Issue 18 Winter 2017

Viewpoint

Your latest newsletter from Carl Summers Financial Services

Pension death benefits

With the introduction of pension freedoms in 2015, we now have a range of options when deciding how to fund our retirement. But few of us stop to consider what might happen on our death: retirement itself seems far enough away!

Under the previous regulations, only one dependant of the pension plan holder could inherit a drawdown pension on the plan holder's death. Commonly known as a "widow's pension", widowers, civil partners and a single named child could also inherit, putting the plan holder in a difficult position if they had more than one child.

Many still believe that this is the only way their pension savings can be passed on in the event of their death. However, alongside the more familiar changes to the retirement regime, the reforms heralded significant changes in how pension death benefits are taxed, bringing with them new inheritance planning opportunities.

Passing on your wealth

Since April 2015 it has been possible for the plan holder to pass their pension on to any nominee – or a number of nominees – through something called Nominee Flexi-Access Drawdown. Further, when the nominee dies, a successor – or successors – can also inherit a drawdown pension through a Successor Flexi-Access Drawdown. In turn, each nominee or successor can pass the assets on to other nominees or successors, retaining the tax efficiency of the plan through multiple generations.

The key benefit lies in retaining the assets within a pension wrapper: in this way they fall outside of the plan holder's assets for Inheritance Tax (IHT) purposes. And as long as they remain within the wrapper they retain their full tax advantages until they are needed by the nominee or successor.

If the plan holder – or a nominee or a successor – dies before the age of 75, not only are the assets passed on free of IHT, but the drawdowns are paid out free of income tax. If they die after the age of 75, the assets are still excluded from the estate for IHT purposes, but any lump sums or income drawdowns are treated as income and subject to the beneficiaries' personal tax position (ie. taking into account other sources of income).

How might your dependants benefit?

The example given opposite is a simplified illustration and only a guide to what might be achieved with careful financial planning.

However, it is important to note that most of the existing pension plans were set up before the new regulations came into force and may not have the flexibility to establish Nominee or Successor Flexi-Access Drawdown accounts. Instead, the pension provider will pay out the full value of the fund in cash on the death of the plan holder. In that situation, the assets count towards the total estate for IHT purposes and the tax benefits are lost.

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

The pension family tree

A family comprises a husband and wife, their two children who in turn have two children each (four grandchildren in total). The husband dies aged 76 with £500,000 remaining in his pension fund.

£500,000

The wife inherits a Nominee Flexi-Access Drawdown plan. As her husband died after reaching the age of 75, any withdrawals are taxable as income. The wife dies aged 74 with £450,000 remaining in the plan.

£225,000

The two children each inherit half of this (£225,000) through Successor Flexi-Access Drawdown. Withdrawals are tax free as the mother died before age 75. However, both children die in their 60s without accessing their plans. As they also died before reaching 75, each residual pension fund passes tax free to the grandchildren.

£112,500

Each grandchild inherits a Successor Flexi-Access Drawdown pot of £112,500 and enjoys tax-free withdrawals.

Please contact me if you would like to discuss the pension death benefit rules and explore whether and how you and your loved ones could benefit from them. We can review your current arrangements to see if they offer the flexibility required and explore alternative arrangements if necessary.

