planning financially

Pensions' freedom – Your questions answered

We now have more options when it comes to retirement choices. But if you still want your pension income to last a lifetime – careful planning is a must.

Since 6 April, when Britain's pension system underwent a seismic change (known as 'pensions freedom day'), we've been asked many different questions by our clients about the breadth of the reforms and how they may affect them.

Q. What has changed?
A. The changes are designed to give extra flexibility with how you use your pension savings from age 55 onwards. For many, taking a tax-free cash sum and/or buying an annuity (a guaranteed income) was previously the only option. But this is no longer the case.

Q. When did the changes take effect?
A. The changes took effect on 6 April 2015, with some smaller changes to the rules having been in place since March 2014.

Q. Who will be affected by the changes?
A. The changes give extra flexibility to anyone aged 55 or over with a 'defined contribution' pension.

Q. What if my pension is 'defined benefit' ('final salary' scheme)?
A. Some defined benefit pensions may be eligible for the new freedoms, but you would need to transfer the money to a suitable scheme first. Under plans put forward by the Financial Conduct Authority (FCA), you must ensure that you have been advised by someone with a specific 'pension transfer specialist' qualification before you transfer your savings to a defined contribution scheme (unless the transfer value is less than £30,000).

Q. Will I still have to buy an annuity?
A. No. However, annuities may still remain an important option. You now also have the option of a flexible access pension or withdrawing cash direct from your pension fund. Before making a decision, it's important to consider each of the options, taking into account the benefits, risks and tax implications of each.

Q. Has pension freedom been extended to people who have already purchased an annuity?
A. Not yet, but an announcement was made during Budget 2015 to extend pensions freedom to about 5 million people who have already bought an annuity. A consultation published on the day of the Budget on how a secondary annuities market could work suggested mirroring the £30,000 mandatory advice threshold for defined benefit pension transfers.

Q. Can I withdraw my entire pension pot?
A. Yes you can, as long as your pension scheme's rules allow it. Any amount above your initial 25% tax-free cash sum entitlement would be taxable at your marginal income tax rate as earned income (i.e. before savings or investment income). Depending on the size of the payment (and your other income), this could mean you might be taxed at a higher rate than you normally would. You should also ensure that your overall savings will give you sufficient income in retirement.

Q. Am I able to leave my pension pot to my loved ones?
A. Yes, if some or all of your money remains invested in a pension fund, then you can pass it on to your loved ones when you die. This would be tax-free should you die before you reach age 75 but taxable after that.

Q. What are the tax implications?
A. Other than your initial 25% tax-free cash sum entitlement, pension income and cash withdrawals remain taxable. You should take care if you are considering withdrawing amounts of money that could put you into a higher income tax band.

You can still pay into a defined contribution pension after you access your pension fund. But if you take flexible access income or cash withdrawals from your fund, the maximum amount you can pay in each year without incurring a tax charge is £10,000.

Q. How will I be affected by having only a few small pension pots?
A. Generally, your options remain as before. They include taking the money from any of your small pension pots as a taxed cash sum (the first 25% of which would be tax-free if you haven't already started taking benefits from them), and you can now do this from age 55. Another is 'consolidating' all or some of your pensions into another pension (or pensions). The implications of this would, however, depend on your personal circumstances.

Making the right retirement choices is likely to be one of the most important decisions you'll ever need to make. If you have any questions regarding the pensions' freedom changes, then it's essential that you receive guidance and advice to help you decide what to do with your pension savings.

Auto-enrolment hits small enterprises

Why is it happening?
- The Government owes in excess of £890 billion and can no longer afford to support the UK's ageing population; also 7 million of us are not saving enough for retirement.

When did it happen?
- Auto-enrolment was rolled out in October 2012. The biggest ever change in workplace pensions. Every employer is now responsible for enrolling employees (even if you employ just one person) into an eligible pension scheme, and will have to contribute to that scheme on behalf of their employees.

Who does it apply to? - Not all employees are eligible. Employees have to be at least 22, below the current state pension age and earn over £10,000 per annum, however, employers must allow other employees to 'opt-in' if they wish to do so, or to 'opt-out'.

What does an employer need to do?
- Know their staging date, ensure the most appropriate pension scheme is in place and implement relevant systems.

Where do I begin? - Planning ahead will be vital, the larger pension providers are already 'cherry picking' customers and resources of other firms may be limited. This could lead to a lack of choice in pension schemes and a lengthy lead time for set-up. Ideally seek specialist advice to ensure you are on the most cost- effective scheme long term.

Not only this, but a 'capacity crunch is looming'. It is predicted that the number of firms reaching their staging date will increase from over £44,000 in 2015, to £850,000 in 2017.

Come along to our Auto Enrolment breakfast seminar, Wednesday 7th October 2015.

Email autoenrolment@cnfp.co.uk for further details.

Getting more financially savvy - Sorting out finances high on most people's list

As a Nation, we are determined to become more financially savvy about saving and spending habits this year, with three quarters of adults admitting they are prepared to moderate their lifestyle, according to a new survey by Standard Life.

Saving a key financial priority
Showing that sorting out our finances is high on our list, nearly half of adults made a money-related New Year's resolution. Topping the table is saving more – nearly a quarter (22%) of adults plan to save more this year, and one in five (19%) hope to cut day-to-day costs.

Less than a third (28%) are currently happy with the amount of money they save. However, a quarter of adults (26%) are not currently saving at all despite thinking they should, while 37% don't save as much as they think they should.

'Big ticket' spends
Despite the increased focus on saving, 65% of adults are still planning a 'big ticket' spend at some point this year. Over half of these people (53%) are expecting to cover the cost from their savings, while 27% plan to cut back on day-to-day spending to afford these bigger buys.

All figures are from research conducted by Vision Critical on behalf of Standard Life in January 2015. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

It's not just about picking investments wisely; it's holding them in the most suitable place

Now that we've entered a new tax year, if you are already planning how you are going to fully utilise your current Individual Savings Account (ISA) tax-efficient allowance, it's not just about picking investments wisely – it's also important to make sure you hold your investments in the best place.

With this in mind, the Association of Investment Companies (AIC) has taken a look at investment company performance data when the full ISA limit is invested. If you had invested a lump sum of £15,000* into the average investment company ten years ago, you would now have £38,323.50. This is £6,433.90 more than the same investment in the FTSE All-Share, which would generate £31,889.60.

If you had invested £15,000 per year for the past ten years into the average investment company, you would now have £272,811. This is £17,927 higher than the £254,884 you would now have if you had invested the same in the FTSE All-Share.

Sector performance
In share price total return terms, the highest performing sector over a ten-year period was Sector Specialist: Biotechnology & Healthcare. If you had invested last year's ISA allowance of £15,000 into the average Sector Specialist: Biotechnology & Healthcare company ten years ago, you would now have an impressive £76,363.50. The same investment into the average Country Specialists: Asia Pacific Company would now be worth £52,611, and into the average Global Emerging Markets Company would be worth £48,982.50.

Enhanced returns
Investment companies have a strong long-term performance record and their closed-ended structure allows managers to take a long-term view. With other features such as the independent board, the ability to gear to enhance returns and their income advantages, investment companies (if appropriate to your particular situation) should be considered when it comes to making the most of you £15,240 2015/16 ISA allowance.

* Calculated using the ISA allowance for tax year 2014/2015

Performance data is share price total return to 28 February 2015 and is mid-market share price with net income reinvested. No buying and selling costs into account. Source: AIC using Morningstar.

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