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MAY/JUNE 2021

A New Tax Year, A New Start For Your Finances

CREATING A ROADMAP FOR YOUR FUTURE FINANCIAL SUCCESS

BOOST YOUR PENSION SAVINGS
Planning to achieve your retirement goals sooner

GRANDPARENTS, GRANDCHILDREN AND MONEY
Sharing your wealth during your lifetime can make a big difference

MINIMUM PENSION AGE TO INCREASE
Age change to when people can start taking pension savings

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INSIDE THIS ISSUE

Welcome to our latest edition. As we enter another new phase in the coronavirus (COVID-19) pandemic, each UK nation has set out a roadmap out of lockdown, a positive sign that we can hopefully start to get back on track both financially and emotionally.

It's always a good time to consider financial planning, but even more so at the start of a new tax year, when you have a fresh set of annual allowances to take advantage of. Tax rules and regulations continually change so it's important to stay up-to-date. On page 06, we look at why now is the perfect opportunity to take advantage of these and align them with your goals.

The government has confirmed that it plans to increase the minimum pension age at which benefits under registered pension schemes can generally be accessed, without a tax penalty, from age 55 to age 57 from 6 April 2028. On page 03 we explain why this announcement may, in particular, have an impact on the timing for taking your pension benefits.

With all of us leading longer lives, you might be considering how you can help your grandchildren when it matters most. On page 09, find out how sharing your wealth during your lifetime can make a big difference and bring you a lot of joy, particularly when helping younger generations who are dealing with rising house prices and university fees.

If you've been diligently saving into a pension throughout your working life, you should be entitled to feel confident about your retirement. But, unfortunately, the best savers sometimes find themselves inadvertently breaching their pension lifetime allowance and being charged an additional tax that erodes their savings. Turn to page 12 to find out more.

A full list of the articles featured in this issue appears opposite.

WHAT DOES WEALTH MEAN TO YOU?
Wealth means something different to everyone. Whether you want to invest and build your wealth, preserve and protect your wealth, or access your wealth, please contact us to discuss any specific areas of advice. We look forward to hearing from you.

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THE VALUE OF INVESTMENTS MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

The content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. Articles should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. Past performance is not a reliable indicator of future results.

Minimum Pension Age To Increase

AGE CHANGE TO WHEN PEOPLE CAN START TAKING PENSION SAVINGS

The government has confirmed that it plans to increase the minimum pension age at which benefits under registered pension schemes can generally be accessed, without a tax penalty, from age 55 to age 57 commencing 6 April 2028.

The Treasury is consulting on how best to apply its decision to increase the age when people can start taking their private pension savings. The Normal Minimum Pension Age (NMPA) will increase in line with increases to the State Pension age.

UNQUALIFIED BENEFITS RIGHT

Members who currently have an 'unqualified right' to access their benefits under a registered pension scheme before age 57 and members of the armed forces, firefighters or police pension schemes will be permitted to retain their existing minimum pension age.

The government is planning to introduce a protection regime which would mean that an individual member of any registered pension scheme (occupational or non-occupational) who has an unqualified right – for example, without needing the consent of their employer or the trustees – under the scheme rules at the date of the consultation to take pension benefits at an age below 57 will be protected from the increase in 2028.

PROTECTED PENSION AGE

A member's protected pension age will be the age from which they currently have the right to take their benefits. The protected pension age will be specific to an individual as a member of a particular scheme. So an individual could have a protected pension age in one scheme where they have a right to take pension benefits at an age below 57, but for schemes where no such right exists the new NMPA of 57 will apply from 2028.

It will also apply to all the member's benefits under the relevant scheme, not just those benefits built up before April 2028. Individuals with an existing protected pension age under the 2006 or 2010 regimes will see no change in their current protections.

ASSOCIATED PENSION SCHEMES

In recognition of the special position of members of the armed forces, police and fire services, the government is proposing that, where members of the associated pension schemes do not already have a protected pension age, the increase in the NMPA will not apply to them.

Individuals who do not have a protected pension age who access their pension benefits before age 57 after 5 April 2028 would be subject to unauthorised payments tax charges.

PENSION TAX RULES ON ILL-HEALTH

There will be no need for individuals or schemes to apply for a protected pension age. This is in line with the approach taken under the existing protected pension age regimes. The government is not proposing to make any changes to the current pension tax rules on ill-health as part of this NMPA increase.