OW0447 Exp. 19/06/17

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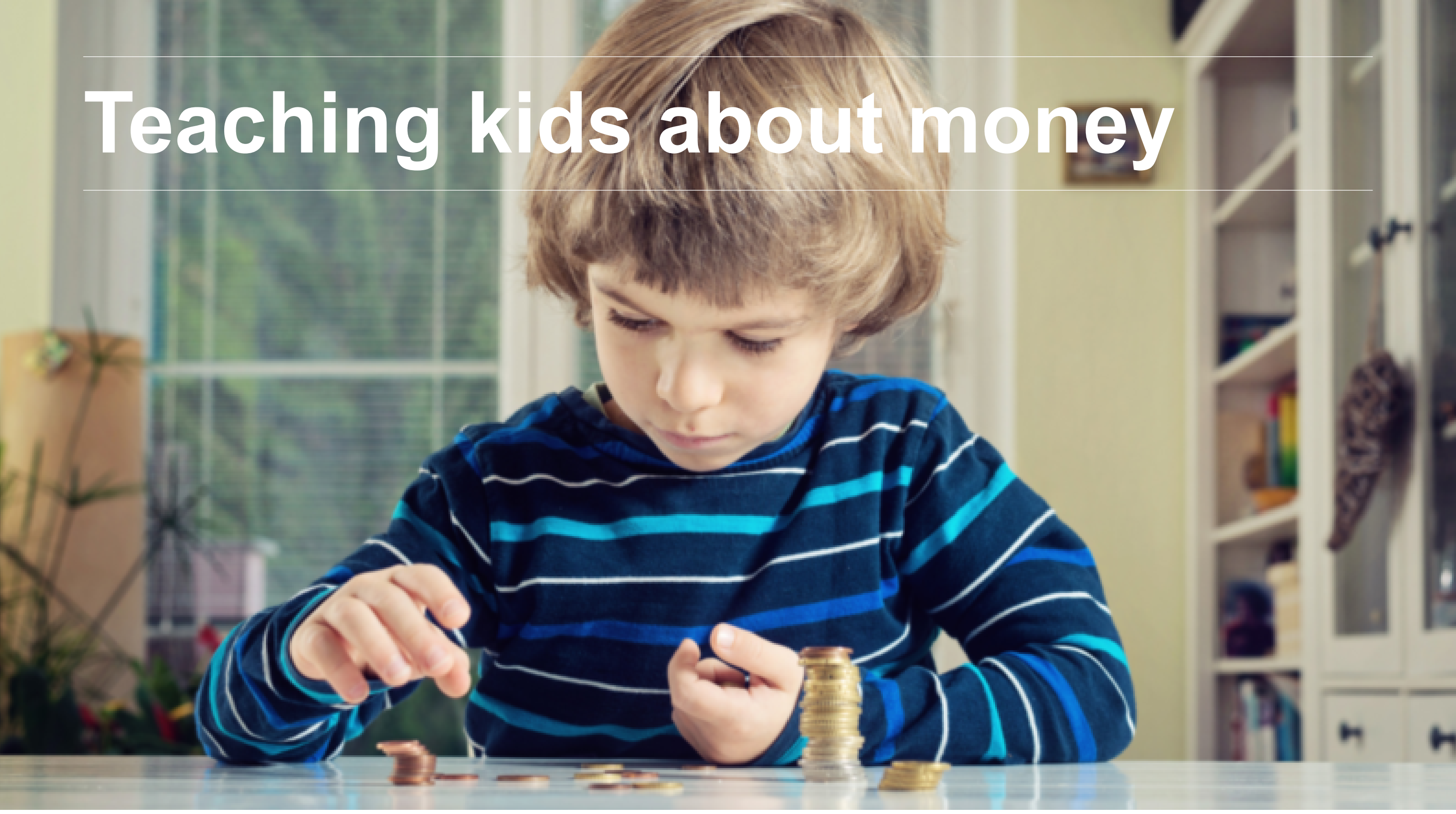
Teaching kids about money



As parents we teach our children a lot: to count, read, say please and thank you and, hopefully, be an example to others.

Research shows that parents also pass on their approach to finances. So exactly how are we teaching our children to be financially astute from a young age?

Pocket money

Compared to some of their European counterparts, British parents with children under 10 are more generous when it comes to paying pocket money. That changes from 10 upwards when they end up paying well below the European average.

Teaching the value of money

Your child's financial education can begin as soon as they learn to count and a great time to start talking about spending and saving is birthdays or Christmas (if they're likely to receive a cash gift).

If your child asks for something expensive: an iPhone 7 for £599, or an Xbox One for £199, try to explain to them the time it would take to earn that amount of money. The minimum wage for a person under 18 is £4 per hour, which means it would take 150 hours or nearly three weeks working full-time, to save for that new iPhone.

How to budget

An important lesson to instil from a young age is not to spend more than you have. Dividing money into different pots is a great way to demonstrate this as it really helps your child to visualise where their money is going. They can also see that when it's gone, it's gone.

