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YOUR MONEY WINTER 2016/17

INSIDE THIS ISSUE

Wrap up in an ISA

The 2016 – 17 allowance is a generous

£15,240

As it can't be carried forward, it makes sense to take advantage of this savings opportunity as soon as possible, rather than risk losing your entitlement if you miss the tax year-end deadline.

The 2017–18 allowance increases to £20,000

The ISA deadline is
5 April 2017

NEW YEAR'S RESOLUTIONS YOU SHOULD MAKE AND KEEP

It's that time of the year again. The post-Christmas period can often be a good time to take stock of your finances, consider any changes to your circumstances and set yourself some simple but important goals for your money in 2017.

I WILL MAKE SAVING A PRIORITY

At some stage in our lives we are all going to need savings to fall back on. As we head towards the end of the tax year, it's a good idea to maximise the amount you're saving in an Individual Savings Account (ISA). The allowance for tax year 2016–17 is a generous £15,240, and the tax benefits are attractive.

I WILL FACE THE FACT I'M GETTING OLDER

Whatever stage you've reached in your working life, it's worth reviewing your pension provision. Remember, if you want a prosperous and comfortable retirement, it's up to you to provide for it. The state pension will only ever be a safety net, and won't do more than cover the basics.

THIS YEAR, I WILL ATTEND TO MY WILL

This should be at the top of everyone's priorities to ensure your wealth goes to those you want to inherit it. If you already have a Will, it's worth considering whether it needs updating.

I WILL PLAN FOR MY FAMILY'S FUTURE

It's worth keeping life policies under review as over the years your circumstances change. Check you have enough cover for your current situation. There are policies that cover death and critical illness, provide an income if you're unable to work due to an accident or sickness, and ones that can protect your mortgage. If you've recently bought a house, had a baby or changed jobs this could mean you need to think about a different type of policy to meet your new needs.

I WON'T PAY THE TAXMAN MORE THAN I HAVE TO

Don't forget to make use of your tax allowances before the tax year end in April. Pension contributions and ISAs attract generous tax advantages, so save as much as you can afford within the relevant limits. The annual Capital Gains Tax allowance is £11,100 for 2016–17. Should you also be thinking about Inheritance Tax planning (IHT)? With the rise in property prices, more families are finding themselves drawn into the IHT net.

So, make 2017 the year you update your financial plans. Why not schedule a review meeting with your adviser?

A defined contribution 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.

With a stocks and shares ISA the value of investments and income from them may go down. You may not get back the original amount invested. ^ *

HOW TO BECOME A FINANCIAL COUPLE

When you become a couple, whether you're married or not, there's a lot to think about when it comes to your finances. Money may not be a particularly romantic topic, but at some point you'll need to discuss some practical details, like who will pay for what, and whether to have joint or single bank accounts.

Depending how your relationship develops over time, you may need to move on to discussing the bigger financial questions such as how much you can afford to save for a deposit on a home, how much you'll put into your pension plans, what sort of education you want to provide for your children, and when you want to retire.

LEGAL STATUS

Moving in with your partner or buying a home together is an exciting prospect. It may seem outdated, but unmarried couples are not protected by the law in the same way that married couples are, and common-law marriage doesn't exist. Whether you are married or not, it can make sense to get legal and financial advice before you take major steps like buying a property together.

TAX MATTERS

If you and your partner live together but aren't married or in a civil partnership, you are treated as two separate individuals for tax purposes. Married couples and civil partners have certain advantages when it comes to Capital Gains Tax (CGT) and Inheritance Tax (IHT); they can transfer assets between them without paying CGT and inherit assets without paying IHT.^

PENSION BENEFITS

When it comes to pensions, spouses or civil partners are entitled to inherit pension rights on the death of their husband or civil partner. Those who aren't married can be in a more difficult position when it comes to pensions. Generally speaking, most employers who pay death-in-service benefits to spouses or civil partners don't usually recognise partners who live together. The most important thing you can both do is name each other as the person you want to benefit under the policy.

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OVERSPENDING – HOW MILLIONS OF US LIVE BEYOND OUR MEANS

Despite our best intentions, many of us can find ourselves strapped for cash towards the end of each month. January can be a time of reckoning as our Christmas overspending on credit cards becomes a reality when the bills turn up.