Unlike the protection regime introduced in 2006, where individuals are entitled to a protected pension age in relation to the increase in NMPA from 2028, they will be able to draw benefits under their scheme even if they are still working.

SCHEME BENEFITS CRYSTALLISED

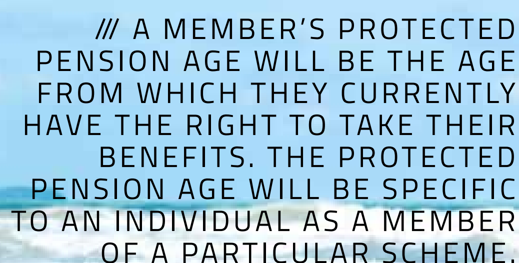
In addition, currently, if an individual wants to use their protected pension age, then all their benefits under the scheme must be taken (crystallised) on the same date. However, considering the pension flexibilities introduced in 2015, the government proposes that this requirement will not be a condition of the 2028 protected pension age regime.

This would mean, for example, that an individual with a defined contribution pension with a protected pension age of 55 would be able to allocate some of their pension to a drawdown fund, and at a later date use the remainder to purchase an annuity, without losing their protected pension age.

NORMAL MINIMUM PENSION AGE

The government's position remains that it is, in principle, appropriate for the NMPA to remain around ten years under State Pension age, although the government does not intend to link NMPA rises automatically to State Pension age increases at this time.

The announcement means that there is the potential for some people to be caught in the middle, being able to access their pension at 55 prior to April 2028, but having to wait until they turn 57 to access any untouched pension funds after this date where they don't qualify for protection. ■



PLANNING FOR THE RETIREMENT YOU WANT

This announcement may, in particular, have an impact on the timing for taking your pension benefits. It's never too early to be planning ahead. To discuss how we can help you plan for the retirement you want, please contact us.

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ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND YOUR ENTITLEMENT TO CERTAIN MEANS TESTED BENEFITS AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

Boost Your Pension Savings

PLANNING TO ACHIEVE YOUR RETIREMENT GOALS SOONER

Are you 'mid or late career' or planning to retire within ten years? If the answer's 'yes', then you probably want to know the answers to these questions: Will I be able to retire when I want to? Will I run out of money? How can I guarantee the kind of retirement I want?

But, for many different reasons, planning for retirement is a commonly overlooked aspect of personal financial planning and this can often lead to anxiety as your age of retirement approaches. We've provided four ways to boost your pension savings and help you achieve your retirement goals sooner.

REVIEW YOUR CONTRIBUTIONS

Sometimes the simplest solutions are the most effective. If you want to boost your retirement savings, the simplest solution is to increase your contributions. You may think you can't afford to, but even a slight increase can make a big difference.

For those lucky enough to receive a pay rise in line with inflation every year, increasing your pension contributions by just 1% could add thousands to your eventual pension pot. The reason why a relatively small increase in pension contributions can result in such a large increase in the value of your pension pot is because of the power of compounding.

The earlier you invest your money, the more you benefit from the effects of compounding. Adding more money to your pension pot by increasing your contributions just makes the compounding effect even better.

REVIEW YOUR STRATEGY

A missed opportunity for many pension holders is failing to choose how their pension is invested. Some people leave this decision in the hands of their workplace or pension provider.

Firstly, you should know that you don't have to hold a pension with the provider your employer has chosen. You can ask them to pay into a different pension, allowing you to choose the provider while considering the type of funds they offer and the fees they charge.

Secondly, many pension providers will give you several options for investment strategies. If you're in the default option, you could achieve higher returns with a different strategy (though this will usually mean taking on more investment risk). Note that this may not be appropriate in all circumstances, particularly if you are close to retirement.

KNOW YOUR ALLOWANCES

When you save in a pension for your retirement, the government adds tax relief on top of the money you contribute, helping you to grow your savings faster. However, there's a limit to the amount of contributions you can claim tax relief on each year, which is called your 'annual allowance'. It's currently £40,000 (tax year 2021/22), and in some cases may be lower.

If you want to contribute more than your annual allowance into your pension in one tax year (for example, if you've received a windfall and want to put it aside for the future), it's worth knowing that you can use any unused allowance from up to three previous years.

So, if you have £10,000 of unused allowance in each of the past three years, that's another £30,000 you can claim tax relief on this year. The tax relief on this amount would be at least £7,500, depending on your tax band.

