PERSONAL INVESTMENT PARTNERSHIP LTD
Wealth Management

CHARTERED FINANCIAL PLANNERS CII

Kent Enterprise House, The Links, Herne Bay, Kent CT6 7GQ
Tel: 01233 888363 Fax: 08704 718005
E-mail: clientservices@pipltd.co.uk Web: www.pipltd.co.uk

YOUR WINDOW ON FINANCIAL ISSUES

WINTER EDITION 2015

INSIDE THIS ISSUE

THE NEW PENSIONS ERA

No-one could have predicted before the March 2014 Budget that, by the end of the year, the pensions landscape would have witnessed such far-reaching and fundamental changes.

From April 2015, those with defined contributions pensions are set to enjoy unprecedented freedom to choose at what age, from 55 (rising to 57 from 2028), they take their pension benefits. Gone are the restrictions that were often perceived as onerous and unfair. There is no longer a requirement to purchase an annuity at any age, and the scrapping of the 55% tax charge on death means that some beneficiaries look set to inherit far more than was previously the case.

However, this freedom and choice brings added responsibilities. Those who choose to take benefits early, rather than later need to be aware that their retirements could last as long as their working lives and will need to be carefully planned.

Metering out pension pots to ensure a financially-comfortable retirement requires astute long-term planning. The secured income that an annuity provides will still have an important part to play in ensuring funds are readily available to pay regular living costs. With life expectancy extending, and the potential need for living assistance and healthcare often, quite rightly, highlighted in the media, the need for expert advice and continuing guidance has never been more important.

April 2015 changes outlined

- Flexible access to pensions from age 55 (57 from 2028)
- You will still be able to receive 25% of the fund tax free, but this doesn't have to be taken immediately and in full when you first take an income
- Pension drawdown restrictions relaxed
- Final salary pensions can be switched to defined contributions (but transfers from unfunded public sector schemes are not allowed)
- Death benefits paid to beneficiaries on death before age 75 will be completely tax free
- Death benefits after death over 75 will be subject to 45% income tax in 2015-2016 and beneficiary's marginal rate thereafter.

Whatever stage of your working life you've reached, however near or far away from retirement you may presently be, you are strongly advised to keep your pension plan under regular review and to maximise your pension contributions throughout your working life.

For those planning to access their pension fund in the immediate future, it's vital to have an understanding of what these major changes in financial legislation mean for you, what new options you have available, and how best to structure your finances to ensure a long and happy retirement.

The purpose of this article is to provide technical and generic guidance and should not be interpreted as a personal recommendation or advice.

CITY CHAT

NISA NEWS

Details regarding the rule changes have now emerged from the Autumn Statement explaining that a partner will be allowed to invest an amount equivalent to the deceased's NISA into their own NISA via an additional allowance. This allows flexibility for estate planning as rather than the actual NISA assets it will be a NISA allowance which can be inherited by a deceased individual's partner. The deceased's assets can be distributed in accordance with their Will and a spouse can make contributions to their NISA using any funding source up to the increased allowance.

SPARE YOUR HEIRS FROM IHT

Families were charged £3.4bn in inheritance tax in 2013-14, a six-year high according to HM Revenue & Customs.

The 2014-2015 inheritance tax (IHT) threshold is £325,000 per person, doubling to £650,000 for a married couple. Anything over this limit is subject to tax at 40%.

However, with the rise in the value of property, it's easy to see how many people are now finding they have a greater liability than they first thought. Fortunately, expert planning can legitimately mitigate this tax, enabling your assets to pass as you intended.

Here are some ways to reduce IHT liability:

Plan ahead. You can give your assets away and, if you survive for seven years, they will not be considered for IHT purposes. You can also take out life insurance to pay the inheritance tax that would be due if you don't live for seven years.

Consider marriage. Because assets inherited from a spouse are IHT exempt, the nil-rate band (or unused part of it) is, in most cases, passed on to the surviving spouse or civil partner. This means that a qualifying couple's estate up to £650,000 is exempt.

Write a will trust. Set up a discretionary will trust to earmark money for your children, rather than giving it straight to the surviving spouse – so it won't count as part of the estate. The appointed trustee will control the assets and can arrange for the spouse to receive income from it, if needed.

Make use of annual exemptions. You can make gifts of up to £3,000 (in total, not per person) plus any number of gifts, up to £250, per other recipient.

Weddings. Before the wedding day, each parent of a bride or groom can give up to £5,000; each grandparent or other relative can give up to £2,500 and any well-wisher can give £1,000.

Make gifts out of your surplus income. If you're in the fortunate position to be able to do so, consider making regular gifts under the 'surplus income exemption'.

Everyone's circumstances are unique and tax planning is a highly complex area; it's essential to take professional advice.

WHY INVESTMENT EGGS GO IN DIFFERENT BASKETS

Diversification is an often-used investment strategy which aims to guard against some of the risks widely associated with economic fluctuations and stock market peaks and troughs. When it comes to investing, it's good to hedge your bets and spread your money around different types of asset so that a poorly-performing investment doesn't greatly damage your returns.

Financial advisers often recommend that portfolios should be diversified to include a range of assets alongside shares, such as bonds, property, and cash, so that the risk is effectively spread over a range of different companies, markets and economies, giving your money the best opportunity for growth.

Each of these types of assets has different characteristics and their performance will vary from year to year. The combination of these assets that will be right for your circumstances is likely to alter over time, as will your appetite for risk.

During your younger years, you may want to invest in assets with a higher potential for growth, but greater risk, because you have the time to benefit from their long-term growth. As you get closer to retirement, your appetite for risk may well change, and you may want to choose more conservative investments that are steadier in both risk and return.

