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Viewpoint

Your latest newsletter from PR Financial

PR FINANCIAL

Pension death benefits

With the introduction of pension freedoms in 2015, we now have a range of options when deciding how to fund our retirement. But few of us stop to consider what might happen on our death: retirement itself seems far enough away!

Under the previous regulations, only one dependant of the pension plan holder could inherit a drawdown pension on the plan holder's death. Commonly known as a "widow's pension", widowers, civil partners and a single named child could also inherit, putting the plan holder in a difficult position if they had more than one child.

Many still believe that this is the only way their pension savings can be passed on in the event of their death. However, alongside the more familiar changes to the retirement regime, the reforms heralded significant changes in how pension death benefits are taxed, bringing with them new inheritance planning opportunities.

Passing on your wealth

Since April 2015 it has been possible for the plan holder to pass their pension on to any nominee – or a number of nominees – through something called Nominee Flexi-Access Drawdown. Further, when the nominee dies, a successor – or successors – can also inherit a drawdown pension through a Successor Flexi-Access Drawdown. In turn, each nominee or successor can pass the assets on to other nominees or successors, retaining the tax efficiency of the plan through multiple generations.

The key benefit lies in retaining the assets within a pension wrapper: in this way they fall outside of the plan holder's assets for Inheritance Tax (IHT) purposes. And as long as they remain within the wrapper they retain their full tax advantages until they are needed by the nominee or successor.

If the plan holder – or a nominee or a successor – dies before the age of 75, not only are the assets passed on free of IHT, but the drawdowns are paid out free of income tax. If they die after the age of 75, the assets are still excluded from the estate for IHT purposes, but any lump sums or income drawdowns are treated as income and subject to the beneficiaries' personal tax position (ie. taking into account other sources of income).

How might your dependants benefit?

The example given opposite is a simplified illustration and only a guide to what might be achieved with careful financial planning.

However, it is important to note that most of the existing pension plans were set up before the new regulations came into force and may not have the flexibility to establish Nominee or Successor Flexi-Access Drawdown accounts. Instead, the pension provider will pay out the full value of the fund in cash on the death of the plan holder. In that situation, the assets count towards the total estate for IHT purposes and the tax benefits are lost.

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 pension family tree

A family comprises a husband and wife, their two children who in turn have two children each (four grandchildren in total). The husband dies aged 76 with £500,000 remaining in his pension fund.

£500,000

The wife inherits a Nominee Flexi-Access Drawdown plan. As her husband died after reaching the age of 75, any withdrawals are taxable as income. The wife dies aged 74 with £450,000 remaining in the plan.

£225,000

The two children each inherit half of this (£225,000) through Successor Flexi-Access Drawdown. Withdrawals are tax free as the mother died before age 75. However, both children die in their 60s without accessing their plans. As they also died before reaching 75, each residual pension fund passes tax free to the grandchildren.

£112,500

Each grandchild inherits a Successor Flexi-Access Drawdown pot of £112,500 and enjoys tax-free withdrawals.

Please contact me if you would like to discuss the pension death benefit rules and explore whether and how you and your loved ones could benefit from them. We can review your current arrangements to see if they offer the flexibility required and explore alternative arrangements if necessary.

OW0447 Exp. 19/06/17

Achieving your financial goals

We lead complex lives in an increasingly complex world. As your financial adviser we can help you better understand your financial challenges, goals and needs, and help you find appropriate ways to meet them.

Even a seemingly straightforward financial goal can involve numerous decisions and a lot of time and effort getting it right. Whether it's buying a home, investing for the future or protecting the people and things you cherish, we're here to help you make the right choices for your needs. Here are some of the services we provide, which our clients have told us they value the most.

Mortgages

With so many mortgage lenders offering products on the high street and online, it can be tempting to cut out the middle man. But when you're making such a huge financial commitment, professional guidance can be invaluable, particularly if your needs are out of the ordinary. As well as arranging your mortgage we can also recommend specialist professional services that can help with other elements of your home-buying process, including solicitors and surveyors.