TRACE LOST PENSIONS

Usually, starting a job with a new employer means starting a new pension. And, when that happens, some people may overlook the pension they had with their last employer. As a result, many people have pensions with previous employers that they've lost track of – and rediscovering them can give a huge boost to your retirement savings.

You can trace old pensions by getting in touch with the provider. Look through any documentation you still have from your past employers to see if you can find your pension or policy number. If you can't, you can contact the provider anyway and they should be able to find your pension by using other details, such as your date of birth and National Insurance number.

If you're not sure who the provider is, start by asking your previous employer. ■

WILL YOU ACHIEVE THE RETIREMENT YOU DESERVE?

When the future is unclear, the thought of retirement may well feel more daunting than exciting. We'll advise you on how to build the wealth you need to achieve the retirement you deserve. Don't leave it to chance – to discuss your requirements, please talk to us.

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Will Your Pension **Run Out Early?**

IMPACT ON PEOPLE OPTING FOR EARLY RETIREMENT AS A RESULT OF THE PANDEMIC

An increasing number of people have been forced into early retirement due to the economic impact of the coronavirus (COVID-19), with many worried about how they'll make ends meet in the future. Because of the pandemic, we are currently in a challenging economic period. The global economy has taken over ten years to recover from the shock of the last financial crisis.

In a recent survey, the findings showed that 3% of people in the 55-64[1] age group have taken early retirement due to the coronavirus pandemic. And 4% of people in this age group have had to access some of their pension savings to cover living costs because their income has dropped due to redundancy or reduced pay. These percentages may seem small, but they represent hundreds of thousands of people.

RISKS OF EARLY RETIREMENT

While early retirement may sound like a dream come true, for those with insufficient pension savings it can be a ticking time bomb. Every year of early retirement will have an impact on your pension, in that it represents both a year lost for saving and a year added for spending. Simply put, you'll need to make less money last longer.

Unless you've budgeted carefully and are sure you have enough savings, you could run the risk of your pension running out in your later years. This is an expensive time for many people, due to the cost of financing care, and that can result in unexpected hardship.

PLANNING FOR EARLY RETIREMENT

If you're planning early retirement, you should consider the following steps:

1. Calculate all your savings in different pension pots to find out what your total is.
2. Track down any lost pensions from previous employers and add these to your total.
3. Check how much of the State Pension you can expect to receive, and from what age.
4. Create a budget for your retirement spending, making sure to include any additional future costs you're aware of and a little extra for future costs you're unaware of. Be honest about how much you'll need.
5. Make sure that the total you have in pension savings, when combined with the State Pension you'll receive, is sufficient to cover all your future costs.

ALTERNATIVES TO EARLY RETIREMENT

If your financial situation is forcing you to withdraw from your pension but you're not ready yet to stop saving, there are ways to access your pension that do not affect your annual allowance and therefore allow you to continue contributing at the same rate in the future.

These include:

- Taking up to 25% of your savings as a tax-free lump sum (from a defined contribution pension)
- Accessing a defined benefit pension (if you have one)
- Withdrawing a pension pot worth under £10,000 in its entirety under 'small pots' rules
- Buying certain types of annuity

CAN YOU AFFORD TO RETIRE EARLY?

We know that you work hard for your money, so you should be able to enjoy it as much as possible. When planning for retirement, there are now more choices available than ever before. By understanding precisely what you'll need to get to where you want to be, you can ensure you're prepared for the future.

So when working out if you can afford to retire early, your starting point should be to think about whether your savings and investments will be enough to cover all your outgoings, as well as all your essential living costs and any regular debt repayments you may have to make. ■

ANSWERING ALL THOSE BIG QUESTIONS

We can give you more information on any of these options and help you to choose the ones that are best for you. We'll answer all those big questions you might have: When can I retire? How can I make my money last? Should I take a lump sum? To find out more and discuss your options – please contact us.

Source data:
[1] https://www.lv.com/about-us/press/covid-pandemic-pushes-more-than-154000-into-early-retirement

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CREATING A ROADMAP FOR YOUR FUTURE FINANCIAL SUCCESS

It's always a good time to consider financial planning, but at the start of a new tax year, when you have a fresh set of annual allowances to take advantage of, you have the perfect opportunity to get your financial affairs in order and align them with your goals.

The UK tax year runs from 6 April to 5 April each year. These dates don't change but tax rules and regulations do change and it is important to stay up-to-date.

MITIGATING THE COVID-19 ECONOMIC IMPACT

The UK government has accumulated massive deficits while trying to mitigate the economic impact of the coronavirus (COVID-19) pandemic on individuals and businesses.

