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Viewpoint

Your latest newsletter from Homeworks Financial Solutions Limited

A year on from pension freedoms

In April 2015 the government introduced the most significant pension reforms for a generation.

The reforms give people who've worked and saved hard greater flexibility over how and when they access their pension savings and mean anyone reaching retirement age has been able to withdraw some, or all, of their pension (subject to tax on everything above the first 25% they take out).

Lamborghini sales unaffected

A year on and figures suggest over 230,000 people have accessed more than £4.3 billion from pension funds. The average withdrawal is £18,750 – laying to rest the fear that retirees would be tempted to 'blow their entire pension pot on a Lamborghini'.

In fact, with 516,000 payments made, it goes to show many people have chosen to take their money in instalments, rather than everything in one go.

The figures also showed:

- the highest number of partial withdrawals were made by consumers aged 55-59
- consumers with bigger pension funds were more likely to have taken financial advice
- around 60% of drawdown and annuity customers stayed with their existing provider

Making the right decision

The age at which you can draw your pension is currently 55, but this is set to increase to 57 from 2028 and, from then, in line with the rise in the State Pension age, albeit remaining 10 years below.

From 6 April 2015 those aged 55 or in a defined contribution pension plan are able to access pension savings in a number of different ways:

- buying an annuity
- Flexi Access Drawdown – previously known as flexible drawdown
- uncrystallised Funds Pension Lump Sum (UFPLS) – this allows you to draw money directly from your pension fund. Of each payment you withdraw, 25% is tax-free and the other 75% is taxed as income via PAYE

It's also important to consider not only your pension savings – including the state pensions – but also any other savings and investments you may have. And if you choose to continue to invest amounts that you don't need to access immediately, you should think about:

- your current essential income needs such as your day-to-day living expenses and other known or planned expenditure
- your current health status
- your lifestyle and the 'non-essential' expenditure, such as holidays, new cars, sports and hobbies, entertainment etc
- future possible/anticipated living expenses incorporating, possibly, a budget for care
- unexpected expenses such as car repairs, home maintenance and health problems
- gifts – either now or in the future
- the extent to which you'd like to leave an inheritance for your family and dependants

With choice comes complexity, so it's important to take advice before making decisions on your pension.

If you're looking to access your pension savings or you'd like advice on your pension choices, please get in touch.

COPEN1304 Exp. 31/03/17

Bank of Mum and Dad

With rising house prices outpacing income an increasing number of young people will borrow from parents and family in order to get onto the property ladder.

The 10th largest mortgage lender

The combined amount which parents and grandparents will be prepared to gift or loan their children to help them buy their first home is estimated to be £5bn. This puts them alongside the 10th largest mortgage lender in the country, Clydesdale Bank, which lent the same amount in 2014.

Research from Legal and General estimates the "Bank of Mum and Dad" will be involved in approximately one in four UK mortgage transactions this year, showing the extent of how borrowing from family members is supporting the housing market.

The risks of borrowing from Mum and Dad

However, as well as the obvious benefits, Legal and General suggests people from less advantageous backgrounds will be increasingly squeezed out, effectively widening inequality in the housing market.

They also caution that the "Bank of Mum and Dad" will, at some stage in the future (they estimate 2035), come into a funding crisis, caused by unexpected care costs for parents and grandparents living longer. The problem is exacerbated for families in London who have been known to contribute more than half their net worth on their children's house purchase.

Other investment options for your children

There are more ways to help your children financially than contributing to their first home, but whatever approach you take it's important to start early. By saving for your children from an early age (even perhaps before they are born) you can help put them in a better financial situation for their adulthood.

If you would like advice on choosing the right savings and investment options for you and your children, please get in touch.

COPEN1298 Exp. 31/12/16

Investing for the next generation

“A good start in life” is what all parents want for their young children.

Initially this often translates into a surplus of toys but, give or take technology fads, this stage eventually passes. At that point thoughts turn towards the future and the transition from child to adulthood.

The longer-term perspective raises the possibility of making investments for your children which they can call on in adult life. This can lead to a variety of issues:

- are there particular needs which should be targeted or is flexibility more important?
- which investments would be appropriate?
- can some parental or other controls over when children can have access to the investment be put in place?
- which are the most tax efficient?

Save for what?

