Haighwood

WINTER NEWSLETTER 2020

Your pension savings, your future options

Thanks to pension freedoms introduced in 2015, savers over 55 have a wide range of options when it comes to drawing from your savings, and this brings opportunities although it's also easier to make a mistake.

There are now essentially four main ways for you to access your pension savings:

1. **Buy an annuity** which guarantees an income, typically for the rest of your life but in some cases for a fixed period
2. **Flexi-Access Drawdown** allows you to withdraw from your savings when you need to, while the balance remains invested
3. **Take it all out as cash** with the first 25% tax free and you pay income tax at your marginal rate on the rest, although you may face a hefty tax bill the following year
4. **Take part of it out as cash** with the first 25% tax free with the rest taxed at your marginal income tax rate. You can do this as many times as you like until you no longer have any pension savings.

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

Information contained in this article concerning taxation and related matters are based on Openwork's understanding of the present law and current legislation.

Why you should consider modernising your pension

As well as giving you greater freedom over how you access your savings, there are several other benefits when modernising your pension:

- Take full control of your pension savings
- Choose when and how to draw an income to suit your retirement planning
- Keep your options open for drawing an income in the future
- Optimise your tax efficiency - both on any money you might leave invested, and Inheritance Tax.

If your pension plan does not offer all four of these options, then you should think about switching it.

What else do you need to think about?

There are other factors to take into account when switching to a modern pension.

Firstly, the chances are the costs will increase. You may end up paying as much as an extra 1% of the value of your savings annually. So, if you have saved £200,000, your provider could charge up to £2,000 more per year. And if you seek financial advice, your adviser may also levy a fee, either upfront or as an ongoing service charge. These additional fees eat into your pot, but you could equally benefit from the flexible access as well as greater visibility and control.

Another consideration is tax. Regardless of whether you stick with your current pension or switch to a modern one, your income- other than the first 25% of a partial or whole lump sum- is subject to your highest rate of tax. Seeking professional advice can help you access your savings in a tax-efficient manner.

There is certainly plenty to consider and it is wise to regularly explore your current and potential retirement routes.

Reviewing your pension contributions

Did you know...?

Gender pay gap
Pensions for women are £7500 less than mens on average and yet on average women live for three years longer than men.

A nation unprepared for retirement
Over half of the British population admits to either not saving for a pension or not saving enough for the retirement that they would like to live.

The rise of pensioners
In 1901, there were ten people working for every pensioner. By 2050 it has been predicted that there will be one pensioner to every two workers.

The value of your investments can fall as well as rise, and you may get back less than you invest.

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As you approach retirement, you probably want to know when you can afford to stop working. Having worked hard throughout your career you deserve to enjoy your retirement without having to worry about your finances. It may be worth reviewing your pension contributions to make sure you are taking advantage of the incentives offered by the government and your employer.

Make the most of tax relief...

The government tops up your pension contributions in the form of tax relief at your highest rate of income tax to encourage you to save. Basic rate taxpayers receive tax relief of 20%, while higher rate and additional rate taxpayers can claim back 20% and 25% respectively through their tax returns.

..and understand employer contributions

Since 2012, employers have been legally obliged to automatically enrol employees in a pension scheme, although you can opt out. As an incentive, employers top up employee contributions. The government increased the minimum contribution to 8% from April 2019 - at least 3% from employers with employees making up the balance. It is worth remembering that the employee's contribution includes tax relief.

Are you saving enough?

There are no fixed rules about how much you should contribute to your pension because of course everyone's circumstances are different. However, one rule of thumb is to take the age you started saving and divide it by two to give you the percentage of your salary which you might wish to put away each year. So, if you set up your pension at the age of 30, you could aim to pay in 15% of your salary.

Stick within the limits

There are rules covering how much you can contribute, and you could face a hefty tax bill if you break them. The annual allowance for the 2019/20 tax year is £40,000 or your full salary (whichever is lower), although it is tapered for anyone earning over £150,000. You can carry forward any unused annual allowance from the previous three years.

There is also the lifetime allowance – the maximum amount you can withdraw from a pension scheme. It is currently £1,055,000 and likely to increase with inflation. It's probably wise to keep a close eye on the value of your pension if it starts approaching this limit.

