest paid by bonds either held direct or via a fund. Each investment is likely to distribute dividends on a biannual or quarterly basis at different times of the year. It is no easy task, but with careful planning and diligence over time it is possible to combine these payments into a steady stream of income but also note that income is variable and never guaranteed.

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.

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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