

How will changing working patterns affect your pension?

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# Viewpoint



# How will changing working patterns affect your pension?

The sooner you start saving, the healthier your pension pot is likely to be when you need to draw on it.

But what happens to your pension planning if your working hours reduce, or stop?

## First things first

If you join a company you may be enrolled into their workplace pension scheme which, in most cases, your employer will also pay into. The self-employed, on the other hand, should set up a personal pension, which come in the form of a basic personal pension, stakeholder pension, or Self Invested Personal Pension (SIPP).

Workplace pension schemes will have minimum contribution levels, but you should save more if you can. In fact, some commentators suggest that if you take the age you start your pension and halve it, that's the percentage of salary you should save each year.

What's more, as your earnings increase it makes sense to save more into your pension if you can afford to. There's no limit on how much you save, but there are limits on the amount of tax relief you'll receive.

## To find out how much your retirement might cost, it's helpful to ask yourself:

- When do you want to retire?
- What do you want from your retirement?
- How will your spending habits change?
- Would you move, or stay in your current home?
- Will you continue doing some form of paid work after retirement?
- Will you be entitled to the full State Pension?

**Whether you're employed, self-employed, part time or full time, please get in touch with us to explore your pension planning options.**

The value of investments and any income from them can fall as well as rise. You may not get back the amount originally invested. HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

## What if your working patterns change?

If you reduce your hours your contributions may also reduce, so you'll need to consider how that impacts your retirement planning.

Working part time won't affect your state pension entitlement providing you earn at least £166 per week. Entitlement depends on your National Insurance contribution history and if your part-time earnings are lower than the threshold you might be able to pay voluntary class 3 NI contributions to plug the gap.

If you need to take time off work, you and your employer will carry on making pension contributions if you're taking paid leave. The same applies for maternity and other paid parental leave.

If you're taking maternity leave and not getting paid, your employer still has to make pension contributions in the first 26 weeks of your leave (Ordinary Maternity Leave). Whether they continue making contributions after that will depend on their maternity policy, so it pays to check.



# The factors influencing your pension choices

Planning the best way to draw your pension savings is not straightforward, after all, there's no 'one size fits all' when it comes to retirement.

Life expectancy, the impact of inflation and the choices available at retirement (thanks to the 2015 Pension Freedoms) are all influencing factors in your decision making. You'll also need to take into account not just your pension savings but any other investments or assets you might have.

## Your pension choices

If you're aged 55 or over and in a defined contribution pension plan from 6 April 2015, you may be able to access your pension savings in a number of different ways:

- Buy an annuity
- Flexi Access Drawdown
- Uncrystallised Funds Pension Lump Sum (UFPLS)

If you decide not to purchase (or defer the purchase of) an annuity and instead take income using Flexi-access drawdown or UFPLS, adopting the right investment approach and keeping it regularly under review will be all important.

## A question of balance

Balancing the potentially conflicting needs of income production and capital preservation is vital. Equally important is an understanding that personal circumstances will change throughout your retirement.

## The three 'stages' of retirement

### The early years

You're more active and therefore might want flexibility over how you draw your income.

