

# Viewpoint



## **Cash ISAs**

Are they still worth the investment?

## **Is your pension tax efficient?**

A run-down of the allowances and tax-efficient accounts which reduce your tax liability.

## **Pension Advice Allowance**

A government initiative to get more people access to crucial advice.

## **Saving for a happy retirement**

How much would you need for a comfortable retirement?

## **Risk vs reward**

When it comes to investing, it's a fact that risk and the potential for reward go hand in hand.

## **Lasting Power of Attorney**

Making sure people you trust can look after your affairs if you become mentally or physically unable to.

## **The State Pension - all you need to know**

Do you know what you're entitled to?



# Are Cash ISAs worth the investment?

After the Bank of England (BoE) cut interest rates to reassure the market following the Brexit vote, cash ISA returns plummeted.



*For advice on ISAs and other types of investment planning, please get in touch.*

According to Telegraph Money cash ISA returns fell by as much as 35% in the six months after the BoE's decision. A quick google shows the best rates on offer currently are just over 1% for an easy access cash ISA (meaning you can withdraw your money at any time) and 1.4% if you're prepared to lock your savings away for three years.

## So are cash ISAs still worth the investment?

Before you decide, there are a couple of other factors to consider.

The weaker pound – a by-product of Brexit – is driving up inflation. According to The Office for National Statistics: inflation has been steadily increasing since 2015 and hit 2.3% in March 2017. The BoE has predicted it could reach 2.8% by the middle of 2018.

With interest rates at record lows, this is bad news for savers; inflation eats into the value of your savings, so unless you're earning a higher rate of return, you effectively lose money.

The Personal Savings Allowance (PSA) which was introduced in April 2016. It lets you earn up to £1,000 in interest tax-free on your savings if you're a basic rate taxpayer and £500 if you're an higher rate taxpayer (additional rate taxpayers don't receive a PSA). This cancels out some of the benefits

offered by a cash ISA – earning tax-free interest on your savings – especially since the annual limit is only £20,000 (in the 2017-18 tax year).

Of course, there may be cases when a cash ISA makes sense. If you switch to a higher tax bracket in the future, you might lose out on some or all of your PSA. And if you're already an additional rate taxpayer, then it's the only way you can earn interest on your savings tax-free. Another benefit that may not be available with other types of savings products is that your spouse or civil partner can inherit the money you hold in a cash ISA tax-free.

You need to decide whether or not a cash ISA is right for you based on your personal financial situation, but while interest rates remain low, it might be worth considering investing in a stocks and shares ISA instead. These bring with them an element of risk of course, but there's also the potential for greater return. Stocks and shares ISAs are considered medium to long-term investments and you should be prepared to invest for at least five years.

*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 the individual circumstances. The value of your stocks and shares ISA and any income from it may fall as well as rise. You may not get back the amount you originally invested.*



# Is your pension tax efficient?

Since April 2015, pensioners have had greater freedom over how they manage their retirement savings. No longer forced to buy an annuity, they can now leave their money invested and draw an income from it (known as flexi-access drawdown).

Whether you've already stopped working, or you're planning to retire soon, you should be familiar with the various allowances and tax-efficient accounts which may reduce your tax liability. Here's a brief summary:

## Tax-free lump sum

You can take a tax-free lump sum of 25% of your total pension pot. With the rest, you can either buy an annuity or reinvest it and draw an income.

Alternatively, you can withdraw the full pot as cash and pay tax on the other 75%, or delay taking it so it remains invested.

Another option is to take smaller amounts on a more regular basis and leave the rest untouched. Each time the first 25% is tax-free, but you pay tax on the balance. In this case, your pot isn't reinvested.

## Personal allowance

For anyone earning up to £100,000, you don't pay tax on any form of income up to the personal allowance of £11,500 (in the 2017-18 tax year). This allowance is reduced by £1 for every £2 earned above the threshold. So when you stop working and start drawing pension income, you won't pay tax on it until the payments exceed your personal allowance. However, as long as you're still employed, even in a part-time job, your earnings eat into your allowance.

