

Financial Viewpoint

Your latest newsletter from The Orchard Practice

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Managing your pension for life

New pension rules
from April 2015



During the 2014 Budget announcement, the Chancellor introduced the prospect of far-reaching changes to how you access your pension savings when you retire.

The government has since clarified the details of those changes, which take effect from April 2015. In general terms, the changes comprise:

- greater freedom over what you can do with your pension savings in retirement
- new restrictions on how much you can contribute
- changes to the death benefits of a pension fund

Four choices on retirement

1 Withdraw your entire pension fund in one go

This option generated some attention-grabbing headlines after the Budget, but it's unlikely to be the best option for most people.

Withdrawing all of your money in one go without careful tax planning could mean you miss out on the tax advantages that pension products benefit from. What's more, any money you take out of your pension, over and above the 25% tax-free Pension Cash Lump Sum amount, would be taxable as part of your income in that tax year¹.

2 Take an annuity

Before the budget announcement, the vast majority of retirees bought an annuity with their pension fund, in order to get a regular income in retirement. The downsides of annuities are that they can be inflexible and, if your circumstances change or you die shortly after taking your annuity, it's often the annuity provider who benefits rather than your loved ones.

Taking an annuity after April 2015 will still be an option, and the good news is that these products will be far more flexible in future, thanks to a number of changes. For instance:

- you could be allowed to withdraw lump sums from your annuity, or take a larger income in the early years of your retirement
- annuities may include enhanced death benefits or 'lifelong' guarantees. This would mean your spouse would receive an income if you died within the annuity period
- providers may also have the freedom to hand back smaller annuities as lump sums to your beneficiaries, instead of continuing to make regular payments to them

3 Drawing down your pension savings

This enables you to enjoy the tax benefits of a pension and gives you the freedom to withdraw money as and when you need it (just like a bank account). However, you should be careful not to take too much out in the early years or your money could run out. If you choose this option, we can help you manage your pension savings over time. Income Drawdown carries significant risk and may only suit a limited number of people.

4 Annuity / drawdown combination

This may be a good solution for many people because it enables you to secure a guaranteed level of income for the rest of your life (to cover household bills etc.), leaving the balance available for you to spend as and when you want to.



Managing your pension for life

New pension rules from April 2015 *continued*

Restrictions on how much you can contribute

After April 2015, if you take any income from your pension (in addition to any Pension Cash Lump Sum amount) you might still be able to make pension contributions but only up to a reduced annual allowance of £10,000 a year (normally £40,000 a year)².

This includes employer contributions and pension benefits being built up in final salary schemes, which can sometimes be surprisingly large.

The restriction is being introduced to stop people having their salary paid directly into a pension, effectively receiving 25% tax-free and avoiding National Insurance on employment income.

There are two exceptions to this restriction:

- 1. If your pension is worth less than £10,000:** you will be able to make withdrawals from three small personal pots and unlimited small occupational pots worth less than £10,000 each, without being subject to the new £10,000 allowance.
- 2. If you go into capped drawdown before April 2015 and your withdrawals after April 2015 remain within your drawdown limit:** you will not be subject to the new £10,000 allowance.

A possible fall in the death benefits of your pension fund

The Chancellor also promised to review the tax paid on pension lump sums when you die. If you are in drawdown, or you are 75 or older, any lump sum paid to your beneficiaries is currently taxed at 55%³. We expect further details of the new tax payable to be announced in the Autumn Statement (3 December 2014).

Remember that if you die before you go into Income Drawdown or buy an annuity, and before age 75, the entire pension fund can normally be paid to your beneficiaries without incurring a tax charge.

Talk to us about the changes

These changes give you far greater freedom in your retirement because you will be able to control how you want to spend your hard-earned pension fund. However, this makes it even more important to get quality financial advice to ensure you fully understand your options, and make a decision that best suits your needs.

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 are over 55, and considering taking your pension benefits, please get in touch to discuss your options.