Essentially, they have three options to try and reduce their debt burdens: implement austerity, including higher taxes, so that the borrowing can be repaid; deliver economic growth so that the debt burden to GDP falls; or allow inflation to erode the real value of the debt.

MEET YOUR GOALS IN A TAX-EFFICIENT WAY

The good news is that if you start considering the recent and potential tax changes now, you should be able to mitigate some of the adverse effects. Taxes on savings, investments and earnings all come with bands, reliefs, allowances and exemptions.

Financial planning ensures that you take advantage of these by organising your finances to make the most of your money and avoid situations you may not have anticipated. Taxation can affect net investment returns, and maximising your net return will help you meet your financial objectives. There are a number of potential financial planning solutions to help you meet your goals in a tax-efficient way.

MARCH BUDGET 2021 CHANGES ANNOUNCED

These involve making use of tax allowances each year, assessing investments that suit your tax

/// THE PURPOSE OF CREATING A FINANCIAL PLAN IS TO HELP YOU UNDERSTAND WHERE YOU STAND NOW AND WHERE YOU COULD BE IN THE FUTURE IF YOU TAKE THE RIGHT STEPS. IT'S ABOUT CREATING A ROADMAP FOR YOUR MONEY AND HELPING ACHIEVE YOUR GOALS AND FUTURE WELLBEING.

profile and considering long-term plans for you and your family. This might necessitate some financial restructuring. Business owners will also need to prepare and plan for the changes announced in the March budget.

The Chancellor of the Exchequer, Rishi Sunak, delivered Budget 2021 to Parliament on 3 March. Here are some of the key announcements around tax and financial planning.

PENSIONS

Despite predictions that the many tax advantages of pensions could be cut back, they were left untouched. The most significant change was the decision to freeze the lifetime allowance (the amount you can hold in pensions without paying a tax charge) at its current level of £1,073,100 until April 2026.

Pensions still remain one of the most tax-efficient ways to invest, particularly for higher and additional rate taxpayers. In addition to tax relief on what you pay in, any growth is free of UK Income Tax and Capital Gains Tax. And any remaining funds in your pension on death are usually free of Inheritance Tax after your death.

INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

The Chancellor left ISA allowances unchanged. Any proceeds from an ISA remain free of UK Income Tax and Capital Gains Tax and, therefore, this is a key consideration in financial planning. As soon as the new tax year started on 6 April, your annual ISA allowance limit was reset.

For the current tax year, savers can contribute up to £20,000 each across the four main types of ISA, which include Cash, Stocks & Shares, Innovative Finance and Lifetime accounts.

CAPITAL GAINS TAX (CGT)

Despite proposals to increase CGT, there were no new announcements, other than the decision to freeze the annual tax-free allowance at its previous level of £12,300 until April 2026.

As part of financial planning, it still makes sense to make as much use as possible of the valuable ISA and pension allowances, to ensure your funds are held in the most tax-efficient manner.

INHERITANCE TAX (IHT)

Again, no changes were made to the standard nil-rate band of £325,000 and the residence nil-rate band of £175,000, both of which have been proposed to remain frozen until April 2026.

If you're thinking about how you can reduce the Inheritance Tax your beneficiaries have to pay when you die, there are various options you should consider.

ACHIEVE YOUR GOALS AND FUTURE WELLBEING

The purpose of creating a financial plan is to help you understand where you stand now and where you could be in the future if you take the right steps. It's about creating a roadmap for your money to help you achieve your goals and future wellbeing.

Putting in place a comprehensive financial plan and keeping it updated will be amongst the most important decisions you ever make. It should include details about your cash flow, savings, debt, investments, insurance and any other elements of your financial life and wellbeing.

Even if you're in a good position financially, there are various ways that financial planning could help improve your current situation, for example by:

- improving the growth rate your investments are achieving
- introducing new streams of income
- minimising the tax you pay
- recommending solutions and products you might not be aware of

AVOID COSTLY FINANCIAL MISSTEPS

Designed to help secure your financial future, a financial plan seeks to identify your financial goals, prioritise them and then outline the exact steps that you need to take to achieve these goals.

It can also help you avoid costly financial missteps, such as making a risky investment, being subject to an unexpected tax charge or underestimating the liquidity you need, resulting in the forced sale of your assets. But the value of financial planning isn't just limited to the returns you get from it.