Deciding whether or not you can afford to retire is a significant consideration, and so it makes good sense to regularly review how much you are saving and ensure you are taking full advantage of any incentives.

Don't slip up this winter

Hospital admissions increased by

220,000*

during February and March 2018 last year, when the 'Beast from the East' and Storm Emma converged over the UK.

*Compared to the same period the previous year (January – March 2017).

Winter is coming, and with winter comes unexpected weather patterns and more time spent in the home. Both can lead to an increase in accidents, and accidents for you or children can lead to time off work or loss of income.

Outside risks

It's not only the obvious factors of slips, trips and falls and the onset of flu season that are common challenges during the winter months. Asthma sufferers are at risk of attacks due to the cold damp air. Cold weather also causes an increased risk of heart attack and stroke, and arthritis can become more painful during cold spells.

Accidents at home

Unfortunately, accidents are most likely to happen at home. It is therefore important to be aware of potential risks to avoid unnecessary incidents. Falling is the most common cause of injury. Removing any potential trip hazards, especially on the stairs, and supervising your youngsters if they're climbing on furniture or playing in the house can help lessen the risk.

Covering your bills

Injuring yourself at home or while out and about could lead to you being off work and not earning an income. This is where an Accident Protection policy will help as it provides a lump sum which could be used to help take care of the bills while you're off work, taking care of yourself or your loved ones. If you'd like the peace of mind that you will be covered in the event of an accident this winter, or indeed at any time of the year, it's wise to give some thought as to how best to protect yourself.

Considerations for first-time buyers

Being a first-time buyer can be daunting. Not only are you about to make one of the biggest financial decisions in your life, but you'll probably also have family members and friends offering their ideas on the right house, mortgage, lender conveyancer and even removal company for you.

We've put together some ideas to try and take away some of the stress and confusion and give you confidence to move through the home buying process as smoothly as possible.

Get the right advice
Of course we're going to say that - it's what we do! We'll review your circumstances and look at your income, debt, day-to-day outgoings, employment and the size of your deposit, to assess what you can afford to borrow now and in the future. We'll talk you through the types of mortgage we think are right for you and the lenders who offer them.

Save as much as possible
Buying a house is going to be expensive so it's important to save, save, save and save some more to get yourself in the best position possible.

Many lenders will accept a minimum deposit of 5% of the cost of the house you're buying, but aim higher. The bigger your deposit the smaller the mortgage (and monthly mortgage payments) making you more attractive to a lender.

Talk to us and we can help with practical financial advice on your first and future home purchases.

Know your budget
Your hard-saved deposit and monthly mortgage repayments aren't the only expenses you need to be mindful of when buying your first home:

Some lenders will charge for a **valuation fee** to help them establish how much they are prepared to lend you.

You'll also need to factor in the cost of a **survey** (depending on the type of property you're buying and the lender you choose to go with you might need a basic mortgage valuation, a homebuyer's report or a full structural survey).

In Scotland you also need to budget for **Land and Buildings Transaction Tax** and in Wales you'll need to budget for **Land Transaction Tax**. If you live in England or Northern Ireland, you won't pay any **Stamp Duty Land Tax** on properties worth up to £300,000.

You'll also need to pay your **solicitor** or **conveyancer** for any legal work and local searches they do on your behalf.

Your home may be repossessed if you do not keep up repayments on your mortgage

Where is the happiest place to live?

Regions in order of happiness

1 South West
2 Scotland
3 Yorkshire
4 North West
5 South East
6 Northern Ireland
7 East Midlands
8 East of England
9 North East
10 West Midlands
11 London
12 Wales

A new survey has revealed the South West is the happiest place to live in the UK, with Wales coming in as the least happiest.

The survey by Lloyds Bank and YouGov looked at factors such as: home ownership, salary, household size, knowing your neighbours, loneliness, crime rates, local services and unemployment to create a 'happiness barometer'.

The survey threw up some other interesting facts:

— **Overall women are happier than men, but happiness for both dips to its lowest level for those aged between 25 and 34.**

— **People who own their own homes are happier than those who still have a mortgage to pay.**

— **Unsurprisingly, homeowners are happier than renters. Those who rent local authority homes are the least happy of all renters.**

— **Higher earnings can make you happier, but this peaks for those earning between £50,000 and £59,999. These earners were the happiest overall, and 12% happier than those earning over £100,000.**

Overall, access to transport links and amenities, living close to family and friends, having a safe and clean neighbourhood and a sense of community makes people happier. Converseley, high levels of crime and anti-social behaviour, poor local services, transport and amenities and a feeling of loneliness make people less happy.