1 www.gov.uk/government/uploads/system/uploads/attachment_data/file/301563/Pensions_fact_sheet_v8.pdf

2 www.citywire.co.uk/new-model-adviser/news/gov-t-cuts-annual-allowance-to-10k-for-retirees/a762826

3 www.pensionsadvisoryservice.org.uk/tax/other-times-when-you-might-get-a-tax-charge-

The state of the Mortgage Market



The mortgage market has fuelled huge media interest over the past year, exposing would-be borrowers to a wide range of messages.

New lending rules introduced in April have led the headlines, supported by ongoing commentary about interest rates, fluctuating house prices and housing availability. But how do these headlines affect you?

House prices strengthen

The price of a typical UK house has risen by 11.5% in the past year, according to Nationwide's House Price Index report for the second quarter of 2014.

But while all regions of the UK have seen house price increases over the last year, some regions have seen more pronounced rises than others. Prices in London (up 25.8%) continue to outpace the rest of the country, with the rate of acceleration more than twice that of anywhere outside the South East.

Scotland (5.4%), Yorks and Humberside (7.0%) and the North West (7.1%) have seen the smallest annual rise. This data may make the decision about when, where and whether to buy more complicated for some buyers.

Availability of housing

The UK's well-publicised housing shortage - particularly affordable homes - has contributed significantly to house price inflation, most notably in London and the South East. Government schemes like Help to Buy have helped more than 25,000 borrowers onto the housing ladder, which in turn has helped stimulate the new build market. With house building growing at its fastest rate since 2003 during July 2014, there are real signs that availability is steadily improving.

Interest rates on the up?

With rates remaining at 0.5% (at the time of writing), speculation is mounting as to when the Bank of England will start increasing rates. Most experts agree the bank base rate will rise soon, but the exact timing and size of any increase remains uncertain.

The prospect of a rate rise might be the catalyst to encourage borrowers currently on standard variable rates to bite the bullet and move onto a fixed rate deal.

New lending rules

At the end of April, the Financial Conduct Authority (FCA) set out new rules around getting a mortgage. These are designed to ensure that only borrowers who can afford to repay their loan receive one. The changes mean advice is now mandatory in virtually all mortgage transactions. As a result, you should expect far more detailed questioning on your circumstances and needs before a recommendation is provided by your adviser, and before a lender will agree a loan.

With so many changes - and potential changes - in the housing market, the idea of buying a new property, or indeed simply taking out a new loan, may be a little daunting. If you're not sure where you stand, we can offer guidance and advice on what these changes mean for you and your property.

If you're considering buying or remortgaging, please get in touch.

For arranging a mortgage a fee of £395 payable upon agreement to use our services

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

Portfolio investments

The benefits of regular rebalancing

A crucial aspect of investment is knowing how much risk you're prepared to take with your money in order to reach your goals.

It is equally important that your investment portfolio is finely calibrated to deliver on the risk profile you've decided – both at the outset and for the longer term.

According to BlackRock, a leading investment manager, rebalancing a portfolio back to its original asset allocation on a regular basis can help generate improved returns and decrease risk over the medium to long term.

This is a principle of the **Openwork Graphene Model Portfolios**, which invest in seven funds covering different types of assets and rebalance back to their original asset allocations twice a year.



Rebalancing: Positioning for the future

Over time, the funds in an investment portfolio will move up and down in value, as some asset classes outperform and others underperform relative to each other. If left alone, this could result in a portfolio that no longer reflects your risk profile and throws your investment goals off track.

'Rebalancing the portfolio' effectively means selling the part of your holding in funds that have risen in value, in order to purchase more shares in funds that have gone down in value. This might seem counter-intuitive but it enforces the discipline of what some investors refer to as 'buying low and selling high'.

