MJR Wealth Management

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JANUARY / FEBRUARY 2019

PLAN, PREPARE

MAKING NEW YEAR'S TAX SAVING RESOLUTIONS

EXPLORING YOUR ISA OPTIONS
Time to give your financial future a boost?

KEEPING IT IN THE FAMILY
Careful planning can reduce or even eliminate the Inheritance Tax payable

FOR THE LIFE YOU WANT
Building up your nest egg is more discipline than difficult

STATE PENSION
Move to equalise male and female pension ages

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EXPERIENCE LIFE TO THE FULL

In this New Year edition, the start of 2019 is the optimum time when you may be thinking about resolutions and plans for the year ahead and beyond. It's a good time to start planning your tax affairs before the end of the tax year on 5 April. And as you think about 2019 and your goals for the coming year, we'll help to start you off on the right financial footing. Turn to page 04 to find out more.

As part of our continuing look at tax-efficient saving and investing, on page 06, we shine a spotlight on some of the different options available. Whether you consider yourself a savvy investor or a financial novice – and no matter what, why or how you want to save and invest – an Individual Savings Account (ISA) could help make your money work harder for you.

You may want to keep an element of control when passing on your assets. You may want your money to be used for a particular reason, such as paying for school or university fees or for a first property deposit. Or you may just want to make sure your money stays within the family. On page 11, we explain how intergenerational planning will help.

Plus, women will now start to qualify for the State Pension at the same age as men, currently set at 65. On page 03, we look at how the move to equalise male and female pension ages began 25 years ago and has been gradually phased in.

We hope you enjoy this latest edition and find it valuable. A full list of the articles featured in this issue appears opposite.

START OFF THE NEW YEAR BY REVIEWING YOUR FINANCIAL PLANS

A financial plan can help you balance your everyday needs against your long-term goals and enhance the probability of a secure retirement. What's more, it can introduce you to a means to help achieve a retirement income you cannot outlive, as well as help you plan to create a lasting legacy. If you would like to start off the New Year by reviewing your financial plans, please contact us.

CONTENTS

03
STATE PENSION
Move to equalise male and female pension ages

04
PLAN, PREPARE
Making New Year's tax saving resolutions

06
EXPLORING YOUR ISA OPTIONS
Time to give your financial future a boost?

07
PENSION UNLOCKING
Treasury enjoying a tax bonanza from pension withdrawals

08
FOR THE LIFE YOU WANT
Building up your nest egg is more discipline than difficult

10
LOOKING AT THE BIG RETIREMENT PICTURE
Considering making contributions ahead of the tax year end?

11
KEEPING IT IN THE FAMILY
Careful planning can reduce or even eliminate the Inheritance Tax payable

12
INCOME SEEKERS
Not putting all your eggs in one basket

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THE VALUE OF INVESTMENTS MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

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STATE PENSION

MOVE TO EQUALISE MALE AND FEMALE PENSION AGES

Women will now start to qualify for the State Pension at the same age as men, currently set at 65. The move to equalise male and female pension ages began 25 years ago and has been gradually phased in. Your State Pension age is the earliest age you can start receiving your State Pension. It may be different to the age you can get a workplace or personal pension.

The State Pension age has been undergoing radical changes, and more changes are planned for the future. Commencing this year, the State Pension age will increase for both men and women to reach 66 by October 2020. The Government is also planning to increase the State Pension age from 66 to 67 between 2026 and 2028.

STATE PENSION AGE EQUALISATION

Women aged 65 on 6 November were the first to wait for as long as men. For more than 60 years, women received their pensions at the age of 60, but that has been rising ever since. The equalisation of State Pension age and future planned increases are a further prompt to women to think about how much they'll need to save for a comfortable retirement.

While limited progress is being made to close the gender pay gap, other factors impacting women's ability to save adequately for retirement – including career breaks to raise a family or to care for elderly parents – aren't going anywhere.

VARIATIONS IN LIFE EXPECTANCY

The Government has made a commitment to review the State Pension age every five years. This includes an analysis of life expectancy projections by the Government Actuary's Department and reports from an independently led body on wider factors that should be taken into account when setting State Pension age, such as variations in life expectancy.

From now on, men and women will see their State Pension ages go up in tandem – increasing to 66 by October 2020, and 67 by 2028. The Government has also accepted the findings of the Cridland review, which recommended that the pension age should rise further – to 68 – by 2039.

