your WEALTH

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SPRING 2014

A BUDGET OF BOMBSHELLS

The Budget which 'redefined financial planning'...

This year's Budget, aimed at Britain's 'makers, doers and savers' certainly delivered 'shock, horror' headlines beyond the usual outcry about the rising price of wine, beer and petrol.

Casually extracting industrial-sized bombshells from his seemingly innocuous red box, the Chancellor announced major pension changes (taking effect 2015-16 – with transitional relaxations) affecting defined contribution pension arrangements, scrapping compulsory annuity purchase altogether and allowing savers unlimited access to their pension pots. Commentators were rendered speechless at the scale and unexpectedness of the changes, meaning that the full implications of the Budget may take longer than usual to digest.

How the pensions industry adapts to the change remains to be seen but one thing is certain. Change was needed and change is what we can now expect. Retirees have been promised more choice – but more choice means more need for expert advice in order to maximise lifetime income.

The first prediction by experts was of a buy-to-let boom with people increasingly turning to property as a viable source of retirement income. Others have envisaged that the asset management industry will muscle in on retirement with a raft of products targeting retirees.

If savers are more inclined to withdraw larger lump sums earlier, no longer fearful of hefty tax penalties, alternative strategies from investment houses may well be more suitable, such as using a multi-asset vehicle or entrusting your portfolio to a risk-targeted model portfolio designed to generate income, for example.

The importance of financial advice has seldom been made so explicit in a Budget speech. Osborne promised: "Everyone who retires on these defined contribution pensions will be offered free, impartial, face-to-face advice on how to get the most from the choices they will now have."

Under closer scrutiny that will more resemble government guidance than "advice" and will be paid for by fees, rather than "free" but it highlights the importance of a helping hand to guide you through the saving and retirement maze.

ISAs were also targeted with the adult ISA allowance lifted to £15,000 and no restrictions on how assets are divided between cash and stocks and Junior ISA thresholds lifted to £4,000. Peer-to-peer loans included in the ISA allowance will all further boost UK personal savings. But as always with investing, a solid understanding of the inherent risks is necessary to make the most of the new landscape.

The changes announced in this year's Budget mean that many of us are likely to need a more thorough financial review than usual. As soon as the dust has settled, contact your financial adviser for yours.

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MAKING PROVISION FOR CARE NEEDS

Scientific and medical advances have greatly improved our chances of living to a ripe old age.

The flip side is that living longer also increases the chances that either we or our relatives will need long-term care...

State care is a means-tested benefit with thresholds varying across the UK. Scotland is more generous than England where the current threshold is £23,250 of assets but this is set to rise to £118,000 from April 2016 as a result of recommendations by the Dilnot commission. If an individual's assets exceed this amount they will be expected to pay for their own care requirements in full. Given that the average UK property is currently valued at £250,000 (and rising) it is likely that practically every homeowner will be called upon to contribute to or fund their own long-term care – even under the raised threshold of the new Care Bill.

Charities like Age UK continue to campaign for the means test threshold to be raised further. In addition, a proposed cap of £72,000 lifetime care costs is currently being proposed. But, as we all know, the Government is crippled by the national debt and with state residential care facilities already estimated to be underfunded to the tune of £700m now is not the time to expect state generosity.

Instead, what makes sense is to look at the cost of provision and what can be done to meet it. As with most aspects of financial planning, the earlier you do this, the better.

Your financial adviser will help you figure out how much needs to be set aside, based on factors such as: the number of people in the family requiring care and a projection of when they might need it, the cost of residential care in your area and any additional requirements based on illness or disability.

One way of making provision for the cost of care is through a specialist Long Term Care (LTC) insurance policy. These can take various forms. An 'immediate needs annuity' will pay a guaranteed income for life in exchange for a one-off lump sum.

But if you have more time to plan for your care needs, you might want to look at other options such as annuities – enhanced if need be – equity release or regular savings vehicles. Consult your adviser to find out more and get the latest advice against the backdrop of the soon-to-change care legislation.

SAMPLE

PENSION OR LAMBORGHINI?

Annuities do not usually hit the headlines but this year is the exception to the rule

First, in February, we had the damning annuity market review from regulator, the Financial Conduct Authority. This concluded that eight out of ten people could get a more generous income in retirement by shopping around and buying an annuity from a different provider. "This paints a picture of a disorderly market," concluded the FCA chief executive, Martin Wheatley.

Then, in the March Budget, Chancellor George Osborne created further disorder in the annuities market by sweeping away most of the previous regulations on pensions. "No one will have to buy an annuity," he declared, explaining that from April 2015, pensioners would be able to draw down as much of their pension pot as they wanted whenever they wanted to do so. While the 25% tax-free lump sum would still apply, drawdown over and above this amount would no longer be taxed at 55%, but at the pensioner's 'taxable rate'. (Cue talk of pensioners blowing entire pension pots on Lamborghinis and knee-jerk declarations that annuities were dead.)

