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Financial Viewpoint

Your latest newsletter from Financial Planning Hub

Pension freedom – the headlines

Today's pension savers can enjoy far greater freedom over how they access their pension savings, but it could lead to some making wrong decisions and paying unnecessary tax.

That's why it's important to understand what the changes mean to you and take professional financial advice so that you can make the right decisions with your pension.

Power to the people

Since April 2015, people over the age of 55 have had greater power over how they take their retirement savings and more choice in terms of the options available. It's now possible to:

- take your pension fund as cash in one go
- take smaller lump sums as and when needed, leaving the rest invested
- take a regular income

The latter could be via income drawdown, where you draw directly from the pension fund which remains invested, or via an annuity, where you receive a secure income for life. However, any withdrawals in excess of the tax-free amount will be taxed as income at your marginal rate.

So, if you are a basic-rate (20%) taxpayer, any income you draw from your pension will be added to any other income you receive, which could push you into the higher (40%) or even top-rate (45%) income tax bracket.

Choosing to take your pension out in stages, rather than in one go, could help you manage your tax liability.

Combining smaller pots

If you have multiple pension pots you may want to think about transferring them so that they are all in one place. This would make your pension savings easier to manage and you may benefit from more investment choice than the current provider offers. However, there could also be disadvantages like exit penalties or a loss of benefits.

If you're thinking of transferring an old pension plan please talk to us first so that we can help you make a fully informed decision.

Think about the long term

Although it might be tempting to take your whole pension pot at age 55, remember that the money has to last as long as you do.

Calculating the right level of income to last you through retirement could be tricky; you don't want to use up your money too quickly, or live more frugally than you actually need to. So how long do you think your retirement income needs to last?

According to Just Retirement's longevity calculator, a 60 year old man of average health has a 50% chance of living to the age of 90, compared to a 60 year old woman with a 50% chance of living to 93.

Pension death benefits

Another important change (that perhaps hasn't been as well publicised) relates to pension death benefits. Before April 2015 you could only pass on your pension savings to one of your dependants and keep them invested within the tax-efficient pension wrapper.

Under the new rules, you can now pass on the wealth built up through your pension savings to anyone you choose, with the funds still remaining within their tax-efficient pension wrapper until they are needed. The rules around how this works in practice can be complex, but in principle it means your beneficiaries will receive more of the wealth you've created because it won't be eroded by taxation.

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

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

If you're looking to access your pension, or you'd like to understand what death benefits are available from your current pension provider, please get in touch.

OW0281 Exp. 31/03/17

Buy to Let tax revamp

Tax changes in the Buy to Let market announced in the 2015 Budget will impact on a landlord's tax bill and potentially hit profits.

- From April 2016 Stamp Duty Land Tax for Buy to Let property purchase increased by 3%.
- From April 2017 landlords will only be able to claim relief back on their mortgage finance costs at the basic rate of 20%, although the withdrawal of the higher rate reliefs will be phased in over four years.
- The 10% 'wear and tear' tax relief was replaced in April 2016. Landlords can now only claim tax relief when they replace furnishings.

Tax relief to be slashed over four years

While the extra 3% stamp duty on Buy to Let properties wouldn't have gone down well with landlords, perhaps the biggest change affecting people with property portfolios relates to the relief restriction on loan interest.

At the moment, landlords can deduct mortgage interest from their profits, which can significantly reduce their tax bill. From April 2017, however, this tax relief will reduce, until April 2021 when it will be restricted to the basic rate of income tax (currently 20%). This means those on higher incomes will find themselves losing much more in mortgage interest payments.

According to the estimates from Nationwide building society, an investor with a £150,000 Buy to Let mortgage on a property worth £200,000 attracting a monthly rental income of £800, is likely to see his or her net annual profit drop from £2,160 a year to just £960.

