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Financial Viewpoint

Your latest newsletter from Financial Planning Hub

A year on from pension freedoms

In April 2015 the government introduced the most significant pension reforms for a generation.

The reforms give people who've worked and saved hard greater flexibility over how and when they access their pension savings and mean anyone reaching retirement age has been able to withdraw some, or all, of their pension (subject to tax on everything above the first 25% they take out).

Lamborghini sales unaffected

A year on and figures suggest over 230,000 people have accessed more than £4.3 billion from pension funds. The average withdrawal is £18,750 – laying to rest the fear that retirees would be tempted to 'blow their entire pension pot on a Lamborghini'.

In fact, with 516,000 payments made, it goes to show many people have chosen to take their money in instalments, rather than everything in one go.

The figures also showed:

- the highest number of partial withdrawals were made by consumers aged 55-59
- consumers with bigger pension funds were more likely to have taken financial advice
- around 60% of drawdown and annuity customers stayed with their existing provider

Making the right decision

The age at which you can draw your pension is currently 55, but this is set to increase to 57 from 2028 and, from then, in line with the rise in the State Pension age, albeit remaining 10 years below.

From 6 April 2015 those aged 55 or in a defined contribution pension plan are able to access pension savings in a number of different ways:

- buying an annuity
- Flexi Access Drawdown – previously known as flexible drawdown
- uncrystallised Funds Pension Lump Sum (UFPLS) – this allows you to draw money directly from your pension fund. Of each payment you withdraw, 25% is tax-free and the other 75% is taxed as income via PAYE

It's also important to consider not only your pension savings – including the state pensions – but also any other savings and investments you may have. And if you choose to continue to invest amounts that you don't need to access immediately, you should think about:

- your current essential income needs such as your day-to-day living expenses and other known or planned expenditure
- your current health status
- your lifestyle and the 'non-essential' expenditure, such as holidays, new cars, sports and hobbies, entertainment etc
- future possible/anticipated living expenses incorporating, possibly, a budget for care
- unexpected expenses such as car repairs, home maintenance and health problems
- gifts – either now or in the future
- the extent to which you'd like to leave an inheritance for your family and dependants

With choice comes complexity, so it's important to take advice before making decisions on your pension.

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HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

If you're looking to access your pension savings or you'd like advice on your pension choices, please get in touch.

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Are cash ISAs still relevant?

Since 2012, the average cash ISA rate has fallen from 2.84% to just 0.82%, while stocks and shares ISAs are performing far better, delivering an average growth of 7.4% during the 2014/15 tax year.

Clearly the latter carry a varying degree of investment risk (depending on the type of funds you invest in), but does a record-low savings rate mean cash ISAs are dead?

The benefits of a cash ISA

Whatever the current rate of interest, the fact is that savings in a cash ISA are free from income tax and they don't count towards your Personal Savings Allowance. This means you can have a cash ISA and earn up to £1,000 income from other savings (£500 if you're a higher-rate taxpayer), before having to pay tax.

Whether or not you choose to invest in the stock market, you'll always have a need for rainy day funds in the event of an emergency and as a safe, tax-efficient haven, cash ISAs are a useful vehicle. They are easy to open, you normally won't need to give notice to withdraw funds and anyone over 16 can save up to £15,240 in the current tax year.

Investing in the stock market

If these benefits still don't outweigh the chance of a better return on your money, it's worth looking at a stocks and shares ISA, where you can invest in individual company shares, unit trusts, investment funds, government bonds and corporate bonds.

By choosing to invest in a stocks and shares ISA you don't pay capital gains tax (CGT) on any gains made – great if you exceed the £11,100 annual CGT allowance. However, as with any stock market investment your money is at risk, so you'll need to think about how much risk you are prepared to take before you take the plunge.

The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on individual circumstances.

Although there is no fixed term, you should consider stocks and shares ISAs to be a medium to long term investment of ideally five years or more.

The value of your investments and any income from it may fall as well as rise and is not guaranteed. You may get back less than you invest.

You should not use past performance as a reliable indicator of future performance.

If you're not happy about the return you're getting on your savings, please get in touch and we'll help you explore your options.

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