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Bulletin

Pensions planning – advice, not guidance

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The two words advice and guidance appear interchangeable, but they aren't.

Earlier this year HM Treasury formally launched Pension Wise, its service to offer consumer guidance on the new pension rules. The standard 45 minute Pension Wise session will only tell you in general terms what you can do with your pension pot: it will not set out what you should do, given your personal circumstances. In other words, Pension Wise only offers guidance, not advice.

That difference is key, although sometimes the distinction between guidance and advice is not as obvious as in the case of Pension Wise.

Guidance may be all you need if you are confident that you can make your own financial decisions – and carry out the necessary reviews and adjustments as personal and external circumstances change. But are you that confident and, even if you are, do you have the time and are you that well organised?

The pension reforms that prompted the invention of Pension Wise are simply the latest in a stream of changes to pensions, with more already promised. With timely advice tailored to your own situation, you may be able to pre-empt the impact of the next set of revisions.

A do-it-yourself approach based on general guidance could possibly leave you worse off if you fall into a tax trap. At that point one of the other key distinctions between advice and anything else becomes all too clear. With advice you have regulatory protection governed by the Financial Conduct Authority (FCA). Retirement provision is a key component of your financial planning, and a complex one. We are here to help.

Occupational pension schemes are regulated by the Pensions Regulator. Tax laws can change. The FCA does not regulate tax advice.

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Pensions freedom: what's in store?

The bulk of the pension reforms are now in place. After so much rapid change, here is a reminder of what's in force and what may yet be to come.

The reforms to pensions which were first announced in March 2014 are now mostly in force. In the year after the 2014 Budget, there have been a variety of revisions and further announcements, with more emerging in this year's Budget, so here is a quick refresher of where we are now. As ever, there could be a difference between what is legislatively possible and what your pension provider is willing to administer:

Income flexibility For defined contribution pension schemes (or money purchase schemes as they are sometimes called) such as personal pensions, you now have complete freedom in how you draw your benefits once you reach minimum pension age (normally 55, but set to increase to 57 in 2028. In theory you can withdraw your entire pension fund as a lump sum. The old 'capped drawdown' rules which placed a limit on the size of the yearly draw now only apply if the withdrawals started before 6 April 2015, although It is now possible to opt out of these limits and to apply the new rules.

In theory you can draw 25% of your fund as a lump sum free of income tax, with the balance taxable as income. However, the precise tax treatment of withdrawals is complicated and different ways of extracting cash can yield substantially different tax liabilities. Two issues have come to the fore:

- A large withdrawal can push you into another tax band (or bands) and, in some instances, mean loss of your personal allowance.

- Tax is deducted from pension income under the pay-as-you-earn (PAYE) system, which was never designed to deal with large one-off payments. As a result the tax taken from your lump sum payment can be more – or sometimes less – than your actual end-of-year liability.

Death benefits There is normally neither inheritance tax (IHT) nor any other tax charge on lump sum death benefits if death occurs before age 75: from that age a 45% flat rate applies (but again no IHT). The 45% rate is due to fall to the beneficiary's marginal income tax rate from 2016/17, but the legislation for this has not yet been passed. As an alternative to a lump sum, income payments (as withdrawals or an annuity) can be taken, which are also tax free if death occurs before age 75 – normal income tax applies thereafter.

Pension funds can now be passed down through generations, so if a beneficiary does not exhaust all of the fund through withdrawals, the residual amount can be handed onto their nominees, with the same tax rules applying.

Future changes The March 2015 Budget contained announcements of two further changes from April 2016, although these have not yet been passed we may hear more of them in the second Budget in July:

- A further reduction in the lifetime allowance – the effective maximum tax-efficient pension fund value – to £1m; and

- An option for existing pension annuity holders to sell their right to income in exchange for a lump sum or other pension benefits.

These wide-ranging changes mean that you probably need us to review your retirement planning and/or your estate planning. Similarly, if you intend to extract money from your pension using the new flexibility, we would strongly recommend that you contact us before taking any action.

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.

The limitations of investment platforms

At present platforms cannot cope well with some of the older investment plans and the only option would be to surrender the plan which might not be in a client's interests.

Some clients hold very large amounts on deposit and these are best spread amongst different banks and building societies. While platforms can hold a wide range of products, someone holding a structured product for six years may feel there is no benefit in holding this on a platform given the platform charges.

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Post-election financial planning

The surprise election result has removed some potential tax increases, but a variety of delayed tax measures and manifesto promises remain.

The Conservatives' unexpected victory on 7 May means that the threat of a mansion tax on properties valued at over £2m has disappeared and a return to a 50% additional rate is off the agenda. However, as a percentage of economic output, the government deficit is larger than Greece's according to the IMF, so any tax cuts will need to be balanced by increases elsewhere and/or further expenditure cuts.