There are also practical and emotional benefits to receiving professional financial advice, for example by:

- freeing up time spent managing your finances
- reducing the administrative burden on you
- removing financial stress, which could impact on your health
- giving you peace of mind that you're moving in the right direction

HELPING YOU ACHIEVE YOUR GOALS AT EVERY STAGE OF YOUR LIFE

Creating a financial plan isn't a static process. It's important to adjust your plan as your life and situation evolve. It's helpful to reevaluate your financial plan after major life milestones, like getting married, starting a new job, having a child, planning for their education, losing a loved one and retirement planning. Everyone has different priorities. To discuss your options, please contact us today to find out more.

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THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAXATION & TRUST ADVICE.

Retirement Options

WHAT CAN YOU DO WITH YOUR PENSION POT?

When the time comes to access your pension, you'll need to choose which method you use to do so, with options including: buying an annuity, taking income through (flexi-access) drawdown, withdrawing lump sums or a combination of all of them.

There are advantages and disadvantages to each method, and in some cases your decision is permanent, so it's important to ensure that you obtain professional financial advice when considering your different options.

This is a complex calculation that must take into account the growth rate your investments might achieve, the eroding effects of inflation on your savings, and how long your savings will need to last.

ANNUITIES – GUARANTEED INCOME FOR LIFE

Annuities enable you to exchange your pension pot for a guaranteed income for life. They were once the most common pension option to fund retirement. But changes to the pension freedom rules have given savers increased flexibility.

You can normally withdraw up to a quarter (25%) of your pot as a one-off tax-free lump sum, then convert the rest into a taxable income for life – an annuity. There are different lifetime annuity options and features to choose from that affect how much income you may receive. You can also choose to provide an income for life for a dependent or other beneficiary after you die.

FLEXIBLE RETIREMENT INCOME – PENSION DRAWDOWN

When it comes to assessing pension options, flexibility is the main attraction offered by income drawdown plans, which allow you to access your money while leaving it invested, meaning your funds can continue to grow.

This option normally means you take up to 25% of your pension pot, or of the amount you allocate for drawdown, as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income.

You set the income you want, though this might be adjusted periodically depending on the performance of your investments. You need to manage your investments carefully because, unlike a lifetime annuity, your income isn't guaranteed for life.

SMALL CASH SUM WITHDRAWALS – TAX-FREE

This is an important consideration for those weighing up pension options at age 55, the earliest age at which you can take up to 25% of your pension pot tax-free. You should ask yourself whether you really need the money now. If you can afford to leave it invested until you need it then it has the opportunity to grow further.

For each cash withdrawal, the remaining counts as taxable income and there could be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year. With this option your pension pot isn't re-invested into new funds specifically chosen to pay you a regular income and it won't provide for a dependant after you die.

There are also more tax implications to consider than with the previous two options. So, if you can, it may make more sense to leave it to grow so you can enjoy a larger tax-free amount in years to come. Remember, you don't have to take it all at once – you can take it in several smaller amounts if you prefer.

COMBINATION – MIX AND MATCH

Of all the pension options, if appropriate to your particular situation, it may suit you better to combine those mentioned above. You might want to use some of your savings to buy an annuity to cover the essentials (rent, mortgage or household bills), with the rest placed in an income drawdown scheme that allows you to decide how much you can afford to withdraw and when.

Alternatively, you might want more flexibility in the early years of retirement, and more security in the later years. If that is the case, this may be a good reason to delay buying an annuity until later in life.

THE VALUE OF RETIREMENT PLANNING ADVICE

There will be a number of questions you will need answers to before deciding how to use your pension savings to provide you with an income. These include:

- How much income will each of my withdrawals provide me with over time?
- Which withdrawal option will best suit my specific needs?
- How much money can I safely withdraw if I choose flexi-access drawdown?
- How should my savings be invested to provide the income I need?
- How can I make sure I don't end up with a large tax bill?

HOW MUCH ARE YOU SAVING FOR YOUR RETIREMENT?

We can advise on your retirement planning, whether you are in the process of building your pension pot or getting ready to retire. Working closely with you, we will identify what you want from your pension and develop a structure that meets your requirements. To find out more, contact us to discuss your options.

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Grandparents, **Grandchildren And Money**

SHARING YOUR WEALTH DURING YOUR LIFETIME CAN MAKE A BIG DIFFERENCE

With all of us leading longer lives, you might be considering how you can help your family when it matters most. Sharing your wealth during your lifetime can make a big difference and bring you a lot of joy, particularly when helping younger generations who are dealing with rising house prices and university fees.

