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Viewpoint

Your latest newsletter from Carl Summers Financial Services

Pension savers face Lifetime Allowance cut

From 5 April 2016, your tax-free pensions savings limit will be cut from £1.25m to £1m. This cap is called the 'lifetime allowance' and applies to your entire pension savings (apart from the state pension).

When the lifetime allowance was first introduced in 2006, it only affected high earners in the UK who could afford to grow seven-figure pension pots.

But as the limit has reduced in recent years many more thousands of people have been affected – especially those in final-salary schemes who have built their entitlement through many years' work.

Tax charges

If your pension savings are worth more than the £1m lifetime allowance when you take your benefits, you'll have to pay the lifetime allowance tax charge on the excess. The tax charge is 55% if you take the excess pension pot as a lump sum, or 25% if you take the pension as a regular payment.

Annual allowance

The amount you can pay into your pension every year (the annual allowance) is currently £40,000 . You usually pay tax if savings in your pension pot exceed the annual allowance, but you can top up your allowance for the current tax year (6 April to 5 April) with any allowance you didn't use from the previous three tax years.

Pensions savings allowances

Tax Year	Lifetime Allowance	Annual Allowance
2013/14	£1.5m	£50,000
2014/15	£1.25m	£40,000
2015/16	£1.25m	£40,000
2016/17	£1m	£40,000

Protecting your money

If you had a pension pot of more than £1.25m as at 5 April 2014 you may be able to claim Individual Protection 2014. This will provide a protected lifetime allowance equal to the value of your pension rights on 5 April 2014 (up to an overall maximum of £1.5m).

You will not lose Individual Protection 2014 by making further savings into your pension scheme, but any pension savings in excess of your protected lifetime allowance will be subject to the lifetime allowance charge.

Applying for Individual Protection 2014

You became eligible to apply for Individual Protection 2014 from 18 August 2014. Applications are still open but must be received by HMRC no later than **5 April 2017**.

We expect to see similar transitional protection regimes announced ahead of the lifetime allowance cut.

If you are worried that your pension pot may be affected by this change and would like more information, please get in touch.

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

COPEN1042 Exp. 31/03/16

Accident protection

More accidents happen in the home than anywhere else. And during the winter months more time at home means more chance of an accident.

You may take extra care whilst taking down the Christmas decorations or spring cleaning for Easter, but can you be sure your family are being as vigilant?

Every year[1]:

- There are approximately 5,000 deaths as the result of an accident at home – with children under five and people over 65 most likely to have an accident
- 200,000 people report injuries that result in more than three days off work
- Almost 7,000 people were admitted to hospital after accidents involving a ladder
- Nearly 4,000 were admitted to hospital following accidents involving furniture
- 3,053 were injured due to accidental poisoning
- 137,264 under 18s are admitted to hospital due to injury

Spring cleaning may sound harmless but it can involve many of the chores that lead to trips, slips and falls. It is important to take the time out to think about your safety. If you need to climb, avoid using chairs and use a step ladder instead.

Most importantly, don't rush things, as that's when most accidents are likely to occur.

Take appropriate cover

You may think 'it won't happen to me' but accidents, by their very nature will happen. Accident protection can provide a cash lump sum when you really need it for a range of specified accidental injuries. It can give you a little more financial security to help cope with any loss of earnings through illness or injury.

Accident protection can provide cover for:

- Broken bones
- Hospitalisation due to accident and sickness
- Permanent injuries
- Permanent disablement
- Accidental death
- Funeral costs

Talk to us today about accident protection for you and your family.

[1] *ROSPA & MetLife*

COPEN1174 Exp. 14/12/16

Cost of dying rises by nearly 4%

The average cost of a funeral in the UK has risen by £140 in the last year to £3,702.

It's hardly the most cheery subject, but updated figures suggest that funeral costs are on the rise, increasing faster than the rate of inflation over the past year. But it's clear that while £3,702 might seem a reasonably generous budget, it might not be enough to the include things you might consider essential for a dignified send-off.

Funeral director fees, which have risen by 5% in the past year alone, make up the majority of the cost. Cremations now cost £683 on average and burial fees £1,645. Adding flowers, a headstone and a reception could add another £2,323[1].

How you can tackle the rising costs?

Talk about it
It is never an easy discussion to have, but talking about funeral wishes with your loved ones can help minimise costs. When asked, most people would prefer a low-cost approach with over a third saying they want their families to spend as little as possible.

Shop around
Dying doesn't need to be expensive. As with all things, if you shop around you can usually find a better deal. Websites like YourFuneralChoice.com can help you find affordable funeral directors in your local area.

There are also more affordable alternatives to the traditional wooden casket. You can order a basic cardboard version online from just £245, a more exotic banana leaf construction for around £275, or even make your own[2].

Plan ahead to avoid debt
For many people, cost-cutting is the last thing on their mind when planning a funeral for a loved one. But in trying to provide a 'good send-off', you may put yourself at risk financially. During 2015, the average debt taken on to pay for a funeral was £1,318[1].

