pannells
Financial Planning Ltd

Autumn 2014 | Issue One

talkingpoints

Welcome to talkingpoints

This is the first in a series of regular communications from Pannells Financial Planning Ltd (PFPL) – formerly PKF Financial Planning Ltd. The publication is aimed at guiding you through the sometimes bewildering maze of taxation and budgetary changes that take place and, most importantly, how these changes may affect **you**.

We will be looking into areas of financial planning that can help you realise your lifetime goals, such as:

- **achieving financial security for yourself and your family**
- **living the lifestyle you dream of in retirement**
- **peace of mind should the unexpected happen**

We will also delve into some innovative solutions to help you reach these goals.

Ultimately, talkingpoints is intended to be interesting and informative, easy to understand and jargon free.

As this is our first edition, we would value your feedback and if there are any areas that you would like us to cover in future editions please don't hesitate to let us know (see back page for contact details).

In this edition we will be looking at:

- **NISA ISAs**
- **Could your home form part of your retirement planning?**
- **Help for those with mortgage debt as they approach retirement**
- **What those budgetary Pension changes really mean to you**
- **Breaking News**

If you need advice we have a team of highly experienced Financial Consultants throughout the UK who would be delighted to help you. Just give us a call for more information and we will explain the services we can offer and our charging structure.

We hope you enjoy the read!

ISAs have just got a whole lot NISA

On 1st July 2014 all Individual Savings Accounts (ISAs) became New ISAs, or NISAs.

So what does that actually mean to you?

Well, the good news is that the ISA limit has grown from £11,880 to £15,000 – the biggest increase ever. For a couple that's a potential £30,000 of tax efficient savings each tax year and for the first time the whole amount can be placed into a Cash NISA, rather than split between Cash and Stocks and Shares.

Although cash savings rates remain low, for a tax payer any interest earned in a Cash NISA will be paid tax free, saving 20% for a Basic Rate Tax Payer and 40% for a Higher Rate Tax Payer.

You may feel that this doesn't make a whole lot of difference to you now, but don't forget your funds will be ring-fenced for future years as interest rates potentially rise.

Happy to take some investment risk?

If you are willing to take some investment risk, and your circumstances support it, greater potential long term returns are available from a Stocks & Shares (S&S) NISA.

Please note, the value of investments and any income from them can fall and you may get back less than invested.

The value of tax benefits depends on individual circumstances and may change in the future.

Am I stuck with my existing ISAs?

No – you have always been able to transfer funds from your Cash ISA to your S&S ISA, but the NISA has increased flexibility so now, for the first time, you can also transfer funds held in a S&S NISA into a Cash NISA.

This may give you some peace of mind if you have invested in a S&S NISA but become worried about the markets, as you can transfer back into cash without losing your allowance.

Always remember to contact the Provider that you intend to transfer **to** first, so that they can arrange for the transfer to take place. **Never** withdraw your funds yourself because you will lose the NISA wrapper tax benefits.

How many NISAs can I have?

You can open one Cash NISA and/or one S&S NISA per year. Once open you can transfer between providers as often as you wish.

If you paid in between April and July 2014 this sum must be transferred as a whole. Amounts from previous years can be transferred as a whole or in parts. Not all NISA Providers will allow part transfers though, so always check first for any specific terms that they may impose.

A fresh view on equity release: lifetime mortgages

Tied into low annuity rates? Your home could provide a source of additional income.

If you are struggling to cope financially in your retirement due to a low pension income, or heading towards retirement with outstanding mortgage debt and no surplus funds at your disposal, then it may be time to think outside the box for a potential solution.

When re-considering your options make sure that any advice you receive takes into account your entire situation, including your property and other assets, not just your pension savings. If not, only a limited view of your retirement options may be presented, focussing entirely on your pension pots and ignoring what for most people is their largest asset – their home – from their financial planning advice.

It is fair to say that releasing capital from the value of your home via equity release is not for everyone. However, it is crucial that any advice given does not dismiss this rapidly growing sector of the market.

As per the Equity Release Council's Equity Release Market Report, Spring 2014, the equity release sector accounted for more than £1bn lent in 2013 as the "baby boomer" generation reach retirement and more people turn to their property wealth as an element of their retirement planning.

The report also confirms that the majority of plans arranged – 2 out of 3 last year – are now on a flexible drawdown basis.

With these schemes clients can release an initial lump sum as low as £10,000, but most importantly they can then secure themselves a guaranteed future drawdown facility that can be accessed in tranches as small as £1,000 - £1,500 per withdrawal, as and when required.

Significantly, interest is only charged on the amount that has been taken at any moment in time.

Arranging an equity release scheme may mean you leave a reduced inheritance to your estate. To understand the features and risks, ask for a personalised illustration. Setting up an equity release plan will incur costs such as survey, arrangement, legal and adviser fees, depending on your exact circumstances. Expert advice to choose the right scheme from a qualified, independent adviser, such as John Studman at PFPL, is essential.

A potential solution for those with outstanding mortgage debt as they approach retirement

There have been some innovative products introduced in recent years, including a number of much lower rate schemes where the interest no longer "rolls up" over time – effectively an interest only mortgage into retirement.

This is particularly important following the recent Mortgage Market Review (MMR) – a comprehensive review of the mortgage market conducted by the Financial Conduct Authority - which has made borrowing in to retirement or on an interest only basis much more challenging in the conventional mortgage market.

Since MMR, mortgage borrowers may find themselves approaching the end of their mortgage term with a small mortgage balance outstanding but seemingly no option to extend the mortgage term or to refinance elsewhere.