Protection

When using comparison sites and direct insurers, how can you be sure their "off-the-peg" solutions meet your specific needs? Using our expert product knowledge we can help you find the right solution for you. Whatever your particular need – be it income, family, mortgage or business protection – we can access high quality products from a range of handpicked providers; providers we have selected because they are proud to stand behind claims when it matters the most.

Investment planning

As well as your pension, you may have opportunities to invest lump sums – such as an inheritance or bonus – but are unsure about what strategy is best. As with all areas of financial planning, it pays to have a clear objective or vision. We can talk you through the important things to consider and help you create a balanced and diversified portfolio, taking into account your financial goals, attitude to risk, and any appropriate tax planning.

Retirement planning

The onus to create a comfortable retirement is falling increasingly on the individual, and the new pension regulations, whilst bringing welcome freedoms, introduce additional complexity to your at-retirement choices.

The right financial plan could help secure a more comfortable retirement – not just for you, but also for your loved ones and heirs. We can help you navigate the complexities of the new rules. Knowing what can be achieved and establishing the right strategy as early as possible can help you prepare for the future.

Inheritance planning

Passing our hard-earned wealth to loved ones often forms a big part of our ambitions. The right forward planning can help you maximise your heirs' inheritance by minimising tax liabilities. We can help you put the right structures in place.

Of course, your needs in any and all of these areas will change over time, and regulatory changes can impact the effectiveness of any structures already in place, so we recommend a regular review to ensure that your plans remain on track and relevant.

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

To find out more about how we can help you, please get in touch.

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

OW0429 Exp. 31/06/17

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At retirement: the runners and riders

With the much-lauded pension freedoms, we now have a range of options when deciding how to fund our retirement.

Whilst many newspaper headlines warned that new retirees would blow their entire pensions savings on Lamborghinis, it appears that most have taken a more measured approach. Data from the Association of British Insurers (ABI) shows that in the first year following their introduction 57% of new retirees took less than 1% of their pot and fewer than 4% of retirees took out more than 10%. The majority of these were in the first few months following the changes.

But not everyone is affected by the new freedoms.

Those who are, or have been, members of a final salary/defined benefit scheme **won't be affected by the new regulations**. These schemes provide a pension based on your years of service and your salary when you left the scheme, or, if it is no longer operating, the point at which it closed.

Those with a defined contribution scheme – or who have made additional contributions into a free-standing pension plan – **will benefit from the new freedoms**. You can buy an annuity, draw income from your savings, or withdraw lump sums as you need them.

Annuities

Buying an annuity is the traditional means of converting your savings to a guaranteed income stream. This could include an income for your spouse on your death and/or inflation proofing. However, annuities have had a bad press in recent years as the returns on bonds – the investments that underpin the income stream – have collapsed. This has made them seem poor value for money.

Flexi-Access Drawdown

You can elect to remain invested and withdraw income from your pension savings. However, the income from investments is variable and the value of the underlying investments may vary over time.

Uncrystallised Pension Fund Lump Sums

This rather inelegant term describe, a newly-introduced freedom. If you have more than one defined contribution scheme and one that you have not touched (ie. elected to buy an annuity or elected to withdraw income), you can use it to 'top-up' your retirement by taking occasional lump sums.

Horses for courses

The table below summarises the key features of the three options now available to retirees. With options comes choice, and choices can be hard to make – particularly in an area as important as your pension.

The likelihood is that those retiring today will have a combination of income sources at their fingertips: the State Pension, an element of defined benefit and an element of defined contribution. Some may elect to continue working in a part-time or advisory capacity or on a consultancy basis.

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

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This will be one of the most important decisions of your life as it determines the kind of retirement you can afford. Further, managing your tax liabilities when you have more than one source of income open to you can be complicated. The right solution for you will depend on many variables, so please do get in touch before making any decisions.