RESULT OF SUCCESSIVE GOVERNMENTS

Women typically earn less from their State Pension than men, as they tend to work in more lowly paid and part-time jobs and therefore pay lower National Insurance contributions. Many with part-time jobs may also miss out on auto-enrolment pensions, as they do not earn enough to qualify.

The move to increase the State Pension age is the result of successive governments accepting that unless the qualifying age went up, the State Pension would become unaffordable. This is going to be kept under review, which means that it could change again in the future, depending on different factors, such as changes in life expectancy.. ◀

MAKE THE MOST OF THE NEXT CHAPTER IN LIFE

To keep yourself and your finances in good shape, we can help create a clear picture of what you need, so that the best is yet to come. To find out more or to discuss your requirements, please contact us.

PLAN, PREPARE

MAKING NEW YEAR'S TAX SAVING RESOLUTIONS

At this time of year, we think about New Year's resolutions, and it's also a good time to start planning our tax affairs before the end of the tax year on 5 April. As you think about 2019 and your goals for the coming year, we can help to start you off on the right financial footing. It's well worth spending some time in January to think about your money so you can achieve your goals as quickly as possible.

Tax planning might not sound very exciting, but it can have a dramatic effect on your personal finances. The Government and HM Revenue & Customs (HMRC) continue to clamp down on what they regard as tax avoidance and unacceptable tax planning. But there is still much that can legitimately be done to save or reduce tax.

MEETING YOUR FINANCIAL GOALS

Tax planning is one part of meeting your financial goals. By taking action now, it may give you the opportunity to take advantage of appropriate reliefs, allowances and exemptions, and consider whether there are any relevant decisions that you need to make sooner rather than later. Many of the tax and investment planning opportunities available require action to be taken before 5 April 2019.

While some people avoid making New Year's resolutions for fear that they will only break them, people who make financial New Year's resolutions are more likely to end 2019 in better financial shape than when they began.

READY TO PUT THE TIPS INTO ACTION?

Here we've provided some of the main areas you may wish to discuss with us, if appropriate to your particular situation.

TOPPING UP YOUR PENSION

Pensions are now more flexible than they have ever been and remain extremely tax-efficient. You'll receive tax relief at the basic rate of 20% on contributions made to personal and workplace pensions. So for every £80 you pay in, HMRC will top it up to £100. If you're a higher or additional rate taxpayer, you can claim back up to an additional 20% or 25% through your self-assessment tax return. However, if you are a Scottish taxpayer, the tax relief you will be entitled to will be at the Scottish Rate of Income Tax, which may differ from the rest of the UK.

But you'll need to watch out for the annual pension allowance. This is the limit on the amount that can be contributed to your pension each year while still getting tax relief. For the 2018/19 tax year, for most people it's

ONE OF THE EASIEST WAYS TO REDUCE YOUR TAX BILL IS TO SHELTER ANY RETURNS ABOVE YOUR ALLOWANCES IN AN INDIVIDUAL SAVINGS ACCOUNT (ISA), WHICH IS A TAX-EFFICIENT WRAPPER.

£40,000, or the value of your whole earnings – whichever is lower. Lower allowances may apply if you have already started drawing a pension, or if you are a higher earner with income plus pension contributions that total above £150,000.

If you've used your full allowance in the current tax year but not in recent years, you may also (depending on your circumstances) be able to 'carry forward' any annual allowance that you haven't taken advantage of in the three previous tax years. There's also the Lifetime Allowance to consider. If the value of all your pensions is more than £1,030,000, anything over this limit will be taxed when you start using it.

The value of pensions can go down as well as up, and you may not get back as much as you put in.

TAKING YOUR ISA TO THE MAX

One of the easiest ways to reduce your tax bill is to shelter any returns above your allowances in an Individual Savings Account (ISA), which is a tax-efficient wrapper. For the 2018/19 tax year, you can put up to £20,000 into an ISA. For a couple with two children, the total ISA allowance available to the family is £48,520, which comprises £20,000 for each adult plus £4,260 of Junior ISA allowance per child.

You can choose to hold all of that in a Cash ISA, or put it into a combination of investments, including funds, shares, gilts and bonds through a Stocks & Shares ISA, or you can invest in peer-to-peer lending through an Innovative Finance ISA. Alternatively, you can split your allowance between a Cash, Stocks & Shares, Innovative Finance and Lifetime ISA. (LISA)

However, with a LISA, you can only allocate up to £4,000 of your £20,000 allowance. You also must be aged between 18 and 39 when you start and can deposit up to £4,000 per year until your 50th birthday. The Government will add an annual bonus of 25% (up to a maximum of £1,000 per year) to any savings.

