Clarity Financial Planning Ltd

The Adviser Autumn 2016

Pension Options

Are you covered? The basic State pension is only designed to provide a minimum amount of income at retirement.

Your Choices at Retirement

Are you about to draw your pension benefits?
Take control! Can you track all your pension schemes?

Cash individual savings accounts (ISAs)

Choosing a suitable independent savings account.
Limits for individual savings accounts.

Pension Options

Living longer
People in the UK are living longer than ever before but many people are not saving towards their retirement.

It is important to plan ahead for your retirement, as the basic State Pension is designed to provide only a minimum amount of income during retirement.

You can check your state pension (providing you are below the state pension age) on the Government's website:

http://www.gov.uk/check-state-pension

Occupational pensions
An occupational pension is a scheme set up and run for company employees, into which your employer might make contributions on your behalf.

This could be the increasingly rare 'defined benefit' scheme (also known as a 'final salary' scheme), in which the amount you receive depends on the number of years' service you gave to the company.
However, it is more likely to be a 'defined contribution' scheme, in which you and/or your employer make a fixed level of contribution and the final value depends on the performance of the underlying investments.

Auto Enrolment
Until recently, your employer could choose whether they offered a pension scheme.

However, Auto enrolment was introduced in 2012, then depending on the company's staging date will depend when firms had to start auto enrolling their employees.

Employers then became obliged to 'auto-enrol' qualifying employees into either a qualifying in-house scheme or the new National Employment Savings Trust (NEST).

To be eligible for auto-enrolment employees need to be aged between 22 and State Pension age, earn more than £10,000 a year and work in the UK.

Your employer will need to make sure that the Government minimum contribution levels are being met.

Personal pension schemes
Personal and stakeholder pensions are schemes organised by the individual for their own benefit.

You decide how much to contribute (subject to an annual contribution limit) and where the money is invested.

Your pension scheme will usually give you a pension pot that's based on how much was paid in. This is called a defined contribution scheme

Stakeholder pensions are a simple, low-cost option designed to encourage lower earners to save for their future.

Individual personal pensions can offer more choice than stakeholder pensions and may offer additional benefits that will make them easier for you to manage.

A pension is a long term investment, the fund value may fluctuate and can go down.

Your eventual income may depend on the size of the fund at retirement, future interest rates and tax leglisation.

Pension Freedom

Your choices at retirement

Making choices at retirement
When you reach retirement age, you have important choices to make.

Reforms that were introduced from April 2015 significantly increased the amount of freedom and choice available for pension savers.

Individuals can now choose how and when they access their pension pot, and can tailor their approach to their personal circumstances.

Flexi-access drawdown
You can take up to 25% of your pension pot tax-free, and reinvest the remainder to generate a regular, taxable income. However, income is not guaranteed and you could run out of money.

Any drawdown payments are taxed as income.

An annuity
An annuity is a fixed sum of money paid to someone each year in return for a lump sum (the money you have saved in your pension pot).

It will provide a predictable income stream.

Lump sums
You could take lump sums when you choose. This spreads your 25% tax-free allowance. However, your pension provider might restrict the number of withdrawals you can make in a year, and you could incur a tax bill if your withdrawals push you into a higher income-tax bracket.

Single withdrawal?
25% of each withdrawal is tax free and the remaining 75% will incur income tax, so you could incur a substantial tax charge.

Leave your pension
You can leave your pension untouched until a later date, allowing it to continue to grow.

Above all, having spent years building up your pension pot, it's important that you take time to make the right decision.

Pension Wise
(https://www.pensionwise.gov.uk/) is a government-provided service that provides free, impartial guidance on your pension options.

Talk to us
Talk to your financial adviser, who can advise you on your pension choices.

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Take control of your pension!

With all the pension changes, it's a good time to take control

Keep track

Every year, your pension provider should send you a statement showing the current value of your pension pot, and a forecast of what it will be worth when you reach your retirement age.

Don't just file it away – take a closer look. Does the projected value of your pension pot bear any relation to the amount you are aiming for?