The main place where Brits overspend is the supermarket, corner shop, market or anywhere else where they sell groceries[1]. Doing the food shop is a time when half of consumers say they tend to splash more cash than they intended.

After groceries, clothing is the purchase people are most likely to overspend on, with a third of respondents admitting they end up spending more than they'd planned on additions to their wardrobe. This is followed by spending on technology, in restaurants and on fast food – all areas where consumers claim that their final bill ended up being a lot more than they'd thought.

Theresa May has referred to a sector of society that has quickly been dubbed the JAMs – those just about managing. However, for many the situation is worse with around an estimated half of Brits thought to be living beyond their means.

A CASHLESS SOCIETY

The way we shop has been transformed by technology in recent years – more than half (52%) of consumer purchases are now made without hard cash.

According to credit checking service ClearScore[2], three in five consumers say that not having to hand over physical cash has resulted in them spending more. The study found that 72% of those questioned felt payment methods such as Apple Pay and contactless credit cards have encouraged them to make more impulse purchases, suggesting a need for people to spare a thought for their budgets before swiping their cards at the till.

Millennials are more than twice as likely to use mobile payments as older generations, yet they are also 20% more likely to overspend than other generations.

[1]OnePoll, 2014
[2]ClearScore, 2016

GETTING THE UK "MATCH FIT" FOR BREXIT

In his first and last Autumn Statement, Philip Hammond announced his plan to ensure the UK economy is "match fit" for Brexit. In the shadow of slower growth forecasts, the Chancellor announced sizeable infrastructure and innovation investment, housing and additional funding measures. The government has no plans for further welfare savings measures in this parliament beyond those already announced, crucially protecting the triple lock arrangement.

In a move expected to benefit two million people, a new savings bond will be launched through National Savings and Investments in April. Open to those over 16 and with an interest rate of around 2.2%, the maximum investment limit is £3,000. The new product will be available for 12 months and savers must lock their cash away for three years.

The Chancellor announced that salary sacrifice would be taxed as normal from April, however pensions contributions, childcare vouchers, the cycle to work scheme and ultra-low emission company cars will be excluded from this. Items bought under the scheme, including gym membership, health screening and computers will be subject to tax from April.

In a measure scheduled to take effect from April 2017, the lower Money Purchase Annual Allowance for those who have accessed their pension savings will be reduced from £10,000 to £4,000 (the standard allowance remaining at £40,000, tapered for high earners). Contributions above the annual allowance to a money purchase (defined contribution) scheme will attract a tax charge at the individual's highest marginal rate. The government has estimated that the yield from this measure will be £70m in 2017–18, rising to £75m in 2021–22. The measure is intended to allow pension savers to access savings while preventing double pension relief and is set to affect individuals who enter into flexible access arrangements to draw funds from their pension savings and continue to make contributions to affected pension schemes. Further details will be provided by the government following consultation.

In an encouraging move the Chancellor confirmed that the income tax personal allowance will rise to £11,500 this April and then to £12,500 by 2020. In addition the higher rate threshold will rise to £50,000 by the end of this parliament. ^*

LIFE ASSURANCE – WHEN TWO POLICIES ARE BETTER THAN ONE

Couples tend to share a lot of things, including big financial commitments like mortgages and bank accounts. However, when it comes to life cover, it could make sense for each partner to take out a policy, rather than having a joint policy in place.

JOINT LIFE

Couples can buy a joint policy that covers both lives or can have one policy each. The first can be a cheaper option than two separate policies. Joint life policies pay out on either the first partner's death or the second. First-death joint policies are often used to provide a lump sum for your family if you or your partner dies – to pay off a mortgage, for example. Second-death polices can be used to cover an anticipated Inheritance Tax bill. ^

SINGLE LIFE

A 'single' life policy provides cover for that person only, and pays out the amount of cover provided under the policy if the insured dies during the term of the policy. A 'joint' policy written on a 'first death' basis pays out during its term if one of the policyholders dies. As a joint policy ends on the death of one partner, if a surviving partner then wants to take out a new policy in their own name, it's likely that they would find themselves paying more for cover, as the cost of insurance increases with age.