For today’s children, the path through the early years of adulthood looks rather different from, and more expensive than, that of parents and grandparents:

Higher education may be seen to be more important for getting that dream job but it also comes at a much higher cost. Taking into account tuition fees, accommodation and living expenses, a three year degree is likely to cost students between £35,000 to £40,000. Before 1998, there were only grants. Loans for tuition fees did not begin until 2006. You may have left university with a bank overdraft, but the sum owing probably pales into insignificance compared to the five figure debts many of the coming generations of graduates face.

Marriage can be costly for those who choose it. According to the consumer website Money Saving Expert, the average wedding costs around £20,000. One third of couples questioned admitted going into debt to pay for their wedding.

Getting on the first rung of the **property ladder** is another growing cost for the next generation. The typical first-time buyer borrows over 3.39 times their income with a deposit of 17% and we’ve all heard of the Bank of Mum and Dad.

Once they have the degree, the job and the home (and the mountain of debt), there’s another long-term financing requirement which today’s children will encounter: retirement provision. The final salary pension scheme, which has benefitted today’s retirees, has virtually disappeared for new private sector employees.

Take expert advice

Two principles that apply to many aspects of financial planning are particularly relevant when thinking about children:

1. The sooner you start the better, and the more scope there is for investments to grow (although there's still no guarantee that they will).
2. Take expert advice before making any decisions. The right investment set up in the wrong way can be worse than the wrong investment set up in the right way.

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.

If you want to help your child progress through this financial landscape, please get in touch.

COPEN1302 Exp. 17/06/17

Have you found your forever home?

When you think about your dream home – the one you can see yourself growing old in – what do you imagine it looks like? A modern architectural masterpiece built of glass and metal, or something more old-fashioned and cosy?

If you asked your friends and family what their ideal 'forever' home looks like they will probably all have very different ideas.

What does your forever home look like?

Whether you're fortunate enough to be on the lookout to buy your forever home, or you're thinking of doing up your current home to make it one you won't ever want to move from a recent survey has revealed some interesting statistics:

Top of the must-have list for UK home buyers is off-street parking, whereas one of the 'dream' features is a garage – despite reports suggesting we rarely use our garages to park our cars.

Marketing your forever home

If you're selling your home, you can make it more marketable by appealing to someone's idea of a forever home. Converting an office or junk room into an extra bedroom can make it more attractive to families. You could also convert your downstairs cloakroom or the cupboard under the stairs into a toilet or wet room and use potted plants on patios or driveways if you haven't got a big garden.

If you are thinking of improving your current home, or you're looking to buy or sell a property, please get in touch to discuss your mortgage needs.

What do you think a forever home is?

61% of the people surveyed think their forever home is the one they'll grow old in

Only **10%** think it's something they can currently afford

Where should it be?

26% want their forever home to be in a village

Only **8%** think their forever home will be in a big city

Do you live in yours?

33% of 18-24 year olds think they're currently living in their forever home compared to **43%** of 35-44 year olds believe the same

COPEN1293 Exp. 16/12/16

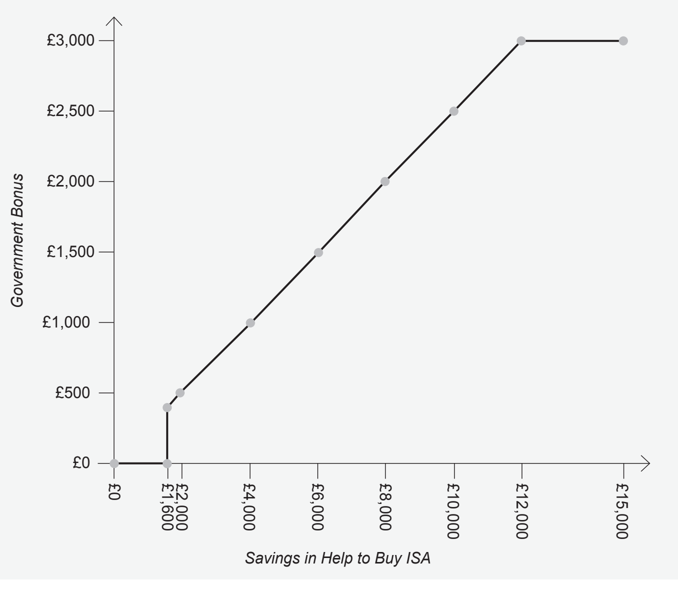
Your home may be repossessed if you do not keep up repayments on your mortgage

Help to Buy ISA – things you might not know

If you're saving for your first home you may have heard about the Government's latest initiative, the Help to Buy ISA. This is effectively a cash ISA where you can save up to £200 a month, but the government will boost your savings by 25% up to a maximum of £3,000 (provided you've saved at least £1,600).