The choice of potential investments is vast. The difficulty comes with choosing the right spread of investments to meet your investment needs. Your financial adviser will be able to review your financial goals and help you choose the right mix to match your circumstances.

PRE-RETIREMENT CHECKLIST – HOW'S YOUR PLANNING COMING ALONG?

Retirement can be both fulfilling and rewarding; however, you have to work at it. In the years leading up to your retirement, there are some important questions you should consider.

How much will your lifestyle cost?

Some costs will come down, but some will inevitably go up. Whilst you won't have the expense of commuting, you may want to spend more on enjoying your hobbies or taking holidays. Drawing up a detailed budget will help you arrive at the amount you'll need to enjoy a comfortable lifestyle.

How much will your pensions(s) provide?

Get a forecast for both your state pension and your private pension(s). With the pension rules set to change in April 2015, you may wish to revisit your pension strategy with your adviser.

What about your savings and investments?

It makes sense to take stock of your savings and investments to ensure they're still meeting your financial goals and are as tax-efficient as possible.

What about my debts?

Many more people are retiring with mortgages still in place. It makes sense to try and reduce the amount of debt you have as you may have less income available. There may be alternative deals that might be more cost-effective, or you could opt to use your pension lump-sum to clear your remaining debts. Either way, planning is key.

It's good to keep your finances under regular review as you approach retirement; talking to your adviser will help you keep your retirement plans firmly on track.

TRUSTS AREN'T JUST FOR THE RICH

Trusts were once considered the preserve of the wealthy, but today you don't have to be incredibly rich for your family to benefit from the creation of a trust. They can offer long-term asset protection and can have a variety of uses in financial planning strategies.

What is a trust?

A trust is a legal arrangement which allows assets, usually property or money, to be looked after by a trustee for the good of one or more beneficiaries. Those beneficiaries can be named individuals, such as your children or can be people who are yet to be born. Trusts are usually set up in conjunction with a will and can be used for several purposes.

Why set up a trust?

They can have a variety of uses such as

- Protecting the financial interests of a young beneficiary by retaining control of the assets until they reach the age of 18 (16 in Scotland)
- Looking after the interests of somebody who can't handle their own financial affairs through incapacity
- Providing for a husband or wife, while keeping the assets intact for the benefit of children
- Reducing inheritance tax liability (IHT) by taking assets out of an estate so reducing the amount on which IHT might otherwise be due
- Protecting the family home from being sold to pay for residential care
- Ensuring that the proceeds from a life insurance policy go to the beneficiary without waiting for probate, and don't form part of the estate for IHT purposes.

Setting up a trust

You will need to appoint trustees to look after the assets in the trust on behalf of the beneficiaries. They will have the power to make, manage and review investments and to make payments from the trust as set out in the trust deed.

There are several types of trust, and the one that's right for you will depend on who the beneficiaries are, what the assets are, and how and when you want them distributed. You should take expert advice as to what type of trust will work best for your particular circumstances.

FINANCIAL RESOLUTIONS YOU SHOULD MAKE RIGHT NOW

It's that time of the year again. The post-Christmas period can be a good time to take stock of your finances and set yourself some simple objectives for 2015.

This year, I will make my will

This should be at the top of everyone's priorities to ensure your wealth goes to those you want to inherit it. If you already have a will, it's worth considering whether it needs updating.

I will save more

At some stage in our lives we are all going to need savings to fall back on. As we head toward the end of the tax year, it's a good idea to maximise the amount you're saving in your New Individual Savings Account (NISA). The annual allowance was increased to a generous £15,000 from 1 July 2014, and the tax benefits are attractive.

I will face the fact I'm getting older

As from April 2015 the major pension changes announced by the Chancellor in his March 2014 Budget come into force. So whatever stage you've reached in your working life, it's worth reviewing your pension provision. Remember, if you want a prosperous and comfortable retirement, it's up to you to provide for it.

I won't pay the taxman more than I have to

Even seasoned investors can forget to make use of all their allowances such as the annual capital gains tax allowance (CGT) which is £11,000 for 2014-2015 (don't forget that a married couple can both use their individual CGT allowance). Pension contributions and NISAs attract generous tax advantages, so save as much as you can afford within the relevant limits. Get to know your tax code. HM Revenue & Customs estimates that up to four million employees could have overpaid tax, so check out your details.

I will plan for my family's future

It's worth keeping life policies under review as over the years your needs change. Check you have enough cover for your current situation. Should you be thinking about inheritance tax planning (IHT)? With the rise in property prices, more families are finding themselves drawn into the IHT net.

I will keep my finances in order and up-to-date

Managing financial information is something we all face. One of the hardest tasks is creating a system to organise and keep track of the relevant paperwork. If you don't already hold your savings and investments on a platform, ask your financial adviser for details. Basically, platforms are online services that act like sophisticated computerised filing cabinets and are a good way to organise all the relevant information and manage your investments.

So, make 2015 the year you keep your financial plans up-to-date. Why not schedule a review meeting with your adviser soon?

Not all Inheritance Tax Planning solutions are authorised and regulated by the Financial Conduct Authority.

CITY CHAT

Safra swallows a Gherkin

One of London's landmark office buildings has been sold for the second time since completion ten years ago. The Gherkin, on the site of the old Baltic Exchange in the City's insurance district, is being added to the empire of Brazilian billionaire Joseph Safra for about £700m.

Constructed for around £140m, the familiar icon of the City skyline was sold by original owner Swiss Re in 2006 for a reported £600m. The Anglo-German investment fund that paid that at the pre-crash property market peak with massive borrowings found repayment costs hard to swallow and suffered chronic financial indigestion.

The Norman Foster designed Gherkin with 46,900 sq m of floorspace was put on sale by receivers last July.