Is joint life cover best for couples?

If you want to help make sure your loved ones will have financial security if you pass away, life insurance cover is the answer. But, if you're part of a couple and you both need cover, should you take out single policies, or a joint policy that covers both of you?

With a single life policy, the insurer would pay out on the death of the policyholder and the policy would then lapse. With joint life insurance, however, the cover will apply to both policyholders and would pay-out either on the first or second death, depending on how the policy is set up.

Before you decide whether to take out single or joint life insurance policies, you'll need to decide what type of cover you need, and this will depend on your circumstances:

- **Term Assurance:** pays out a lump sum if you die within the agreed 'term' (ie. the amount of time you've chosen to be covered for). Term Assurance is typically taken out to protect a mortgage and, as such, can come with a level, or decreasing, sum assured - the latter reducing as you pay off your mortgage.
- **Whole of Life Insurance:** pays out a lump sum when you die, whenever that is - as long as you're still paying the premiums.
- **Family Income Benefit Insurance**: pays out a regular income, instead of a lump sum, to provide ongoing financial support for those who depend on you.

You could also add critical illness cover to your life insurance policy, which means you'll get a pay-out if you're diagnosed with a serious illness and your claim is accepted. The type of conditions covered can include cancer, heart attack and stroke and will depend on the insurance provider.

Weighing up the benefits

Once you've agreed on the right type of cover, there are a number of other factors to consider to determine whether single, or joint life cover is best for you and your other half, including:

- **Cost:** a joint life policy may be less expensive than two single life policies. Level of cover - if your partner earns more than you you might want them to have a higher level of cover, since the financial impact of their death would be greater than yours. In this respect two policies may be better as they will have different sums assured.
- **Existing cover:** either, or both of you may have existing life cover through your employer, or an existing plan. It's important to check what's already in place so that you have a true picture of your protection shortfall. You don't want to pay for something that's already covered.
- **Your relationship:** It's not necessarily something you want to think about but some insurers include a separation benefit. This means if your relationship breaks down during the policy term, you could cancel it and start two individual policies without having to provide additional medical information.

If you're not sure whether single or joint life cover is best for you, or you'd like to review your existing cover, please get in touch.

Does diversification matter?

When it comes to building your investment portfolio, you might have been warned about avoiding putting all your eggs in one basket. It's wise to spread your money across a range of different investments. That way, if the value of one of them falls.

How to diversify your portfolio

In practical terms, diversity involves investing in different asset classes across various countries and regions.

The two main asset classes in most portfolios are shares and bonds, and these behave differently. When you invest in shares, you buy into a company's ongoing operations. The value of shares fluctuates according to the fortunes of the company, so they are riskier than bonds. Of course, the returns can be greater too.

A bond is effectively a loan to the issuer in return for a fixed interest payment. A government bond, such as a gilt, is considered among the least risky investments, as the UK government is unlikely to default, although returns can be lower.

Most portfolios will also diversify holdings across developed countries, like the UK, the US and within Europe, and regions such as emerging markets (EMs). Developed countries typically have relatively stable economies and stock markets comprising large, well-established companies. EMs on the other hand, are growing faster so they offer greater potential rewards, however, they tend to be more unpredictable so they are regarded as higher risk.

How diversification works

During times of uncertainty, bonds usually rally as investors move their money out of shares and into safe-haven assets. When the outlook improves, shares rebound as investors switch back to taking greater risk in return for what they hope will be a higher reward.

As for geographical diversification, any number of economic or political factors can weigh on the financial markets in one country or region without necessarily spreading into others.

Assets and regions are not always uncorrelated in the short term. Most asset classes fell towards the end of 2018 due to concerns about global trade, slowing economic growth and the prospect of rising interest rates. They then rose in tandem at the start of 2019. As long as your portfolio is well diversified, it should weather market fluctuations.

The value of your investments and any income from them can fall as well as rise and you may not get back the original amount invested.

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