The tax-free lump sums discussed earlier don't count towards your personal allowance.

## Individual Savings Accounts (ISA)

If you decide to withdraw a lump sum, one option is to put it in a cash or stocks and shares ISA. ISAs are tax-efficient accounts which protect returns (interest earned in a cash ISA, and gains and income generated by a stocks and shares ISA) from income tax and capital gains tax. The annual ISA allowance of £20,000 in the 2017-18 tax year may come in handy if your pot is big enough.

## Dividend allowance

You can earn dividends tax-free on investments you hold outside your ISA thanks to the annual dividend allowance. This is £5,000 for the 2017-18 tax year, although it falls to £2,000 from April 2018.

## Personal Savings Allowance (PSA)

You can also take advantage of the PSA for any savings you have outside a cash ISA. Basic rate taxpayers can earn £1,000 in interest tax-free and higher rate taxpayers can earn £500. Additional rate taxpayers don't get a PSA.

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

The value of your investments and any income from them may fall as well as rise and is not guaranteed. You may get back less than you invest. Stocks and shares ISAs are considered medium to long-term investments and you should be prepared to invest for at least five years.



*If you'd like advice on your retirement options or pension income, please get in touch.*





# Pension Advice Allowance

Financial decisions affecting your retirement income will be among the most important you'll make during your lifetime and investing in timely financial advice could provide a welcome boost.



*Getting advice can help you get more from your money. If you'd like to discuss any aspect of your savings and investments please get in touch.*

Since April 2017 it has been possible to withdraw £500 from pension pots (defined contribution or hybrid pension scheme savings with an element of defined contribution) in three separate tax years, to put towards the cost of this advice without incurring a tax charge.

This 'Pension Advice Allowance' was announced in the 2016 Budget and implemented in April 2017. It is part of a government initiative to give more people access to advice so that they can plan better for their retirement.

And it seems there is a genuine need for this support; with research from Citizens Advice suggesting that nearly half of people (49%) are worried they won't have enough pension savings for a comfortable retirement.

## The value of advice

While the cost might be a barrier to some in terms of taking financial advice, it can make a positive difference to the amount of retirement income you could receive.

Research has found that when approaching retirement only 22% of people know the value of their pension pot and only 14% of people would be confident planning their retirement goals without financial advice.

The £500 allowance allows you access to retirement advice at different stage in life, eg; when first choosing pension or just prior to retirement. The value of this advice should not be underestimated. UK savers with a pension pot of £100,000 save, on average, £98 more every month and receive an additional income of £3,654 every year of their retirement, if they take financial advice.

*Contains public sector information licensed under the Open Government Licence v3.0.*

## At a glance

The Pension Advice Allowance of £500:

- can be used up to three times, only once in any tax year
- is available at any age
- can be redeemed against the cost of face-to-face regulated advice
- will be available to holders of defined contribution pensions and hybrid pensions with a defined contribution element

**Taking advice on your pension planning could give you extra income every year in retirement**



# What's the cost of a comfortable retirement?

Have you ever stopped to think about the monthly income you'd need to provide for a comfortable retirement?



*Whether you're in your 20s or 60s, on track with your savings or worried you're behind where you should be, please get in touch and we'll help you explore your retirement income options.*

If you're thinking it would be the equivalent of your current salary you've probably overestimated.

Remember, by the time you retire, you will hopefully have paid off your mortgage, your kids (if you had them) will have flown the nest and you won't have to cover the cost of commuting to work. In fact, research by Which? suggests you'll probably need between half

and two thirds of your final salary, after tax, to achieve a comfortable lifestyle in retirement.

According to Which? retirees will need £18,000 a year to cover household essentials such as food £3,967, utilities £2,040, transport £2,407 and housing costs £1,444.

