UNISONMONEYTALK

The personal finance newsletter for UNISON members published by Lighthouse Financial Advice **AUTUMN 2014**

Helping you make the most of your money

Welcome to the autumn edition of UNISON MoneyTalk, bringing UNISON members up-to-date with issues affecting their personal finances throughout their lives.

UNISON MoneyTalk is brought to you by Lighthouse Financial Advice, the UNISON plus provider of professional financial advice to members. We have advisers throughout the UK, so there is bound to be one near you.

We can guide you through those times in life when you need to address financial issues – be it looking to buy a property, starting a family, saving for your future or planning for retirement we are here to help.

Importantly, we can help you understand how changes in the workplace, amendments to public sector pension schemes and reviews to working practices may affect you. After all, in the current economic climate it makes sense to have your finances in order.

Lighthouse Financial Advice organises hundreds of seminars each year in the workplace,

covering a range of financial planning issues such as:

- ✔ pension rights and pre-retirement planning
- ✔ specialist advice on public sector and local government pensions
- ✔ the financial implications of taking voluntary severance
- ✔ saving for retirement
- ✔ financial planning: getting started.

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Retiring before next April? What you can do with small pension pots

If you are retiring before next April and have one or more small pension pots, you may be able to take advantage of new, interim rules about taking your pension.

Here we outline the key changes affecting people with pension savings of less than £30,000.

- ✔ **If you have up to £30,000 in total in your pension pots you can take the full amount as a lump sum once you reach the age of 60. The first 25% of the money you take is tax-free. You will be charged income tax on the remainder at your highest rate.**

However, the rules are complex and you must meet certain criteria to be allowed to take the full amount as a lump sum.

- ✔ **You can cash in up to three pension funds if there is no more than £10,000 in each. 25% of the total is tax-free and you will pay income tax on the remainder.**

Although you now have more freedom if you have one or more small pension pots, the rules remain complex and getting it wrong can result in unexpected tax bills.

The FCA does not regulate tax planning. The value of investments can fall as well as rise and you might not get back the full amount you invested.

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Financial Adviser Life & Pensions awards 2010 Winner Large IFA Firm of the Year

How Mr Pick'n'Mix got the retirement income he needed

We look at how Mr Pick & Mix, who has just stopped work and is now looking to take his retirement benefits, managed to get the retirement lifestyle he wants and deserves.

At 63 years old, Mr Pick'n'Mix has stopped work so that he can enjoy his retirement while he is healthy and is now looking to take his retirement benefits. He has managed to accumulate £100,000 in his pension funds.

Worried about losing money

Now he is retired, his outlook on investments is more cautious and he doesn't want to subject his valuable pension funds to stock market fluctuations.

Wants to be able to pass something on

He is concerned about placing all of his funds into a lifetime annuity and about providing for his family after he's gone. So he talks to his financial adviser who, after an in-depth review of the options available to him, suggests a combined product approach.

25% tax-free lump sum

Firstly, Mr Pick'n'Mix is able to take 25% of his pension fund as a one-off, tax-free lump sum. He uses this to pay off the remainder of his mortgage and to modernise his home, hopefully avoiding costly maintenance bills when he is older.

Shopping around for an annuity

He uses half of his remaining fund to purchase a traditional lifetime annuity that gives him an income for the rest of his life. His adviser tells him not to accept the offer sent to him by his pension provider. Instead they shop around for the best deal, using the open market option.

Purchasing a fixed term annuity

He uses the other half of the remaining fund to purchase a fixed term annuity for ten years with plan protection which will provide him with:

- a guaranteed income for ten years, subject to government limits
- a guaranteed maturity amount – removing all investment risk during the term if held until maturity
- a lump sum payable on death to his beneficiaries
- a conversion feature.

Flexibility in the future

If Mr Pick'n'Mix's circumstances change during the term he has the option to convert his fixed term annuity at any time, for any reason and can defer making a final decision on his total retirement fund.

