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INSIDE THIS ISSUE

TIME TO TOP UP YOUR ISA?

If you're planning to save into your Individual Savings Account (ISA) this tax year, it's a good idea to put plans in place as early as possible. The longer your money is saved or invested, the more time it has to produce tax-free returns.

If you're thinking of putting your ISA subscription into the stock market, but are worried about the current volatility that stocks and shares are experiencing, then you can always choose to make regular contributions. This approach called 'pound-cost averaging' means that you don't have to worry about getting the timing of purchases exactly right, and there's no need to constantly watch markets to invest at the right moment.

What to do next

If you have cash that you don't need to access in the short term, and would like to start using this year's ISA allowance now, then please do get in touch. You only get one ISA allowance each year, so don't risk missing out on the valuable tax relief available. We can help you investigate the choices available and ensure you use your allowance wisely.

The value of investments and income from them may go down. You may not get back the original amount invested.

MILLENNIALS AND BABY BOOMERS – THE WIDENING GAP

This summer has produced yet more evidence of the ongoing clash of beliefs and attitudes between Millennials and Baby Boomers.

Those born in the early 1980s through to the turn of the century, the Millennials as they have come to be known, followed on from Generation X, who in turn succeeded the Baby Boomers. The Millennials now make up a quarter of the UK population.

Following the Brexit vote, Millennials took to social media in their droves to express their anger at Baby Boomers who they blame for securing a Leave vote in the EU referendum. According to a YouGov[1] poll before the vote, 72% of 18 to 24-year olds were in favour of remaining in the EU. Amongst pensioners, 59% favoured Brexit.

LIFESTYLE CHOICES

To add to the discord between the generations, according to research[2] Millennials have been dubbed 'Generation inflation' because the increase in the cost of living is three times more for this generation than for Baby Boomers. This is due largely to rising rents which particularly impact this age bracket who are currently finding it hard to get onto the housing ladder.

However, much of the inflation they are experiencing comes from their lifestyle choices, such as regularly eating out, which can account for as much as 14% of their income. Baby Boomers by contrast aren't hit as hard, as more of their cash is spent in buying groceries from supermarkets where inflation has risen more slowly.

DEBT BY DEGREES

In another sign of the discontent felt by Millennials, 37% of them according to a recent survey[3] regret having entered higher education, believing they will be saddled with high levels of debt for years to come.

A REALITY CHECK

Baby Boomers readily accept that they found it easier to buy a property (although they can recall the financial stress they experienced when interest rates reached 15% in October 1989). However, in their later years many of them find themselves financially stretched, caring not only for elderly parents, but also giving away hard-earned cash to help their children and grandchildren buy property, to such an extent that the Bank of Mum and Dad is now classed informally as a top ten UK mortgage lender.

So on that note perhaps it's time we called an intergenerational truce.

[1] YouGov poll, June 2016
[2] Fidelity International, Inter-generational inflation, 2016
[3] Aviva, Family Finance Report, Summer 2016

ANNUITIES – WHY IT PAYS TO SHOP AROUND

One of the main benefits that annuities provide to retirees is security. What you get in exchange for the lump-sum purchase price is a pre-agreed, fixed income payable for the rest of your life. Unlike other retirement income products, you aren't exposed to stock market risk which could erode your income.

On the downside, should you die early, the residual value of the annuity dies with you, there is usually no return of capital to your estate.

The new pension rules introduced in April 2015 swept away the requirement for anyone to buy an annuity at any age. Sales of annuities fell initially, but have picked up latterly as the volatility of stock markets convinced some retirees that the certainty of income an annuity provides can be a good way to cover their basic living costs.

POST-BREXIT LOWS

As the amount you will receive as an annuity payment reflects the movement in interest rates, since Brexit, the returns have declined, meaning that a lump-sum invested in an annuity will now provide a lower monthly payment.

It is estimated that seven out of ten people accessing their pension cash since the new pension freedoms came into force, who decided to take an annuity, did so with their existing pension provider. In the current market condition where low rates prevail, it's more important than ever to shop around amongst other companies and compare deals. Doing so may well produce alternative options better suited to your needs.