But just because you no longer have to buy an annuity, that doesn't necessarily mean you shouldn't, bearing in mind that:

- Annuities will continue to be the only policy that can pay a secure income for life
- Annuities can be adjusted to pay more to smokers or people with certain health conditions
- Taking your whole pension pot as a lump sum is both tax inefficient and potentially financially imprudent

At one end of the wealth spectrum, the very rich have been taking advantage of income drawdown options for many years.

At the other end, low earners will probably have no option but to rely on state benefits. It's those occupying the 'middle ground' that are likely to need advice faced with the biggest-ever change to their pension arrangements.

The choice between annuity versus drawdown is already complex, and set to become more so as investment companies rush into the newly-opened market to launch new products designed (but not guaranteed) to create income retirement. With an increasingly varied landscape to navigate, we urge you to seek out good financial advice.

RETIREMENT – SAME QUESTIONS, NEW ANSWERS...

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'Do I have enough to live on? How can I make my pension go further?'

The questions that clients nearing retirement ask their financial advisers aren't likely to change any time soon but, thanks to the 'Pensions bombshell' dropped by George Osborne in his recent Budget, the answers probably will.

Ushering in a new era of choice and flexibility for retirees, the Chancellor announced: "We will legislate to remove all remaining tax restrictions on how pensioners have access to their pension pots. Pensioners will have complete freedom to draw down as much or as little of their pension pot as they want, any time they want." What this means is that from April 2015, anyone over the age of 55 can theoretically take their entire pension as cash with no need for an annuity. The first 25% of draw down would be tax free and the rest taxed at the marginal income tax rate.

Asset management companies are already lining up to take advantage of the retirement industry's newly opened door and the race is on to develop an array of tempting new pension products.

This is all well and good but in the meantime what remains important is to look in advance of retirement at the likely adequacy of your pension pot. And that means taking advice periodically during your working life to ensure your various pension plans will deliver what you need.

As a result of rising life-expectancy State Pension benefits are being reined in. The new flat-rate State Pension (paying about £146 per week in 2014 terms) will start in April 2016. After this date, extra State pensions will be phased out albeit with some protection for earlier contributions. And the State Pension Age is rising which is particularly annoying for women who have just reached age 60. Soon their goalpost will be moved to 65 and then both sexes will advance a pension age of 66 or 67. Recent legislation enables people to opt to work beyond 65, and many may choose to do so, if only to cover the gap years.

PENSION INCOME MORE DIVERSIFIED

With State Pension provision diminishing, additional pension arrangements have been encouraged. In 2012, auto-enrolment was introduced to get virtually every employee into a workplace scheme.

The Chancellor himself pointed out that the increased freedom to choose what to do with your pension pot brings a greater need for advice at retirement. If time allows, you can make extra provision in advance and do so using tax efficient vehicle such as ISAs. If time is short, you can use other assets – such as your house – to supplement retirement income. Pensions choices are about to become more complex. Consult an adviser early to find the best way to maximize your own income in retirement.

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NICER ISAs

From 1 July 2014, the new ISA rules will come into effect

The new ISA rules (announced in the March Budget) offer:

- A higher annual allowance of £15,000 (up from £11,880)
- Greater flexibility – cash and stocks and shares accounts will be fully transferable from one to the other rather than just one-way

So, the £15,000 allowance can be split in any proportion between the two types of account – cash ISA or stocks and shares ISA – but it can't be rolled over into a new tax year. In other words: use it, or lose it.

There is little chance that we'd be allowed to forget to invest our allowance leading up to the end of the tax year. Advertising expenditure during 'ISA season' usually soars as asset managers compete to win as many accounts as possible in the run up to the deadline of April 5th. Things usually hot up in February/March with investors scrambling to find the best deals while advisers and accountants are up to their eyes in year-end tax planning.

Does it have to be this way? Do we really need to leave things until the last minute when every year we have the whole year to take advantage of our ISA allowances? We all tend to overlook details when under pressure. So why not make a New Tax Year's Resolution to have a chat with your adviser earlier, in 2014, perhaps with a view to investing your new ISA as soon as the increased allowance becomes available?

With interest rates expected to stay low for the foreseeable future, a stocks and shares ISA may be more attractive – provided that you don't mind taking on the extra risk. Exploring ISAs earlier in the year brings dual benefits – more time to investigate while sheltering from tax.

Whether you choose lump sum investing or mitigating against market volatility through monthly contributions, talk to your adviser sooner rather than later and give yourself more time to make the right decision.

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