	Annuity	Drawdown	Lump sums
Guaranteed income	Yes	No	No
Up-front tax-free lump sum	25%	25%	N/A
Additional withdrawals	No	Subject to normal personal income tax rules	25% tax free The remainder subject to personal income tax rules
Death before 75	Spouse's annuity paid tax free	Tax free lump sum or Tax free drawdown	Tax free lump sum or Tax free drawdown
Death after 75	Spouse's annuity taxed as income	Lump sum taxed at highest marginal rate Drawdown subject to normal income tax rule	Lump sum taxed at highest marginal rate Drawdown subject to normal income tax rules

OW0437 Exp. 31/03/17

Maximise your ISA allowance

If you haven’t used up your Individual Savings Account (ISA) allowance for 2016/17, you have until 5 April to do so.

Saving into an ISA is a great way of making your savings work harder. Whether you’re looking to supplement your retirement income, build up funds for a property purchase or you simply want a ‘rainy day’ nest egg, ISAs offer an array of tax-efficient savings options. But with the tax-year end fast approaching, the clock is ticking for you to use your full 2016/17 ISA allowance of £15,240.

Why is it so important to use up your allowance? Here are some great reasons:

Your ISA is tax-efficient

Unlike some other investments, your returns are not subject to tax. That means every extra pound you save (within your allowance) will be sheltered from the taxman. This tax year, you can invest up to £15,240 tax-free.

You can’t ‘carry over’ your ISA allowance

You cannot carry any unused ISA allowance over to the following tax year unlike some other personal allowances (such as your pension annual allowance). That makes it doubly important to invest your full allowance, if you can afford to. You also have the freedom to take money out and put it back in later in the same tax year, without losing any of your tax-free entitlement. That means you needn’t worry about missing out on lost interest if you need to make a short-term raid on your savings, but can afford to replace it later.

The miracle of compound interest

Maximising your ISA savings can deliver huge benefits over the longer term. For instance, assume you invested the current maximum allowance of £15,240 in a Cash ISA, every year, for 25 years. Even if your investment grows at a modest 2.5% each year, your investment would have grown to £555,841.15.

Inheriting an ISA

Before April 2015, any savings held in an ISA automatically lost their tax-free status on the death of the ISA holder. Since April 2015, however, the Additional Permitted Subscription allows the spouse / partner to retain the tax benefits in the form of a one-off ISA allowance equal to the value of the ISA at the date of the holder's death. For example, if your partner had £40,000 in ISA savings including interest, your ISA allowance for that tax year would be £55,240 (the value of your partner's savings and your own ISA allowance for the 2016/17 tax year).

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.

TO OPEN AN ISA, YOU MUST BE:

- 16 or over (for a cash ISA)
- 18 or over (for a stocks and shares ISA)
- Resident in the UK
- A Crown servant (eg. diplomatic or overseas civil service) or their spouse or civil partner if you don’t live in the UK

Contact us for more information or advice about the different kinds of ISA investments. We will help you to make the best choice for you and your family.

OW0471 Exp. 31/03/17

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Reasons to be cheerful

23 June 2016 will go down in history as a seismic day for British politics.

The public dealt Prime Minister David Cameron a bitter blow as the referendum to leave the European Union (EU) unexpectedly ended in a ‘yes’ vote, following a heated and divisive campaign on both sides. But what effect has Brexit had on the mortgage market?

Most analysts were certain the UK wouldn’t vote to leave, but voters were left trying to cut through the propaganda and make a balanced decision. Vote Leave’s “Take control” edict was heeded as they secured a narrow, unexpected victory in the referendum. Tales of post-referendum apocalypse were common in the days that followed, but has this been reflected in the data?

