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Financial Viewpoint

Heavenly Finances

Personal & Corporate Financial Advice

The State Pension - all you need to know
Do you know what you're entitled to?

Saving for a happy retirement
How much would you need for a comfortable retirement?

Pension Advice Allowance
A government initiative to get more people access to crucial advice.

Cash ISAs
Are they still worth the investment?

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

First time savers
Putting money away on a regular basis makes good financial sense and it's never to early to start saving.

Investment jargon buster
A glossary of some of the common investment-related terms you'll come across.

The State Pension – all you need to know

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

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

Contracting out

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

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

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

- your scheme got into financial trouble and wound up underfunded
- your rights were transferred to a scheme that was not linked to your earnings and investments in that scheme did not perform well

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

'Topping up'

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

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

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

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

OW0893 Exp. 19/07/18

What's the cost of a comfortable retirement?

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

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

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

Remember, by the time you retire, you will hopefully have paid off your mortgage, your kids (if you had them) will have flown the nest and you won't have to cover the cost of commuting to work. In fact, research by Which? suggests you'll probably need between half and two thirds of your final salary, after tax, to achieve a comfortable lifestyle in retirement.

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

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

Saving sufficiently

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

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

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

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

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

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

Pension Advice Allowance

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

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

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

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

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

The value of advice

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

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

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

At a glance

The Pension Advice Allowance of £500:

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

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

OW0891 Exp. 19/07/18

Are Cash ISAs worth the investment?

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

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

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

So are cash ISAs still worth the investment?

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

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

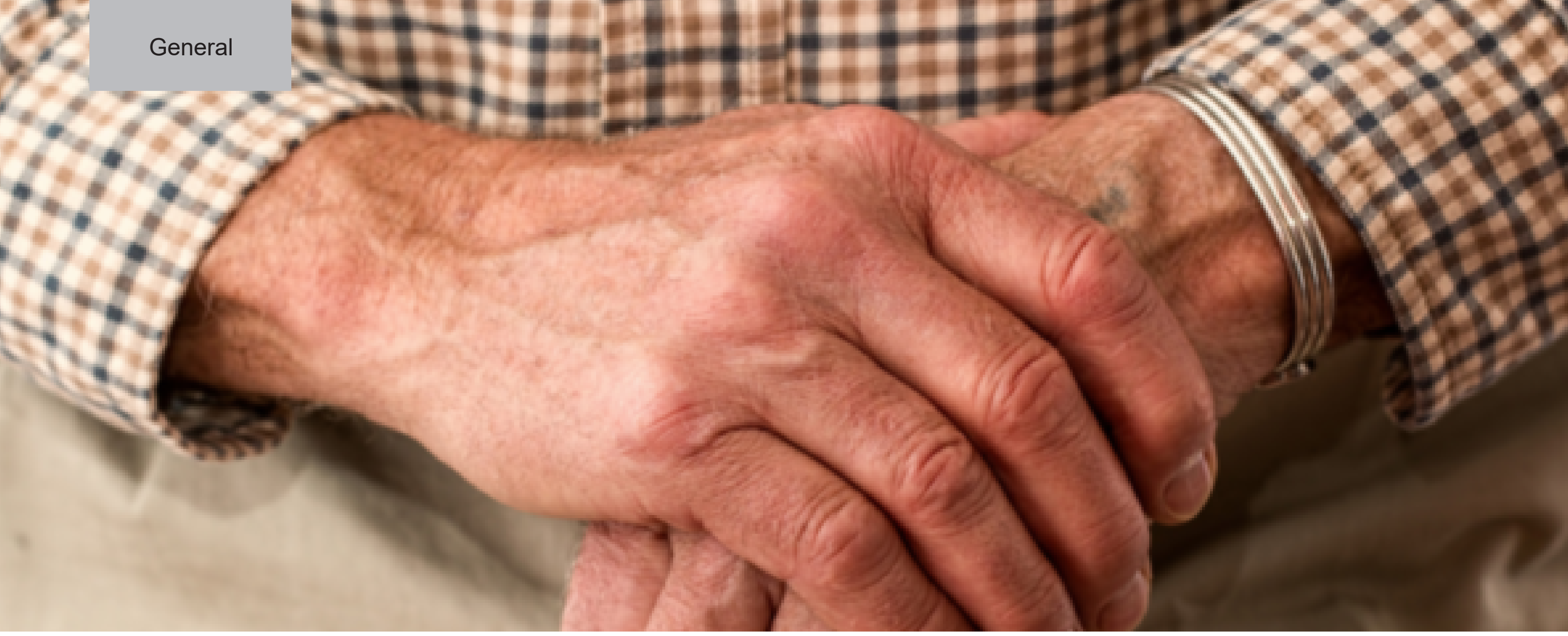
With interest rates at record lows, this is bad news for savers; inflation eats into the value of your savings, so unless you're earning a higher rate of return, you effectively lose money.