What's more, you can open a Help to Buy ISA with a deposit of up to £1,200. This means that over the course of your investment, you could have £15,000 to put towards your first home:

Savings and Government Bonus



Using your bonus funds

You can only claim your bonus funds when you are buying a home and the money has to go towards the completion of your property. This means you can't use it to pay your solicitor, estate agent or any other fees or costs associated with buying a home.

Interest you earn

Your government bonus will be calculated based on the amount of money you have in your account when you close it. This includes the money you have put away and any interest you've earned on that money. You can have more than £12,000 in your account, but you'll be limited to a maximum government bonus of £3,000.

Applying for your bonus

When you find your home, your mortgage provider will ask you to hire a solicitor or conveyancer to handle the legal aspects of buying it.

When you're close to finalising your home purchase, you'll need to ask your bank or building society to close your Help to Buy ISA and they will give you a closing letter. You will then need to take this letter to your solicitor or conveyancer so that they can apply for your government bonus.

Closing your account

If your home purchase doesn't go through after your solicitor or conveyancer has received your government bonus, you can re-open a Help to Buy ISA and the same terms will apply.

Your solicitor or conveyancer will give you a document (called a purchase failure notification) confirming your home purchase did not complete. If you take this to a bank or building society, they will open an account for you. At this point, you will be able to deposit your money as a lump sum. So, if you closed your Help to Buy ISA with £12,000 in it, you will be able to re-deposit £12,000.

First home, new responsibilities

Owning your own homes brings new responsibilities in terms of paying a mortgage and it's important to think about things like income protection, which can help to protect the roof over your head if you're unexpectedly unable to work.

If you'd like a review of your savings and investments please get in touch.

COPEN1294 Exp. 05/04/17

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The value of financial advice

Everyone is unique. We all think – and work – differently. Some people are good with words, and others, numbers. The same might be true when it comes to planning and managing our finances. But however different our approaches might be, we probably all have similar goals for our money.

Whichever way you come at it, it's important to think about your financial goals and what you would like to achieve with your money. This is especially true if you have other people who rely on your income.

This is where we come in. As professional financial advisers, we can make this job easier and add real value when it comes to protecting your family, investing wisely, moving home or planning for a comfortable retirement.

Getting to know you

When advising you about your finances we want to understand you – not your money. We'll take the time to find out where you've come from, where you are now and where you would like to be in the future.

Together, we can design a plan to help you better manage your financial affairs, save tax efficiently for retirement, and ultimately achieve your financial goals – whether short, or longer-term.

Ensuring contingency along the way

Throughout your life, you'll need to find answers to many different financial questions:

- how much should we offer on a new house?
- when can we buy a new car?
- what's our holiday budget?
- shall we start our own business?
- can we help fund our children's education?
- can we support our children with their wedding costs and house deposits?
- can we make our money work harder and smarter?
- when can we retire and how much will we need to support our lifestyle?
- when we're no longer here, who would we want to benefit from the wealth we've created?

We can help you answer these questions and make the right decisions to benefit you and your loved ones now and in the long run.

Planning for the unexpected

Not everything in life is straightforward and things don't always go to plan. We can help you prepare for the unexpected and put in place some financial safety nets in case anything happens to impact your family or disrupt your plans. Think about:

- whether your family could cope financially if either you or your spouse/partner died?
- how much income you would have if you were taken seriously ill and couldn't work?
- whether your business would survive without you or your key people?
- how your lifestyle may change if you had an accident and couldn't do the things you do today?

By getting to know your priorities and goals and understanding the bigger picture, we can piece together a plan to ensure the things that matter to you most – your family, income, business, or maybe all three – are protected leaving you on track to achieve your financial goals.

For more information on how we can help you create and achieve your financial plan, please get in touch.

COPEN1288 Exp. 16/05/17

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A financially-rewarding retirement

While financial wellbeing is not the only contributor to a satisfying, healthy and enjoyable life, it's still a pretty important one.

For most, during working life, financial wellbeing will depend on whatever they do to earn money. However, as well as securing the living standards you want when you're working, it's also important to think carefully about putting some of that income aside for your future.

Generally speaking, the more you save and the earlier you start saving, the better shape your financial assets are likely to be in when you need to draw on them.