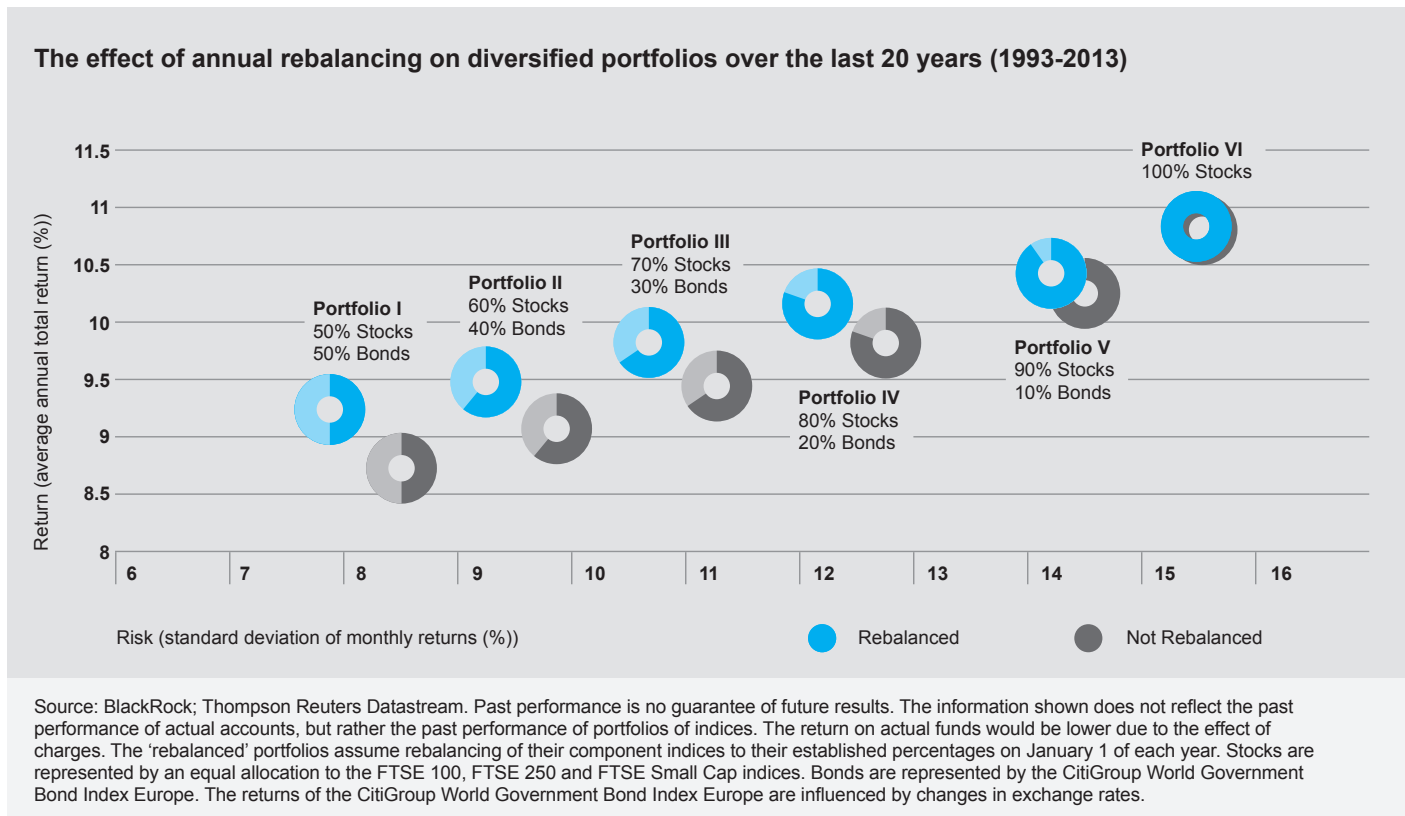
Please get in touch to discuss the potential benefits of the Openwork Graphene Model Portfolios and how rebalancing may help support your investment goals.



The effect of rebalancing

Using several hypothetical portfolios as examples, the graph below shows how annual rebalancing over the last 20 years would have changed each portfolio's risk and return characteristics.

For example, annual rebalancing of Portfolio I (which holds 50% in shares and 50% in bonds) improved average annual return by almost 1% each year, while also reducing risk. Similar results can be seen for other portfolio allocations.



This graph demonstrates the concept of annual rebalancing in action. It does not relate to the performance of the Openwork Graphene Model Portfolios, which rebalance twice-yearly. You should not use past performance as a suggestion of future performance. It should not be the main or sole reason for making an investment decision.

Is your home winter ready?

Home checks and improvements are rarely considered top priority (or particularly appealing) at this time of year. But braving a few chilly hours outdoors could save you time, stress and potential expense further down the line.

