Issue 16 Summer 2016

Financial Viewpoint

Your latest newsletter from Carl Summers Financial Services

A year on from pension freedoms

In April 2015 the government introduced the most significant pension reforms for a generation.

The reforms give people who've worked and saved hard greater flexibility over how and when they access their pension savings and mean anyone reaching retirement age has been able to withdraw some, or all, of their pension (subject to tax on everything above the first 25% they take out).

Lamborghini sales unaffected

A year on and figures suggest over 230,000 people have accessed more than £4.3 billion from pension funds. The average withdrawal is £18,750 – laying to rest the fear that retirees would be tempted to 'blow their entire pension pot on a Lamborghini'.

In fact, with 516,000 payments made, it goes to show many people have chosen to take their money in instalments, rather than everything in one go.

The figures also showed:

- the highest number of partial withdrawals were made by consumers aged 55-59
- consumers with bigger pension funds were more likely to have taken financial advice
- around 60% of drawdown and annuity customers stayed with their existing provider

Making the right decision

The age at which you can draw your pension is currently 55, but this is set to increase to 57 from 2028 and, from then, in line with the rise in the State Pension age, albeit remaining 10 years below.

From 6 April 2015 those aged 55 or in a defined contribution pension plan are able to access pension savings in a number of different ways:

- buying an annuity
- Flexi Access Drawdown – previously known as flexible drawdown
- uncrystallised Funds Pension Lump Sum (UFPLS) – this allows you to draw money directly from your pension fund. Of each payment you withdraw, 25% is tax-free and the other 75% is taxed as income via PAYE

It's also important to consider not only your pension savings – including the state pensions – but also any other savings and investments you may have. And if you choose to continue to invest amounts that you don't need to access immediately, you should think about:

- your current essential income needs such as your day-to-day living expenses and other known or planned expenditure
- your current health status
- your lifestyle and the 'non-essential' expenditure, such as holidays, new cars, sports and hobbies, entertainment etc
- future possible/anticipated living expenses incorporating, possibly, a budget for care
- unexpected expenses such as car repairs, home maintenance and health problems
- gifts – either now or in the future
- the extent to which you'd like to leave an inheritance for your family and dependants

With choice comes complexity, so it's important to take advice before making decisions on your pension.

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

If you're looking to access your pension savings or you'd like advice on your pension choices, please get in touch.

COPEN1304 Exp. 31/03/17

Have you found your forever home?

When you think about your dream home – the one you can see yourself growing old in – what do you imagine it looks like? A modern architectural masterpiece built of glass and metal, or something more old-fashioned and cosy?

If you asked your friends and family what their ideal 'forever' home looks like they will probably all have very different ideas.

What does your forever home look like?

Whether you're fortunate enough to be on the lookout to buy your forever home, or you're thinking of doing up your current home to make it one you won't ever want to move from a recent survey has revealed some interesting statistics:

Top of the must-have list for UK home buyers is off-street parking, whereas one of the 'dream' features is a garage – despite reports suggesting we rarely use our garages to park our cars.

Marketing your forever home

If you're selling your home, you can make it more marketable by appealing to someone's idea of a forever home. Converting an office or junk room into an extra bedroom can make it more attractive to families. You could also convert your downstairs cloakroom or the cupboard under the stairs into a toilet or wet room and use potted plants on patios or driveways if you haven't got a big garden.

If you are thinking of improving your current home, or you're looking to buy or sell a property, please get in touch to discuss your mortgage needs.

What do you think a forever home is?

61% of the people surveyed think their forever home is the one they'll grow old in

Only **10%** think it's something they can currently afford

Where should it be?

26% want their forever home to be in a village

Only **8%** think their forever home will be in a big city

Do you live in yours?

33% of 18-24 year olds think they're currently living in their forever home compared to **43%** of 35-44 year olds believe the same

Your home may be repossessed if you do not keep up repayments on your mortgage

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A financially-rewarding retirement

While financial wellbeing is not the only contributor to a satisfying, healthy and enjoyable life, it's still a pretty important one.

For most, during working life, financial wellbeing will depend on whatever they do to earn money. However, as well as securing the living standards you want when you're working, it's also important to think carefully about putting some of that income aside for your future.

Generally speaking, the more you save and the earlier you start saving, the better shape your financial assets are likely to be in when you need to draw on them.

