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INSIDE THIS ISSUE

WHAT YOU NEED TO KNOW ABOUT PENSION DRAWDOWN

Since April 2015, the new pension rules have been firmly in place; investors in defined contribution pensions aged over 55 have the freedom to plan how they use their pension pots in retirement. Gone is the requirement to buy an annuity. The main way of taking an income is known as 'income drawdown'.

With income drawdown, you take a retirement income direct from your pension pot while leaving the rest of the cash invested, providing an opportunity for future growth. There is no minimum amount for drawdown, so you could, for instance, take your 25% tax-free portion and leave the remaining funds invested. You can also move funds into drawdown in stages, known as partial or phased drawdown. The 25% tax-free amount does not have to be taken at once on retirement – smaller amounts can be taken over time, each with 25% tax free.

Once you are in drawdown you can then access funds as and when you need them. You could, for example, vary the amount you take each year, taking less if you wish to remain in a lower tax band, or more if you have plans to spend. After taking your 25% tax-free cash, your withdrawals will be subject to income tax and your drawdown income will be added to any other income you receive in that tax year. It's important to remember that if you take large withdrawals, you could find yourself pushed into a higher tax bracket as a result.

MAKING THE RIGHT CHOICES

All freedoms bring with them responsibilities. While income drawdown provides you with the opportunity to grow your fund tax-free, tackle inflation, and pass your remaining pension assets on when you die, it requires planning, forethought and regular review.

One of the main risks is that of investment performance. While the prospect of leaving your fund to grow is undoubtedly attractive, if your investments don't deliver a good return or the fund gets depleted as a result of large withdrawals, you run the risk of running out of money in later life. Ideally, investors should aim to take out no more than the natural yield of their investments if they don't want to start eroding their capital until later in their retirement.

FLEXIBLE ALTERNATIVES

Under the new pension rules you are not limited to one option. You could, for example, use part of your pension to buy an annuity to secure a regular guaranteed income to cover basic living costs. The remainder could then be placed into drawdown, giving you the flexibility to access the funds as and when you need them. One thing is clear, regular investment reviews with your professional adviser will help ensure that your retirement plans remain on track.

BUDGET HIGHLIGHTS

- New National Living Wage of over £9 an hour for over 25s by 2020
- The tax–free Personal Allowance will rise from £10,600 in 2015–16 to £11,000 in April 2016
- Inheritance Tax – 'Family Home Allowance' introduced from April 2017 which will rise to £175,000 by April 2020, and is in addition to the existing £325,000 limit.
- Pensions – tax–relieved allowance will be reduced if income exceeds £150,000
- Higher rate threshold increases from £42,385 to £43,000 in 2016–17
- Buy–to–Let mortgage tax relief restricted to 20% by April 2020
- Dividend tax to be reformed – replaced by £5,000 tax–free dividend allowance for all taxpayers
- Green Paper to examine whether pension taxation can be aligned with ISA tax regime

KEEPING IT IN THE FAMILY

Pension Reform arrived in April and new taxation rules also changed – quite radically – the way pension funds will be treated when passed on as part of an estate. Previously subject to quite punitive tax rates which actively discouraged their use in estate planning, the situation is now quite different.

Your pension fund is now subject to its own individual tax rules if there is money remaining in your pot, or income due to your partner (e.g. from an annuity contract) after your death.

Should you die before 75, the remaining value of your pension fund and any income paid from it to beneficiaries will be free of tax, regardless of their situation. This includes any income due to a spouse or partner under a joint life annuity contract.

Death before 75 generally only affects a small proportion of people. The average life expectancy[1] for a 65 year old man is currently 81 and for a 65 year old woman, 84. For everyone else, pension funds passed to beneficiaries on death as income will be subject to income tax at their marginal rate. Lump sums, in tax year 2015/16, will be subject to tax at 45%, but this will be set at the recipient's marginal rate of income tax if paid on or after 6 April 2016.

As pension funds are generally held in trust, they are effectively outside your estate, so they will normally also be free of Inheritance Tax. As Inheritance Tax is charged at 40%, for beneficiaries who are higher or highest rate taxpayers, there is no benefit. However, for basic rate and non-taxpayers, there could be a benefit, and judicious use of pension funds alongside other assets could also reduce a wider liability.

Of course, the primary objective for your pension fund is to ensure you have sufficient income in retirement to keep you comfortable, and Inheritance Tax may not be an issue.

