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SPRING EDITION 2015

YOUR WINDOW ON FINANCIAL ISSUES

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PENSIONS – PLANNING YOUR RETIREMENT UNDER THE NEW RULES

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

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

THE NEW WORLD OF WORK

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

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

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

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

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

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

THE BUDGET IN BRIEF

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

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

PENSIONS – MAKE SURE YOU GET COMPREHENSIVE ADVICE

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

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

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

GOVERNMENT GUIDANCE

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

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

BEWARE THE SCAMMERS

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

The Actuarial Post reported that pension savers are almost three times more likely to receive an approach from bogus or fraudulent operators than they were nine

months ago. The various scams currently being promoted try to persuade those about to retire that they can get a better deal by moving money abroad, or by investing in fictitious or unregulated investment schemes.

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

HOW TO PROCEED

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

BEGINNER'S GUIDE TO INVESTMENT – HOW TO APPROACH RISK

When you're thinking about investing for the first time, there are various factors you'll need to consider before you begin.

Firstly, you need to be clear why you're investing and what your goals are. Your adviser will want to know what plans you have for the future. These often include funding children's education, repaying a mortgage, retiring at 55; the list can be a long one. Armed with this information, your adviser can develop the right investment strategy for you.

Your adviser will help you evaluate your attitude to risk, which may alter depending on your experiences and stage of life. For some people, the prospect of the value of their investment falling is very unsettling, while others are more comfortable with the inevitable ups and downs in stock markets at home and abroad, with the addition that exchange rate fluctuations may also affect fund values in sterling terms.

This year, as in most years, there will be a number of risk factors at play. The UK has to weather the policy changes that may lie in the wake of the General Election; in Europe there are continuing fears of deflation, the debt crisis in Greece and the conflict between Russia and Ukraine. In the global economy, a question mark hangs over the pace of growth in China, while in the US the economic picture is much improved. As ever, there will be investment winners and losers amongst companies, industries and countries.

So, to counter some of these risks, and to take advantage of stocks and markets that look set to perform better, your adviser is likely to recommend investing across a range of sectors and stock markets to spread the risk. That way, a poorly-performing investment should not greatly damage your overall returns, and your money has greater opportunities for growth.

Taking the decision to invest money can seem like a major step, but with help and advice from a professional adviser, building up a portfolio of profitable investments isn't an unrealistic ambition.

WHY WILLS AND POWER OF ATTORNEY MATTER

In 2014, approximately 60% of people who died in the UK did not write a will – meaning that they had no control over how their assets were distributed.

Many people mistakenly believe that their relatives can distribute their assets as they think fit. However, without a will in place, the estate is distributed according to the laws of intestacy. These strict laws determine who gets what, and don't take account of family wishes.

So making a will, (or reviewing an existing will made a while ago) should really be at the top of everyone's agenda to protect their family's interests.

PLANNING AHEAD

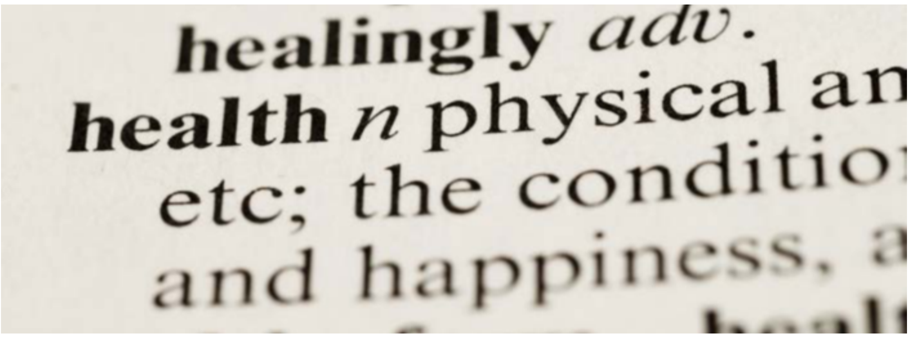
By 2025, the Alzheimer's Society predicts that more than one million people in the UK will suffer from dementia. The advice from charities caring for the elderly is that everyone should plan ahead to a time when they might not be in a position to handle their financial affairs.

A Lasting Power of Attorney (LPA) is designed to protect you in the event that, whilst still alive, you lose the ability to make financial or care decisions on your own behalf. Making an LPA allows you to choose someone you know and trust to make important decisions on your behalf, should you be unable or not wish to do so.

Most people don't think about putting an LPA in place because they automatically assume their loved ones could step in. However, if you lose mental capacity and haven't made an LPA, a family member would have to apply to The Court of Protection to be appointed as your Deputy.

The role of Deputy provides reduced powers and an annual fee is payable. If an acceptable Deputy can't be found, the local authority is appointed. They will be given access to your financial affairs and be able to decide where you live and what care you receive.

Preparing a will and Lasting Power of Attorney isn't a daunting task; in reality it's a straightforward process. A solicitor will be able to guide you through the information required and ensure that the documents are legally watertight and in place in case of need.



CRITICAL ILLNESS CAN STRIKE AT ANYTIME

Vitally important though it is to have ample protection for your family in the statistically unlikely but always possible event of premature death, life cover alone is not a complete financial shield. A serious illness could, for instance, leave you unable to continue earning a living for a while, or even permanently.

How worried should you be? Cancer Research UK says somebody is diagnosed with one of over 200 types of cancer every two minutes, adding that 1 in 2 people born here since 1960 will have a cancer diagnosis sometime. Risk increases with age, but even so figures show that 1 in 35 men and 1 in 20 women will develop cancer by age 50. Breast, lung, prostate and bowel cancer are the most prevalent.

HEART ATTACK OR STROKE

According to the British Heart Foundation, 175,000 heart attacks occur each year in the UK; that is roughly one every three minutes. Many patients survive, but may require surgery and significant absence from work, at risk of permanently reduced income. Stroke is yet another serious health risk, with about 152,000 a year, or one every 3½ minutes – Stroke Association data. A severe stroke, if not fatal, may damage mental and physical ability.

You can gain protection from the financial consequences by taking out critical illness cover. This addresses a specified range of illnesses and degrees of severity. In 2014, the Association of British Insurers launched a new Statement of Best Practice for critical illlness cover, which insurers are adopting this year. It aims to make cover clear and consistent by use of standard generic terms, a common format for describing cover and model wordings for critical illnesses and exclusions.

MULTI-BENEFIT SOLUTION

For many families, the most effective and economical way to provide the widest possible protection is the multi-benefit policy. This can bring together not only life insurance and critical illness cover but also income protection. With this combination, subject to acceptance and to meeting claims criteria, you will also be covered for loss of income through events such as accident or involuntary unemployment.

Contact your adviser to find out more.

FINANCES ON DIVORCE

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

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

THE MARITAL HOME

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

PENSIONS

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

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

LIFE POLICIES

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

A CLEAN BREAK

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

PLANNING FOR THE FUTURE

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

THE BUDGET IN BRIEF

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