The changes in income tax relief are being phased in from 2017 to 2021, which allows a period of time to adjust to the impact. That said, it will make a fundamental difference in the economics of property investment; rather than lock into a five year fixed rate today, landlords may be tempted by shorter-term fixed rate deals to get lower rates of interest.

A level playing field

While the major players in the Buy to Let market will see their profits shrink, it might mean less competition for landlords on a lower income, or those new to the market.

If you're considering a first time Buy to Let purchase it's important to plan carefully. Make sure you:

- know what you want from your investment and plan thoroughly
- research the market, the area and the property before you buy
- identify the type of tenant you'd want living in your property
- ask us about the right Buy to Let mortgage deal for your circumstances

Buy to Let mortgages are not regulated by the Financial Conduct Authority.

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 a Buy to Let landlord or you'd like help investing in your first Buy to Let property please get in touch.

OW0224 Exp. 31/03/17

Your home may be repossessed if you do not keep up repayments on your mortgage

Home truths

The LV= Home Truths Report has revealed that homemakers are happier than people working in any other occupation, despite working longer hours than most people think.

Flexible hours, being able to spend time with the children and relatively low stress levels all contribute to homemakers generally feeling happier than those in full time jobs, even though they work, on average, 66 hours in a five day week.

It all adds up

As well as being crucial to the home and family, the role of the homemaker also contributes to the economy. In fact, the Office for National Statistics suggests an equivalent salary for a homemaker would be £38,162 a year, covering tasks like childcare, cooking, cleaning, transportation, shopping and doing the laundry.

Perhaps we underestimate the value of a homemaker though, as only 7% have taken out Income Protection insurance that would replace some, or all, of the £733 a week needed to pay for alternative cover.

Deadline to the breadline

To make things worse, families would only be able to manage to pay for help for just 18 days, on average, before they ran out of savings or had to borrow money – even though their first priority would be making sure their children are looked after.

It goes to show that there's often a gap between our aspirations for our children and the steps we will take to ensure they can be realised.

While none of us want to think that an accident or illness will happen to us, life's nasty surprises can (and do) happen to anyone and at any time.

If you have children, or a partner who rely on you or your income, it's important to review your personal protection plans and make sure you have sufficient cover in place. We can help. Talk to us and we'll make sure you have the right cover for your circumstances.

OW0229 Exp. 27/03/17

New State Pension: what's your entitlement?

Between December 2015 and May 2016 around 400,000 people accessed their State Pension statements, a 40% increase on 2015 when there were 400,000 requests in total for the entire year.

This significant increase is down to the launch of a new online system which calculates your likely State Pension entitlement based on your National Insurance records. Previously, only people aged 50 and over could get a forecast by applying over the phone or by post to the Department for Work and Pensions (DWP).

Calculate your entitlement

To access the new online system, go to www.gov.uk/check-state-pension and follow the prompts. You'll need to confirm your identity using the Government Gateway.

The service gives you a personalised statement showing an estimate of what you might receive once you reach State Pension age, based on your National Insurance Contributions (NICs). It's a quick and easy way of highlighting what you're eligible for and it can help show you how much you need to save elsewhere, as part of your retirement planning.

It is particularly helpful given the launch of the new State Pension in April 2016, which introduced a new flat rate of £155.65 (2016/17 tax year), sparking confusion amongst workers over whether they would be better or worse off under the new regime.

The new State Pension

If you're male, born after 6 April 1951, or a woman born after 6 April 1953, you are eligible for the new State Pension, however, you must have a minimum 10 years' of NICs.

You need 35 years' NI record to qualify for the full £155.65 (an increase of five years on the old entitlement) and if you've built up entitlement to additional State Pension under the old system, you may get more or less if you were 'contracted out'.

The value of advice

Whatever your entitlement to the State Pension, your retirement planning is too important to ignore. We can help you assess what you might be eligible for and what you need to do to achieve a level of income in retirement that you'd be happy with.

To discuss your pension planning in more detail please get in touch.

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