If not, consider what action you could take to boost its value – perhaps you could work longer or boost your pension contributions.

At present, you can pay up to £3,600 or 100% of your earnings (whichever is larger) every year and receive tax relief on contributions of up to £40,000.

Lost and found

It's not always easy to keep track of a pension, especially if you've been in more than one scheme or have changed employer throughout your career. But, it's important that you do claim your pension, so the sooner you trace a lost pension, the better.

The first place to contact is the Pension Tracing Service at http://www.gov.uk/find-pension-contact-details or call 0845 6002 537. This has a register of all workplace schemes.

Consider your options

If you have several different pension pots, you might consider consolidating them into one.

Most occupational and private pension schemes can be transferred.

Consolidating all your pension savings could make it easier for you to track the performance of your pension pot and could also reduce costs.

Do proceed with caution and take expert advice – once made, the decision to switch is irreversible and a wrong decision could incur harsh penalties.

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Choosing a suitable cash ISA

Cash Individual Savings Accounts (ISAs)

Investment product
Cash Individual Savings Accounts (ISAs) can include savings in bank and building society accounts and some National Savings and Investments products. There are ways to improve on the average rates available by considering what you need from your money.

Less risk
Cash ISAs are designed to appeal to investors who want to take less risk, but also want their cash savings to work harder in a tax-efficient way.

Investment needs
Different investors have different needs.

If you can only invest small amounts of money, need full and instant access to your cash and want an account that offers a debit card, you are likely to pay the price for this level of flexibility. Easy access accounts often offer a relatively low interest rate.

Annual allowance
Until relatively recently, you could only save a maximum of half your annual ISA allowance in a cash ISA; however, since July 2014, investors can save their entire annual allowance in a cash ISA.

Zero income tax
You will still benefit by paying no income tax on that interest, and this will be particularly beneficial for those paying tax at 40% or 45%.

You might find you will earn a higher rate of interest by tying your money up for a longer period. Perhaps by placing it in a cash ISA account that requires 60 or 90 days notice

Internet only cash ISAs
Some companies offer “Internet only cash ISAs”, and the rate given can often be slightly higher than their other Cash ISA accounts.

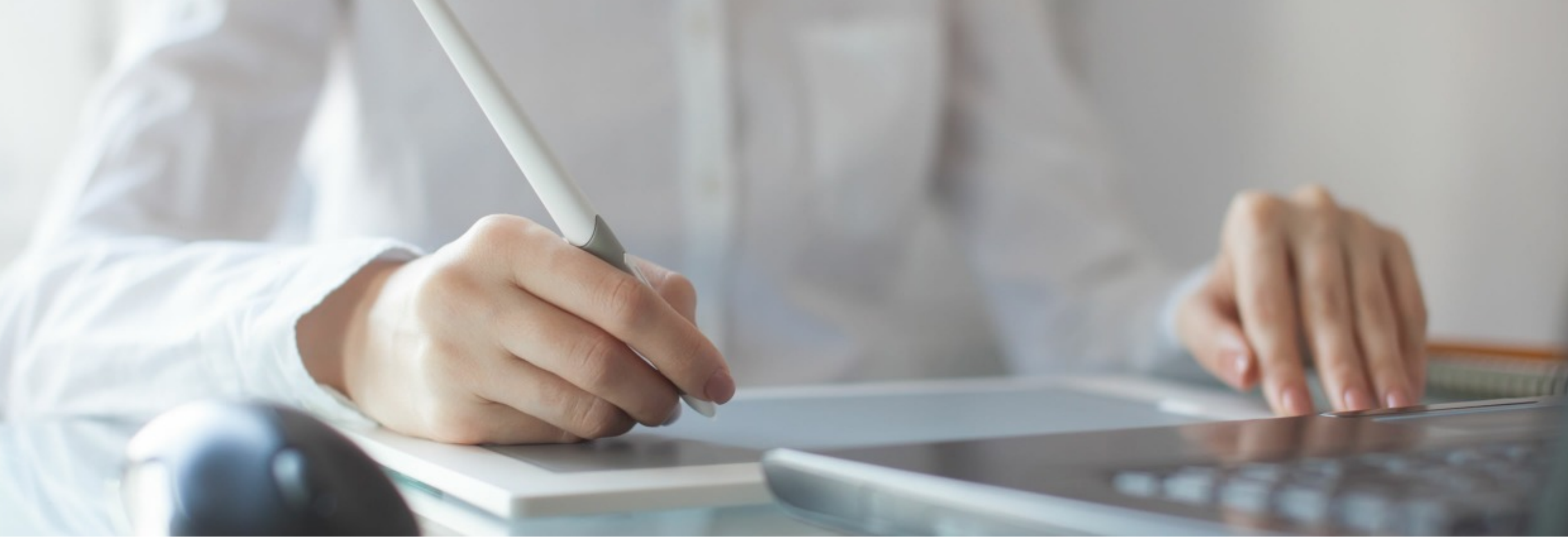
Watch those rates!
Whichever approach you choose, it is worth keeping an eye on interest rates, particularly if you have taken advantage of an introductory bonus or a short-term guarantee.