Cover the cost
A Whole of Life Plan can help take away some of the financial worry for your family or friends. These plans are designed to pay out a specified sum when you pass away (or are diagnosed with a terminal illness). The amount paid depends on the sum, you can decide this when you set up your plan.

Planning your own send-off can be difficult, but you may find that taking some time to share your wishes and put plans in place provides peace of mind for you – and your loved ones.

[1] *The Royal London National Funeral Cost Index Report 2015*
[2] *comparethecoffin.com*

If you would like to discuss end-of-life financial planning, or any aspect of your protection needs, please get in touch.

COPEN1176 Exp. 14/12/16

Carl Summers Financial Services **info@summersheaney.co.uk** **01952-815930**

Is there a shock in store for your retirement?

New research suggests under-40s face a 148% hike in retirement living costs, while many over-45s are exposed to financial 'shocks' that could upset their retirement plans.

- **Avg. monthly retirement expenditure to rise from £1,183 to £2,930 by 2050***
- **42% of over-45s have not planned for financial shocks in retirement**

Research by Royal London has revealed that today's 35 year-olds need to have saved at least £666,000 by age 65 in order to secure the same standard of living as today's pensioners. These stark figures are driven by a predicted 148% increase in retirement living costs by 2050.

The research also found that today's 30-40 year-olds have an average (median) pension pot of £14,000. This represents a significant shortfall on the monthly income that will just cover the basic £1,715 cost of 'essentials' (such as transport, housing, food and energy) in 2050.

But it's not all bad news...

Despite some of the more shocking statistics, the research also suggests the younger generation are no worse at planning for their future than those entering retirement today. Indeed, 67% of 18-40 year-olds questioned said they were saving for retirement (only slightly lower than the 68% of 65-75 year-olds who said they have a pension in place).

The younger age group also displayed an awareness of the likely shortfall they could face at retirement unless they up their pension savings. Fifty-seven percent of those in their 30s, and 51% of those aged 18-29, said they expect to work part-time after they 'retire' to supplement their retirement income, while 40% of under-40s predicted that the state pension will be a thing of the past by 2050.

'Exposed generation' risks retirement shocks

But it's not just the younger generation who could be leaving themselves exposed in retirement. Research from MetLife has indicated that more than 40% of pension savers aged over 45 may be exposed to unwelcome financial and family surprises in retirement.

The most commonly-cited potential retirement 'shocks' among the over-45s included:

- Unexpected healthcare costs
- High inflation rates
- A stock market crash
- Falling house prices
- 'Bailing out' children

When questioned, it became clear that far from being oblivious to the risks 85% of those questioned were indeed worried about increased risks to their retirement dreams in the wake of this year's pensions reforms.

So what can you do about it?

You can't predict the future – but you can prepare for the unexpected. By building a personalised financial plan, and reviewing it regularly, you can take control of your future and give yourself a better chance of enjoying a happy and prosperous retirement that is able to withstand unexpected surprises.

** For pensioners who are not reliant on state pension*

If you would like to discuss your pension contributions, protecting your retirement fund, or any other aspect of your pension planning, we'd be happy to help you.

COPEN1168 Exp. 10/06/16

1.75m homeowners unprepared for mortgage increase

The Bank of England (BoE) last increased the base rate in July 2007 and interest rates hit rock bottom in March 2009. This has meant over 1.75 million UK homeowners have never faced a rise in the BoE base rate.

Mortgage payments around 18% of income

During 2014 these first time buyers were spending, on average, 18.4% of their income on their mortgage. If the base rate is increased many homeowners may be in for an unexpected financial shock.

If you have a £100,000 repayment tracker mortgage over 25 years, even a small rise of just 0.5% in the base rate would mean your repayments would increase by £300 a year.

Monthly Payment	Interest Rate
£475	3.0%
£501	3.5%
£528	4.0%
£556	4.5%
£585	5.0%
£614	5.5%
£644	6.0%

Take control

There is still uncertainty around when the rates will rise but while rates remain low it's a good idea to get ahead of the game by reviewing your spending habits and budget.

Filling out an income and expenditure form will help you identify where you can easily make savings if you have to. Charities like The Money Charity offer a free online form, or you can easily search online for templates. Simply gather together all of your bank statements and bills. Work out your total income and outgoings. Don't forget to add in things such as Christmas or your car MOT. Once you know how much you have left over at the end of the month you'll be better prepared for any future surprises.

Fixed rate

Whilst reviewing your finances you may also want to think about reviewing your mortgage. With a fixed rate mortgage, the rate (and therefore your repayments) will stay the same for an agreed period. This makes budgeting much easier because your payments won't change - even if interest rates go up.

Whether reviewing your personal budget or your mortgage we can help. Get in touch to find out how we can help you.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

For this service a fee of £295 is payable on completion.

COPEN1162 Exp. 10/06/16

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Business survival planning

If something happened to you, your co-owners or employees, could your business survive?