A stable economy

The economy as a whole seems to have been largely stable following the vote, as recent figures showed 0.5% growth in the three months post-Brexit. On the flip side, the number of mortgage approvals fell in August to the lowest level since November 2014 and some experts have predicted big banks will look to relocate away from the UK in 2017. This could create funding issues for consumers and diminish the amount of choice in the market.

With the Government’s long-term plan to negotiate the UK’s exit from the EU unclear at the moment, the Buy to Let market has been particularly robust, with a quarter of sales between July and September 2016 either investments or second homes. This strength in the market was in spite of fears over the economy following Brexit and a stamp duty increase for second homes in April 2016.

It’s important that we take a pragmatic, business-as-usual approach. Opportunities exist no matter what the circumstances, and there’s a danger that talking prospects down could cause a lack of confidence in the market. A proactive and positive manner can help you, whether you’re a first-time buyer, looking to move home, or enter the world of Buy to Let.

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

Contact us today to review your mortgage options.

OW0470 Exp. 31/03/17

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

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Saving for retirement: as easy as 1, 2, 3

Much is made of the tax benefits of saving into a pension scheme but there are other benefits to consider.

As many corporate pension schemes and even government pension schemes become unsustainable, the onus to create a comfortable retirement is increasingly on the individual. But, if we are honest with ourselves, by the time many of us start thinking about our pensions it can feel daunting.

Here are our top tips for a more comfortable retirement:

1. Start early

Starting early cannot be stressed enough and is probably the most important piece of advice we can give. Investing even small amounts can make a significant difference to the potential outcomes as you can see below:

Age when saving starts	Amount to save per month	Total saved by age 67
21	£20	£11,280
30	£25	£11,400
40	£33	£11,200
50	£52	£11,250
60	£117	£11,232

Even if finding £20 a month is difficult at 21, it could be a lot easier to find than £117 a month at 60.

The figures above show saving without investing the money. Any money you invest at age 21 will have accumulated 46 years of returns by the time you come to retire; anything invested from 45 has only 22 years.

2. Join your employer's scheme

Following the introduction of auto-enrolment all employers must now offer their employees a workplace pension scheme, although not all employees are required to join. However, by joining the scheme, not only will you be contributing to your future comfort but your employer contributes too, boosting the total potential returns. This is particularly important if you think you might have a career break at some point in your working life, for example to have a family.

Most schemes employ a 'salary sacrifice' model where your contributions are deducted before tax is calculated, making it a simple way to save. If your employer doesn't offer this kind of scheme, speak to us about setting up a personal pension plan. These non-employer sponsored schemes will assume you are a basic rate tax payer and calculate your contributions net of basic rate tax (so if you want to put aside £100 a month, your contributions will be £80 and the scheme will claim the additional £20 from HMRC). If you're a higher rate tax payer you will need to claim the additional tax back through your self assessment tax form.

If you're self-employed, a contractor or have irregular income, consider a Self Invested Personal Pension (SIPP).

3. Top it up

Many schemes allow you to make additional contributions and some employers will match these to a maximum percentage of your salary. You can still invest more but the employer's matching contribution will be capped. Alternatively, if your employer offers an Additional Voluntary Contributions (AVC) scheme, consider signing up for this. They won't contribute to it but, again, saving even a small amount into the plan can help over the longer term.

Under current guidelines anyone not drawing a pension can invest up to £40,000 of their taxable income into their pension scheme(s) tax free per tax year unless their total pension savings exceed the lifetime allowance (currently £1,000,000). And remember, using an ISA can increase your tax-efficient savings.

Conclusion

So there we are. Starting as early as you can gives you the benefit of time; joining an employer's scheme makes saving simple and boosts your savings rate; and investing as much as you can afford can maximise the tax benefits.

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If you are concerned in any way about preparing for your retirement, speak to us about the options available to you.

OW0473 Exp. 31/03/17

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What makes a good Buy to Let investment?

With property prices continuing to rise, Buy to Let can be an attractive way to invest. But whether buying your first Buy to Let property, or adding to your portfolio, it's important to consider what's involved.

