For long-term investors, Individual Savings Accounts (ISAs) are a very tax-efficient wrapper that can hold cash savings as well as investments in stocks and shares. Savvy investors are also able to shelter income and capital gains.

ISA FLEXIBILITY
You can contribute up to £15,240 to an ISA in the 2016/17 tax year. Cash that you withdraw from a flexible ISA can be replaced during the same tax year without counting towards your annual ISA allowance, which is known as ‘ISA flexibility’. What sets ISAs apart from other savings and investment accounts is that any interest on cash savings, gains from investments or income from dividends are tax-efficient, although tax-efficiency may now be achievable for some outside an ISA if the income or gains are covered by a dividend allowance, personal savings allowance and Capital Gains Tax (CGT) allowance. You don’t have to declare ISAs on your tax return.

ADDED ADVANTAGE
Because of their tax benefits, ISAs can help your savings and investments grow faster over time. Investing your ISA in stocks and shares has the added advantage of helping safeguard you from a potential Capital Gains Tax (CGT) bill in the future. CGT is a tax on the gain you make when you sell or dispose of assets such as investments. It is currently charged at 20% for higher-rate taxpayers on gains made that exceed the yearly tax-free allowance. Currently, the CGT allowance is £11,100.

ADDITIONAL ALLOWANCE
Rules on ISA death benefits introduced in April 2015 allow for the transfer of an extra ISA allowance to the deceased’s spouse if they passed away on or after 3 December 2014. If applicable, the surviving spouse can use an additional one-off allowance, which is equal to the value of their partner’s ISA savings, as well as enjoying their own usual yearly allowance. An additional permitted subscription (APS) can be used in certain situations.

INHERITANCE TAX
You qualify for the additional allowance whether or not you inherit the actual assets of the ISA. The deceased’s ISA assets are distributed according to the terms of the will or intestacy rules, and any Inheritance Tax liability will remain in the usual way (except ISAs qualifying for Business Property Relief, for example, Alternative Investment Market [AIM] ISAs). No actual funds are transferred, and the extra allowance can be made up from your own assets. Also, as well as being married or in a registered civil partnership with the ISA holder, you need to have been living together – if you were separated, either under a court order, Deed of Separation or any other situation that was likely to become permanent, you can’t use the additional allowance.

COMPOUNDING EFFECT
Long-term investors who can afford to invest at the start of the tax year rather than at the last minute not only gain a year’s performance, but these extra gains will be reinvested in the market until they need the money. Over time, the effect of compounding can be significant. The more you invest, the greater the potential impact of early investing. Likewise, the longer you are investing for, the larger the compounding effect. Also, investing early in the tax year to benefit from compounding is most pertinent not only for those saving for retirement but also for parents investing for their children’s future through dedicated Junior ISAs (JISAs).
Lifetime Allowance

What could the further reduction mean to your retirement income?

The Government has introduced comprehensive reforms to the pension rules over the previous few years. One important change, which may have been overlooked by some savers, is the reduction of the Lifetime Allowance that applies to pension savings. This further reduction means that you may be affected.

*Your private pension contributions are tax-free up to certain limits. This applies to most private pension schemes, for example, workplace pensions, personal and stakeholder pensions, and overseas pension schemes that qualify for UK tax relief. The Lifetime Allowance is a limit on the value of payouts from your pension schemes — whether lump sums or retirement income — that can be made without triggering an extra tax charge.*

**INFLATIONARY INCREASES**
The Government has indicated that this allowance will increase each year in line with inflation (CPI) but only from 6 April 2018. It was reduced from £1.25m down to £1m from 6 April 2016. If you have more than £1m in your pension pot, you can apply to protect it against reductions to the Lifetime Allowance.

**PROTECTION BENEFITS**
If you could be affected by the reduction in the Lifetime Allowance, there are some actions you could take to help protect yourself from this potential tax charge.

When the Lifetime Allowance was introduced in 2006 (and in subsequent years when it has been reduced), following pension reforms, those with benefits valued in excess of the Lifetime Allowance have been able to apply for ‘protection’ to protect the value of benefits they have built up (and future benefits that may accrue) from tax charges.

If you have accrued pension benefits since 6 April 2016, Fixed Protection will not be available, so you should obtain professional financial advice to look at the options available to you.