Choices at retirement

When work ends or reduces, your financial assets have a bigger part to play. And for many their pension fund will be an important (but not necessarily their only) financial asset. The decision on where to draw funds from when money is needed to replace or supplement earned income will be an important, and sometimes complex decision and there are many factors that can influence it:

- whether to convert pension savings held either in a personal or workplace pension
- how to make your pension income last (given most of us are living longer)
- how to protect your income against the effects of inflation

Historically, most people have bought a 'lifetime' annuity on retirement. In April 2015, there were some big changes to the ways in which you can take money from your pension fund.

The new options introduce more choice – and more complexity. The fundamental principle though, is that once you've reached age 55 you will have the ability to access all or any part of your pension fund, albeit taxed, however and whenever you want to.

The State Pension

For many, the pension the State provides will form a key part of their retirement income. The amount of State Pension you'll get usually depends on the National Insurance contributions you've paid.

The age at which you can claim State Pension is changing. It's currently 65 for men. State Pension Age (SPA) for women is gradually increasing from 60 and will reach 65 by November 2018. SPA for both men and women will then increase to 66 by October 2020 and then to 67 and eventually 68 by 2046.

A new single tier State Pension of £155.65 maximum a week, replacing the Basic and Additional pensions, will affect people reaching State Pension Age from 6 April 2016 onwards.

Ensuring good decision-making

Self-evidently, the greater the value of your investment, the greater chance you will have of a financially rewarding retirement. But the more investments you have, the more important it will be to think very carefully about where you take money from when the time comes to take it.

A good understanding of the tax rules that apply to your investments will be essential to good decision making. You'll also need to think about the relative importance of certainty of income, access to capital, and preservation of capital for your family, as well as the degree of risk you're prepared to take to achieve your required level of return on the investments that remain in your pension fund.

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

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

If you'd like expert advice on your retirement choices, please get in touch.

COPEN1303 Exp. 31/03/17

Bank of Mum and Dad

With rising house prices outpacing income an increasing number of young people will borrow from parents and family in order to get onto the property ladder.

The 10th largest mortgage lender

The combined amount which parents and grandparents will be prepared to gift or loan their children to help them buy their first home is estimated to be £5bn. This puts them alongside the 10th largest mortgage lender in the country, Clydesdale Bank, which lent the same amount in 2014.

Research from Legal and General estimates the "Bank of Mum and Dad" will be involved in approximately one in four UK mortgage transactions this year, showing the extent of how borrowing from family members is supporting the housing market.

The risks of borrowing from Mum and Dad

However, as well as the obvious benefits, Legal and General suggests people from less advantageous backgrounds will be increasingly squeezed out, effectively widening inequality in the housing market.

They also caution that the "Bank of Mum and Dad" will, at some stage in the future (they estimate 2035), come into a funding crisis, caused by unexpected care costs for parents and grandparents living longer. The problem is exacerbated for families in London who have been known to contribute more than half their net worth on their children's house purchase.

Other investment options for your children

There are more ways to help your children financially than contributing to their first home, but whatever approach you take it's important to start early. By saving for your children from an early age (even perhaps before they are born) you can help put them in a better financial situation for their adulthood.

If you would like advice on choosing the right savings and investment options for you and your children, please get in touch.

COPEN1298 Exp. 31/12/16

Financial back pains

Back pain is a common problem that affects most of us at some point. In 2014/15 9.5 million working days were lost due to musculoskeletal disorders including back pain. To put that figure in perspective that's just over 26,000 years of lost productivity.

In some cases the back problem will be temporary and the sufferer will recover and return to work, but conditions vary enormously in their severity and can occur at any time.

Preventing back pain

How you sit, stand, lie and lift can all affect your back. When you think about how much time the average person spends sat at a computer, it's important to be aware of your posture in order to help prevent injuries.

