moneyworks

The essential consumer guide to making your money work harder.

Autumn Edition

Look before you leap

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anderson sinclair & co LLP

Welcome

Welcome to the Autumn issue of **moneyworks**, the quarterly consumer publication which addresses the current financial news and how you could potentially make your money work even harder.

In this edition we look at the impact of Brexit and the drop in the Bank of England base rate to 0.25% and ask: What does this mean for your money?

Balancing your finances comes under the microscope as well, in the wake of the uncertainty and market volatility after the EU Referendum. Following the changes at the top of the Conservative party, we also examine some of the ex-Chancellor George Osborne's innovative changes to ISAs, including how from April 2017, the annual allowance each of us has to save or invest inside an ISA wrapper will increase to £20,000.

We also analyse the 2015 pension freedoms and look at how having full control of your pension is a good thing – but it also carries a heavy responsibility.

We hope this latest issue of **moneyworks** continues to inform and advise you on the important issues affecting us all.

Got feedback? Share your thoughts at moneyworks@sbg.co.uk and tell us what you'd like to see in future editions.

Best wishes

The **moneyworks** team

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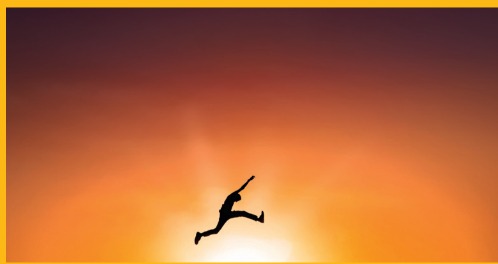

The News in Brief

A round up of the current financial stories.

A little help from your friends

New research has found that one in 10 retirees are turning to their friends and family for financial help – and the next generation could find it even tougher.

The LV= 'State of Retirement' study found that 11% of retirees could be depending regularly, from time-to-time or occasionally on financial support from their loved ones. Amongst those approaching retirement, the number getting help was higher (27%).

LV= also found only 25% of over-50s have taken or plan to get financial advice, even though almost 45% of people approaching retirement believe the pension freedoms are too difficult to understand without professional help.

[Source: http://www.lv.com/retirement-plan/love-retirement/your-money/state-of-retirement-full-report-2016]

Losing interest

The decline of bank and building society savings rates continues. Data published by Moneyfacts in July found that average savings rates offered by banks and building societies have hit a record low, with a staggering 117 rates cut over June alone.

The Bank of England have cut interest rates to 0.25%. This could likely result in even more rate reductions on the high street.

Charlotte Nelson of Moneyfacts stated, "Back in March 2009 the top easy access account paid 3.94% yearly, but today's savers will be unable to achieve anywhere near such a rate."

[Source: http://moneyfacts.co.uk/news/savings/inflation-rises-as-savings-rates-hit-record-lows/]

Poor state of affairs

The introduction of the new flat rate state pension earlier this year might ultimately boost millions of people – but most of us don't trust the government to make fair decisions about its future direction.

According to July 2016 research by Aegon UK, one-third of us believe that the state pension will be lower than it is today by the time they retire. A further 32% think it will be the same, and only 11% expect it to be higher. One in 10 think state pension won't exist.

Currently when you reach your state pension age, and depending on your National Insurance contributions, you'll qualify to receive a weekly income to help you through retirement. The maximum amount you can now get is £155.65 – which works out at a reasonable annual sum of £8,093.80. This weekly amount rises each year by at least 2.5%.

Many people might be very reliant on this pot of money, should they be lacking decent retirement savings of their own. Yet Aegon found that 70% of us don't trust the government to make fair decisions when it comes to reforming the state pension.

https://www.emoov.co.uk/news/2016/05/16/the-house-price-of-the/

Don't be deluded into downsizing

There are some good reasons why – as you get older and any children you have leave the nest – downsizing your home could be a good idea. But according to the former pensions minister Steve Webb, it shouldn't be done to give you a retirement income.