Being a landlord

As well as the obvious duties of finding tenants and making sure they pay their rent on time, there are also a number of legal requirements that you need to meet as a landlord. For instance, you'll need to use a deposit protection scheme, have the right Energy Performance Certificates and arrange annual safety checks and certificates for the utility supplies. You'll also need to keep the property well maintained and respond to requests from your tenants if and when an issue arises.

Managing your finances

Then there's the question of managing your commitment to the mortgage lender. Interest rates may be low now, but if you're on a tracker mortgage and rates go up, could your income stand the rise? What if you have a gap in tenants and the rent dries up temporarily?

In the short term, landlords can still deduct mortgage interest from their rental income before calculating how much tax they should pay. However, from April, tax relief on Buy to Let mortgage interest will gradually be reduced. The restrictions will be phased in over four years, resulting in tax relief only being available at the basic rate of income tax (currently 20%) from April 2020. This could impact on any profit you're expecting to make on your investment so it's important to take it into account now.

Research before you buy

In terms of the property itself, have you thought about the location you're buying in? Take the time to look around the area you're considering. Is it up and coming or going down and out? If you're looking to rent to a young family, do the local schools have a good reputation? Does it have good commuter links for young professionals? It may sound obvious, but it's a good idea to put yourself in the shoes of your potential tenants and ask yourself what they would want. Their requirements may be quite different to yours.

Work out all the costs

Buy to Let lenders may require the rent you charge to cover up to 145% of the mortgage repayments, with many now requiring 25% deposits, or even larger. Once you know your mortgage rate and the monthly rent you're going to charge, you should also factor in maintenance costs.

And with stamp duty 3% higher than on a residential property, make sure you cover all the costs involved in buying your investment property – especially in view of the diminishing tax relief.

Protect your investment

It's important to protect your property, its contents, and your ability to keep up with your mortgage repayments should the unexpected happen and there are a range of different insurance products designed to meet these requirements:

- Buildings insurance
- Contents insurance
- Landlord's insurance
- Life insurance
- Mortgage payment protection insurance (MPPI)
- Critical illness insurance
- Income protection

Which product is right for you will depend on your individual circumstances, so it's important to get professional advice as part of the process.

Taking the plunge?

Like any investment, there are no guarantees with Buy to Let. But, despite tax changes and potential mortgage rate rises, strong demand from tenants and rising property prices mean many investors are still tempted to take the plunge.

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

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

If you'd like to find out more about Buy to Let investments, please get in touch.

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

OW0482 Exp. 07/06/17

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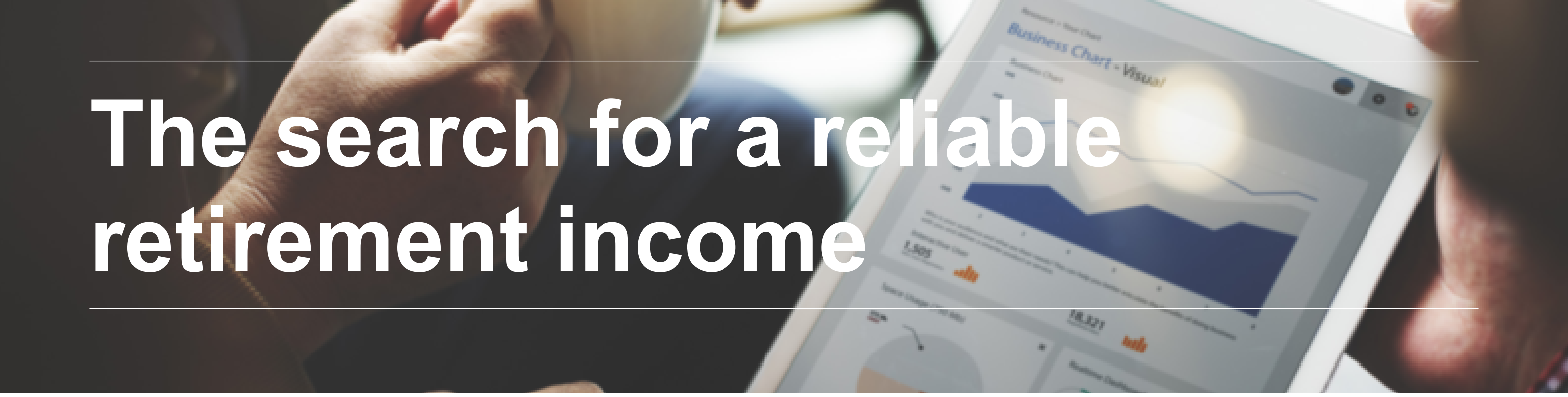