It can make good financial sense to think about each partner's life cover needs separately. Increasingly, families today rely on two incomes to pay their bills. So it can make sense for each partner to have their own policy in place. That way, they can each tailor the amount of cover and the length of the policy term to their own circumstances and needs. This can be particularly important where the partners are of different ages, or in different states of health.

Taking professional advice will ensure you get the right cover for your needs.

PENSION CHANGES – WHAT WE'VE LEARNED SO FAR

With the new pension rules having been in operation since April 2015, there is some evidence emerging that people are still confused about how pensions work.

Andy Haldane, the Bank of England's Chief Economist, said in May last year that he found pensions impossible to understand. He remarked: *"I consider myself financially literate – yet I confess to not being able to make the remotest sense of pensions."*

A recent survey[1] amongst pre-retirees revealed that a quarter of over-50s plan to cash in their pension even after withdrawing their tax-free lump sum, giving as their reason the need 'to save for a rainy day'. This approach is fraught with problems. Taking more than the 25% tax-free allowed could result in a massive tax bill, as the amount taken out above this level can, when added to the tax payer's other income, result in them paying tax at significantly higher rates.

CASH ISN'T ALWAYS THE BEST SOLUTION

In August, Citizens Advice revealed that one in three people over the age of 55 were transferring their pension pots into cash. This could prove to be a bad strategy for several reasons. The great benefit of the pension freedoms is that they offer flexibility as to when and how much cash you take from your fund. This enables money that's not immediately needed to continue to grow in your pension pot, bringing you the benefit of the favourable tax environment and growth potential that pension funds offer.

Putting the cash withdrawn into a bank account will mean that it is no longer invested in funds that could grow in value. In addition, bank accounts pay next to nothing by way of interest and leave your money open to the ravages of inflation.

It wasn't just people with small pension pots who were opting for cash rather than considering an annuity or an income drawdown product. Citizens Advice found that nearly one in three people surveyed with a pension pot of £100,000 said they would be opting for cash.

ANNUITIES TAKE A FALL

Before the pension changes, annuities had become a major bugbear to many people. Rates were low and continued to fall. Now, no-one needs to take an annuity at any age. However, for those concerned to have sufficient guaranteed income to cover their basic living costs they can still prove attractive. Those who have health problems such as heart disease or diabetes can find that they can obtain an 'impaired life' annuity that will pay them significantly more income.

INCOME DRAWDOWN

Further evidence that people about to retire should ensure they receive good financial advice comes from research carried out by a major insurer[2]. One in ten pensioners surveyed said that they regretted opting for income drawdown, admitting that they didn't understand that in drawdown their money is exposed to the fluctuations in the stock market. The TUC calculates that only 15% of people going into drawdown opted for help.

[1]Retirement Advantage, 2016

[2]MetLife, 2016

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

KEY POINTS FROM THE AUTUMN STATEMENT

- GDP growth forecast for 2017 slashed; 2019–20 budget surplus ruled out
- Tax-free personal allowance to rise to £11,500 in April and increase to £12,500 by the end of the parliament
- The higher rate threshold will rise to £50,000 by the end of the parliament
- From April, employers and employees using salary sacrifice schemes will pay the same tax as anyone else, with the exception of pension arrangements, childcare, ultra-low emission cars and cycle to work schemes
- Insurance premium tax to rise from 10% to 12% from June
- Government will stick to plans to cut corporation tax, currently 20%, to 17% in April 2020
- From April a new savings bond will be available for 12 months through National Savings and Investments, with an interest rate of around 2.2% and a term of three years, the maximum deposit will be £3,000
- Ban on letting agent fees to tenants, burden falls to landlords of the property
- Triple lock applied to any increase in the state pension will remain for this parliament
- Fuel duty rise will be frozen for the seventh year in succession
- Employee and employer National Insurance thresholds will be equalised at £157 per week
- £2.3bn housing infrastructure fund to deliver infrastructure for up to 100,000 new homes, a further £1.4bn for 40,000 additional affordable homes.

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