**TAKING ACTION**
Whilst some people may not be affected by the Lifetime Allowance, it’s important to take action if the value of your pension benefits are approaching, or are above, the Lifetime Allowance. As pensions are a long-term commitment, what might appear modest today could exceed the Lifetime Allowance by the time you want to take your benefits.

**TAX CONSEQUENCES**
Exceeding the Lifetime Allowance could have significant tax consequences, for example, any lump sum withdrawals you take from the excess amount within your pension are taxed at 55%, and if you retain the excess amount within your pension fund a 25% tax charge is made (and any income taken from the fund will be taxed at your marginal rate of Income Tax).

**WILL YOU BE SUBJECT TO THE LIFETIME ALLOWANCE TAX CHARGE?**
While £1m may sound like a generous sum, it is surprisingly easy to breach this limit, meaning that you could be subjected to a tax bill of up to 55% on some of your pension pot. Whether you’re a saver in the middle of your working life or nearing retirement, it’s crucial you know if you’re on track to breaching the Lifetime Allowance. If you have any concerns and would like to discuss your situation, please contact us.
Financial protection

Do you have a financial plan in place to safeguard your home?

Taking out a mortgage is the biggest financial commitment many of us will ever make, and having a financial plan in place will help protect your home in the event that you can’t work due to illness or ill health, or even your premature death.

NO LIFE COVER
So it’s concerning to see that half (50%) of the UK’s mortgage holders have no life cover in place, meaning that 8.2 million[1] people are leaving themselves and their families financially exposed if the unforeseen were to happen.

Scottish Widows’ latest protection research also shows that only a fifth (20%) of the UK’s mortgage holders have a critical illness policy, leaving many more millions at risk of financial hardship or losing their home if they were to become seriously ill.

UNABLE TO WORK
A third (33%) admit that if they or their partner were unable to work for six months or longer due to ill health or personal injury, they’d be unable to live on a single income. And more than two fifths (43%) of those who couldn’t cope with a single wage say they would resort to dipping into their savings in order to survive.

Yet 43% say their savings would last for no more than a couple of months, and 15% don’t even know how much they have, meaning they could be relying on backup which doesn’t actually exist.

MORTGAGE ARREARS
Just under a quarter (23%) could only afford to pay household bills for a maximum of three months if they or their partner were unable to work, and 23% could make a maximum of just three monthly mortgage payments. Another 15% admit they’re not actually sure how long they’d be able to cope with their mortgage payments.

Welfare reforms make the case for financial protection all the more pressing. A quarter (25%) of mortgage holders who say they’d be unable to live on a single income if their partner was unable to work also admit that they’d rely on state benefits to ensure they could manage financially. Changes to Support for Mortgage Interest, which is the only safety net in place for many families if they were unable to pay their mortgage, mean that people now have to wait 39 weeks before receiving this benefit instead of the previous 13 weeks, which could be too late for many if they have no other protection in place.

Source data:
[1] Calculation: YouGov sample of 5,161 respondents, 1,682 of whom are mortgage holders, which equates to 32.6% of the population. Using ONS population data – 50.5 million adults in UK – 32.6% of 50.5 million is 16.46 million. 50% of UK adults don’t have life insurance, and this equates to 8.23 million people.
Scottish Widows’ protection research is based on a survey carried out online by YouGov, who interviewed a total of 5,161 adults between 28 January and 4 February 2016.

ARE YOU PUTTING YOURSELF AND YOUR FAMILY AT SIGNIFICANT RISK?
None of us want to think about the worst, but these findings show that there are an alarming number of mortgage holders who are putting themselves at significant risk by failing to arrange cover for the unexpected. Many people believe that they’ll be able to rely on the state if the unforeseen happens, but recent cuts to welfare benefits are exacerbating their vulnerability. To review your protection requirements, please contact us – don’t leave it to chance.
Retirement planning

Importance of not losing sight of your long-term savings goals

The UK will begin the formal Brexit negotiation process by the end of March 2017, Prime Minister Theresa May announced on 2 October 2016. The timing on triggering Article 50 of the Lisbon Treaty means the UK looks set to leave the EU by summer 2019.