Average annual spending for retired couples	Comfortable lifestyle £26,000	Luxurious lifestyle £39,000
Long-haul holidays	£ -	£7,415.00
European travel/holidays	£4,414.00	£4,414.00
New car cost	£ -	£4,376.00
Groceries	£3,967.00	£3,967.00
Housing payments	£2,969.00	£2,969.00
Insurance	£2,457.00	£2,457.00
Transport	£2,407.00	£2,407.00
Utilities	£2,040.00	£2,040.00
Recreation and leisure	£1,591.00	£1,591.00
Household goods	£1,444.00	£1,444.00
Leisure membership	£ -	£1,338.00
Health	£1,287.00	£1,287.00
Buying new clothes	£1,092.00	£1,092.00
Tobacco/Alcohol	£933.00	£933.00

## Saving sufficiently

Now you know the sort of income you'd like in retirement; how much will you have to save each month to achieve it?

Which? suggests, alongside the State pension, to generate an annual combined income of £26,000 couples will need a defined contribution pension pot of £210,000.

For a luxurious retirement, this more than doubles to £550,000 invested in income drawdown with 3% investment growth. The table below shows the money you'll need to be saving each month to achieve this – obviously, the amount increases as you get older:

Age	Comfortable	Luxurious
20	£131	£342
30	£198	£424
40	£338	£731
50	£633	£1,657

The numbers may look scary but when it comes to saving for the lifestyle you want in your retirement the earlier you start and the more you can contribute the better.

*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.*

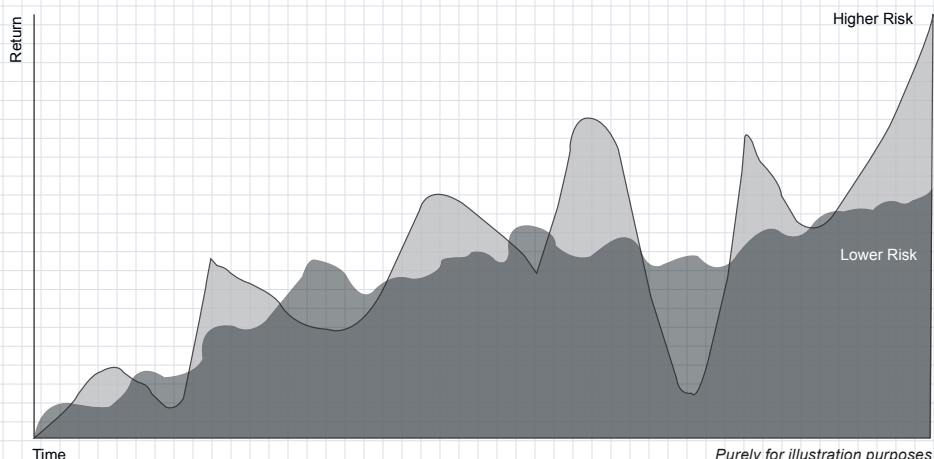


# Risk vs Reward

While homeowners can still benefit from low mortgage rates, savers will be struggling to enjoy any kind of growth on money they have on deposit, leading some to consider a riskier investment. If you're thinking about investing in the stock market, one crucial and very personal issue is how you feel about the prospect of putting money at risk and your ability to accommodate any loss in value.

## What's your appetite for risk?

It's a fact that risk and the potential for reward go hand in hand: Investments that are low in risk are low in potential reward, whereas the more risk you're willing to take with your money the greater the potential for reward.



## Factors in determining risk

As investment advisers, we will consider a range of factors when assessing your attitude to investment risk:

- **Age** – how old you are may affect how you would like to invest, particularly the closer you get to retirement.
- **The need for emergency cash** – you should always keep a certain amount readily accessible (for example, in a deposit account) in the event of an emergency or as a foundation for your longer-term savings and investment.
- **Can you afford to take a risk?** – if your investments dropped in the short term, do you have the time to wait for them to recover?
- **Can you afford not to take a risk?** – leaving all your money on deposit may carry minimal risk, but you may miss out on higher potential returns and possibly see the spending power of that money fall due to inflation.
- **Are there tax-efficient opportunities available** – such as pensions or ISAs?

## Devising an appropriate investment strategy

Once you are clear about the risk you need to take to reach your goals you'll need an investment strategy that is finely calibrated to deliver the results you're looking for.