Webb argued that people who decide to downsize experience a slump in living standards, with an average 50% cut in their income when they retire. He calculated that selling a detached house for the UK average price of £310,000 – trading it in for a semi detached for £197,000 – would only leave you with £113,000 to buy a pension. According to his research, this would buy an annuity paying out just £5,700 a year, without annual increases for inflation.

https://www.emoov.co.uk/news/2016/05/16/the-house-price-of-the/

What next for the UK?

The British public has spoken, and we will be Brexiting from Europe – but what does this mean for your finances?

The historic EU Referendum was never going to be a quiet affair, but the twist and turns that have followed the British public's vote to Leave the European Union (EU) have caught most by surprise.

Both of the UK's major political parties have faced unprecedented upheaval, Scotland's future in Britain is less assured, and we could be set to endure months of economic uncertainty. It has been an interesting time to say the least.

Although polls always suggested the Referendum would be close, most of the smart money was on the British public voting to Remain in the European Union. The market plunges that immediately followed the news Leave had won suggested they were not expecting such an outcome. On the Friday after polling day, David Cameron resigned as Prime Minister and the pound plunged to its lowest level against the dollar in more than 30 years.

Yet although the drama has continued, the initial panic has subsided. Change won't be as fast or as dramatic as some may fear. The newly formed government – led by new Prime Minister Theresa May – is committed to acting out the public's Brexit wishes, but not at any cost.

For a start the UK is required to give a two-year notice period to actually leave the EU – once that is triggered by the invoking of Article 50. The government will spend the next few months attempting to negotiate a favourable deal with the EU to keep the positive aspects of membership – such as free trade agreements – in place. And only then they will begin the two-year countdown.

We won't actually leave the EU for some time.

Markets initially fell in the immediate aftermath of the vote. But aided by words of assurance from the Bank of England Governor, Mark Carney, they have quickly stabilised and – to everyone's surprise – actually rallied. There will be more ups and downs to come, but in our opinion investors have no reason to fear stock markets will be adversely impacted in the long-term.

> "Although polls always suggested the Referendum would be close, most of the smart money was on the British public voting to Remain."

As ever, there are winners and losers from these developments. There is no doubt that companies who rely on imports to operate are suffering from the pound's slide. But organisations who export to other nations are benefiting, as their goods and services are more competitive.

Of course that doesn't necessarily help people expecting to use their investments anytime soon, for example if you're approaching retirement and looking to access your defined contribution pension. If you planned to purchase an annuity to provide you with a retirement income, for example, the recent fall in average rates offers a tough dilemma.

For savers too there is bad news as interest rates have been reduced further to a new historic low of 0.25%.

The rate fall is good news for mortgage borrowers but less so for savers, who have already endured falling savings rates over the last decade. A return of the 5%+ base rate levels of 2007 has never looked further away. When it comes to growing your money for the long term, this might be the final push you need to explore alternative options.

If you're unsure what to do with your finances in view of the UK's uncertain path, it's well worth speaking to an adviser to separate fact from fiction and to have your best interests looked after.

The value of investments can fall as well as rise and you may not get back the full amount invested.

Look before you leap

The 2015 pension freedoms put the focus on you to make the right decisions, and a bad move could be very costly. We look at the potential pitfalls of making the wrong choice.

Having full control of your pension is a good thing – but it also carries a heavy responsibility. Whilst the pre-April 2015 rules that defined contribution pension holders had to use at least three-quarters of their pension to arrange a retirement income were very restrictive, the new freedoms to use your pot however you like come with their own small print.

If you're about to start accessing your pension, you need to look before you leap

Shop around for the best deal – whatever your intention

June 2016 research by the Citizens Advice Bureau found that – worryingly – seven in 10 people accessing their retirement pot are not shopping around for different products. Of these people, 24% stayed with their pension provider believing they offered the best value (despite not checking if this was true).

Whether you're looking to keep your pension invested via a drawdown product (so you can take an income) or need the security of a guaranteed annuity rate, it's really important to shop around for the best possible deal. It could make a huge difference to your future standard of living.

