# FINANCEMATTERS

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PIVOTAL FINANCIAL PLANNING

Suite 4.2 Station House 34 St Enoch Square Glasgow G1 4DF
**T:** 0141 243 2475 **E:** info@ernetwork.co.uk
**F:** 0141 248 7888 **W:** www.pivotalfinancialplanning.com

# PENSIONS – DON'T LET CHANGES PUT YOU OFF SAVING NOW

**It seems that hardly a week goes by without pensions hitting the news headlines. Planning for retirement is becoming one of the most talked about areas of social policy of the decade. In the UK we are seeing a major shift in emphasis; financial provision for our retirement years is moving from being the responsibility of the state to being fairly and squarely the responsibility of the individual.**

Whilst the pension legislation landscape continues to alter, the key message remains clear – we all need to ensure we're making adequate pension provision for our futures today.

## New ceiling for the annual allowance

With effect from April 2016, those with a net income of more than £110,000 could see the annual amount they can contribute to their pension that attracts tax relief, reduced from the current annual limit of £40,000, tapering away to £10,000. Those with income, excluding pension contributions, above £110,000 will need to add on their own and their employer's pension contributions. If this gives a figure in excess of £150,000 their annual allowance will be restricted by £1 for every £2 by which their income exceeds the threshold.

## Reduction in the Lifetime allowance

The Lifetime Allowance is a limit on the amount of pension benefit that can be drawn from pension schemes (either in the form of a lump sum or a retirement income) without triggering an extra tax charge. The figure for tax year 2015-16 is £1.25m.

From April 2016, the maximum amount that pension savers will be able to draw from their pensions without paying extra tax will reduce to £1m. From 6th April 2018, the allowance will be adjusted in line with the Consumer Prices Index. Transitional protection will be introduced for those who have been saving with the current £1.25 million threshold in mind.

## Increase in the state pension age

With the continued increase in life expectancy, the government has to find a way to manage the overall pension bill. To that end, the equalised state pension age scheduled for 2018 is set to increase in stages from 65, eventually reaching 68 between 2044 and 2046. It seems unlikely that the state pension will ever represent more than a safety net for most people, and should in itself be one of the strongest incentives to any individual to make adequate pension provision on their own behalf.

## Review of pension taxation

The favourable tax treatment of pension contributions has long been viewed as a major incentive to save for retirement. The Chancellor's Green Paper consultation entitled 'Strengthening the incentive to save: a consultation on pensions tax relief' closed on 30th September and the outcomes are eagerly awaited.

## The steps we should all take

- Make pension saving a priority. Consider topping up your contributions whenever your financial circumstances allow. Remember, within limits, they attract valuable tax relief
- Arrange a regular review to ensure your retirement plans remain on track
- Know your state pension age and get a forecast of how much you will receive.

# ALTERNATIVE INVESTMENTS – ARE THEY RIGHT FOR YOU?

**'Alternative investments' is a term that is often used, but equally often misunderstood. Basically, it covers those investment vehicles and schemes that fall outside the most-commonly used asset types of stocks, equities, bonds, property or cash.**

Since the announcement of the pension reforms last year, the charity Citizens Advice Bureau, which runs the government's Pension Wise guidance service, has reported a sharp rise in people being approached by scammers offering them unsafe or non-existent investment schemes as an alternative investment opportunity for their pension lump sums.

## Risky alternatives

The media has been quick to report some of the more extreme examples offered to investors. These can include schemes to put your money into vineyards, car parking ventures and even oil deposits.

These schemes may be offered with glossy marketing materials purporting to show would-be investors that they will receive an investment return much higher than anything available to them through normal investment channels.

Many of them sound feasible, but on closer examination they prove to be very risky, often unregulated and sometimes non-existent.

## Considering the risks

There are bona fide alternative investment opportunities on offer, covering everything from rare stamps to forestry, and peer-to-peer lending to carbon credits. However, it is important to be aware of the potential risks involved before parting with any cash. Because of the risks attached, you should only invest money you can comfortably afford to lose.

Most alternative investments aren't backed by the Financial Services Compensation Scheme. This UK government scheme protects bank deposits and certain investments up to £85,000 (£75,000 from 1st January 2016). So if the company went bust, you'd probably lose all your money.

Alternative investments can be difficult to value and are often illiquid, meaning that there is no ready market for them if you need to sell them in a hurry to raise cash. In addition, their performance can be unpredictable and often very volatile. There is usually little or no market data available to back up predicted returns.