Try using two jam jars. Label one 'Spend now' and one 'Save for later'. Talk to your child about how they would like to divide their pocket money or any cash gifts they receive between the two jars. If they keep their savings jar topped up, they can see that they have rainy day money if they need it when their 'spend now' jar is empty.

You could also add in a third jar 'Donate to others' to show your child that they can afford to help children who may not be lucky enough to receive pocket money for their own jars.

Talk to us about investing for yourself or your children.

Age	UK pocket money per week	France and Italy pocket money per week
Under 5	£2	£1.60 France / £4 Italy
5-10	£5	£4
10-15	£5	£8
15+	£9.50	£24

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The cost of a burglary

Figures have revealed that burglary costs the average homeowner over £2,800 in stolen valuables and almost £600 to pay for damage caused by the break-in.

There were 713,000 domestic burglaries in 2015, and while you may see many of these reported in local newspapers you rarely hear about the cost to victims.

Fixing the damage

The damage burglars can cause during a break-in results in costs to repair doors, broken locks and windows, and damage to furniture.

Then there's the cost of replacing stolen items – particularly jewellery, money and wallets, which tend to be the most desirable items to burglars. But it's not just the intrinsic cost of these items; sadly the sentimental value can never be replaced.

Computers, cameras, watches and mobile phones are also desirable to thieves. Generally speaking a flagship phone will cost between £500 and £600 to replace and a digital camera between £100 and £250. But again it can be hard to account for the emotional cost of lost pictures and videos.

Protecting your home

Adding security devices to your home will help reduce the chances of your treasured possessions being stolen and give you and your family peace of mind. Installing a burglar alarm or external lights can help deter would-be thieves and you can buy timer switches that turn internal lights on and off while you're away.

You could also consider upgrading to more secure locks on doors, windows, garages and sheds.

Getting the right cover

According to research carried out by the Association of British Insurers (ABI), one in five households could be underinsured because they don't know how much their home contents are worth. If you're unlucky enough to have to make a claim, having insufficient cover could leave you facing an unnecessary bill at a time when you and your family are struggling to deal with the disruption and worry caused by a break-in.

Here's how to calculate the value of your contents:

- go through each room (include your attic, basement, shed and garage) and make an inventory of all your possessions
- File your receipts, or go online to work out the cost of each item
- tell your insurer about any expensive items you own to make sure they are covered
- contact your insurer to make sure new purchases are covered

Review your cover

Your home and contents insurance should be sufficient to repair any damage and cover the cost of stolen items. It makes sense to review your cover, especially after Christmas or birthdays when you may have bought or received expensive items.

If you're concerned you may not have the right type of contents cover, or you think you might be under-insured, please talk to us.

OW0444 Exp. 19/06/17

Protection through the years

When it comes to protection insurance, we hold two firm beliefs:

1. it should form the foundation of your financial plan.

2. cover should be reviewed regularly to make sure it continues to meet your needs.

The latter is particularly important when you are at a particular 'life stage'. Whether that's buying a house, getting married, starting a family, setting up in business, or all of the above, protection insurance will help to protect your loved ones and your financial responsibilities.

So what type of cover is right for you?

- **Term Insurance** pays out a lump sum if you die within the agreed 'term' (the amount of time you have chosen to be covered for, eg. 20 years). Suitable for mortgage protection or while children are financially dependent on you.
- **Whole of Life Insurance** pays out a lump sum when you die, whenever that is, as long as you are still paying the premiums. Suitable for estate planning or to cover things like funeral expenses.
- **Critical Illness Insurance** pays out a tax-free lump sum on the diagnosis of certain life-threatening or debilitating conditions, like cancer, heart attack or stroke. You may decide to buy Critical Illness Insurance when taking on a major commitment, like a mortgage or starting a family, but it can be bought at any time to provide peace of mind.
- **Income Protection Insurance** pays out a regular, tax-free income if you become unable to work because of illness, injury and some policies cover unemployment. It could help you keep up with your mortgage or rent payments, as well as other living costs, until you're able to return to work.