If his health takes a turn for the worse, he'll be able to convert his fixed term annuity into an enhanced lifetime annuity, which could boost his retirement income. Alternatively, after the April 2015 pension rule changes, he could take the fund as a taxed lump sum.

Are you a Mr (or Mrs) Pick'n'Mix?

Fixed term annuities can help you retain some flexibility with your retirement planning. You could consider a fixed term annuity if you:

- want to wait and see what the new pension rules will bring in 2015 – a one-year fixed term annuity could provide you with the income you need while you wait. After 12 months you can review your situation and income requirements.
- currently do not qualify for an enhanced annuity, a type of annuity that pays a higher income to people who have common health issues, and do not want to invest all yours funds into a traditional lifetime annuity.
- Want to take your 25% tax-free cash immediately and don't need income now.
- are cautious and do not want to lose your pension fund through poor investment performance. Fixed term annuities can give you the security of knowing up-front what your Guaranteed Maturity Amount will be at the end of the plan, without any investment performance risk during the term if held until maturity.

Whilst the maturity amount is guaranteed, lifetime annuity rates in the future are not. This means future income levels may be higher or lower, compared to a lifetime annuity purchased today. The plan is designed to be held until the end of the term. If the conversion feature is exercised, the level of income received from another retirement income product may be higher or lower than the current fixed term annuity income.

You should note that the March 2014 budget statement proposed to remove government limits from April 2015. As per the terms of the Just Retirement Fixed Term Annuity, Just Retirement will not be in a position to increase your income beyond that originally selected.

This scenario is not intended to replace tailored advice from a financial adviser or other guidance. It is for illustration purposes only, and is not based on a real life example. It does not provide an exhaustive list of possible solutions, and there might be other ways of generating income that could be more suitable.

justretirement

How to use less of your pension pot for a guaranteed retirement income

Despite the recent pension changes, an annuity may well still be the best way for you to generate income in retirement, especially if you want a guaranteed minimum income. But did you know that disclosing certain common medical conditions could increase that income by up to 40%?

Freedom and choice for you to spend your retirement pot as you see fit looks like great news. What could possibly go wrong? The answer is 'quite a lot', unless you are getting expert advice. Financial advisers understand that the demands on your income are likely to change during your journey through retirement and are able to factor that in when advising you on drawing your pension.

Freedom and choice opens the possibility of removing the risk of running out of money and maintaining flexibility. One of the first things an adviser will do is analyse your current spending and how it might change, perhaps using a standardised budget-planner. Based on this they can determine the income you absolutely MUST have. Risking your entire pension pot and potentially losing part of it could have huge consequences.

Are the bills covered?

How can you secure the income you need and know that your bills are covered, no question? The answer is to use at least part of the fund to provide a guaranteed income. But if you want added flexibility, you may want to use the smallest possible amount to secure this guarantee. Doing so means that more is available to invest with the potential for growth and additional income.

Telling the truth could result in higher income

It is important to get the best possible rate for your secure income. You may not realise that if you suffer or have suffered from common conditions such as high blood pressure or a high body mass index could mean you qualify for an enhanced annuity, which gives you more income. But only if you tell your financial adviser or a company that provides enhanced annuities about them.

As the rate provided by an enhanced annuity can be much higher than a standard annuity, you would need to use less of your pension pot to produce your target income, leaving more of your fund invested.

Best rate = more to invest

Let's say you have a portfolio which is large enough to allow flexibility, but you need a minimum guaranteed income of £3,000 a year, to pay the bills. You may also have other income including state pensions, but you want this amount to be absolutely guaranteed. You also want the option to draw the rest of your pension pot as your needs and aspirations change.

The cost of the guaranteed income using a:

standard annuity £48,971*
enhanced annuity £39,640*

Quite simply, by disclosing your health and lifestyle, you could get the same guaranteed income, but have over £9,000 extra remaining in your pension pot!

Ensuring a base-line level of guaranteed income offers major protection for the future. Receiving expert advice and a guarantee that your won't run out of income can really improve your peace of mind in retirement.