The principle purpose of a LISA is for the proceeds to be used to either (a) purchase a first home or (b) provide you with funds to help you in your retirement after you have attained age 60. This means that, if the money is withdrawn for any other purpose (and unless the saver is in serious ill health), the 25% government bonus will be withdrawn, and the proceeds will also incur a 5% charge.

You won't be taxed on returns from savings or investments held in an ISA, nor will you have to pay Capital Gains Tax (CGT) on any of the profits you make above the annual CGT allowance, which in the 2018/19 tax year is £11,700. The standard CGT rate is 10%, while the higher rate is 20%.

GETTING PERSONAL WITH YOUR ALLOWANCE

Everyone has a certain amount of income they can earn each year without paying Income Tax, known as their 'personal allowance'. For the 2018/19 tax year, this amount is £11,850.

Your personal allowance is in addition to the Personal Savings Allowance (PSA). Since April 2016, savings interest has been paid tax-free, which means that most savers no longer have to pay Income Tax on the savings income they receive.

Your PSA depends on which Income Tax band you are in, with basic rate taxpayers entitled to a £1,000 allowance, while higher rate taxpayers receive a £500 allowance. Additional rate taxpayers are not eligible for a PSA.

Investors also have a dividend allowance, which means that individuals receive their first £2,000 in dividends tax-free, but any dividends above this amount will be charged at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Take advantage of your marriage vows. If one spouse is a higher rate or additional rate taxpayer and the other doesn't pay tax at all, it could be more tax-efficient to put the account solely in the non-taxpayer's name. This would give that spouse full ownership of the account, so you'll need to make sure you're both happy with the arrangement.

KEEPING YOUR INHERITANCE IN THE FAMILY

ISAs and pensions are the two big ways to shelter your money from tax, but there are other tools at your disposal. Your estate is valued when you pass away and chargeable to Inheritance Tax (IHT) at 40%, although the first £325,000 nil-rate band (NRB) is exempt. Anything that goes to your spouse is also exempt.

Married couples and those in registered civil partnerships can also benefit from an additional family home allowance, which makes it easier to pass on the family home to direct descendants without incurring IHT charges. This was introduced on 6 April 2017, starting at £100,000, and will be phased in gradually until the total IHT threshold reaches £500,000 per person in 2020/21.

The residence nil-rate band (RNRB) acts as a top-up to the current IHT NRB and works in a similar manner by reducing the value of your estate that is subject to IHT at the full rate of 40%. It is potentially available for deaths on or after 6 April 2017 where, in general terms, an interest in the family home is left under your Will to your children, grandchildren or other lineal descendants. The RNRB is offset against the value of your estate ahead of the NRB, and the maximum RNRB amount allowed on a death in the 2018/19 tax year is £125,000.

Current tax rules also enable you to give away up to £3,000 free of IHT each tax year. You can give away more than this amount if you want to, but you must live for at least seven years from the date of the gift for it to be exempt from IHT.

DON'T LEAVE YOUR TAX RETURN UNTIL THE LAST MINUTE

The deadline to submit your tax return online is 31 January. Failure to meet the HMRC deadline can result in penalty fines or extra interest charges. ◀

TAKING CONTROL OF YOUR FINANCES

Setting resolutions at the beginning of a new year can help you reach short- and long-term goals and even improve the way you feel. Taking control of your finances is a great feeling, so if you would like to discuss any aspects of your financial plans, please speak to us – we look forward to hearing from you.

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EXPLORING YOUR **ISA OPTIONS**

TIME TO GIVE YOUR FINANCIAL FUTURE A BOOST?

The end of the tax year on 5 April is fast approaching, so make sure you've made the most of your annual allowances before it's too late. No matter what, why or how you want to save and invest, an Individual Savings Account (ISA) could help make your money work harder for you.

ISAs are tax-efficient wrappers. Every tax year, we each have an annual ISA allowance. If you don't take full advantage of using all or part of it in one tax year, you cannot carry it over to the next.

There are various tax advantages to saving or investing through an ISA: you don't pay Capital Gains Tax on any capital growth nor Income Tax on any income received, either as interest or dividends, from the investment or cash savings. Another advantage is that you don't have to declare ISAs on your tax return.

TYPES OF ISA AND THEIR ALLOWANCES

There are currently six different types of ISA.

CASH ISA

Anyone over the age of 16 can put their cash savings into a Cash ISA. Accounts can be either instant access, have notice periods or have fixed terms.