This is where a number of other key aspects of investment come into play:

1. **Avoiding the 'eggs-in-basket' principle.**  
We can make sure your portfolio is invested across a range of assets in order that the positive performance of some, neutralises the negative performance of others.
2. **Making sure your money is in the hands of some of the best and most consistent investment managers in the business.**
3. **Making sure you can give your investments time** – the longer you can leave your investments in place, the more likely you are to cope with any short-term changes in market value.

## Talk to us

As members of Openwork, one of the UK's largest networks of financial advice businesses, we follow a clear and thorough process designed to clarify exactly what you need from your investments. We also have access to a meticulously researched and managed range of investments specifically designed to meet clients' different needs.

Taken together, you will know not only that your money is in good hands, but also that, given time, there is an increased level of probability that it will perform in line with your expectations.

## Need advice?

Good investment advice involves building a clear picture of the results you're looking for, taking into account your current financial position, your future goals and your personal attitude towards the subject of investment risk.

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





# Lasting Power of Attorney

A will deals with matters in the event of your death, but what if you became unable to handle your affairs while still alive?



*If you would like any assistance in deciding whether an LPA would be suitable for you, or any help setting up an LPA, please get in touch.*

As you get older, a physical or mental illness could affect your ability to manage personal affairs. If the prospect of this worries you, you should consider setting up a Lasting Power of Attorney (LPA). This is a legal document which allows you to appoint one or more people to either help you make legal decisions, or make them entirely on your behalf.

Knowing that your financial affairs will be looked after by people you trust can give you valuable peace of mind.

## Types of cover

There are a number of different types of LPA available depending on the requirement:

1. Ordinary POA
2. Lasting POA
3. Enduring POA (replaced by LPAs on 1 October 2007, but still valid if you signed one before this date)

Ordinary Power of Attorney can be used while you still have the mental capacity to make your own decisions, but need temporary assistance. For example, if you are hospitalised or on holiday and you want to empower someone to make financial transactions on your behalf.

Lasting Power of Attorney is required if you want to give someone the legal authority to make decisions on your behalf in the event you lose mental capacity. There are two types of LPA:

1. Health and Welfare LPA - your appointed 'attorneys' will be able to act on your behalf if you become completely unable to make decisions regarding your own wellbeing. For example, if your circumstances mean you require full time care, or a particular medical treatment they will step in and act in your interests.

2. Property and Financial Affairs LPA - your attorneys can make decisions concerning your bank accounts, paying bills or even selling your home if required. Unlike the Health and Welfare LPA, this version can be used as soon as it is registered, but only with your permission – ie. you are still fit to make other decisions on your affairs.

## Choosing your attorneys

When deciding who you would like as your attorneys, there are a few things to consider:

- How well do you know them?
- How well do they look after their own affairs?
- Do you trust them to make decisions that are best for you?
- Will they be comfortable making these decisions?

If you choose more than one attorney, you'll also need to decide whether they will make decisions separately or together.

When you set up your LPA you can nominate replacement attorneys in case your chosen attorneys become unable to carry out the role for whatever reason.

*Lasting Powers of Attorney are not part of the Openwork Limited offering and are offered in our own right. Openwork Limited accepts no responsibility for this aspect of our business.*

*Lasting Power of Attorney is not regulated by the Financial Conduct Authority.*

# The State Pension – all you need to know

Changes to the State Pension which took effect on 6 April 2016 were designed to simplify the system. With the earnings-related part applying to employed people removed, what you could qualify for depends on your National Insurance (NI) record.

For the current tax year 2017/2018, the new State Pension is £159.55 per week. To be eligible to receive the state pension you'll need to have made NI contributions for a minimum of 10 years and 35 years to be eligible for the full amount. However, you might get more than this if you've built up entitlement to additional state pension under the old system, or less if you were contracted out.

## Contracting out

Under the old State Pension rules and up to 5 April 2016, you could 'contract out' of the additional State Pension, which meant you and your employer could pay lower NI contributions into the state system.