Frequently the only option is to repay the outstanding mortgage balance from capital or be forced to sell the property to repay the debt. In such cases these retirement mortgages have proved a useful option.

Some schemes allow for part-servicing of interest by the client(s) or other family members if they wish to preserve their inheritance – with the option of switching to a "roll up" basis at a later stage if desired.

One lender has even introduced a "downsizing" option to reduce the exit penalties on any subsequent property sale.

Again, this is an area where charges will apply and expert advice is required so that an impartial analysis of the pros and cons can be undertaken.

Equity release may only form a small part of any client's overall retirement planning (for example, to avoid a higher rate tax charge when drawing capital from your pension, by using equity release to defer doing so) but it would be a mistake to turn a blind eye to this important area and not receive comprehensive advice.

PFPL offers independent advice on both of these specialist sectors through our experienced Mortgage Consultant, John Studman.

John is a former Bank and Building Society Manager with over 25 years experience of the mortgage and equity release markets. He holds Advanced Mortgage and Equity Release Qualifications and can review the whole of the market for both equity release schemes and conventional mortgage finance.

Pension reforms

What do those pension reforms really mean and do they affect me?

There has been much talk recently about the changes to pensions introduced in the 2014 Budget, such as increasing the small pension pot and capped drawdown limits. There have been more sweeping changes to the flexibility of pension plans which will make a dramatic change to those retiring after April 2014 and how they take their pension benefits.

Here's an overview of the main changes and how they may affect you.

So what are the changes for those yet to retire?

Currently, and up until April 2015, when you take your pension it is generally possible to take 25% of the value of your fund as a tax free cash lump sum. The remainder would then typically be used to either purchase an annuity or provide an income within permitted limits, from the invested fund (income drawdown).

However, for those retiring after April 2015 (and those currently in income drawdown) things are becoming far more flexible. From that date there will no longer be any limit to the level of income that can be taken from the fund, in fact the whole fund could be taken either as one or a series of lump sums.

As before you can still take 25% tax free and the remainder will be taxable. Before the changes you would have been taxed at 55% on the remainder, but now tax will be paid at your marginal rate (0%, 20%, 40% or 45% depending on how much you withdraw). **The value of tax benefits depends on individual circumstances and may change in the future.**

You will be able to switch from your current defined contribution pension scheme to another scheme whenever you like.

I've already taken my pension – can I change it?

Unfortunately not if you have already bought an annuity and it has passed the cancellation period (see over). However, if you are in drawdown then you will be able to increase your income without an upper limit. You will need to call an emergency review with your pension provider or financial adviser on the anniversary of your last review to do this.

I've recently taken an annuity – can I change my mind?

If you already have an annuity in payment it cannot be changed. However, if it is newly opened and you are within the cancellation period you may be able to cancel - check with your Provider – particularly regarding any tax free cash taken.

I'm not nearing retirement yet – will it affect me?

The Government has suggested that in future the retirement age should be increased in line with the State Pension Age, with a minimum age of 57 from 2028.

Can I still buy an annuity?

Yes, annuities will still be the most suitable option for many. There will also be new flexibility with annuities, such as the option to withdraw lump sums, vary income amounts and the guaranteed return of your fund to your family if you die (this can be as a lump sum if the value is under £30,000).

I've always fancied a Lamborghini – can I really use my pension pot for that?

In theory yes – but it is important to recognise that your pension funds will be required to support you through your retirement so however tempting that dream Lamborghini may be (if your pension pot supports it!), a more considered view of how to make your funds last throughout your retirement is vital.

My pension is really quite small and I'm retiring before April 2015 …

If you have only a small pension pot then from age 60 you can take it as a lump sum. The amount that constitutes a small pension rose in March 2014 from £2,000 to £10,000. 25% will be tax free and the remainder taxable.

If you have more than £10,000 in a single fund but the total of all your pensions is less than £30,000 (up from £18,000 previously) you can take them all as a lump sum.

After April 2015 you can take all of your pension as a lump sum, no matter the size.

I'm in something called capped drawdown – do the changes affect me?

Since March 2014 the maximum income that can be taken from a capped drawdown scheme has increased from 120% to 150% of the Government set notional annuity limit. From April 2015 it is proposed that there will be no limit but it should be noted that any drawdown above 150% will limit the level of future pension contributions that can be made.

I'm still unsure – how can I get help?

The Government will be putting in place impartial free advice solutions to help people through the options but for many it will still be necessary to speak to a professional adviser.

Here at PFPL we have experienced Pension Consultants giving independent advice who would be delighted to discuss your needs with you. Please call us for more information about the services we offer and our charging structure.

BREAKING NEWS

The Pensions Regulator warns of scams which are enticing savers by claiming to help them access their pension before age 55, or that more than 25% can be taken as cash.
For most people these offers will be bogus and victims will lose most, if not all, of their savings.

It is in only very rare cases, such as a terminal illness, that a pension could be taken before age 55 and currently only 25% can be taken as a cash lump sum.

Don't fall victim to these scams – check the facts before you make an irreversible decision.

Contact us

For Newsletter and General Enquiries:
Sarah Cook on 0121 609 3210
Email: sarah.cook@pannellsfp.com

For Mortgage and Equity Release Enquiries:
John Studman on 0121 609 3247
Email: john.studman@pannellsfp.com

www.pannellsfp.co.uk

pannells
Financial Planning Ltd

The views and opinions expressed in this document are based on our understanding of current legislation and could change in future.

Pannells Financial Planning Limited is incorporated in England registered number 2158849 registered office Farringdon Place, 20 Farringdon Road, London EC1M 3AP.

Pannells Financial Planning Limited is authorised and regulated by the Financial Conduct Authority.