The annual allowance for a Cash ISA is £20,000 (tax year 2018/19). You can invest up to this full amount in your Cash ISA, or you can share this allowance between the different types of ISA, with the exception of the Help to Buy ISA.

STOCKS & SHARES ISA

A Stocks & Shares ISA is a medium-to-long-term investment (five years or more). Anyone over the age of 18 can put individual shares or managed funds into a Stocks & Shares ISA. It enables you to decide how much risk you are prepared to take when investing, offering access to a range of funds and the potential for better returns than a Cash ISA over the long term.

The annual allowance for a Stocks & Shares ISA is £20,000 (tax year 2018/19). Again, you can invest up to this full amount in your Stocks & Shares ISA, or you can share it between the other types of ISA.

INNOVATIVE FINANCE ISA

This ISA is for investments in peer-to-peer lending platforms. You must be over the age of 18 to invest.

The annual allowance for an Innovative Finance ISA is £20,000 (tax year 2018/19). Once again, you can invest up to this full amount in your Innovative Finance ISA, or you can spread it out between various types of ISA.

HELP TO BUY ISA

Help to Buy ISAs are available to each first-time buyer, not each home. This ISA has been introduced to help first-time buyers over the age of 18 get on the property ladder. You have to choose between either a Cash ISA or a Help to Buy ISA, but you can have a Help to Buy and a Stocks & Shares ISA in the same tax year.

The Government will top up any contributions you make by 25%, up to the contribution limit of £12,000. So, for every £200 you save, the Government will contribute £50. This means you can earn a maximum of £3,000 from the Government. So, if you're buying a property with your partner, for example, you'll be able to get up to £6,000 towards your deposit.

The minimum amount you need to save to qualify for a government bonus is £1,600 (which gives you a £400 bonus). You can start off your ISA with an initial deposit of up to £1,000, which also qualifies for the 25% boost from the Government.

Another important factor is that the proceeds can only be used to buy a property worth up to £250,000 outside of London, and up to £450,000 within London.

LIFETIME ISA

The Lifetime ISA is similar to the Help to Buy ISA. It is designed to help investors between the ages of 18 and 39 save for either a first house purchase or their retirement. Once you have a Lifetime ISA, you can continue to contribute until the age of 50.

You can put a maximum of £4,000 into a Lifetime ISA each tax year and are paid a 25% bonus from the Government. The bonus is paid in monthly instalments, and the maximum bonus you can earn in a tax year is £1,000.

The amount you pay in is linked to your annual ISA allowance (£20,000 for 2018/19). For example, if you pay £1,000 into your Lifetime ISA, you can still pay £19,000 into other ISA products. It is possible to hold both a Help to Buy ISA and a Lifetime ISA, but you will not be able to use both bonuses for a first-time house purchase.

Another differentiator between this type of ISA and the Help to Buy ISA is that the proceeds can be used to purchase a property worth up to £450,000 regardless of its location.

JUNIOR ISA

Cash or investments can be wrapped in this ISA on behalf of children under the age of 18. Anyone can invest in the Junior ISA – parents, grandparents or friends. The money belongs to the child, and they can access it when they reach 18 years of age. The Junior ISA has an annual allowance of £4,260 (tax year 2018/19). You must be a UK resident or crown employee to invest in any type of ISA. ◀

WHAT ARE YOUR SAVINGS AND INVESTMENT GOALS?

Saving and investing are not just about what you know but also who you are. Whether you consider yourself a savvy investor or a financial novice, if you would like to discuss the options available to you, please contact us.

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PENSION UNLOCKING

TREASURY ENJOYING A TAX BONANZA FROM PENSION WITHDRAWALS

Following changes introduced in April 2015, you now have more choice and flexibility than ever before over how and when you can take money from your pension pot.

You can use your pension pot(s) if you're 55 or over and have a pension based on how much has been paid into your pot (a 'defined contribution scheme'). Whether you plan to retire fully, to cut back your hours gradually or to carry on working for longer, you can now decide when and how you use your pension and when you stop saving into it to fit with your particular retirement journey.

FLEXIBLE PAYMENTS

HM Revenue & Customs (HMRC) has published its update on flexible payments from pensions. This confirms that 585,000 withdrawals were made by 258,000 people in quarter 3 2018, with total withdrawals in this quarter of nearly £2 billion. In the three-and-a-half years of pension freedoms, nearly 5 million withdrawals have been made by over 1.3 million people, totalling £21.6 billion (April 2015–October 2018).