Make sure you're not paying too much in fees

The same Citizens Advice Bureau survey found that some were losing as much as 10% of their retirement pot through provider charges. Two-fifths of the people interviewed paid at least one type of charge, but worryingly those with smaller pots were often paying bigger fees.

You need to make sure you're absolutely clear what charges you'd be paying before making withdrawals or arranging a retirement product – and then check how this compares to other providers.

Making big withdrawals when markets fall

It's a common mistake. When markets go down, some investors panic and withdraw their money. You might think you're protecting your retirement savings or at least limiting the damage, but in reality you could be receiving less money than you might have achieved if you'd stayed the course.

Markets do indeed fall, but their long-term record is the really important factor. Often after a big decline, there's a slower but nevertheless still big gain, boosting your investments. It's best to avoid making rash decisions over what markets are doing today – you must keep your own long-term future in mind.

Past performance is not a guide to future performance and should not be used to assess the risk associated with the investment.

> "Pension freedoms... only 25% of your defined contribution pension is tax-free to withdraw."

Paying too much in tax?

One of the key points about the pension freedoms is that only 25% of your defined contribution pension is tax-free to withdraw. The rest is treated as your income and taxed at your highest marginal rate.

What this means is that if you take too much too soon, you'll lose a large chunk of your savings to tax. If you cross over the higher rate tax threshold (or, even worse, the additional rate tax line) you could end up losing 40% or 45% of this part of your savings.

In the 2015/16 tax year, the government collected £900 million tax from the pension freedoms – £200 million more than they had originally anticipated. Whether you keep your pension invested or make regular withdrawals, a careful and considered approach could be vital to help minimise your tax outgoings.

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.

Accessing pension benefits early may impact on levels of retirement income and is not suitable for everyone. You should seek advice to understand your options at retirement.

[Source]

https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/people-not-shopping-around-under-the-pension-freedoms-reveals-citizens-advice/

http://citywire.co.uk/new-model-adviser/news/budget-2016-govt-gets-200m-extra-tax-from-pension-freedoms/a891882

Don’t put all your eggs in one basket

The uncertainty and market volatility from the EU Referendum emphasises the importance of balancing your finances.

There’s a common misconception that investing your money puts you entirely at the whim of the stock market. It doesn’t have to be this way, and by getting expert help devising a portfolio of investments you could potentially get your finances working much harder.

Whilst it has been historically proven that stocks and shares deliver the best long-term growth (although this is not guaranteed and past performance is not a guide to future performance), it’s not a smooth ride – with plenty of bumps along the way. Individual companies might have many successful years, but even some of the best go through lean times where share prices fall and investors lose out.

By balancing your investment holdings, you could limit the negative impact. For example, in addition to shares your portfolio could include bonds (money you loan to an organisation or government, who repay you at a set rate of interest), property (not just direct holdings but property funds), cash and commodities (for example gold).

Each of these types of assets has their own positives and negatives, and are likely to perform better at differing times. Yet the net result might be that you are consistently achieving reasonably positive returns. If one area of your portfolio is having a difficult period, others might be faring better to counteract this.

Take gold. After the EU Referendum Leave result, many investors moved away from UK shares and put their money into gold instead. The value of these investments depends on the demand for it, so in times like this when people want to buy it, the price rockets. Gold has just enjoyed its best half-yearly performance since 1974, rising 28%.

As no one can predict which type of asset is going to perform the best and when, a balanced portfolio can offer the potential for a smoother journey. For example if stocks were the best performing asset in one year, an investor with their money in a range of assets would benefit – but not to the same extent as someone who tied all of their capital into stocks.

However, if stocks fell badly the year after, the balanced investor wouldn’t be as exposed to the losses compared to someone completely invested in this asset. And what’s more they might also benefit from other types of assets that are performing stronger over this period, to balance this out.

So how might this approach be achieved? Well, financial advice is certainly recommended, in order to develop a careful and considered strategy that’s appropriate for your current needs and circumstances. When it comes to selecting suitable funds, your adviser might suggest a range of different single asset funds (which invest solely in one type of asset) or they may recommend a multi asset fund, which invests in a range of assets.