One of the biggest causes of back injury, particularly at work, is lifting or handling objects incorrectly. When moving an object at work or home you should:

- think before you lift
- start in a good position
- keep the load close to your waist
- avoid twisting your back or leaning sideways, particularly when your back is bent
- keep your head up
- know your limits
- push rather than pull
- distribute the weight evenly

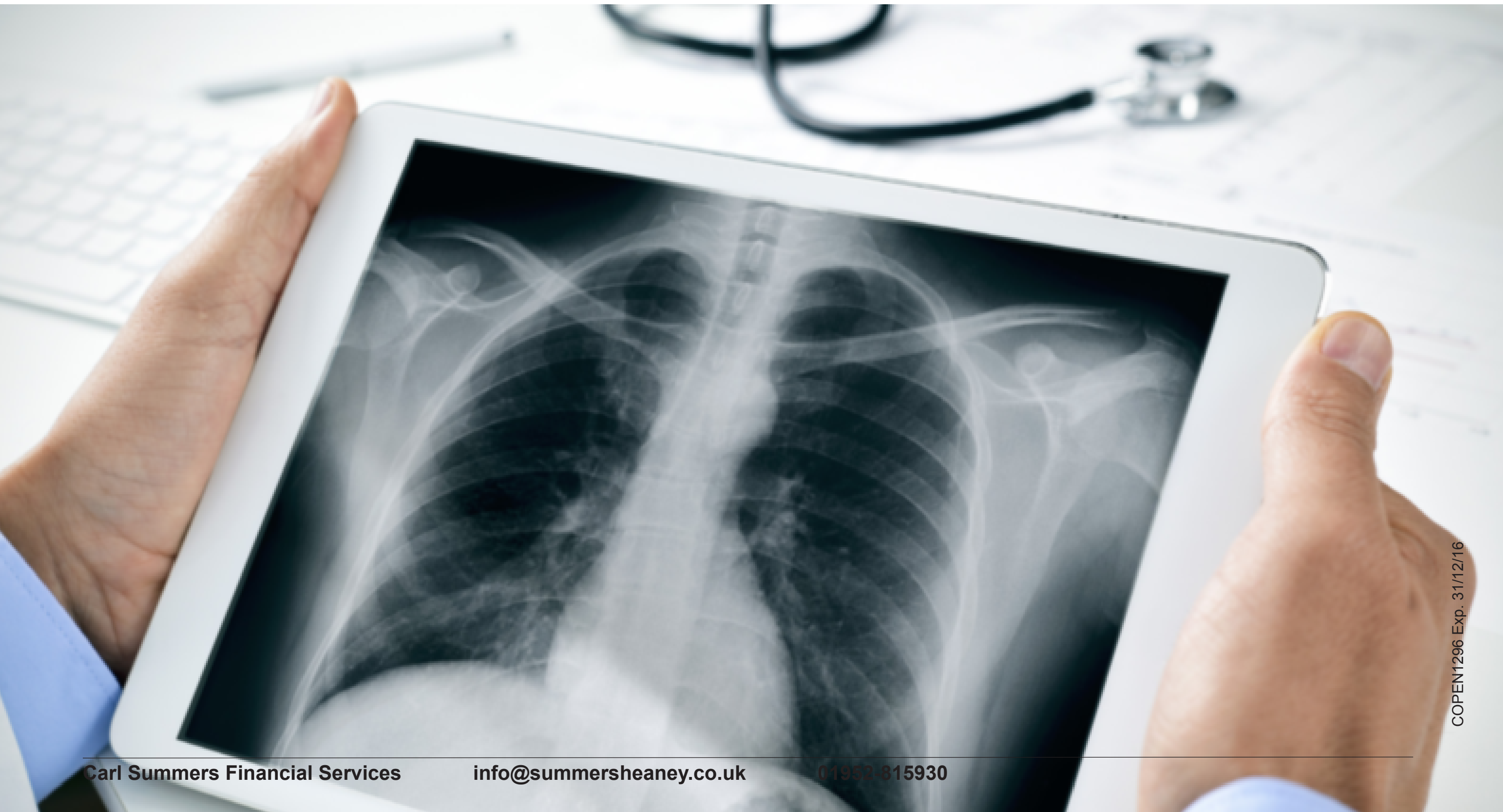
From spinal surgery to physiotherapy or joining a gym, the treatments are many and varied.

Exercise is an excellent way of reducing the chances of suffering from back pain and walking, swimming, yoga or pilates can all help to improve flexibility and strengthen the back muscles. That said, we are all still susceptible.

What if you do slip a disc?

Being off work with a bad back could wreck your financial plans, so it's important to have adequate income protection in place. This replaces a proportion of your income if you are off work and can help to relieve the pressure on you and your family so that you can concentrate on recovery rather than worry about the next bill.

If you haven't protected your income, or it's been a while since you reviewed your cover, please get in touch.