You can use your existing pension pot to take cash as and when you need it and leave the rest untouched where it can continue to grow tax-free. For each cash withdrawal, normally the first 25% (quarter) is tax-free, and the rest counts as taxable income. There might be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year.

MULTIPLE WITHDRAWALS

Withdrawing money from pensions following the introduction of the freedoms shows no signs of abating. Quite the opposite, in fact, as the latest official figures show that the Treasury expects to receive an additional £400 million[1] in tax receipts from flexible pension withdrawals this year. Cashing in your pension pot will not give you a secure retirement income, and you should obtain professional advice if you are considering this option.

The findings show that typically smaller pensions are being fully withdrawn, while people with larger pensions are making multiple withdrawals in a tax year, suggesting they are treating their pension more like a bank account. These pensions are also being accessed for the first time before State Pension age. People accessing their cash also need to ensure they are not paying more tax than they need to.

TAX BONANZA

This combination of taking multiple withdrawals in a tax year at earlier ages, when people are still likely to be earning income from work, means many people are likely to be paying more tax than if they took withdrawals more gradually. The Treasury is enjoying a tax bonanza, as predictions that paying Income Tax would be a natural brake on withdrawals hasn't stopped people simply taking the money.

HMRC also confirmed that around £38 million has been refunded in overpaid tax following the application of emergency tax rules on pension withdrawals in the last quarter (1 July–30 September 2018), as many people continue to overpay at the point of withdrawal. ◀

TAKING CONTROL OF YOUR FINANCIAL FUTURE

Retirement is very much in the control of the individual. The money saved now will be in your hands in the future, so now is the time to start making active choices that will help to achieve your retirement dreams. To review your situation, please contact us.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

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Source data:

[1] HMRC Pension schemes newsletter 104 for October 2018.

FOR THE LIFE YOU WANT

BUILDING UP YOUR NEST EGG IS MORE DISCIPLINE THAN DIFFICULT

For today's retirees, retirement has changed almost beyond recognition since their parents' day. Building a retirement fund requires saving enough money to pay your bills and continue living comfortably when you are no longer drawing an income.

'INVESTING FOR GROWTH IS SUITED TO THOSE WHO WANT TO GET A HEAD START ON A RETIREMENT NEST EGG BUT WON'T BE RETIRING UNTIL FURTHER INTO THE FUTURE.'

The thought of it may be daunting; it can feel like an impossible mission. But with early planning, building up your nest egg is more discipline than difficult. The process of building a retirement fund typically involves a combination of consistent saving and long-term investments. But first, you have to figure out how much you need in order to set a goal.

FUNDS TO LIVE LIFE TO THE FULL IN RETIREMENT

Retirement is an exciting period in life. You might be looking forward to taking a trip to somewhere you've always wanted to go, dedicating more time to a favourite hobby or spending more time with family and friends. However, many people feel concerned about not having the funds to live life to the full in retirement.

Making sure you have enough money to enjoy your retirement is a matter of sensible planning and being proactive. Ask yourself, what decisions can I make today to start preparing for retirement? Investing even small amounts of money on a regular basis in preparation for retirement could leave you with a larger nest egg.

HEAD START ON A RETIREMENT NEST EGG

Investing for growth is suited to those who want to get a head start on a retirement nest egg but won't be retiring until further into the future. If your goal is to invest for growth, this means that you are more focused on growing your initial investment over a medium-to-long period of time (five years plus) and do not intend to use the investment to boost your current monthly income. For those investing for growth, investing as far in advance as possible from when they plan to start withdrawing the investment should give their funds the best chance of maximum growth.

INVESTING FOR INCOME

This investment goal is designed to generate a bit of extra money now and in the future by providing a boost to your monthly income. This goal could be suitable for those closer to retirement who are looking for their investment to help with paying regular bills and outgoings in retirement. When investing for income, selecting investment trusts focused on asset classes including equities and commercial property can provide a reliable and attractive income boost.

A TIME WHEN YOU HAVE STOPPED WORKING

Setting up a retirement goal requires you to find out how much income you'll need when you have stopped working. As part of the planning process, you'll need to consider answers to questions such as: 'At what age do you plan to retire?', 'How many years should you plan to be in retirement?' and 'What is your desired monthly income during retirement?'

Your retirement fund needs certainty – you can't risk losing your savings because you need it as a stable income. So how can one balance the need for growth with certainty of returns when building a retirement fund?