You could not contract out of the basic State Pension, but you could pay lower NI contributions if you were part of a private pension, such as a workplace or personal pension scheme, that could build up to replace the element of Additional State Pension you were opting out of.

If you were contracted out, your starting amount for the new State Pension might be lower than it is for people with similar circumstances who remained contracted in. You might get the equivalent amount from your workplace or personal pension scheme unless:



your scheme got into financial trouble and wound up underfunded



your rights were transferred to a scheme that was not linked to your earnings and investments in that scheme did not perform well

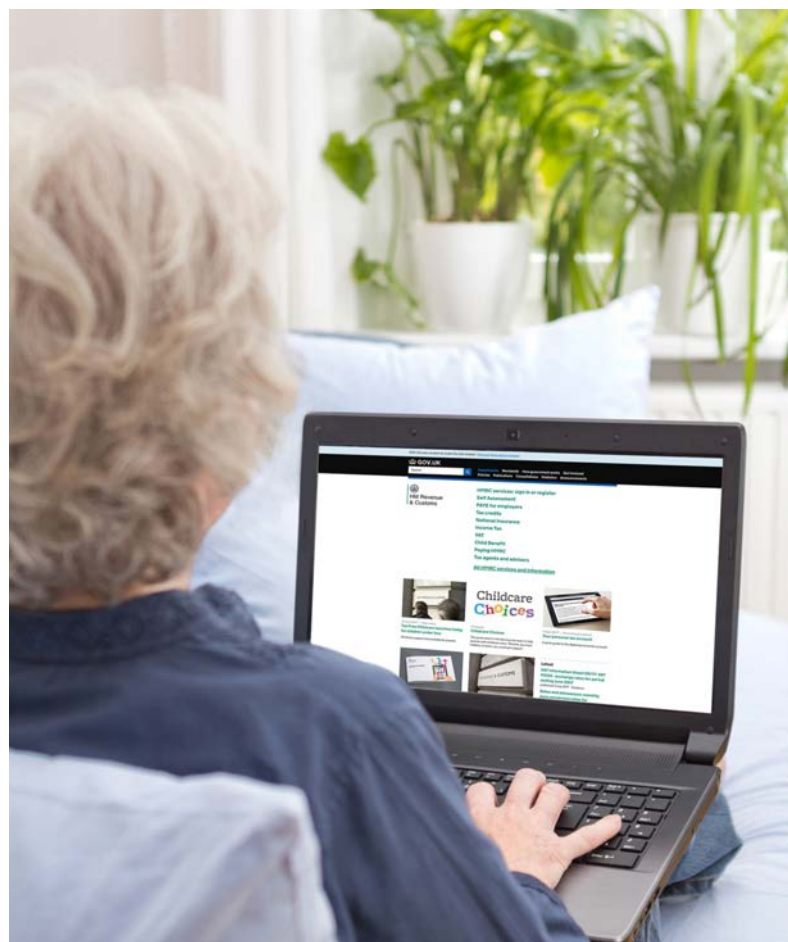
You should know if this applies to you, but if you're in any doubt and think you may be affected you can contact your scheme.

## 'Topping up'

In some cases you may be able to have your State Pension worked out using different rules that could give you a higher rate if you chose to pay married women and widow's reduced-rate NI contributions.

The rules on how you can increase your State Pension and what you can inherit will be different depending on when you and your spouse or civil partner reach State Pension age. You can find out more at [gov.uk/state-pension-through-partner](http://gov.uk/state-pension-through-partner)

If you've not yet reached State Pension Age and worry you might not have enough NI contributions to get the maximum amount to qualify at all, you can make Class 3 National Insurance contributions. You will need to contact HM Revenue and Customs who will let you know if you can make the voluntary contributions and, if so, how much to pay.



*If you would like to discuss your pension requirements please get in touch.*



Financial Planning Hub  
1210 Parkview  
Arlington Business Park  
Theale  
Reading  
RG7 4TY

0118 9654155  
[info@financialplanninghub.co.uk](mailto:info@financialplanninghub.co.uk)  
[www.financialplanninghub.co.uk](http://www.financialplanninghub.co.uk)