The Personal Savings Allowance (PSA) which was introduced in April 2016. It lets you earn up to £1,000 in interest tax-free on your savings if you're a basic rate taxpayer and £500 if you're an higher rate taxpayer (additional rate taxpayers don't receive a PSA). This cancels out some of the benefits offered by a cash ISA – earning tax-free interest on your savings – especially since the annual limit is only £20,000 (in the 2017-18 tax year).

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

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

The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on the individual circumstances. The value of your stocks and shares ISA and any income from it may fall as well as rise. You may not get back the amount you originally invested.



Lasting Power of Attorney

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

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

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

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

Types of cover

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

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

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

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

1. Health and Welfare LPA - your appointed ‘attorneys’ will be able to act on your behalf if you become completely unable to make decisions regarding your own wellbeing. For example, if your circumstances mean you require full time care, or a particular medical treatment they will step in and act in your interests.
2. Property and Financial Affairs LPA - your attorneys can make decisions concerning your bank accounts, paying bills or even selling your home if required. Unlike the Health and Welfare LPA, this version can be used as soon as it is registered, but only with your permission – ie. you are still fit to make other decisions on your affairs.

Choosing your attorneys

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

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

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

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

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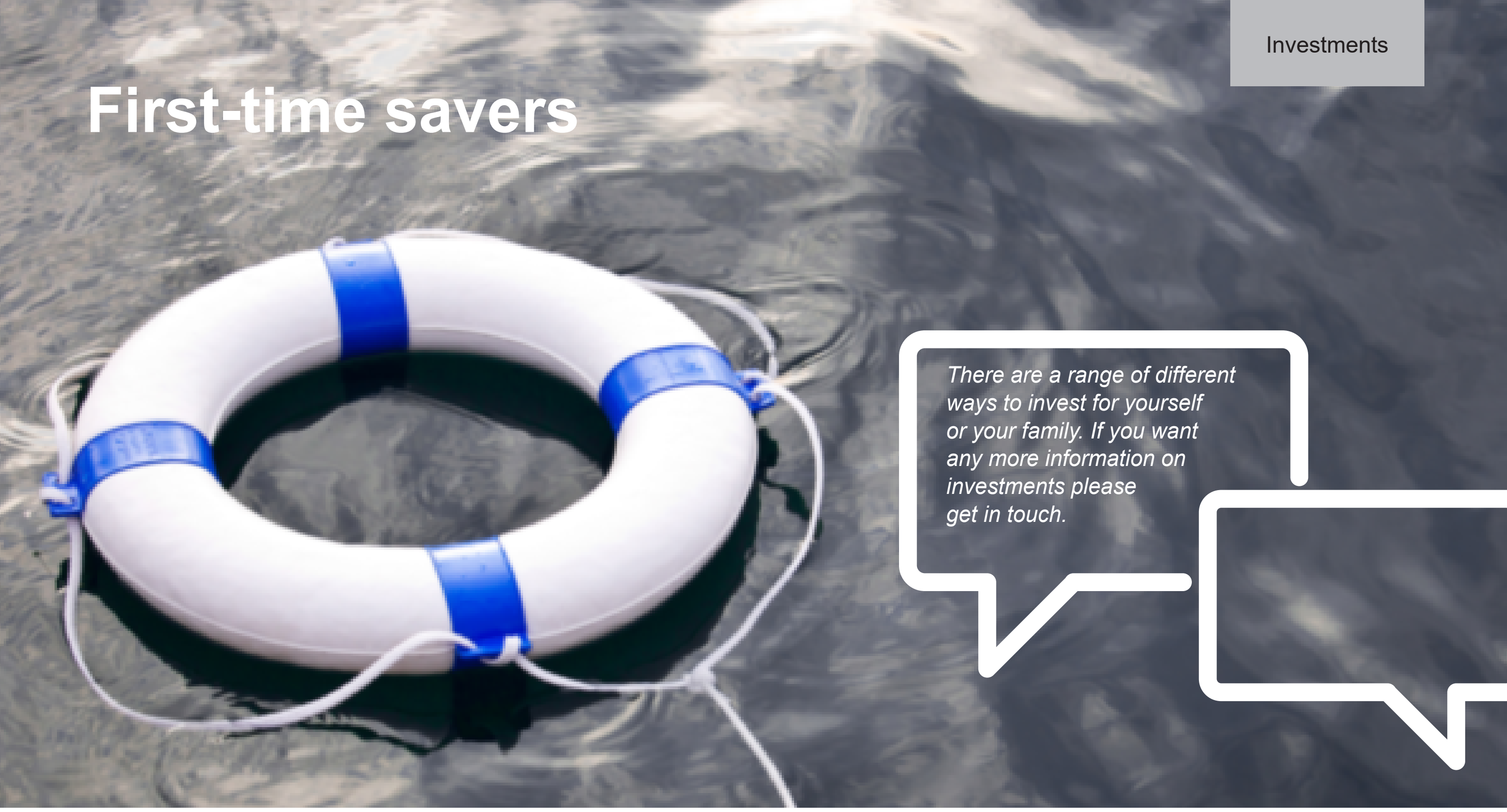
First-time savers