There is already one subtle tax increase left over from the March Budget which is due to be legislated for and take effect from April 2016. The effective tax-efficient maximum value of pension benefits, the standard lifetime allowance, may drop by 20% to £1m. In addition, the Conservatives' manifesto announced another pension tax change with a phased reduction in the annual allowance (broadly the maximum tax relieved total annual contribution) for those with income above £150,000. If either of these changes might affect your retirement planning, then talk to us as soon as possible: some pre-emptive planning may be possible and you may need to claim some transitional protection.

The manifesto said that the latest cut in the annual allowance was to finance a new main residence inheritance tax exemption of £175,000, transferable between married couples and civil partners. However, the relief would be phased out for estates above £2,000,000, with no relief at all for estates worth more than £2,700,000. The mechanics of how this will operate – particularly in the context of those who have to move into residential care – remain to be seen. It could be that, post-election, Mr Osborne opts for what would be a much simpler and not much more expensive alternative – an increase in the nil rate band to £500,000. While we wait to see what happens in the July Budget, in most instances estate planning – other than updating (or writing) wills – is best deferred.


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If the overseas market goes up, but your overseas fund goes down, currency may be the root cause. Many fund managers ignore currency risk, arguing that in the long run the fluctuations cancel each other out. To discover those managers with a more active approach in these volatile times, talk to us. 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.

Investing for children

There are now many options for investing on behalf of children, but one stands out as an obvious starting point.

The Junior ISA (JISA) is very similar to its adult counterpart, other than the maximum contribution limit, which in 2015/16 is £4,080. It offers the same tax freedoms – no UK income tax on interest or dividends (although dividend tax credits cannot be reclaimed) and no capital gains tax. Importantly, the rules which can tax parents on the income of capital gifts to their minor children do not apply to JISAs.

Since 6 April 2015 it has also been possible to transfer from existing Child Trust Funds (CTFs) to JISAs, a move which can be beneficial both in terms of broadening investment choice and reducing costs.


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The investment process – science, not art

Do you understand the way in which an investment portfolio is designed? If not, read on...

There are typically six stages to be worked through before your personal investment portfolio can be created:

1) **Risk profiling** All investment involves risk and understanding your risk profile is a key starting point. The profiling exercise involves two distinct elements:

   a) An assessment of the investment risk you are psychologically prepared to accept, which is usually carried out with the help of a series of profiling questions; and

   b) A calculation of the loss your finances could absorb, based on a detailed analysis of your income and expenditure, as well as your assets and liabilities.

2) **Goal setting** Investment is ultimately a means to an end. There is always a reason – and often more than one – for investing. Understanding what the reason is will set the strategy for the investments we recommend.

3) **Asset allocation** Once we have understood your acceptable levels of risk and your objectives are agreed, the first high level stage of deciding what to buy begins. Asset allocation, as this stage is labelled, involves a review of the appropriate broad types of investment and within each category the individual sectors.

4) **Fund selection** Once the high level choices are made, the next decision is which funds to use in each chosen sector. This requires a detailed analysis not only of a variety of performance statistics, but also a qualitative examination of the fund manager.

5) **Tax considerations** Tax should never dictate investment, but it can determine how and where investments are held – the so-called investment wrappers.

6) **Platform selection** With the funds chosen and wrapper decisions made, the final part of the process before implementation is the selection of a platform through which to make the investment. Overall value matters more than finding the cheapest.

Please get in touch with us if you need more information about choosing your investment portfolio.

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Income protection: looking out for your vital resource

Your ability to work is a vital resource. It allows you to keep a roof over your head and feed and clothe yourself and your family. Financial hardship can occur as a result of your inability to work for a significant period.

We tend to think of cancer and heart attacks as the main health threats, but the most common causes of long-term disability are stress-related issues and muscular-skeletal problems. This is not to minimise the suffering caused by conditions like cancer, but to recognise the economic reality of the threat to your income.

It is easy to undervalue your income. In terms of total sums at risk, the numbers can be very large and far exceed the lump sums you may arrange in a life insurance policy.

It does not take long to work out your total monthly expenditure obligations, such as mortgage repayments and bills for household essentials. How long could these be paid from your savings?

Income protection benefits are currently tax free. However, such cover can be expensive so it makes sense to at least arrange sufficient income to cover your monthly expenditure obligation.

The monthly benefit from an income protection policy may affect your claim to some means-tested state benefits. Whilst the state has a role in looking after those who suffer from a prolonged disability, this is very limited. So a little planning ahead could make a big difference. Let us know if you'd like to discuss your options.

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