Things change – and so should your cover

You may already have one or more of these in place, but it's still worthwhile reviewing your current cover levels – especially if your circumstances have changed. Ask yourself:

Whether your family could cope financially if either you or your spouse/partner died?

How much income would you have if you were taken seriously ill and couldn't work?

Would your business survive without you or your key people?

How would your lifestyle change if you had an accident and couldn't do the things you do today?

Contact us today for a Life and Protection Insurance review.

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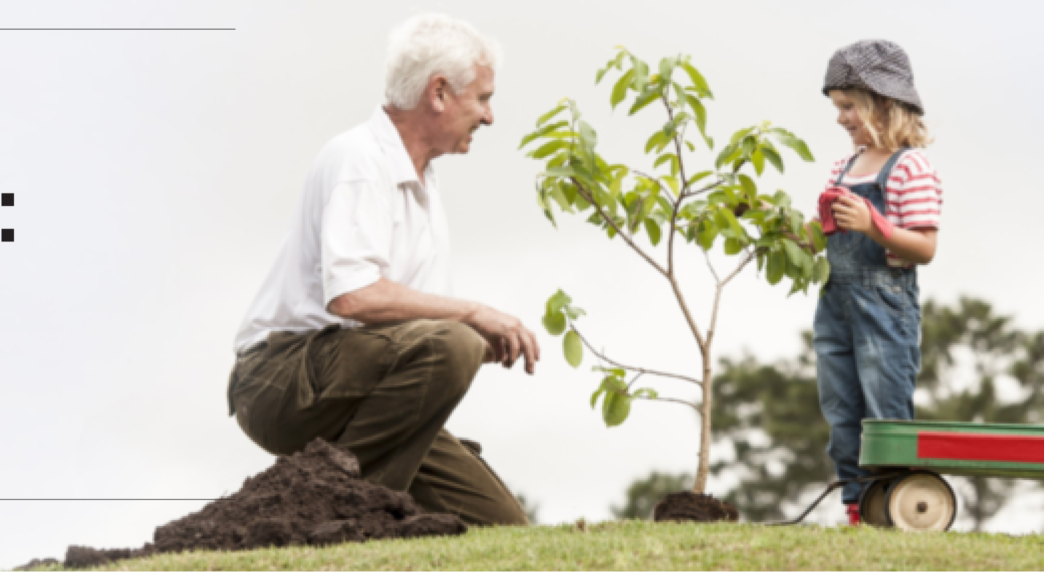
Saving for retirement: as easy as 1, 2, 3



Much is made of the tax benefits of saving into a pension scheme but there are other benefits to consider.

As many corporate pension schemes and even government pension schemes become unsustainable, the onus to create a comfortable retirement is increasingly on the individual. But, if we are honest with ourselves, by the time many of us start thinking about our pensions it can feel daunting.

Here are our top tips for a more comfortable retirement:

1. Start early

Starting early cannot be stressed enough and is probably the most important piece of advice we can give. Investing even small amounts can make a significant difference to the potential outcomes as you can see below:

Age when saving starts	Amount to save per month	Total saved by age 67
21	£20	£11,280
30	£25	£11,400
40	£33	£11,200
50	£52	£11,250
60	£117	£11,232

Even if finding £20 a month is difficult at 21, it could be a lot easier to find than £117 a month at 60.

The figures above show saving without investing the money. Any money you invest at age 21 will have accumulated 46 years of returns by the time you come to retire; anything invested from 45 has only 22 years.

2. Join your employer's scheme

Following the introduction of auto-enrolment all employers must now offer their employees a workplace pension scheme, although not all employees are required to join. However, by joining the scheme, not only will you be contributing to your future comfort but your employer contributes too, boosting the total potential returns. This is particularly important if you think you might have a career break at some point in your working life, for example to have a family.

Most schemes employ a 'salary sacrifice' model where your contributions are deducted before tax is calculated, making it a simple way to save. If your employer doesn't offer this kind of scheme, speak to us about setting up a personal pension plan. These non-employer sponsored schemes will assume you are a basic rate tax payer and calculate your contributions net of basic rate tax (so if you want to put aside £100 a month, your contributions will be £80 and the scheme will claim the additional £20 from HMRC). If you're a higher rate tax payer you will need to claim the additional tax back through your self assessment tax form.