There are a range of different ways to invest for yourself or your family. If you want any more information on investments please get in touch.

The news is always full of stats about first-time buyers:

- in 2016 there were an estimated 335,750 first-time buyers - the highest figure since 359,900 in 2007
- the average first-time deposit has more than doubled since 2007 to more than £32,000
- the average price of a first home broke through the £200,000 barrier for the first time in 2016
- those buying their first homes have an average age of 30 across the UK

And then there are the schemes to help people get a foot on the property ladder:

- Help to Buy ISAs let first-time buyers save for a deposit tax-free
- Help to Buy Equity schemes provide a government loan of up to 20 per cent to first-time buyers
- Shared ownership offers the chance to buy a share of between 25 and 75 per cent of a home, typically a new-build, and pay rent on the remaining share.

With all this news about borrowers we rarely hear about first time savers. Whatever stage you are at in your life, whether you are saving for yourself or others, there are many options for your near, mid and long-term plans**.**

You're never too young

Kids aged 4-14 received an average of £180.44 in pocket money over the last year. An important lesson to instil from a young age is not to spend more than you have. Dividing money into different pots labelled "spend now" and "save for later" is a great way to help your child visualise where their money is going – and how valuable saving can be.

Investing for children

The arrival of a new baby may make parents, grandparents, aunts and uncles think about saving for the child's future. When thinking of investing for children you may consider putting a little away each month to provide a lump sum at 18. With higher education, marriage and getting on to the property ladder all becoming increasingly expensive, it's a good idea to make investment plans beyond 18 or even beyond 21. When it comes to a child's pension plan it doesn't matter what relation you are to them you can start to put money aside until they take their benefits, which can be any time from age 55. You can contribute a maximum of £2,880 year and get 20% tax relief which means the government tops it up to £3,600.