The key lies in considering a number of different factors:

RISK APPETITE

Are you a 'conservative' investor who cannot afford to lose the initial capital you put up? Can you sacrifice the certainty of having your investment protected in order to gain higher potential earnings?

If you do not already have a large sum of retirement savings, you probably shouldn't take too much risk when you invest since you may not have the luxury of time to recoup the losses should your investment turn awry.

TIMESCALES

Generally, a bigger portion of your retirement portfolio can be apportioned to higher-risk investments if you start in your twenties. As you progress nearer towards the retirement years, your portfolio should increasingly focus on investments that are a lower risk and provide more stable returns.

You can consider allocating your investments into products suitable for different investment horizons (short, medium and longer term) depending on your risk appetite. For example, a short-term investment can include some risker assets such as single equities or investing in a fast-growing speciality fund. You should always be reminded that with higher expected returns come higher risks.

INFLATION

If you choose to save your way to retirement by putting cash in a savings account, the value of your money may be eroded due to inflation. In order to ensure that the money you have now preserves its purchasing power during your retirement years, you need to choose savings or investments that give you higher returns above inflation.

DIVERSIFICATION

The key to growing your retirement fund includes having different asset classes in your portfolio, which is otherwise known as 'diversification'. Diversification not only helps you manage the risk of your investments, but it also involves re-balancing your portfolio to maintain the risk levels over time. ◀

BUILD YOUR RETIREMENT FUNDS

Planning for your retirement can seem like a daunting process. Keep in mind that there are no hard and fast formulas to how you build your retirement funds, but keeping the above factors in mind will definitely help you work towards achieving your retirement goals. Want to review how to enhance your retirement plans? Please contact us.

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LOOKING AT THE BIG RETIREMENT PICTURE

CONSIDERING MAKING CONTRIBUTIONS AHEAD OF THE TAX YEAR END?

Investing for the future is vital if you want to enjoy a financially secure retirement, and it requires you to look at the big picture. Although pensions can be complicated, we will help you get to grips with the rules if you are considering making contributions ahead of the tax year end. Here are our top pension tax tips.

ANNUAL AND LIFETIME LIMITS

Getting tax relief on pensions means some of your money that would have gone to the Government as tax goes into your pension instead. You can put as much as you want into your pension, but there are annual and lifetime limits on how much tax relief you receive on your pension contributions. Please note that if you are a Scottish taxpayer, the tax relief you will be entitled to will be at the Scottish Rate of Income Tax, which may differ from the rest of the UK.

Provided that you stay within your pension allowances, all pensions give you tax relief at the rate that you have paid on your contributions. For personal pensions, you receive tax relief at the basic rate of 20% inside the pension. That means for every £800 you pay in, HM Revenue & Customs (HMRC) will top it up to £1,000. If you're a higher or additional rate taxpayer, you can claim back up to an additional 20% or 25% on top of the 20% basic rate tax relief through your self-assessment tax return.

BENEFIT FROM TAX RELIEF

For workplace pensions, your employer normally takes your pension contribution directly from your salary before Income Tax so that the contribution is not taxed at source like the rest of your employment income, and therefore the full benefit is received inside your pension immediately. If your employer does not handle your contributions before tax, then these would benefit from tax relief in the same way as for a personal pension contribution.

You're still entitled to receive basic rate tax relief on pension contributions even if you don't pay tax. The maximum you can pay into your pension as a non-taxpayer is £2,880 a year, which is equivalent to a £3,600 contribution once you factor in tax relief.

TOTAL AMOUNT OF CONTRIBUTIONS

The annual allowance is a limit to the total amount of contributions that can be paid in to defined contribution pension schemes and the total amount of benefits that you can build up in a defined benefit pension scheme each year for tax relief purposes.

Taxpayers can pay in up to 100% of their income, up to an annual allowance of £40,000. Any contributions you make over this limit won't attract tax relief and will be added to your other income, being subject to Income Tax at the rate(s) that applies to you.

Your annual allowance will reduce from £40,000 if your income plus your pension contributions totals £150,000 or more. For every £2 in excess of £150,000, your allowance will reduce by £1, until it reaches a minimum allowance of £10,000.

CARRY FORWARD UNUSED ALLOWANCES

You can also carry forward unused allowances from the previous three years, as long as you were a member of a registered pension scheme during this period.

If you choose to take a taxable income from a personal pension other than via an annuity, your annual allowance will be reduced to £4,000 or 100% of earnings, whichever is lower, and you won't be able to carry forward previous unused allowances.