If you're self-employed, a contractor or have irregular income, consider a Self Invested Personal Pension (SIPP).

3. Top it up

Many schemes allow you to make additional contributions and some employers will match these to a maximum percentage of your salary. You can still invest more but the employer's matching contribution will be capped. Alternatively, if your employer offers an Additional Voluntary Contributions (AVC) scheme, consider signing up for this. They won't contribute to it but, again, saving even a small amount into the plan can help over the longer term.

Under current guidelines anyone not drawing a pension can invest up to £40,000 of their taxable income into their pension scheme(s) tax free per tax year unless their total pension savings exceed the lifetime allowance (currently £1,000,000). And remember, using an ISA can increase your tax-efficient savings.

Conclusion

So there we are. Starting as early as you can gives you the benefit of time; joining an employer's scheme makes saving simple and boosts your savings rate; and investing as much as you can afford can maximise the tax benefits.

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 are concerned in any way about preparing for your retirement, speak to us about the options available to you.

OW0473 Exp. 31/03/17

At retirement: the runners and riders

With the much-lauded pension freedoms, we now have a range of options when deciding how to fund our retirement.

Whilst many newspaper headlines warned that new retirees would blow their entire pensions savings on Lamborghinis, it appears that most have taken a more measured approach. Data from the Association of British Insurers (ABI) shows that in the first year following their introduction 57% of new retirees took less than 1% of their pot and fewer than 4% of retirees took out more than 10%. The majority of these were in the first few months following the changes.

But not everyone is affected by the new freedoms.

Those who are, or have been, members of a final salary/defined benefit scheme **won't be affected by the new regulations**. These schemes provide a pension based on your years of service and your salary when you left the scheme, or, if it is no longer operating, the point at which it closed.

Those with a defined contribution scheme – or who have made additional contributions into a free-standing pension plan – **will benefit from the new freedoms**. You can buy an annuity, draw income from your savings, or withdraw lump sums as you need them.

Annuities

Buying an annuity is the traditional means of converting your savings to a guaranteed income stream. This could include an income for your spouse on your death and/or inflation proofing. However, annuities have had a bad press in recent years as the returns on bonds – the investments that underpin the income stream – have collapsed. This has made them seem poor value for money.

Flexi-Access Drawdown

You can elect to remain invested and withdraw income from your pension savings. However, the income from investments is variable and the value of the underlying investments may vary over time.

Uncrystallised Pension Fund Lump Sums

This rather inelegant term describe, a newly-introduced freedom. If you have more than one defined contribution scheme and one that you have not touched (ie. elected to buy an annuity or elected to withdraw income), you can use it to 'top-up' your retirement by taking occasional lump sums.

Horses for courses

The table below summarises the key features of the three options now available to retirees. With options comes choice, and choices can be hard to make – particularly in an area as important as your pension.

The likelihood is that those retiring today will have a combination of income sources at their fingertips: the State Pension, an element of defined benefit and an element of defined contribution. Some may elect to continue working in a part-time or advisory capacity or on a consultancy basis.

The value of investments and any income from them can fall as well as rise. You may not get back the amount originally 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.

This will be one of the most important decisions of your life as it determines the kind of retirement you can afford. Further, managing your tax liabilities when you have more than one source of income open to you can be complicated. The right solution for you will depend on many variables, so please do get in touch before making any decisions.

	Annuity	Drawdown	Lump sums
Guaranteed income	Yes	No	No
Up-front tax-free lump sum	25%	25%	N/A
Additional withdrawals	No	Subject to normal personal income tax rules	25% tax free The remainder subject to personal income tax rules
Death before 75	Spouse's annuity paid tax free	Tax free lump sum or Tax free drawdown	Tax free lump sum or Tax free drawdown
Death after 75	Spouse's annuity taxed as income	Lump sum taxed at highest marginal rate Drawdown subject to normal income tax rule	Lump sum taxed at highest marginal rate Drawdown subject to normal income tax rules

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Maximise your ISA allowance

If you haven't used up your Individual Savings Account (ISA) allowance for 2016/17, you have until 5 April to do so.