Typically, when these offers expire, you will be left with a less competitive interest rate.

Call us
If you don't understand a financial product, it’s important to get independent financial advice before you buy. For expert advice or further information, come and speak with us.

The ISA allowance for the 2016/17 tax year is £15,240, rising to £20,000 in April 2017

Investment ISAs are tax-efficient wrappers for long term investments. You may get back less than you pay in as your capital isn't guaranteed and charges may apply. Your personal circumstances will determine how much tax you pay on your investments and returns; tax laws may change.



Limits for individual savings accounts - ISAs

Tax efficient vehicle
Individual Savings Accounts (ISAs) are tax-efficient vehicles that allow individuals to save and invest without having to pay income tax or capital gains tax.

A good way to start saving
ISAs can be a good way for people to start saving or to add to their existing portfolio of savings and investments.

ISA allowance is increasing!
The ISA allowance for the 2016/17 tax year currently stands at £15,240, but is set to reach £20,000 in April 2017, offering a welcome additional incentive for savers – not only for existing ISA investors, but also for those who might be new to tax-free saving.

Use your entire allowance
Investors used to be able to save a maximum of half their allowance into a cash ISA, while those who decided to put less than this into a cash ISA could invest the balance into a stocks and shares ISA. However, under reforms introduced from 1 July 2014, investors can allocate their entire allowance of £15,240 across cash, stocks and shares, or any combination of the two.

Transferring savings
Savers can transfer savings from their stocks and shares ISAs to their cash ISAs, and vice versa, and can also transfer their ISAs between providers as often as they wish, subject to their providers' rules.

Junior ISAs
Even if you cannot afford to take advantage of the full annual allowance, it is still worth putting away what you can via a regular savings plan. Although you are not allowed to hold an ISA with or on behalf of someone else, you can open a Junior ISA for a child under the age of 18 and living in the UK.

In the 2016 to 2017 tax year, the savings limit for Junior ISAs is £4,080

Subscribers taking advantage
According to government statistics, at the end of 2015-16 the market value of Adult ISA holdings stood at £518 billion.

This represents a 7% increase compared to the value at the end of 2014-15. These holdings being split almost equally between cash ISAs (52%) and stocks & shares ISAs (48%).

Statistics are suggesting that ISAs are a popular investment vehicle across the UK and savers are taking advantage of increasing allowances and greater flexibility to invest on an individual basis.

Don't lose it
Above all, do not forget one of the golden rules of ISA investing – if you do not use it, you will lose it. It is worth trying to make the very most of your allowance each year, if you can.

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Clarity Financial Planning Ltd
Tel: 020 8660 2397 advice@clarity-fp.co.uk

http://www.clarityfinancialplanningltd.co.uk

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Any reference to legislation and tax is based on our understanding of United Kingdom law and HM Revenue & Customs practice at the date of production. These may be subject to change in the future.

The value of your investments can go down as well as up, so you could get back less than you Invested. Your capital is at risk.

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