Partnership, an established provider of enhanced annuities in the UK, has developed a new Target Income Calculator to help your adviser ascertain how much income you will need to cover the basics and how much of your total pension fund you will need to ring fence in order to provide this throughout your retirement.

50% of people retiring could qualify

Partnership has also launched a guide that explains the benefits of disclosing all you medical and lifestyle conditions. With 50% of retirees qualifying for an enhanced annuity which could pay up to 40% more income, the specialist insurer wants to make sure that people fully understand the benefits of providing medical and lifestyle information**.

*Source: best rates AMS portal and Partnership April 2014. Based on 65 year old, who has diabetes, is overweight, HBP and retinopathy. Figures show best available income. Single life. Payable monthly in advance. No guarantee period. No escalation.

** Source: Partnership June 2014.

You may not realise that if you suffer or have suffered from common conditions such as high blood pressure or a high body mass index could mean you qualify for an enhanced annuity, which gives you more income. But only if you tell your financial adviser or a company that provides enhanced annuities about them.

A NISA way to tax-efficient saving?

NISAs, the new-style ISAs, are one of the most tax-efficient ways of saving and, unlike some saving plans, they are easy to understand. Most NISAs allow you to make regular monthly contributions, some from as little as £10.

For 15 years, the Individual Savings Account (ISA) was Britain's much-loved investment vehicle. Regular as clockwork, as the financial year drew to a close, investment managers and financial advisers would urge savers to use up any of their remaining ISA tax allowance from the current year. and to invest up to the full limit in the year to come.

On March 19 this year, the day of George Osborne's Budget speech, changes were announced to encourage additional savings in to ISAs. These changes came in to effect on July 1, as part of the New ISA regulations (NISA).

Tax free limits

From April 6, the 2014 ISA annual tax-free limit was £11,880, up from £11,520 the previous year. At that time, customers could only invest up to half of this limit in a Cash ISA, £5,940. A customer could invest the total £11,880 in to a Stocks and Shares ISA, thus tilting the ISA regime towards investments rather than lower-risk deposits.

From July 1, the tax-free limit was raised to £15,000 and restrictions on the amount of cash savings were scrapped. Henceforth, ISA investors could put all their allowance into cash, stocks and shares – or a mixture of both. Meanwhile, the tax breaks remain as attractive as ever. Any income from ISA savings and investments, whether dividends, interest or bonuses, is completely free of income tax. Furthermore, there is no capital gains tax to pay on such gains arising from ISA investments. You do not have to enter your ISAs on your tax return nor even tell HM Revenue & Customs that you are an ISA investor.

A bewildering choice?

Furthermore, you can take your money out at any time without paying tax on it. But, while the tax administration may be admirably uncomplicated, the investment choices can be anything but, and the case for financial advice is strong.

You do not have to enter your NISAs on your tax return nor even tell HMRC that you are an ISA investor.

Here are just some of the basic types of investments that can be made into a Stocks and Shares ISA: unit trusts, investment trusts, exchange traded funds (which track an index or similar but which are quoted like shares on a stock exchange), company bonds, government bonds and, as one may expect from the name, individual stocks and shares.

Getting financial advice

A financial adviser using an online investment platform can help ensure that the mixture of assets in someone's ISA each year is in line with the level of risk they are prepared to take and that this, in turn, is appropriate to their circumstances. The platform gives clients access to regular reports and online valuations when they need them. It helps advisers to monitor investment performance effectively, and helps to provide efficiency to the advisers' business.

ISAs, by becoming NISAs, have indeed become exciting. Speak to your financial adviser to understand how you could benefit most from these changes.

Why using a financial adviser can make you 'happier'

People who take financial advice are generally happier with the way their savings perform and have more confidence they'll meet their financial goals, according to findings published in the Zurich Wealth Risk Report.

Professional advice specifically for you

Professional financial advisers tailor their advice to your specific needs. Your adviser should ask you about what you would like to achieve financially, and then recommend ways of reaching your goals.

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