The search for a reliable retirement income

The April 2015 pensions changes scrapped compulsory annuities, giving pensioners greater choice over how to take their retirement income.

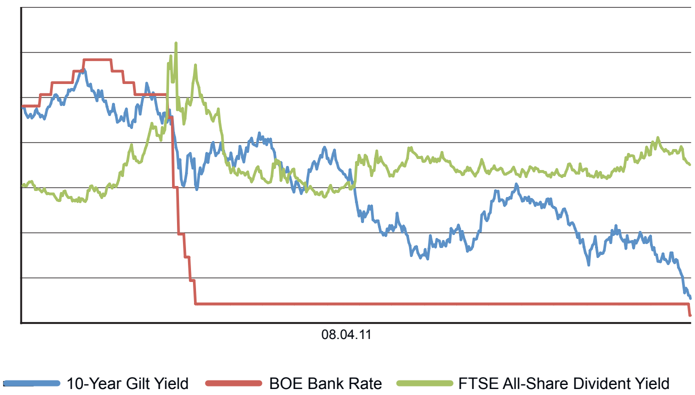
In principle, this historic change to UK pension legislation opened up a range of investment opportunities. With increased control of their pension, investors can seek to position their portfolios to deliver the income required, while retaining – and perhaps even growing – their invested capital.

Generating income in a low interest-rate environment

While these pension changes offer many opportunities, generating investment income remains difficult – particularly in view of the historically low interest rates.

As the chart below shows, the Bank of England's target interest rate had been stuck at 0.5% for more than seven years, and it was cut to 0.25% in August 2016 and held in September 2016. Meanwhile, the income that can be earned through holding UK government bonds – a traditional staple instrument of low risk, income-focused investment portfolios – has shrunk from over 5% before the 2008 financial crisis, to less than 2% now.

UK interest rates, gilt yields and dividend yields (%)



Source: Bloomberg Finance L.P

Equity markets risk income stability

The chart also shows that the dividend income available on UK equities has risen somewhat, making them an attractive proposition for many investors.

However, income-seekers should be wary of rushing headlong into equities in search of the returns that have been eroded in other asset classes. Investing in equities entails a degree of risk, particularly for those relying on their investment portfolio for their means of living.

Should equity markets suffer a setback, retirees may find their pension fund much reduced in size, and incapable of generating the necessary income.

Taking a diversified approach

A robust income strategy should not be overly reliant on a single asset class. But making a decision on which asset class to hold is tricky – the top performer changes regularly and the returns are very volatile.

Investors who are over-committed to one asset class run the risk of disproportionate losses should that asset class underperform.

An alternative approach is to take a much wider view and consider other potential sources of income from a broader range of asset classes and capital structures, across many different countries and regions.

Taking a more diversified approach means that a drop in the value of one asset may then be offset by increases in other asset classes, leading to smoother overall performance – and a potentially more stable source of retirement income.

You should not use past performance as a reliable indicator of future performance. It should not be the main or sole reason for making an investment decision. The value of investments and any income from them can fall as well as rise. You may not get back the amount you originally invested.

To find out more about the investment and income solutions we can offer, please get in touch.

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