Please note: Retirement income and Inheritance Tax planning are complex areas and suitability of any particular course of action will depend on your own circumstances. We highly recommend you speak to a Professional Financial Adviser before making any decisions.

The Financial Conduct Authority does not regulate tax advice

1 Source: Office for National Statistics, cohort life expectancy based on 2012 tables, published December 2013.

TAKING A STAKE IN NEW UK ENTERPRISES

For experienced investors looking to take a stake in new and emerging businesses, Venture Capital Trusts (VCTs) could prove an interesting and tax-efficient investment opportunity.

According to the Association of Investment Companies, the amount invested into VCTs in the 2013-14 tax year was almost £436 million, compared with a figure of just over £400 million for the previous year.

WHAT DO THEY OFFER?

A VCT is a company with shares traded on the London Stock Exchange. It aims to make money by investing in smaller unlisted companies who are looking for finance to help them get their business off the ground. The managers of the VCT will usually make their investment at an early stage of the company's development. As this can be a risky time for any business, it means that VCTs are attractive to wealthier, more established investors who understand the downside of an illiquid investment and who can afford to take a long-term view of their investment and accept the higher degree of risk involved.

The rules governing VCTs stipulate a maximum company value of £15 million and a maximum of 250 employees. The VCT managers aim to sell these companies within 3 to 7 years, with the profits paid to investors as tax-free dividends. The original capital is then reinvested into new businesses.

CHOOSING COMPANIES

As the economic recovery continues and interest rates are low, more and more new businesses are starting up. This means that the investment managers can choose from a wide range of potential investment opportunities drawn from many different market sectors.

INCENTIVES

Since their launch in 1995, successive governments have encouraged investment in new enterprises, so new subscriptions to VCTs attract up to 30% income tax relief. It's important to note that this is a tax rebate and so will be restricted to the amount of income tax paid (the shares must be held for five years to attract income tax relief). The maximum that can be invested is £200,000 per tax year, and gains are exempt from Capital Gains Tax and dividends are paid free of tax.

The taxation treatment may be subject to change

ACCESSING FINANCES ONLINE 24/7

According to Ofcom[1], four in every five households now has access to the internet and 63% of people own a smartphone. This level of always-on connectivity and access to information is transforming modern communications in ways which, even just one generation ago, we would never have dreamed.

Technology is enabling consumers to talk directly to both businesses and each other in a highly personalised way, all driven by a revolution in technological capability.

This revolution has reached the investment industry. Platforms – also known as 'wraps' or 'fund supermarkets' – offer investors a way of understanding and interacting with their net wealth in a way that was previously possible but which would have taken hours of phone calls, tracking down paperwork and tedious calculations to complete.

Platforms allow you to find all the information you need in one place. Be it an Individual Savings Account (ISA), a pension plan, unit trust investments or even an investment bond, a platform can accept transfers for a wide range of eligible investment plans[2]. Once consolidated, you are then provided with a 'single view' of your entire net worth, along with access to reports, analysis and performance monitoring information to help you keep it on track.

The range of investments available can be vast, but will generally include the same funds and other investments you already hold. Charges may be lower too, meaning more of your money can be invested and improve your potential for growth over the long term.

Platforms aren't suitable for everyone, but the benefits for many will be tangible in terms of both money and time saved.

Please note: the value of your investment can go down as well as up and you may get back less than you originally invested.

1 Ofcom annual report, 'The Consumer Experience 2014', Take up section, www.ofcom.org.uk

2 Some existing pension and savings plans may carry exit fees which may outweigh the lower fees and other benefits offered by a platform or other investment provider. Suitability therefore depends on your individual circumstances and you should seek professional financial advice before making a decision.

UNLOCKING THE EQUITY IN YOUR HOME

With rising property prices seldom out of the media, many older people have found themselves considering the amount of money they have locked up in their own homes. Figures from the Office for National Statistics show that people aged over 50 own £2.5 trillion of the UK's household property wealth, that's 66.2% of the country's overall property wealth.

RISING INTEREST

Figures from the Equity Release Council (ERC) show that annual equity release lending reached the highest total on record (£1.38 billion) in 2014, a 29% rise from £1.07 billion in 2013 and 14% up on the £1.21 billion recorded in 2007.

Equity release has proved increasingly popular for several reasons. Many pension pots fall short of what's needed to sustain a comfortable later life and, as life expectancy rises, property wealth is emerging as an accessible source of funding for those aged 55 and over.