Saving into an ISA is a great way of making your savings work harder. Whether you're looking to supplement your retirement income, build up funds for a property purchase or you simply want a 'rainy day' nest egg, ISAs offer an array of tax-efficient savings options. But with the tax-year end fast approaching, the clock is ticking for you to use your full 2016/17 ISA allowance of £15,240.

Why is it so important to use up your allowance? Here are some great reasons:

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.

You can't 'carry over' your ISA allowance

You cannot carry any unused ISA allowance over to the following tax year unlike some other personal allowances (such as your pension annual allowance). That makes it doubly important to invest your full allowance, if you can afford to. You also have the freedom to take money out and put it back in later in the same tax 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.

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 investment would have grown to £555,841.15.

Inheriting an ISA

Before April 2015, any savings held in an ISA automatically lost their tax-free status on the death of the ISA holder. Since April 2015, however, the Additional Permitted Subscription allows the spouse / partner to retain the tax benefits in the form of a one-off ISA allowance equal to the value of the ISA at the date of the holder's death. For example, if your partner had £40,000 in ISA savings including interest, your ISA allowance for that tax year would be £55,240 (the value of your partner's savings and your own ISA allowance for the 2016/17 tax year).

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.

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

Contact us for more information or advice about the different kinds of ISA investments. We will help you to make the best choice for you and your family.

OW0471 Exp. 31/03/17

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Keeping your heart healthy

Dementia and Alzheimers have replaced heart disease as the leading cause of death in England and Wales, but the latter still accounted for 11.5% of all deaths in 2015. In fact, every three minutes someone in the UK has a heart attack and 30% of those are fatal.

The good news is there's a lot you can do to keep your heart healthy.

Watch your weight

Research shows keeping to a healthy weight cuts your risk of heart disease. The British Heart Foundation offers support on eating well and being physically active which can help you manage your weight and keep your heart healthy. Find out more at www.bhf.org.uk

Stop smoking

Smokers are almost twice as likely to have a heart attack compared with those who've have never smoked. It's a difficult habit to break, but stopping smoking is the single best thing you can do for your heart's health. If you smoke:

- ask your doctor, practice nurse or pharmacist for advice on how to stop.
- make a date to give up and stick to it.
- tell your family and friends that you're quitting and ask for their support.
- keep busy to help take your mind off cigarettes.

Don't drink too much

Drinking more than the recommended amount of alcohol can also have a harmful effect on your heart and general health. If you drink alcohol it is important to keep within the guidelines and drink no more than 14 units each week.

Manage cholesterol, diabetes and high blood pressure

If you have too much cholesterol in your blood, have diabetes or high blood pressure, this can increase your risk of heart disease and other cardiovascular diseases. Eating healthily and exercising regularly can help lower cholesterol, reduce your risk of developing type two diabetes and reduce blood pressure.

Get financial protection

Life and Protection Insurance offers a financial safety net for you and your loved ones, should heart disease strike. In fact, Scottish Widows recently revealed that heart-related disorders were the second only to cancer as the most common reason for a policyholder to claim on their life cover and critical illness plan. They can provide a regular income or cash payout to ease the financial burden caused by serious illness or untimely death:

- *Life Insurance* can provide financial security to those who depend on your income when you die. It could pay off your mortgage, or provide an income to help cover things like regular household bills
- *Critical Illness Insurance* pays out a tax-free lump sum on the diagnosis of certain life-threatening or debilitating conditions, like cancer, heart attack or stroke.
- *Income Protection Insurance* pays out a regular, tax-free income if you become unable to work because of illness, injury, and in some cases, unemployment. It could help you keep up with your mortgage or rent payments, as well as other living costs, until you're able to return to work.

You may already have one or more of the above in place, but it's still worth reviewing your current cover levels. Personal circumstances can change regularly so it's important to ensure your level of cover remains appropriate.

Contact us today for a Life and Protection Insurance review.

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