With the cold, wet weather beginning to close in, now is the time to ensure your home is prepared for winter.

Should you be unfortunate enough to suffer the effects of flood or weather damage to your property, your home insurance should help limit the financial impact of repairing your home.

But spending an afternoon making sure you have your insurance details to hand, checking your property and making a plan to guard your home against bad weather can go a long way towards avoiding the problems that damage to your home can bring.

Counting the cost of claims

Between 23 December 2013 and 28 February 2014, there were 448,300 storm claims, costing insurance companies £640 million¹. Floods alone generated 18,700 of these claims, with the damage they caused costing £451 million to repair. Around £30 million of this figure was spent on alternative accommodation for 2,900 flooded households, with an average estimated cost per affected household projected to be £11,000.

If you'd like help reviewing your existing Home Insurance policy, please get in touch.

Our four top winter tips

Here are four tips to help you protect your home from the winter weather:

- 1** Leave your central heating running; not on a timer, but at a constant temperature (the coldest time is likely to be between 1am and 3am). If possible, leave it running in all rooms.
- 2** If you know you're going to be away, either leave the heating on or drain your water and heating systems. If you have a property that is unoccupied, drain the system. Remember to leave your insurance details with a trusted friend or neighbour.
- 3** Check the lagging on your pipes and water tank, and pay a visit to the loft if you have one. If you have enough constant heating in the house, it will prevent the water tank from freezing. The most likely effect of the sub-zero temperatures in the home will be frozen pipes and water tanks.
- 4** Check your home's level of flood risk at the Environment Agency website (www.environment-agency.gov.uk) by registering for its free flood warning service. If you believe your home is at risk of flooding, prepare by buying and installing flood products in advance.

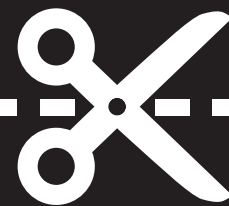
¹ www.abi.org.uk/Insurance-and-savings/Topics-and-issues/Flooding/2014-floods-in-numbers



As well as taking the steps opposite, it is worth reviewing your buildings and contents insurance. Not all policies provide the same level of cover for floods and the provision of temporary accommodation, so make sure you review the features and benefits of your policy.

Why mortgages and life cover go hand-in-hand

HOW TO TRIM YOUR LIFE INSURANCE BILLS



As you might expect with life insurance, the younger and healthier you are the cheaper your monthly premium is likely to be. But while there's no 'cure' for ageing, there are other ways to cut the cost of life cover.

Give up smoking

Smoking can lead to heart disease, lung cancer, emphysema and many more debilitating conditions, increasing the likelihood that you'll make a claim. This forces insurance companies to increase rates for smokers. If you can stop and remain a non-smoker (to be classed as a non-smoker you must not have used any tobacco products in the last 12 months), you'll improve your health and many insurance companies will reconsider your premiums.

Lose weight

Generally speaking, the more overweight you are the higher your premium is likely to be. Insurers calculate premiums in bands rather than by exact weight, so if you can lose enough excess weight to move down to the next band your premiums could also reduce.

Talk to us about how a healthier lifestyle could reduce the cost of your life cover.

Your mortgage repayments probably swallow a significant chunk of your monthly income. But could your family meet those repayments if your income was to stop?

For most people, buying a house is the ultimate financial commitment. Aside from finding a deposit - which could all but wipe out your savings - your monthly repayments probably represent the biggest drain on your income.

When taking out a mortgage, it's essential to consider how your family would continue to cover your mortgage repayments if your income stopped as a result of illness or even death. There are a number of options that could meet this need:

Life Insurance

If you died suddenly, a Life Insurance policy would pay out a cash sum to your dependants. They could use this to pay off the mortgage and keep a roof over their heads.

Critical Illness Insurance

Critical Illness Insurance pays out a lump sum if you're diagnosed with a specified critical illness such as cancer, stroke or heart attack. You can use the cash payout to clear your mortgage, pay for medical treatment, take time to recuperate or anything else you choose.

Income Protection

Income Protection can replace part of your income if you're unable to work for a long time due to illness or disability. It will pay out until you return to work or the policy ends - whichever happens first. Income Protection plans usually have a waiting period before the benefit becomes payable. Some plans have the facility to add unemployment cover.