THE SECONDARY ANNUITY MARKET

In March 2015, the government announced plans to allow people who already had an annuity to sell it for a cash lump sum. The introduction of the secondary annuity market was originally set for April 2016 but is now due to take effect in April 2017. Full details of the scheme and the requirements on taking advice have yet to be finalised.

If you're approaching retirement, it pays to take advice about your pension options so that you can make the best choice for your financial needs.

WHAT DO YOUNG PEOPLE NEED TO KNOW ABOUT PENSIONS?

Young people today have a lot of calls on their cash, from paying off student loans to saving for a deposit for a house. It's hardly surprising that planning for a financially-comfortable retirement doesn't always figure at the top of their 'to do' list.

For many, a workplace pension is their first step on the pension ladder. With auto-enrolment schemes being rolled out across UK businesses, more young people than ever before are being given the chance to start saving for their retirement. With employers adding their contributions to those of their employees, pension pots will grow even faster. Payments into a pension plan also qualify for tax relief, so it's little wonder that the opt-out rate under auto-enrolment is much lower than the Department for Work and Pensions had predicted.

TIME ON YOUR SIDE

Those people starting work now can expect to face a working life of around 50 years. By that time the state pension age may have been raised. If life expectancy continues to increase, then the time these workers spend in retirement could be several decades.

The younger someone can start making pension contributions, the longer that money has to grow. Investing even small amounts early in their working life can build up to a substantial fund over time. Delaying making pension contributions can have a big impact on the amount accumulated – as few as five years could reduce the final pay out by up to 30%.

GETTING GOOD ADVICE

According to a survey[1] amongst young people, many think they will have savings of around £100,000 when they reach retirement age. In order to reach that figure they would need to save around £120 a month over 30 years or £70 over 40 years. Many are currently saving a lot less, illustrating that getting good pension advice early in life would be a good investment.

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 legislation.

[1]NOW: Pensions, Press release, 2015

WILL BREXIT DERAIL YOUR PENSION PLANNING?

The announcement of the outcome of the EU referendum sent shockwaves around the world. The pound fell and stock markets lost ground rapidly. Confidence ebbed, the Prime Minister resigned and the UK lost its triple A credit rating.

Then slowly and surely, the shock started to dissipate. A new government was formed under Theresa May, the pound recovered a little ground and stock markets rebounded with the FTSE 100 reaching an 11 month high a month after the vote.

WHAT NOW FOR PENSIONS?

With the change at the head of government and a new minister in charge of pensions, it seems likely that the pace of further pension reform will slow, at least for the immediate future.

Brexit uncertainty is likely to last for some time until the terms of the UK's exit are known. So the advice right now is to stay calm and continue to save into your pension.

Younger people can take comfort in the fact that time is on their side and volatile markets can deliver good outcomes. There are plenty of statistics that show that over ten, 20 or 30 years, investing provides a better return than keeping your money in cash, especially with interest rates currently so low. Pension contributions also attract valuable tax relief that make pension saving even more worthwhile.

Whatever your age, your pension money is likely to be invested across a mix of assets – cash, equities, government bonds, and property. This diversity will help iron out the effects of ups and downs in the various markets, here and abroad.

ADVICE FOR THOSE ABOUT TO RETIRE

If you're approaching retirement, it's never been more important to seek professional advice. Many people simply accept the annuity offered to them by their provider instead of shopping around. There are other options to consider, and your adviser will be able to illustrate what they might mean for you.

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

SURVIVING FINANCIALLY AFTER THE DEATH OF A LOVED ONE

Thinking about life insurance might not be the most cheerful or uplifting subject, but it could prove to be the vital lifeline a family needs if the worst were to happen. These days, it's a simple and relatively inexpensive decision and one that every family needs to think seriously about.

With more and more families relying on two incomes to pay their mortgage, loan repayments and all their regular household bills, it's sad to think that so many families risk financial hardship should one of them die, have an accident or be diagnosed with a critical illness.

Research[1] shows that a large number of adults in the UK have no life cover; the worst culprits being 35-44 year olds, despite this age group being most likely to have young children and heavy financial commitments.