After you've determined how much you can afford to give, there's a simple starting point. What exactly do your grandchildren need, and when do they need it?

The right way to give presents for your grandchildren can vary depending on how old they are, and whether you're concerned about turning over a sizeable amount of money to a child who may still be impressionable.

YOUNGER GRANDCHILDREN

■ **JUNIOR INDIVIDUAL SAVINGS ACCOUNT (JISA)**

If your grandchild is under the age of 18, you might put money into their JISA account. While you won't be allowed to open one on their behalf, you will be able to donate up to their annual JISA limit, which is £9,000 for the 2021/22 tax year.

The benefit of the JISA is that they can't touch the money until they turn 18 – after that, it's theirs to use as they choose. The funds may be stored in cash, invested in securities, or a mixture of both. Investment growth is tax-efficient in a Stocks & Shares ISA, while a Cash ISA's interest is tax-free. If you put money away for 18 years, it might grow into a sizeable amount, but the value of any investment will go up and down.

■ **CHILD'S BANK ACCOUNT**

Alternatively, a child's savings account is a convenient and easy place for families and friends to deposit money for smaller presents. Keep in mind, though, that savers' rates have been poor in recent years and over time, inflation can reduce the value of the savings, because prices typically go up in the future.

OLDER GRANDCHILDREN

■ **LIFETIME INDIVIDUAL SAVINGS ACCOUNT (LISA)**

If your grandchild is 18 or older, a LISA will be able to assist them in saving for their first home. If they turned 40 on or before 6 April 2017 they won't be eligible. Only first-time buyers can use a LISA to buy property under age 60.

For every £4 saved, the government will add £1 (worth up to £1,000 every tax year until they turn 50 years old). Up to £4,000 a year is eligible for the 25% bonus (they can add more but it won't receive a government contribution).

The bonus is paid every month, so they benefit from compound growth. They can invest in either cash or stocks and shares and this forms part of their overall annual ISA limit, which is £20,000 in tax year 2021/22.

WOULD YOU LIKE THE REASSURANCE OF SOME CONTROL?

It's understandable to be concerned about giving too much money to grandchildren too young. You might like to have a say in where your money is spent and where it is spread. Putting a gift into trust will alleviate concerns over giving substantial sums to grandchildren before they have reached financial maturity and it can provide grandparents with the leverage they want.

You maintain some control of the assets and to whom and where they are paid as a trustee, and gifts to the trust will lower the estate for IHT. Giving money to your grandchildren may eventually affect the way your estate is taxed, so it's important to obtain professional advice before doing this.

PLAN AHEAD FOR A BRIGHTER FUTURE FOR ALL

There's a lot grandparents can do today, with a little extra thinking and forward planning, to ensure that the money donated goes towards ensuring a brighter future for your loved ones – when you're still alive to enjoy it. ■

GIVING YOUR LOVED ONES FINANCIAL GIFTS

If you're unsure about the best approach for you, talk to us to discuss your options. Please contact us for more information.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

PLAN FOR A BETTER TOMORROW, TODAY

Responsible investment is a catch-all term to broadly describe funds that invest to make a positive change, either to the environment or for society. Within this umbrella term there are four broad investment approaches: ethical exclusion; responsible practice; sustainable solutions; and impact funds.

Increasingly more pension savers are asking where their funds are invested. Many are no longer just concerned about getting the best returns – they also want their money to be used in a way that helps society and the planet. The Department for Work and Pensions (DWP) is currently consulting on improving the governance, strategy and reporting of occupational pension schemes on the impact of climate change.

The growth of Environmental, Social and Governance (ESG) issues – from an increasing awareness of climate change, global responsibilities and social issues to investing in companies that act responsibly and prioritise making the economy cleaner, safer and healthier – is an important consideration for many investors.

CONSIDERATIONS WITHIN RETIREMENT PORTFOLIOS

While ESG concerns have been gaining profile in the investment world for many years, there is reason to believe that there will continue to be a big shift toward these considerations within retirement portfolios and the coming transfer of wealth to sustainability-minded Millennials.

Eight out of ten people (83%)[1] think global warming will be a serious problem for the UK if action is not taken, and there is a lack of awareness about the extent to which pension funds are working to reduce the impact of climate change. In the survey, around half (51%) say global warming is 'extremely' or 'very' important to them.