COPEN1296 Exp. 31/12/16

The value of financial advice

Everyone is unique. We all think – and work – differently. Some people are good with words, and others, numbers. The same might be true when it comes to planning and managing our finances. But however different our approaches might be, we probably all have similar goals for our money.

Whichever way you come at it, it's important to think about your financial goals and what you would like to achieve with your money. This is especially true if you have other people who rely on your income.

This is where we come in. As professional financial advisers, we can make this job easier and add real value when it comes to protecting your family, investing wisely, moving home or planning for a comfortable retirement.

Getting to know you

When advising you about your finances we want to understand you – not your money. We'll take the time to find out where you've come from, where you are now and where you would like to be in the future.

Together, we can design a plan to help you better manage your financial affairs, save tax efficiently for retirement, and ultimately achieve your financial goals – whether short, or longer-term.

Ensuring contingency along the way

Throughout your life, you'll need to find answers to many different financial questions:

- how much should we offer on a new house?
- when can we buy a new car?
- what's our holiday budget?
- shall we start our own business?
- can we help fund our children's education?
- can we support our children with their wedding costs and house deposits?
- can we make our money work harder and smarter?
- when can we retire and how much will we need to support our lifestyle?
- when we're no longer here, who would we want to benefit from the wealth we've created?

We can help you answer these questions and make the right decisions to benefit you and your loved ones now and in the long run.

Planning for the unexpected

Not everything in life is straightforward and things don't always go to plan. We can help you prepare for the unexpected and put in place some financial safety nets in case anything happens to impact your family or disrupt your plans. Think about:

- whether your family could cope financially if either you or your spouse/partner died?
- how much income you would have if you were taken seriously ill and couldn't work?
- whether your business would survive without you or your key people?
- how your lifestyle may change if you had an accident and couldn't do the things you do today?

By getting to know your priorities and goals and understanding the bigger picture, we can piece together a plan to ensure the things that matter to you most – your family, income, business, or maybe all three – are protected leaving you on track to achieve your financial goals.

For more information on how we can help you create and achieve your financial plan, please get in touch.

COPEN1288 Exp. 16/05/17

Are cash ISAs still relevant?

Since 2012, the average cash ISA rate has fallen from 2.84% to just 0.82%, while stocks and shares ISAs are performing far better, delivering an average growth of 7.4% during the 2014/15 tax year.

Clearly the latter carry a varying degree of investment risk (depending on the type of funds you invest in), but does a record-low savings rate mean cash ISAs are dead?

The benefits of a cash ISA

Whatever the current rate of interest, the fact is that savings in a cash ISA are free from income tax and they don't count towards your Personal Savings Allowance. This means you can have a cash ISA and earn up to £1,000 income from other savings (£500 if you're a higher-rate taxpayer), before having to pay tax.

Whether or not you choose to invest in the stock market, you'll always have a need for rainy day funds in the event of an emergency and as a safe, tax-efficient haven, cash ISAs are a useful vehicle. They are easy to open, you normally won't need to give notice to withdraw funds and anyone over 16 can save up to £15,240 in the current tax year.

Investing in the stock market

If these benefits still don't outweigh the chance of a better return on your money, it's worth looking at a stocks and shares ISA, where you can invest in individual company shares, unit trusts, investment funds, government bonds and corporate bonds.

By choosing to invest in a stocks and shares ISA you don't pay capital gains tax (CGT) on any gains made – great if you exceed the £11,100 annual CGT allowance. However, as with any stock market investment your money is at risk, so you'll need to think about how much risk you are prepared to take before you take the plunge.

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 individual circumstances.

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

The value of your investments and any income from it may fall as well as rise and is not guaranteed. You may get back less than you invest.

You should not use past performance as a reliable indicator of future performance.

If you're not happy about the return you're getting on your savings, please get in touch and we'll help you explore your options.