LIFE COVER IS CHEAPER THAN MANY PEOPLE THINK

When asked why they have no life cover in place, many people point to the cost. However premiums have come down over the last few years and in many instances the monthly premium is no more expensive than the cost of a couple of DVDs or the cost of coffee and cakes for four in a high street coffee shop. In other words, it's a small price to pay for real peace of mind.

Not having cover in place could result in the surviving partner needing to pay for all the services that a Mum or Dad provides for free, including child care, household management and maintenance, gardening, chauffeuring and entertainment.

ADVICE ON HAND

No-one wants to think that their family might face financial hardship if they weren't able to provide for them. So it's well worth asking your adviser to recommend polices that will provide a cash lump sum or monthly income if you weren't in a position to do so.

[1]AA Life Insurance Survey, April 2016

RETIREMENT OR 'PRE-TIREMENT', WHICH WILL YOU CHOOSE?

With the recent changes in pension legislation giving people the freedom to access their pension pots from age 55, many more nearing their retirement years are choosing a different style of work/life balance. Retirement is becoming a more gradual process, and not the abrupt ending of a working life on a fixed date, as was often the case for previous generations.

The reasons behind this shift to a period of what's been dubbed 'pre-tirement' vary. For some, it's the desire to keep physically and mentally active into their later years, for others the freedom to work for longer provides a welcome boost to their retirement income. With increased life expectancy, many more people are set to live active lives well into their 80s, and in the case of the Queen, their 90s.

Whatever the reason, working beyond normal retirement age, changing careers, working reduced hours, doing more voluntary work, are all options that are now being actively pursued by the 50 to 75 age bracket.

THE COST OF BEING A PENSIONER

A recent survey[1] shows that the cost of retirement has reached an annual figure of £11,620. As might be expected there are regional variations, with the figure for Wales being £9,990 and the South East being the highest at £13,270.

With the state pension amounting to just over £8,000 for most people, that means they will need to provide themselves with an income of several thousand pounds in order to meet their living costs.

INCREASE IN STATE PENSION AGE

Life expectancy continues to rise and so does the age at which the state pension becomes payable. By 2020, both men and women's state pension age will be 66, increasing to 67 between 2026 and 2028, from then on, it will be reviewed every five years and linked to life expectancy.

There have been changes too in the state pension. Those retiring from April this year will receive the new flat-rate or 'single tier' state pension. This is £155.65 per week.

In theory, in order to receive the full amount of the new flat-rate pension, you need 35 'qualifying years' of National Insurance contributions or National Insurance credits. However, pension entitlement you built up under the old scheme will be taken into account when calculating how much state pension you will receive under the new scheme.

MAKING THE RIGHT CHOICE

What is clear is that it's important to plan and save for retirement as early as possible in your working life. That way, when the time nears, the options of retiring, working part time, changing career or doing voluntary work are all open to you.

It's worth asking yourself:

- When do I want to retire? What is my state pension date?
- How much will I need in income and savings to fund my lifestyle in retirement?
- Am I currently saving enough? What will my state pension be?

Reviewing your retirement plans regularly will help ensure you have choices when you reach retirement. If it's been a while since you last looked at your pension plans, get in touch.

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 legislation.

[1]Key Retirement, Press release, May 2016

PENSIONS: DWP IS WRITING TO 100,000 PEOPLE

In another sign that there is confusion surrounding the workings of the new state pension introduced in April, the Department for Work and Pensions will be writing later this year to those who have less than ten years of qualifying National Insurance Contributions to explain how the new scheme differs from the old.

The new state pension operates under different qualifying rules, as many people are set to find out. Under the old state pension rules, even workers with less than five years of contribution would have been eligible for a reduced state pension. Under the new scheme, ten years of qualifying National Insurance Contributions are required to receive any state pension.

Many of those receiving the letter will still receive some state pension at retirement, as contributions made under the old scheme are protected.

The best advice to any worker receiving the letter is to request a state pension projection, and to consider taking steps to improve their retirement prospects, either by paying extra voluntary National Insurance Contributions or by contributing to a workplace or private pension scheme.

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