CATEGORIES OF CRITERIA USED TO ASSESS COMPANIES

However, there remains a lack of understanding among some savers as to how pension schemes are taking action against climate change. Three-fifths of workplace pension holders (59%) say they don't know if schemes are taking any action; just one in seven (15%) workplace pension holders think schemes are.

ESG refers to the three categories of criteria used to assess companies when investing responsibly: 'E' stands for 'environmental' factors, such as carbon emission and water management; 'S' stands for 'social' factors, such as employee welfare, diversity and inclusion; 'G' stands for 'governance' factors, such as business ethics and corruption.

PERCENTAGE OF PEOPLE'S WEALTH IN THEIR PENSIONS

The concept of ESG investing has existed for decades but has grown enormously in popularity over the last five years. While early adopters of this practice were often driven by moral or ethical concerns, over time the financial benefits of ESG investing have become clearer, which has encouraged mass adoption.

ESG investing is becoming increasingly popular, and many investors are choosing ESG funds for their Individual Savings Accounts (ISAs) and general investment portfolios. However, these accounts usually hold a lower percentage of people's wealth than their pensions.

GREATER TRANSPARENCY AROUND CLIMATE IMPACT

The survey also found a number of people don't understand what pension schemes do with their money. Little more than two-thirds (68%) of the general population understand that pension schemes invest in a range of companies and other investments, and only one in five (22%) pension holders say they know the types of companies that their pension invests in.

Despite these knowledge gaps, when it comes to pensions there is still strong support for greater transparency around climate impact, in terms of the investments that are made and the way firms operate. Six in ten (62%) people think that pension schemes and other investors should hold those in charge of the companies they invest in to account for their efforts to minimise their impact on climate change.

BEHAVE IN A WAY THAT HELPS TACKLE CLIMATE CHANGE

Two-thirds (66%) think investors have a responsibility to encourage the companies they invest in to behave in a way that helps tackle climate change. A similar proportion (65%) think that financial services firms should report on the impact the companies they invest in have on climate change.

Around seven in ten people (68%) say that pension schemes should be transparent about the extent to which they invest in a climate-aware way. Seven in ten (69%) also want financial services firms to be transparent about the impact of their own operations on climate change. ■

LOOKING FOR MORE FREEDOM OVER HOW YOUR PENSION IS INVESTED?

Pension holders now have far more freedom over how their pension is invested than many realise. If you would like to ensure your pension is invested according to your preferences, including a preference for ESG investments, contact us for more information.

Source data:

[1] Research was conducted for the Pensions and Lifetime Savings Association (PLSA) by Yonder (formally known as Populus), an independent research agency. They achieved a nationally representative online sample of 2,082 UK adults aged 18+. The fieldwork was conducted between 25-26 November 2020.

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Pension Lifetime Allowance

HOW TO STAY WITHIN THE LIMIT TO AVOID A TAX CHARGE

If you've been diligently saving into a pension throughout your working life, you should be entitled to feel confident about your retirement. But, unfortunately, the best savers sometimes find themselves inadvertently breaching their pension lifetime allowance (LTA) and being charged an additional tax that erodes their savings.

If you are a high-income earner or wealthy individual, you could be putting too much into your lifetime pension and risk exceeding the pension lifetime allowance. The following questions and answers are intended to help you avoid this tax charge.

Q: WHAT IS THE LIFETIME ALLOWANCE?

A: The LTA is a limit on the amount you can withdraw in pension benefits in your lifetime before you trigger an additional tax charge. By pension benefits, we mean money you receive from your pension in any form, whether that's a lump sum, a flexible income, an annuity income or through any other method.

This allowance applies to your total pension savings, which may be in different pensions.

Q: HOW MUCH IS THE LIFETIME ALLOWANCE?

A: In the 2021/22 tax year, the LTA is £1,073,100. This allowance has now been frozen until April 2026.

Q: WHAT HAPPENS IF YOU EXCEED THE LIFETIME ALLOWANCE?

A: Once you have received your full LTA in pension benefits, you will be required to pay an additional tax charge on any further benefits you receive.

If you take your remaining benefits as a lump sum, you'll pay a tax charge of 55%. If you take your remaining benefits as multiple withdrawals, you'll pay a tax charge of 25% on each one.

Q: HOW IS THE USAGE OF YOUR LIFETIME ALLOWANCE MEASURED?

A: Each time you access your pension benefits (for example, by purchasing an annuity, receiving a lump sum or establishing a flexible income), this is recorded as a 'benefit crystallisation event'. There is an additional benefit crystallisation event when you turn 75, and finally, upon your death.