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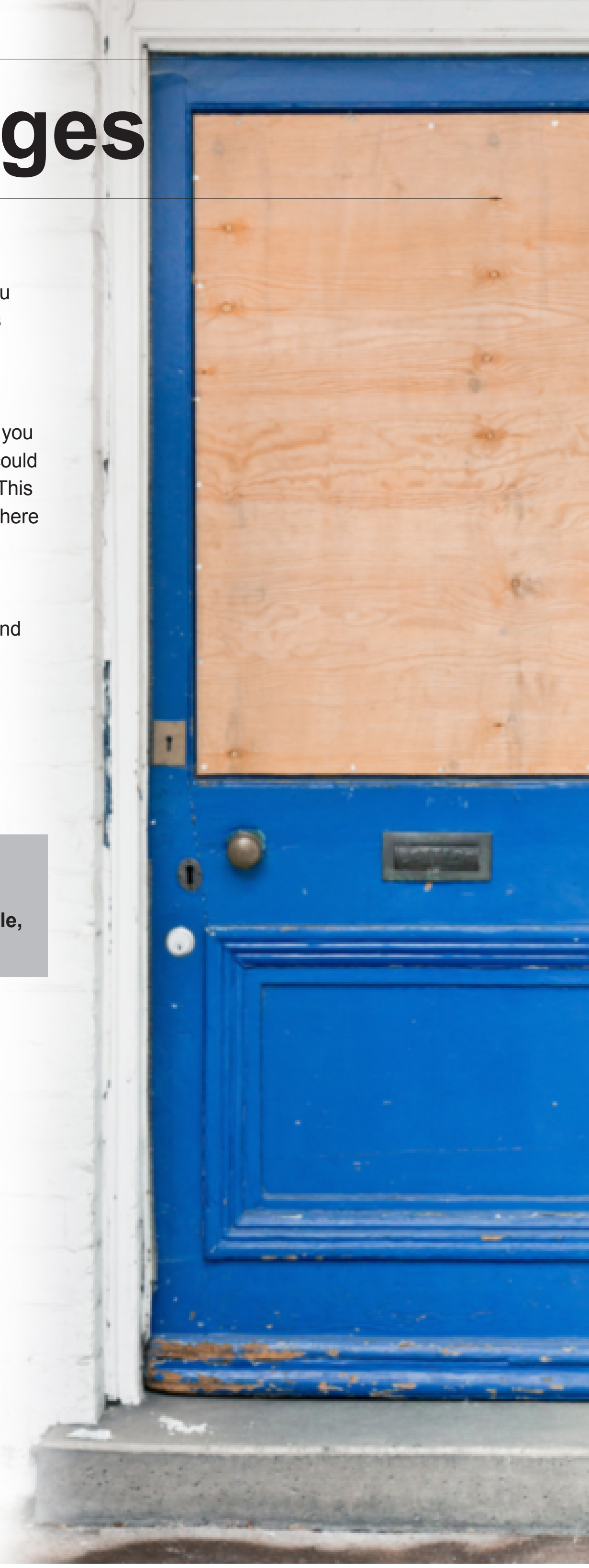
Interest-only mortgages



Thousands of people with interest-only mortgages expiring this year do not have a repayment plan – putting their homes at serious risk of repossession.

40,000 interest-only mortgages are set to mature in 2016, but experts suggest that only half of these homeowners have the capital in place to repay the loan.

And according to the charity Citizen's Advice Bureau, this is just the tip of the iceberg, with 934,000 interest-only borrowers without a plan to pay off their mortgage.

The ins and outs of interest-only

Unlike a repayment mortgage, where the borrower pays off the capital and interest on their loan each month until the debt is cleared, an interest-only loan offers a cheaper monthly premium, but requires a single repayment of the capital at the end of the term. Normally this is cleared using the proceeds from a separate investment vehicle.

For example a £150,000 mortgage at 5% over 25 years would cost £877 per month on a repayment basis, but only £625 per month interest-only. However, the latter leaves the original £150,000 capital debt to be repaid.

Don't get trapped

If you have an interest-only mortgage but you don't have a repayment vehicle in place, it is critical you review your finances as a matter of urgency.

Depending on the term left on the mortgage you could set up a repayment plan now, or you could look at switching to a repayment mortgage. This may mean higher monthly repayments, but there are a lot of competitive deals in the current 'low-interest rate environment'.

Another option could be to sell your home and downsize – something that may be possible if older children have flown the nest but nevertheless a difficult decision if you don't want to lose a cherished family home.

If you are concerned about your interest-only mortgage, or you need advice on a suitable investment vehicle, please get in touch.

SINCE 2012, ANYONE TAKING OUT AN INTEREST-ONLY LOAN MUST HAVE A REPAYMENT PLAN IN PLACE.

Your home may be repossessed if you do not keep up repayments on your mortgage

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