PAYING TAX ON THE EXCESS

As well as the annual allowance, there's also a maximum total amount you can hold within all your pension funds without having to pay extra tax when you withdraw money from them, known as the 'lifetime allowance'. The standard lifetime allowance is £1,030,000 (2018/19), but some people have a higher allowance. The standard lifetime allowance is inflation linked, so it's likely to increase each year.

If the value of your pension savings is higher than this, and you have not secured protection from HMRC against the changes in the lifetime allowance at the point that they reduced, you will pay tax on the excess. So, if you're approaching this limit, be careful about contributing too much.

There's no immediate tax charge once your pension fund grows beyond your lifetime allowance. It's only when you choose to take your pension benefits over your lifetime allowance that you pay a tax charge, and the charge only applies to the benefits taken over your allowance.

FREEDOMS GIVE GREATER FLEXIBILITY

Commencing 6 April 2015, under the new 'pension freedoms' rules, you can now access your savings from your defined contributions pension scheme once you reach age 55. You cannot make withdrawals from a pension before you're 55, moving to 56 in 2019 and 57 by 2028. If you're due to reach retirement this year, you could take up to 25% of your pension fund as a tax-free lump sum if you want to, but the remaining 75% will be liable to Income Tax.

Previously, most pensioners purchased an annuity with their pot, which paid a guaranteed income for life. The pension freedoms give greater flexibility over retirement funding. But you'll need to plan any withdrawals you make carefully, as taking large sums from your pension can boost your income in a particular tax year, pushing you into a higher rate of tax so that you pay more tax than you need to.. ◀

WHAT LIFESTYLE ARE YOU AIMING FOR?

There never seems to be a right time or enough time to plan for your retirement. But when you do, you can enjoy the present even more. It's never too early to begin, or too late. To find out more, contact us for more information.

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THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

KEEPING IT IN THE FAMILY

CAREFUL PLANNING CAN REDUCE OR EVEN ELIMINATE THE INHERITANCE TAX PAYABLE

Intergenerational planning helps you put financial measures in place to benefit your children later in life, and possibly even your future grandchildren, so it's important to start planning early.

You may want to keep an element of control when passing on your assets. You may want your money to be used for a particular reason, such as paying for school or university fees or for a first property deposit. Or you may just want to make sure your money stays within the family.

Without appropriate provision, Inheritance Tax (IHT) could become payable on your taxable estate that you leave behind when you pass away. Your taxable estate is made up of all the assets that you owned, the share of any assets that are jointly owned, and the share of any assets that pass automatically by survivorship. Careful planning can reduce or even eliminate the IHT payable.

IHT is not payable on the first part of the value of your estate – the 'nil-rate band'. The nil-rate band is currently £325,000. If the total value of your estate does not exceed the nil-rate band, no IHT is payable. Outstanding debts and funeral expenses can be deducted from the value of your estate.

LEAVE YOUR INTEREST IN THE FAMILY HOME

Commencing 6 April 2017, an additional 'residence nil-rate band' (RNRB) allowance was introduced if you leave your interest in the family home to direct descendants (such as children, step-children and/or grandchildren). This only applies to your main home but can be available even if that home had been sold after July 2016.

The RNRB is being phased in gradually. For the 2018/19 tax year, the maximum additional allowance is £125,000, increasing your total IHT allowance to £450,000 (£900,000 for a married couple). The maximum allowance will rise by £25,000 each tax year until it reaches £175,000 in 2020. This will give you a potential total IHT allowance of £500,000 or £1 million for a married couple. For estates worth more than £2 million, the tax relief is tapered away.

There are legitimate ways to plan to reduce the amount of IHT you may have to pay. We can advise you on the ways that you may mitigate any exposure, including these:

MAKE A WILL

Dying intestate, or dying without a Will, means that you may not be making the most of the IHT exemption that exists if you wish your estate to pass to your spouse or registered civil partner. For example, if you don't make a Will, then relatives other than your spouse or registered civil partner may be entitled to a share of your estate, and this might trigger an IHT liability.

MAKE LIFETIME GIFTS

Gifts made more than seven years before the donor dies, to an individual or to a bare trust, are free of IHT. So, it might be appropriate to pass on some of your wealth while you are still alive. This will reduce the value of your estate when it is assessed for IHT purposes, and there is no limit on the sums you can pass on.

You can gift as much as you wish, and this is known as a 'Potentially Exempt Transfer' (PET). If you live for seven years after making such a gift, then it will be exempt from IHT, but should you be unfortunate enough to die within seven years, then it will still be counted as part of your estate if it is above the annual gift allowance. However, the longer you survive after making the gift (subject to surviving at least three years), the lower the IHT charge.