There are advantages and disadvantages to each approach. For example, investing into a number of single asset funds could mean you benefit from your money being managed by an expert in that field, who completely focuses on this asset. However, a multi asset fund might have a team of different experts with equally specialist knowledge, and the overall fees could be cheaper.

Ultimately, it’s what’s right for you and your future. An adviser will help you map out your goals and agree a suitable level of risk, so they can recommend options that are suited to who you are and where you want to get to with your money.

[Source]

http://www.willaid.org.uk/press/research

http://www.forbes.com/sites/greatspeculations/2016/07/12/gold-rally-just-getting-warmed-up-according-to-ubs-credit-suisse/#78b63b1b5c90

Past performance is not a guide to future performance and should not be used to assess the risk associated with the investment.

The value of investments can fall as well as rise and you may not get back the full amount invested.

Managing your money doesn't have to be a taxing issue

Tax might be an unavoidable part of life, but there are a number of ways to reduce how much you pay on your personal finances.

Whatever your feelings on the old government, they have done plenty to help careful savers and investors. Across a number of different Budget announcements over recent years, the ex-Chancellor George Osborne unveiled new and sometimes innovative ways to incentivise us to save and invest more for our financial futures, whilst paying less tax.

Only last March – in what turned out to be Osborne's final Budget speech – came further changes to ISAs. From April 2017, the annual allowance each of us has to save or invest inside an ISA wrapper will increase to £20,000 – more than double the individual allowance we had back in 2010.

As a tax payer the major advantage of ISAs is that the returns your money achieves are free from tax, rather than losing at least 20% of your gain to the taxman. With greater flexibility on moving your money in and out – plus favourable rules introduced on how your loved ones can inherit this money without paying tax – your ISA allowance should be one of your biggest financial considerations every tax year.

Also starting next April is the new Lifetime ISA. Available for people aged 18-40, it allows you save up to £4,000 each year, and then the government will pay a bonus of 25%. In effect this means you can build up £5,000 annually – tax-free – although this money must either be used to buy a first home or put towards your retirement. If you use it for another purpose, there would be a penalty to pay.

The Lifetime ISA could compliment the pension freedoms that were introduced last year, allowing you to build up even more money for your retirement. Whilst the pension freedoms themselves centre on how you can access your pot from the age of 55, it shouldn't be overlooked just how attractive they make saving into a pension in the first place.

“From April 2017, the annual allowance each of us has to save or invest inside an ISA wrapper will increase to £20,000.”

This is because you receive tax relief for making payments, which would be a minimum of 20% or even 40% or 45% (it depends on your tax payer status). So for every 80p you pay into a pension, you'll have at least £1 if not more inside your pot. There are tax considerations for making withdrawals when you get to 55, but managed correctly you could really benefit from the initial tax relief in the long run.

Elsewhere, the rate of capital gains tax (which you pay on profit from the sale of property or an investment) has changed and could affect the allowances you have. For further information to see if you can benefit from the changes, contact a financial adviser.

These and other allowances emphasise just how many ways there are to cut how much tax you're paying on your savings and investments. That in turn boosts your portfolio returns, meaning you get to keep and enjoy more of your wealth.

If you think you're paying more in tax than you might need to be – or you simply aren't sure – it's always worth speaking to a financial adviser. They can take a look at your current financial set up and determine if you are suitably positioned, or if there are ways of making your money work harder whilst mitigating your tax burden.

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 investments can fall as well as rise and you may not get back the full amount invested.

And finally....

Households richer

On average Brits are more "cash happy" this year than they were 12 months ago – with the amount of weekly money left over after bills increasing by 24%.

SunLife's annual survey found that, on average, UK households have £102 weekly spare cash – just short of £20 more than last year. On an individual basis, we each have £44 in spare cash each week.

In order to make the top 10% cash happy households in the UK, £158 spare cash each week is needed.

So if you can find an extra £56 in cash weekly (either by cutting bills or earning more money) you could be amongst this top 10%.

[Sources]
https://www.sunlife.co.uk/blogs-and-features/the-cost-of-happiness-in-the-uk-today

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