A study by Legal and General shows 46%[1] of new businesses would fold immediately following the death or critical illness of a key person.

The loss of a key person within a small or medium-sized business can cause unexpected costs at what would be a difficult time. Not only would the business have to fund the cost of recruiting and training a replacement, but it would also risk suffering:

Loss of profits

Loss of important business contacts

Loss of knowledge

Business protection insurance can help mitigate or even avoid these risks altogether.

As a business owner, you should know there are three main types of business protection:

- **Key Person Insurance** – provides a lump sum to the business on the death of an important member of the business.
- **Shareholder Protection Insurance** – provides a lump sum that will allow remaining shareholders to buy the shares of a deceased shareholder.
- **Business Loan Protection** – provides a lump sum to help a business pay any outstanding business loans.

There is also the option to take out relevant life insurance in trust. Although this is not technically business protection an agreement can be made which specifies the terms on which proceeds can be used.

Critical illness cover should also be a consideration, as long-term or permanent absence from work, could cause serious financial pressures to you and your business.

Protect your bottom line

People are the biggest asset to any business and Business Protection Insurance is designed to keep your business trading should you lose the people responsible for your profit margin.

For further information or advice on setting up a business protection policy please get in touch.

[1] *Legal & General - State of the nation's SMEs report*

COPEN1175 Exp. 14/12/16

Carl Summers Financial Services **info@summersheaney.co.uk** **01952-815930**

5 reasons why you should use your full ISA allowance

If you haven't used up your ISA allowance for 2015/16, you have until 5 April to do so.

With the tax-year end fast approaching, the clock is ticking for you to use up all of your £15,240 ISA allowance for this tax-year.

But why is it so important to use up your allowance? Here are five great reasons:

1 More generous allowances

The ISA annual allowance now stands at a record £15,240 – all of which can be invested in a Cash ISA, a Stocks and Shares ISA, or a combination of the two. This figure is almost 30% more generous than the 2013/14 allowance of £11,520 (of which only £5,760 could be invested in a Cash ISA), giving you a much greater opportunity to shelter more of your savings from tax.

2 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.

3 You can't 'carry over' your ISA allowance

Unlike some other personal allowances (such as your pensions annual allowance), you cannot carry any unused ISA allowance over to the following tax year. That makes it doubly important to invest your full allowance, if you can afford to.

4 Increased flexibility

In years gone by, if you used up your annual ISA limit but then made a withdrawal during the same tax-year, you'd be unable to replace it. As of April 2015, you now have the freedom to take money out, and put it back in later in the 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.

5 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 £381,000 total investment would have grown to £528,542.54. The same investment with a 5% annual growth rate would return £756,297.33.

If you haven't used up your ISA allowance for 2015/16 yet, please get in touch to discuss your options.

ISA FACTS

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

There are two types of ISAs:

- **CASH ISA**
  You don't pay tax on savings account interest.
- **STOCKS AND SHARES ISA**
  You don't pay tax on any income or capital gains you've made on your investments.

If you complete a tax return, you don't need to declare any ISA interest or profits on it.

You can put money into one Cash ISA and one Stocks and Shares ISA each tax year.

You can save up to £15,240 in one type of account or split the allowance across both types.

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.

COPEN1163 Exp. 05/04/16

Over-sharing could invalidate your home insurance

If you use social media, you may have posted a picture by the pool or a selfie from the slopes. Even if you haven't, you probably know someone who has.

Did you know that sharing your current location or travel plans could void your home insurance?

A quick swipe through your timeline will probably reveal the recent holiday details of friends and family – right down to the travel dates, departure airport and hotel location.

But have you ever stopped to think that posting this sensitive information on Instagram, Facebook or Twitter could be advertising your vacated property to criminals?

Should your social media take a holiday too?

Maybe your break could be the perfect time to take a holiday from social media too.

If you suffer a break-in whilst on holiday, and had announced your travel plans on social media, it might lead to your home insurance claim being rejected. This is because the insurer might consider the homeowner has not done enough to guard against the theft by posting such information online.

Showing off your latest holiday on social media is tempting, but is it worth jeopardising your home's security for?

Protect your possessions

The same advice should also be applied to your possessions – particularly those of high value. Showing off your latest expensive purchase online could also be seen as increasing your risk - and would at the very least leave you feeling foolish if you lost or had it stolen as a result.

Staying safe

Insurers are reportedly considering asking home owners if they use social media when assessing their applications, as the risk of over-sharing becomes more and more common. If you do use social media, consider taking the following steps to reduce your risk:

1. Turn off location-based services on the social media accounts you use
2. Never share your home address on social media
3. Make your posts private so that only your friends and connections can see them

If you would like to discuss how you can protect your home and possessions, please get in touch.

Carl Summers Financial Services
1 Abbey Court
High Street
Newport
Shropshire
TF10 7BW

01952-815930
info@summersheaney.co.uk
www.summersheaney.co.uk

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FINANCIAL SERVICES

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