You need to be careful if you are giving away your home to your children with conditions attached to it, or if you give it away but continue to benefit from it. This is known as a 'Gift with Reservation of Benefit'.

LEAVE A PROPORTION TO CHARITY

Being generous to your favourite charity can reduce your tax bill. If you leave at least 10% of your estate to a charity or number of charities, then your IHT liability on the taxable portion of the estate is reduced to 36% rather than 40%.

SET UP A TRUST

As part of your IHT planning, you may want to consider putting assets in trust – either during your lifetime or under the terms of your Will. Putting assets in trust – rather than making a direct gift to a beneficiary – can be a more flexible way of achieving your objectives.

Family trusts can be useful as a way of reducing IHT, making provision for your children and spouse, and potentially protecting family businesses. Trusts enable the donor to control who benefits (the beneficiaries) and under what circumstances, sometimes long after the donor's death.

Compare this with making a direct gift (for example, to a child), which offers no control to the donor once given. When you set up a trust, it is a legal arrangement, and you will need to appoint 'trustees' who are responsible for holding and managing the assets. Trustees have a responsibility to manage the trust on behalf of and in the best interest of the beneficiaries, in accordance with the trust terms. The terms will be set out in a legal document called 'the trust deed'. ◀

PASSING ON OUR ASSETS TO OUR LOVED ONES

Being wealthy can have its benefits, and its challenges too. When we die, we like to imagine that we can pass on our assets to our loved ones so that they can benefit from them. In order for them to benefit fully from our assets, it is important to consider the impact of Inheritance Tax. If you would like to review the potential impact on your estate, please contact us.

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INCOME SEEKERS

NOT PUTTING ALL YOUR EGGS IN ONE BASKET

Everybody has investment goals in their life, from the old adage of saving for a rainy day to planning a comfortable retirement. There are many reasons why investors might seek an income stream from their investments, for example, to pay for a dependant's education, supplement a pension or fund the cost of care, yet achieving it can be hard.

A 'do-it-yourself' approach may often seem attractive to some investors who buy a handful of dividend-paying stocks and receive the income from these. There are many companies that have long track records of consistent dividend payments, and these are often household name firms. However, it's important to diversify – it's the age-old cliché of not putting all your eggs in one basket.

CONSISTENT DIVIDEND PAYER

Just because a company has been a consistent dividend payer in the past does not mean it always will be in the future. Investors need to be sure that they have properly assessed the risks around a company (and its industry) in order to be confident that dividend payments can continue.

Conducting all the necessary research is a complex and time-consuming undertaking, so it's no surprise that many income investors prefer to leave the heavy lifting to a professional fund manager. Funds focused on equity income will invest in a range of stocks and will have a target income yield that they aim to deliver each year.

DIFFERENT TYPES OF FUND CHOICE

The theory is that holding a range of stocks leaves the overall portfolio less reliant on each individual company. If a few firms cut their dividends or see their share prices fall, hopefully others in the portfolio will offset this by raising their dividends or otherwise performing better than expected.

While there are many different types of fund to choose from, investors need to be wary of the limitations of focusing on a single region. A second reason in favour of diversification is that some regions have higher dividends than others.

GREATER DEPTH OF SECTOR OPPORTUNITIES

Some investors may prefer funds that invest in their home market. This has the advantage of eliminating currency volatility. But, it can mean missing out on the higher income or more diverse range of opportunities offered by other regions.

It's not just a wider group of individual companies that is available to global investors, but a greater depth of sector opportunities too. Therefore, by diversifying, you can hold a global equity income portfolio that avoids the sector skews of any one particular region. It can also help to mitigate potential currency volatility, as the various different currencies will rise and fall against each other at different times in the economic cycle.

MAINTAINING A BALANCED APPROACH

Investment strategies should often include a combination of various fund types in order to obtain a balanced approach to risk and reward. Maintaining a balanced approach is usually key to the chances of achieving your investment goals, while bearing in mind that at some point you will want access to your money. This makes it important to allow for flexibility in your planning.

Whatever your personal investment goals may be, it is important to consider the time horizon at the outset, as this will impact the type of investments you should consider to help achieve your goals.◀

EXPERT PROFESSIONAL ADVICE

For investors seeking to build a diverse portfolio, it's essential to receive expert professional advice on the best plans and funds to choose. To assess your investment goals, please contact us.

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Published by **Goldmine Media Limited**
Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL

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