e-news

AUTUMN 2016

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Unwelcome surprise on single-tier pensions

The Department for Work and Pensions is sending out bad news to over 100,000 people.

In the run up to the April launch of the new single-tier state pension, the government publicity placed considerable emphasis on the amount of the new single-tier pension (£155.65 a week in 2016/17). However, that was not the whole story and there are three groups that in the short term could receive less under the single-tier system than they would have under the old regime, had it continued:

1. If you have a National Insurance contribution/credit record of fewer than 10 years by the time you reach your state pension age (SPA), then you will receive nothing from the single-tier pension regime. The Department for Work & Pensions has recently announced that it will be writing to over 100,000 people affected by this 10-year rule.

2. If your old regime pension entitlement relied upon your spouse's National Insurance contribution record, then this is no longer available to you: only your own contributions count.

3. If you were a member of a contracted out final salary scheme between 1978/79 and 1987/88, you will lose some inflation protection on your pension, once payment begins.

The best way to find out your single-tier pension entitlement is to obtain a projection from the Department for Work and Pensions website (www.gov.uk/check-state-pension), which will also tell you when you reach your SPA – it may not be when you think! Once you have the projection, your next step should be to talk to us about your retirement options.

Drawing your pension benefits?

If you are going to turn your pension fund into a retirement income in the near future, the outcome of the EU referendum has complicated matters.

If you are at the stage of converting your pension fund into a retirement income you may feel circumstances are conspiring against you, as annuity rates fall in the wake of the Brexit vote. In fact, the recently introduced flexible pension regime has given you more choice in how you can draw your benefits. All of these choices may not be immediately obvious because some pension providers limit flexibility on their older arrangements. However, it is usually a straightforward matter to transfer to a new arrangement with greater flexibility.

Under the new pension flexibility you can draw down part (or even the whole) of your pension fund as a lump sum, with 25% normally free of tax and the balance subject to income tax. Any undrawn portion remains invested and can be used to pay out more at a later date. Depending on your circumstances, you could use a series of payments to provide a stream of tax-efficient income. With investment markets volatile, drawing from your pension plan only what you need can make sense, avoiding a large one-off sale and reinvestment, as would be the case with an outright annuity purchase.

Designing the appropriate structure for your retirement income is not usually a DIY task: individual, expert advice is essential to avoid the pitfalls. Choosing the wrong option can create large tax bills or leave you locked into a poor value solution for the rest of your life, which might mean the next 30 years.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

Beware the Autumn Statement

This year's Autumn Statement will be the Treasury's first post-Brexit set piece. It will not be an easy exercise.

Before the referendum, the then Chancellor George Osborne warned that a Leave vote would be followed by an emergency Budget with £30bn of tax increases and spending cuts. After he found himself on the losing side, Mr Osborne abandoned not only his Budget plans but also his target to end fresh government borrowing by 2020.

His successor, Philip Hammond, will be facing at least some of the issues that prompted Mr Osborne's original warning: the economy will be slowing and government finances will almost certainly be worsening as a result. In such circumstances it is possible that the new Chancellor will introduce the pension tax reforms which were on Mr Osborne's March agenda. It would be a quick way to raise some extra revenue.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice. The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Growing fines on auto-enrolement

The latest report from the Pensions Regulator shows that as automatic enrolment spreads through smaller employers, warnings and fines for 'non-compliance' are soaring.

In the second quarter of 2016 the regulator issued nearly 3,400 compliance notices, more than 850 fixed penalty notices of £400 apiece and nearly 38 escalating penalty notices (which can be as high as £10,000 a day).

Make sure you are prepared for your employer responsibilities or you could be adding to those numbers in the future. The value of your investment can go down as well as up and you may not get back the full amount you invested.

How much are you prepared to risk?

The outcome of the EU referendum was a reminder that risk comes in many forms, including political risk. Following the decision to leave the institution that has been a core part of our economic and political lives in one form or another for 43 years, we have also seen a change of Prime Minister in mid-term and a vote of no confidence in the leader of the main opposition party. On a national level, that's a lot of risk.

No one wishes to lose money on their investments, but most people are aware that for additional gain there is almost always increased risk. Understanding your attitude to risk and capacity to absorb loss is key to investment planning.

The process of establishing your attitude to risk will start with you completing a risk questionnaire. A psychometric questionnaire can be a good way to check how you view investment risk. That's usually a starting point for discussion of the nature of investment risk and your attitude to it. The extent to which you are prepared to take on investment risk could range from being exceedingly cautious, through being prepared to consider a moderate degree of risk to being adventurous in your approach.

But it is also important to consider what is called your 'capacity for loss' – how much risk you can afford to take. This is the degree to which your personal circumstances and opinions will have an impact on the specific investment recommendations. For instance, an investor may be willing to buy very risky investments but may have limited resources and a very short-term goal – for example to build up enough capital to pay for their children's school fees starting in four years' time. Their need to avoid risk because of their short time scale and modest means should outweigh their willingness to buy risky investments.

If you are having second thoughts about the basis of your investment approach, please ask us for a new risk review.

Inheritance tax: the silent tax collector

The government's receipts from inheritance tax (IHT) have been rising much faster than the yield from other taxes.

IHT is a good example of one of the lower profile taxes quietly producing an increasing slice of revenue for the Exchequer. In 2016/17 IHT is projected to raise almost £5bn, over double what it produced in 2009/10. There are many reasons why the Treasury's IHT income is outpacing the growth in overall revenue, but the most significant is probably the freezing since April 2009 of the nil rate band – broadly speaking the amount of your estate (after any exemptions) not subject to tax at 40%.

If you do not want the Exchequer to be a major – or even the largest – beneficiary of your estate, then the sooner you begin planning, the better. The starting point is making sure your wills are up to date – or putting in place a will if you are currently relying on the vagaries of intestacy law. Once the structure of your will is settled, there are no simple rules of thumb for the next stage, other than to take expert advice. Estate planning requires a clear, holistic approach and needs to be integrated with other aspects of your personal financial planning.

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