Some protection plans can contain multiple elements of the above.

Choosing to protect yourself

When we advise you on a mortgage, we will also discuss your life insurance and protection options with you. What's more, we will complete a comprehensive analysis of your lifestyle and protection shortfall and recommend a plan that will protect you and your family from the financial difficulties associated with serious illness or death.

Ultimately it will be up to you to decide whether to accept that recommendation, but it's worth remembering the facts. One in three¹ people in the UK will develop some form of cancer during their lifetime - a diagnosis that could impact your income and your ability to pay the bills (including your mortgage).

With the right protection in place, the added burden of financial worry could be avoided altogether.

¹ www.cancerresearchuk.org/cancer-info/cancerstats/keyfacts/allcancerscombined/

To discuss your mortgage protection needs, please get in touch.

Putting a price on parenting



No matter what role you play in a family, you're bound to make a valuable contribution. But have you ever calculated the financial value of that contribution?

If you're a parent, you'll know how much hard work goes into running a household, not to mention how expensive it can be. You'll also know your value as a parent is much more than just the income you might bring into the home. Each contribution you make – whether it's childcare, housekeeping or any other activity – is worth something, regardless of whether you're in paid employment or not.

The value of parenting

Insurance provider Legal & General has published research¹ that attempts to put a financial value on your contribution to your household. It estimates that it would cost:

- £31,627 a year to replace a Mum
- £23,971 a year to replace a Dad

Replacing either parent's input – financial or otherwise – would be a real challenge for any family.

¹ www.legalandgeneral.com/life-cover/confused-about-life-cover/articles-and-guides/value-of-a-mum.html

Research carried out on Legal & General's behalf between 18 and 25 January 2013.

² www.legalandgeneral.com/library/protection/sales-aid/W13413.pdf

³ www.moneyadvice.service.org.uk/en/tools/cost-of-childcare-calculator

⁴ www.legalandgeneral.com/life-cover/confused-about-life-cover/why-life-cover-matters/

Don't forget the grandparents

But it's not just the value of a parent's contribution that can be measured in this way. Legal & General found that 66%² of parents questioned said they can only work because of help from a grandparent. If you're a grandparent, you may be:

- contributing to the care of a grandchild
- paying towards the education of your grandchildren
- helping cover mortgage payments for your grandchildren
- investing to meet future costs of private education, higher education or a first home purchase

If you're doing any one of these, you may want to consider what would happen if you weren't able to continue those payments or ongoing investments because of ill health or death. It's worth bearing in mind that the Money Advice Service estimates it costs:

- £266 a week for a full-time nursery
- £256 a week for a childminder
- £495 a week for a live-in nanny³

Is your family protected?

If the worst were to happen, you'd be losing more than a loved one. As a parent or a grandparent, you should regularly review your personal protection plans to make sure you have sufficient cover in place. Doing so will help ensure your family has the financial strength to overcome the worst type of upheaval, should it ever occur.

Please get in touch to discuss your family protection needs.

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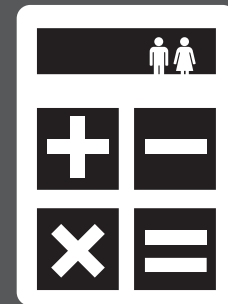
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WANT TO KNOW THE TRUE VALUE OF YOUR CONTRIBUTION TO A HOUSEHOLD?

TRY USING THE ZURICH 'RUNNING A FAMILY' CALCULATOR

Search 'Zurich family calculator', or visit www.zurich.co.uk/life/lifeinsurance/understanding-life-insurance/running-a-family-calculator.htm

Please note that while we have included Zurich's calculator, we are able to offer protection products from a number of providers and once we have discussed your requirements in detail we will recommend the most suitable product and provider.



HOW MUCH DOES YOUR CHILDCARE COST YOU?

VISIT THE MONEY ADVICE SERVICE 'COST OF CHILDCARE' CALCULATOR

Search 'MAS childcare calculator' or visit www.moneyadvice.service.org.uk/en/tools/cost-of-childcare-calculator