Choices at retirement

When work ends or reduces, your financial assets have a bigger part to play. And for many their pension fund will be an important (but not necessarily their only) financial asset. The decision on where to draw funds from when money is needed to replace or supplement earned income will be an important, and sometimes complex decision and there are many factors that can influence it:

- whether to convert pension savings held either in a personal or workplace pension
- how to make your pension income last (given most of us are living longer)
- how to protect your income against the effects of inflation

Historically, most people have bought a 'lifetime' annuity on retirement. In April 2015, there were some big changes to the ways in which you can take money from your pension fund.

The new options introduce more choice – and more complexity. The fundamental principle though, is that once you've reached age 55 you will have the ability to access all or any part of your pension fund, albeit taxed, however and whenever you want to.

The State Pension

For many, the pension the State provides will form a key part of their retirement income. The amount of State Pension you'll get usually depends on the National Insurance contributions you've paid.

The age at which you can claim State Pension is changing. It's currently 65 for men. State Pension Age (SPA) for women is gradually increasing from 60 and will reach 65 by November 2018. SPA for both men and women will then increase to 66 by October 2020 and then to 67 and eventually 68 by 2046.

A new single tier State Pension of £155.65 maximum a week, replacing the Basic and Additional pensions, will affect people reaching State Pension Age from 6 April 2016 onwards.

Ensuring good decision-making

Self-evidently, the greater the value of your investment, the greater chance you will have of a financially rewarding retirement. But the more investments you have, the more important it will be to think very carefully about where you take money from when the time comes to take it.

A good understanding of the tax rules that apply to your investments will be essential to good decision making. You'll also need to think about the relative importance of certainty of income, access to capital, and preservation of capital for your family, as well as the degree of risk you're prepared to take to achieve your required level of return on the investments that remain in your pension fund.

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.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

If you'd like expert advice on your retirement choices, please get in touch.

Simple steps to tax planning

Professional advice and careful planning can help you to make the most of legitimate opportunities to reduce the amount of tax you pay.

Your Accountant, or tax specialist, will be your first port of call when it comes to tax, but it's also an important consideration in your day to day financial planning. Here are some areas where you can make sure you're not paying too much tax.

Pay As You Earn (PAYE) and National Insurance (NI)

Check your PAYE tax code

Always check your tax code when it's issued – HMRC don't always get it right. You can ask them to correct any errors that might otherwise cause you to pay more tax, or pay tax earlier than you would through your self-assessment tax return.

National Insurance contributions (NICs)

If you have more than one job you may overpay NICs during the tax year. You can claim this back from HMRC.

Married or civil partnership

Transferable personal allowance

Married couples and registered civil partners can share some of their personal allowance. This means that the unused allowance of one partner can be used by the other, resulting in an overall tax saving for both.

More than one property?

Couples getting married or entering into a civil partnership who own separate properties must nominate one as their main home for Capital Gains Tax purposes within two years of the marriage / registered civil partnership.

Inheritance tax (IHT)

Make sure you have an up to date will

A will is a key part of estate planning – not just because it sets out what you want to happen to your wealth after your death, but also because it covers a number of other important aspects. If you die without a will, the rules of intestacy determine how your estate will be distributed and there could be an unnecessary IHT bill for the loved ones you leave behind.

Consider leaving part of your estate to charity

Any amounts you give to a UK registered charity (during your lifetime, or as a bequest) are exempt from IHT. In addition, broadly speaking, if you leave 10% or more of your taxable estate to charity, then the IHT rate levied on your estate is cut to 36%.

Could you make monetary gifts from your spare capital?

You can gift up to £3,000 free of any IHT each tax year. And if you forget to make your £3,000 gift one year, you can carry forward to the next tax year and gift up to £6,000.

Using the IHT marriage exemption for gifts

Gifts made to someone who is getting married or registering a civil partnership are exempt within limits based on your relationship to the parties. A maximum of £5,000 applies if you are a parent.

Pensions

Are you taking advantage of your annual allowance for making pension contributions?

Your annual allowance for the tax year 2016/17 is £40,000, however, those earning more than £150,000 will have their allowance reduced on a tapering basis down to £10,000.

Could you carry forward any unused annual pension allowances?

You can carry forward unused allowances from the three previous tax years and use these to cover pension contributions greater than the current year's annual allowance.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes, which cannot be foreseen.

Get in touch today for advice on how to maximise tax efficiency in your financial planning.

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