The UK is entering uncharted territory after the EU referendum, but with relatively few unretired people beyond the age of 55 having started their retirement planning it is important not to lose sight of your long-term savings goals. Changing social, political and demographic factors mean that the outlook for retirement finances in the UK is constantly evolving.

Worryingly, barely one in three (36%) unretired over-55s had started their retirement planning during Q2 2016 – the lowest percentage since Aviva’s Real Retirement Report began tracking this data two years ago, the latest report reveals.

The report, which has tracked personal finances among over-55s before, at and during retirement since 2010, also shows an income dip and rising uncertainty over the economy in Q2 ahead of the UK’s vote on its European Union (EU) membership.

INCOME AND SAVINGS

The typical over-55s’ (median) monthly income has risen by 11% over the last three years from £1,212 in Q2 2013 to £1,341 in Q2 2016. However, the latest quarterly figure was down from £1,382 in Q1 and £1,419 in Q4 2015.

The dip corresponds with a fall in the percentage of over-55s receiving an income from investments and savings falling to 25% in Q2 2016, down from 29% a year earlier.

Q2 2016 also saw the highest proportion (12%) of over-55s with no non-pension savings and investments in almost three years. Over-55s’ typical savings and investments pot fell for a second successive quarter to reach £12,590.

However, there was a rise in the percentage of over-55s whose savings included a tax-free lump sum from their pension savings. This increased to 16% – the highest level since tracking the data started in Q2 2014 – and is likely to be influenced by the launch of ‘pension freedoms’ in April 2015.

With incomes and savings squeezed in Q2, monthly spending dropped to £774 – the lowest seen since Q3 2014 (£754).

PLANNING FOR RETIREMENT

When asked whether they had started planning for retirement, just 36% of unretired over-55s had done so in Q2 – the lowest percentage in two years since tracking this data began. While 41% had thought about it but not taken any action, almost one in four (23%) had not even thought about it yet.

Asked to identify the most important personal choices or decisions they face to ensure a happy retirement, the most common response from unretired over-55s was making the most of their retirement finances so they have enough money to fund the remainder of their life (63%). This was more likely to be singled out as an important personal choice than maintaining their health once they retire (59%) and deciding whether to stay in their current home or move to a new property (31%).

Among those who had already retired in Q2 2016, one in four (25%) said budgeting their money has been the most difficult aspect of their retirement so far, making it their most common concern.

Mirroring over-55s’ general concerns about making their money last in retirement, 13% who are yet to retire feel more anxious about this as a direct result of the ‘pension freedoms’ launched in April 2015, up from 10% a year ago.

There is also uncertainty about their options as a direct result of the new pension rules: just 12% feel their retirement plans might be affected by the extra flexibility offered by the pension freedoms, yet almost a third (32%) don’t know.

CONFIDENCE IN THE UK ECONOMY

The tracking data shows just 29% of over-55s felt confidence in the UK economy during the first half of 2016 (Q1 and Q2) ahead of the referendum on the UK’s European Union (EU) membership, down from 36% in Q4 2015.

There was also growing concern over the threat of rising inflation and the state of the economy, with 28% registering this as a risk to their living standards over the next five years, compared with 22% in Q1 2016.

A separate poll that took place after the ‘Leave’ announcement found that the percentage of over-55s concerned about their future finances rose to one in four (25%), compared to one in five (19%) before the referendum.

Source data:

The Real Retirement Report is designed and produced by Aviva in consultation with ICM Research and Instinctif Partners. The Real Retirement tracking series referenced within this report has been running since 2010 and totals 24,791 interviews among the population over the age of 55 years, including 1,193 in May 2016 for the latest wave of tracking data (Q2 2016).

This edition’s spotlight on over-45 homeowners examines data from 1,127 owner-occupiers or mortgaged owners in this age bracket, who were interviewed at the same time. For the tracker, a further poll of 737 over-55s was carried out one week after the UK’s referendum decision on its EU membership to see how confidence in people’s financial futures was affected by the vote to leave.
Financial support
Pensioners financially ‘reliant on others’

A small number of pensioners are relying on loved ones to help them financially during retirement, and those approaching retirement seem to be in an even worse situation. Yet equally worrying is that people are also far more likely to take financial advice about retirement from friends than from a professional, with more than a million pensioners[1] financially reliant on friends and family, and the next generation even more stretched, according to the latest research from LV=.