## Back to basics

Before investing in an alternative investment, you need to consider whether it is likely to meet your investment needs; in all probability there will be more conventional assets available to you that carry less risk and are more likely to produce a return over time.

The best advice is that if a proposition sounds too good to be true, then it probably is. So it is important to remain on guard. Taking the advice of your authorised and regulated professional adviser on any investment proposition will protect you from becoming a victim of the scammers, and help you make the right investment choices for your future.

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The value of the investment can go down as well as up and you may not get back as much as you put in.

# HOW TO SAVE FOR SCHOOL AND UNIVERSITY FEES

**Whilst the years spent at school and university can be the most exciting and rewarding time for students, they can also be a very expensive time for parents.**

Research carried out by price comparison site uSwitch found that parents would be sending their children back to school this Autumn with more gadgets than ever before, with the average back-pack containing phones, tablets and laptops worth more than £270.

A study from retailer John Lewis, shows that the move from primary to secondary school can cost as much as £6,800 per child. This figure included new school uniform, books, stationery, technology and other costs like lunch and end-of-year presents for teachers, but didn't include private tuition fees.

If your children decide to go to university, research conducted by the Centre for Economics and Business Research indicates that it is not unusual for students to leave university with debts of around £44,000.

## Forward planning pays

By starting early, saving regularly and getting good advice, it is possible to build up enough savings to see your child or children through to graduation.

When saving, it makes sense to do so as tax efficiently as possible. Individual Savings Accounts (ISAs) are a good way of building up funds, especially as the amount you can save annually tax free (except an unrecoverable 10% deducted from company dividends at source) is £15,240 for the 2015-16 tax year.

Investors do not pay any personal tax on income or gains, but ISAs do pay unrecoverable tax on income from stocks and shares received by the ISA managers. Tax treatment varies according to individual circumstances and is subject to change.

You can choose a cash ISA or a stocks and shares ISA. If you have a few years before you need the money, and are happy to take on some risk, then a stocks and shares ISA could be the right choice for you.

In addition to your own ISA allowance, a child under 18 who doesn't have a Child Trust Fund (CTF) is eligible for a tax-free Junior ISA (JISA). You can invest up to £4,080 for them in tax year 2015-16. Withdrawals cannot be made from a JISA, so they should be regarded as a longer-term investment, as the cash can't be accessed until the child turns 18. Since last April it has been possible to switch an existing CTF into a JISA.

It's obviously wise to take professional advice and talk through other options, including setting up a trust which parents and grandparents can contribute to for the benefit of the child when they reach a certain age.

Every parent wants to give their child a good start in life, so it makes sense to get plans in place as early as possible.

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# KEEPING YOUR LIFE PLANS ON COURSE

**New figures from the Association of British Insurers show that every day, more than £9m is paid out by insurance companies to families to help them cope with illness, injury or the death of a loved one.**

This clearly demonstrates that life assurance represents a valuable life-line and safety net for families coping with tragedy and loss. Given the obvious benefits, it is surprising how many families still don't have any cover in place.

The great thing about life cover is that it can be adapted to meet changes in your circumstances. Policies can be tailored to meet your needs at any stage of your life. Life assurance can be bought together with other cover, so that as well as providing a lump sum on your death, you can protect against other risks such as loss of income due to unemployment, accident or critical illness.


## Two become one

If you marry or enter a civil partnership, it makes sense to think about cover for your joint liabilities. You will probably take on more financial commitments, and your spouse or partner might find it hard to cope financially if they didn't have your salary to rely on.

## A roof over your head

A mortgage is a big commitment and often the largest debt any of us take on. So if you have a mortgage, it is really important to ensure that you and your family have the peace of mind of knowing that the debt would be repaid should you die. No-one would want to leave their family struggling for money if they were no longer there to provide for them.

## Two becomes three

Starting a family is an all-consuming experience, so it is not surprising that life assurance does not always make it to the top of the family 'to do' list. Nevertheless it really should, as it can have an important role to play in securing your family's future. There may no longer be two incomes coming in, but it is likely that you will have more financial commitments than ever.

If you are the main breadwinner, this is a good time to think about getting the right level of insurance cover in place, and consider insuring against unwelcome and unexpected events such as life-threatening illness, accident or unemployment. If you are the main care-provider, it makes sense to ensure that money would be available if you were not there to provide much-needed services like child care and housekeeping.

## Later in life

People often review their life cover needs on retirement. If your spouse or partner is reliant on your income, or if you want to ensure that you leave money for children or grandchildren, life cover can still have an important part to play.

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