Help to Buy

Whether saving for your own home or helping a child with their first home, the Help to Buy ISA is available until 30 November 2019.
If you open your Help to Buy ISA before that date you can keep saving into your account until 30 November 2029 but must claim your bonus by 1 December 2030. There is no minimum monthly deposit but you can save up to £200 a month and the government will boost your savings by 25%. That's a £50 bonus for every £200 you save.

Personal pensions

If you don't have your own pension, the sooner you start saving the better; there's no minimum age. There are different types of personal pension, including:

- stakeholder pensions - these must meet specific government requirements, for example limits on charges
- self-invested personal pensions (SIPPs) - these allow you to control the specific investments that make up your pension fund

You can either make regular or individual lump sum payments to a pension provider and you usually get tax relief on money you pay into a pension. You usually pay tax if savings in your pension pots go above:

- 100% of your earnings in a year - this is the limit on tax relief you get; or
- £40,000 a year - the 'annual allowance', if lower.

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 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. Although no fixed term you should consider stocks and shares ISAs to be a medium to long term investment of ideally 5 years or more.

The value of your investment and any income from it may fall as well as rise. You may not get back the amount you originally invested.

OW0739 Exp. 05/04/18

Investment jargon buster

Assets: *anything an individual, company or fund owns which has economic (tradable) value.*

Asset classes: *Groups of securities or investments with similar characteristics that behave in a similar fashion and are subject to the same laws and regulations. The most common ones are Cash, Shares, Property & Fixed Interest Securities.*

Bond: is an IOU for *a loan to a government or company. Usually for a fixed term and with a fixed rate of return paid to the investor at fixed intervals until the loan is repaid. Sometimes called Fixed Interest Securities.*

Commodities: *bulk goods traded on an exchange. Examples include gold, silver and platinum; iron, steel and tin; grain, coffee and sugar.*

Consumer Price Index (CPI): *periodically measures the price of a basket of goods and services purchased by households, used to give an indication of UK inflation.*

Default risk: *the risk that the bond issuer will not be able to repay the interest or initial investment to the investor.*

Developed market: *an established market economy, with sound, well-established economies and are therefore thought to offer safer, more stable investment opportunities than developing markets.*

Diversification: *a policy of reducing your exposure to any one particular asset or risk. This usually involves selecting a range of asset classes which do not move in perfect synchronisation with each other.*

Dividend: *a distribution of profits to shareholders. Each share is allocated a percentage of the distribution.*

Emerging markets: *less developed economies generally characterised as transitioning from a restricted or controlled economy to a free-market economy, with increasing economic freedom, and gradual integration into the global economy.*

Equity: *a share in the ownership of a company.*

Fiscal policy: *government policies that seek to influence the domestic economy including tax rates, interest rates and spending policies.*

Fixed Income Security: *a loan to a government or company, usually for a fixed term and with a fixed rate of return paid to the investor at fixed intervals until the loan is repaid.*

Investment trust: *Set up as companies with a fixed number of shares and like any listed company the shares trade. Allows you to pool your money with other investors to get access to range of assets through a single investment.*

Mutual fund: *allows you to pool money with other investors to purchase stocks, bonds and other securities.*

OEIC (Open Ended Investment Company): *this is a collective investment fund. Managers pool investors' money to buy shares, bonds cash, property and other investments. The number of shares in circulation varies depending on demand from investors.*

Retail Price Index (RPI): *Like the CPI, this tracks changes in the cost of a fixed basket of goods over time. However, the RPI also includes housing costs, such as mortgage interest payments and council tax, as well as TV licence and road tax costs.*

Risk: *the chance that an investment will lose value or that its return will be less than expected.*

Structured deposit*: a portfolio that offers a degree of protection to capital whilst offering the potential for higher returns. The higher the risk to capital, the greater the potential return.*

Volatility: *a risk measure that describes the degree to which performance varies over time and thus an indication of one's ability to predict whether performance is going to be positive or negative.*

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