In addition, the Mortgage Market Review means that homeowners find it increasingly difficult to obtain residential mortgages beyond 55, while many with interest-only mortgage loans are approaching the point of repayment with limited means of doing so.

DRAWING CASH

ERC figures[1] show that although drawdown customers release just a sixth of their housing wealth initially, this amount (£46,356) is 85% larger than the typical defined contribution pension pot. Lump sum customers are releasing just over 28% of their housing wealth (£69,118) a sum that is 175% bigger than the average pension pot.

Their figures show the rising popularity of drawdown equity release, which allows homeowners to take a lump sum secured against their property wealth and leave some in reserve they can access at a later date.

Many people are using equity release to enjoy a comfortable retirement, pay down debts, boost their income or plan capital expenditure.

Professional advice is essential; equity release isn't the right solution for everyone. Releasing cash from your home reduces the value of your estate and the amount of inheritance you leave, so you should involve your children and dependants from the outset.

1 Equity Release Council Market Report Spring 2015

Think carefully before securing other debts against your home. To understand the features and risks of Equity Release, ask for a personalised illustration. Your home may be repossessed if you do not keep up repayments on your mortgage. A fee may apply for equity release advice and, if applicable, you must ask your adviser for details before making any decision relating to equity release as the actual amount will depend on your personal circumstances, but the typical amount is 1% of the loan value (on a typical £100,000 mortgage, this would be £1,000).

EMERGING INVESTMENT OPPORTUNITIES

World demographics are changing. The global population is increasing and prospects for different economies vary widely compared with where they are today – especially in the world's emerging markets.

Today, the population of China, at 1.4 billion people, is the largest on the planet[1]. Forecasts indicate that in the next 15 years, this total will increase by another 50 million[1], not only maintaining this number one spot but doubling the size of its economy to take it within striking distance of the US[2].

In some of the less developed economies, the statistics are even more compelling. Despite already having a population of 1.2 billion[1], more than twice that of the whole of the EU combined, India is only the eighth largest world economy. However, estimates indicate that it will overtake the UK, Brazil, Germany and even Japan. As the IMF has noted, in 15 years India will have not only the largest workforce, but also the youngest.

For investors looking to the longer term, this could add a new dimension to their planning. To put it in perspective, India's economy is set to be over 2.5 times its current size in 15 years. That compares with forecast growth in the UK economy of just 1.4 times. Having your money in the right place can make a big difference to the value of your portfolio.

The caveat "being in the right place" is important. Emerging markets are volatile. They include Russia, which is suffering significantly right now from sanctions and a low oil price. Asia has seen huge outflows of investors' money in the first half of 2015 as the likelihood of an imminent rise in US interest rate has increased[3].

In China, the growth rate has slowed as it moves from net exporter to a country where the growing middle class is fuelling the level of domestic consumption.

So, emerging markets are not for the faint hearted. This is definitely not an area to target with the core of any investment, even if it is for the longer term.

However, if do you have the benefit of a longer term investment horizon, have a larger portfolio that can take risks with smaller amounts and you are willing to accept there will be downturns, an investment could be worth your while.

Many UK fund management companies have funds which specialise in this area and many more hold a little bit of emerging markets in the more aggressive balanced funds. There are lots of options.

If that has piqued your interest and you would like to consider adding a little spice to your own portfolio, please get in touch.

An emerging market investment carries greater risk than a more internationally diversified portfolio. Funds investing in this area will be subject to currency risk and, in some cases, political risks. The companies they hold shares in may also be smaller and less well established than the established blue chip companies found in developed markets.

1 Organisation for Economic Cooperation & Development (OECD), population history and projections

2 United States Department for Agriculture, April 2015

3 EPFR Global data as quoted in the Telegraph, 12 Jun 2015

OTHER BUDGET NEWS

- Immediate change to pension input periods to align with tax years
- Pension lump-sum death benefits – from April 2016, tax payable after two years or post 75 will be based on recipient's marginal rate
- Right to withdraw and replace funds held in ISAs without counting towards ISA limit now applies to stocks and shares ISAs
- Insurance premium tax to rise to 9.5% from November
- Secondary annuity market delayed until 2017
- Permanent non-domiciled status to be abolished
- Student maintenance grants to be replaced with loans
- Working-age benefits, which include Tax Credits and Local Housing Allowance frozen for four years