LV’s annual State of Retirement report shows that one in ten pensioners (10%) are reliant to some degree on friends and family for financial assistance[2]. While this suggests the vast majority are able to remain financially independent in retirement, worryingly those due to retire within the next ten years are almost three times as likely to be in this situation (28%).

GETTING MORE FROM YOUR MONEY
At the same time, there is a general trend for people to turn to their nearest and dearest for advice about their finances rather than professionals. Six in ten (60%) existing pensioners took financial advice from non-professional sources – such as friends and family – and three quarters (72%) of those approaching retirement plan to do the same. Only a quarter (25%) of over-50s have taken, or plan to take, professional advice about their retirement, despite the fact that this could help them get more from their money.

Reforms to the pension system in recent years have increased choice and made it even more important that people are able to access this support. More than four in ten (45%) people approaching retirement say the reforms are too difficult to understand without professional help.

FINANCIAL ADVICE WORTH THE MONEY
Those who do take regulated advice certainly see the value in it, as over the last two years the number of those approaching or at retirement who felt financial advice was ‘worth the money’ has nearly doubled[3].

The research outlines nine common ‘states’ – or typical financial situations – retirees fall into, including the one in ten who are ‘Reliant on Others’. The remaining eight states are:

PROPERTY PENSIONERS (22% OF OVER-65S AND LIKELY TO INCREASE IN FUTURE)
These retirees rely on some value from their property to help fund their retirement – primarily through downsizing, relocating or equity release – and, for some, this is their primary asset.

GREY-COLLAR WORKERS (8% OF OVER-65S AND LIKELY TO INCREASE IN FUTURE)
This segment describes those who choose to carry on working after typical retirement age (65), either through choice or necessity. The good
news is that for most, this is a choice, with the majority (87%) of those working at retirement age doing so because they want to.

OVERWHELMED (19% OF OVER-65S AND FUTURE CHANGE UNCLEAR)
This group relates to those confused by the number of options available to them, undoubtedly influenced by the range of choices opened up by the recent pension freedoms.

SECOND HOMEOWNERS (7% OF OVER-65S AND FUTURE CHANGE UNCLEAR)
These people have second properties, either as an investment or means of income, allowing them to be able to live comfortably in retirement.

FALLING SHORT (24% OF OVER-65S AND LIKELY TO INCREASE IN FUTURE)
These retirees worry that their savings and/or pension won’t last their full retirement or allow them to have a comfortable lifestyle in their later years.

PENSION INVESTORS (9% OF OVER-65S AND LIKELY TO DECREASE IN FUTURE)
Having left work, this segment uses some of their new free time to make active decisions about their pension resources and reinvest to continue to grow their reserves.

STATE PENSIONERS (43% OF OVER-65S AND LIKELY TO DECREASE IN FUTURE)
This is the most common of the states of retirement, where the state pension provides the majority of retirement income, often supplemented by personal pensions. This segment is also the most likely to worry about having enough money in their retirement years or to look to other sources for income, such as part-time work.

DEFINED AND REFINED (24% OF OVER-65S AND LIKELY TO DECREASE IN FUTURE)
These people are retired on a healthy defined benefit pension, which provides a fixed income for life, allowing them to have a high standard of living in retirement.

THE NINE STATES OF RETIREMENT
FCA behavioural segmentation of UK consumers currently breaks down retirees into two groups – essentially the well-off (Retired with Resources) and those who are struggling (Retired on a Budget). This year, LV=’s State of Retirement research was used to expand on this work by broadening out these segments – an exercise aimed at delivering greater insight and understanding of the typical scenarios in which people in the UK find themselves when hitting retirement. ■

[1] According to the Pensions Policy Institute, there are 12,312,000 people at retirement age or older. 10% of this is 1.2 million.
[2] Of all those retired, 10% relied regularly, from time to time or on rare occasions, for financial assistance from friends and family. This figure rose to 28% for those within ten years of retirement.
[3] In 2014, 12% of over 50s felt that advice was worth paying for. In 2016, this had risen to 20%, nearly twice that of two years ago.

Source data: The State of Retirement research was conducted by Opinium Research from 10–14 March 2016 and 20–22 May 2016. The total sample size was 1,523 UK adults over 50. The research was conducted online, and results have been weighted to nationally representative criteria.