Q: IS LIFETIME ALLOWANCE PROTECTION AVAILABLE?

A: You can only protect your pension from the LTA if your savings were worth more than £1 million on 5 April 2016. You may be able to protect your pension savings up to £1.25 million, or up to the value of your pension on that date, depending on the type of protection you have.

Q: IS IT POSSIBLE TO AVOID THE LIFETIME ALLOWANCE?

A: If you do not have LTA protection and you are approaching the limit, there are various actions you can consider. These include stopping your contributions (and, instead, investing your money into an alternative tax-efficient environment), changing your investment strategy or starting retirement earlier.

Q: WHEN SHOULD YOU SEEK PROFESSIONAL ADVICE?

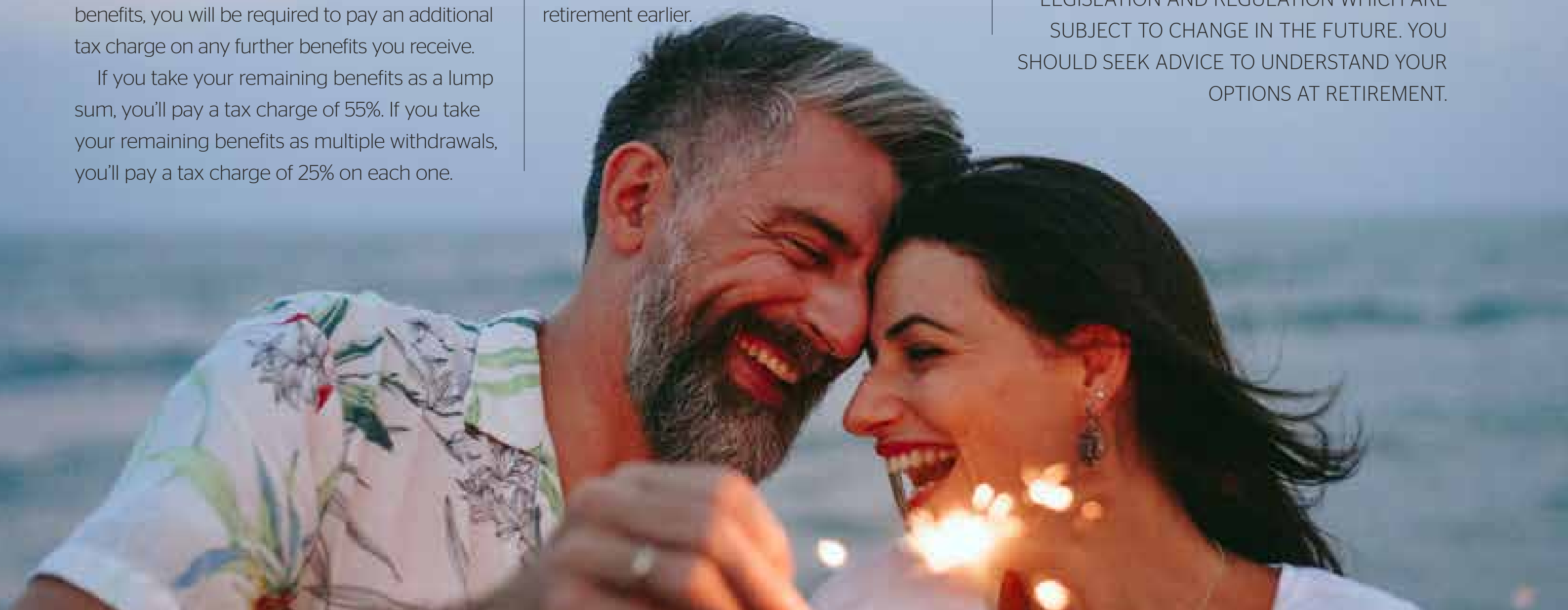
A: The rules around the LTA are very complex and making the right decisions can feel difficult. Receiving professional financial advice will help to identify if you have a problem and offer different solutions to consider, based on a full review of your unique circumstances. ■

LET US HELP YOU MAKE THE MOST OF YOUR MONEY – AND YOUR FUTURE

Everyone deserves a great retirement. Your goals and ambitions are unique to you and we want to help you get there. To discuss your retirement plans, please contact us. We look forward to hearing from you.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION WHICH ARE SUBJECT TO CHANGE IN THE FUTURE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.



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