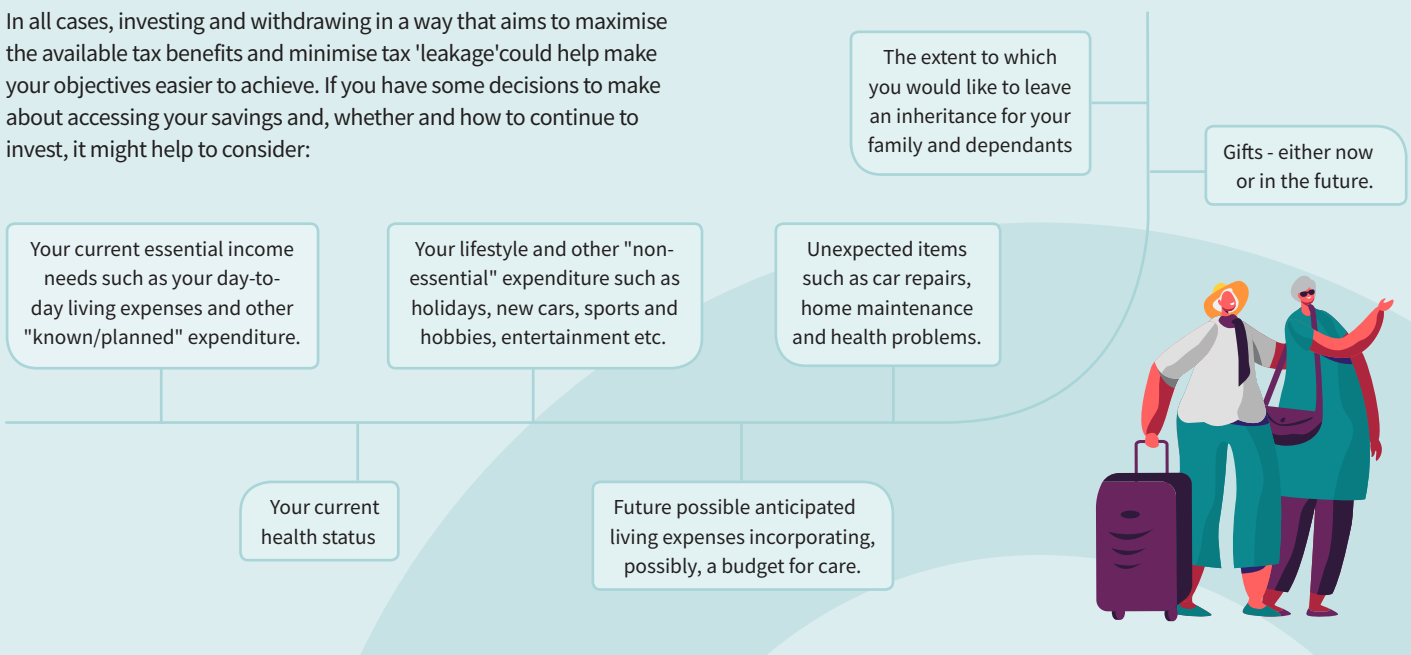
### The middle years

You're getting slightly less active and your lifestyle has settled into a more stable routine, so you'll need a more stable income level.

### The later years

You may need to increase your income to cover, for example, the cost of care.

In all cases, investing and withdrawing in a way that aims to maximise the available tax benefits and minimise tax 'leakage' could help make your objectives easier to achieve. If you have some decisions to make about accessing your savings and, whether and how to continue to invest, it might help to consider:



**If you'd like advice on how you can make more of your investments and pension savings in retirement, or you'd like to find out more about pension death benefits, please get in touch.**

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# When lightning strikes

In July 2015, Mark received a call from someone telling him his house in County Durham was in flames and that a team of firefighters were currently at the scene.

He hung up – first, not quite believing what he'd heard was true – it must be a work colleague playing a prank! But when the police called back, Mark soon realised this wasn't a joke; it was a real problem that required his urgent attention.

Mark had moved out of the house and in with his partner a few months earlier, and was currently renting it out, hoping it might be a good investment. From the moment he took the call though, he started to worry he might have made a big mistake.

The cause of the fire was a lightning bolt, which had gone straight through the roof and into one of the bedrooms. The house was now uninhabitable and, as well as having a significant re-build project on his hands, Mark also had his tenants to consider, not to mention a potential loss of rental income that was currently covering his mortgage payments.

Fortunately, Mark had taken out appropriate insurance with a financial adviser at his local estate agent. They had recommended specialist Landlord's cover with Paymentsshield, knowing that it was competitively-priced and that he would be covered should the property become uninhabitable.

Obviously the repairs to the house weren't going to happen overnight, which meant that Mark's tenants would need to be re-housed. Fortunately, his insurance covered the referencing fees to help them find a new property and, to Mark's amazement, it also covered his loss of rent while the work was being carried out.

Mark still had a mortgage on the property and relied on the rent to meet his monthly payments, so knowing he would continue to receive this income was a huge relief. He didn't even have to get too involved with restoring the property; the Paymentsshield insurance team managed all the details and kept him fully updated on progress. Other than a small excess, Mark's claim pay-out covered the majority of the work.

It's not every day you get a phone call at work to say that your house is on fire after being struck by lightning.

**But that's the whole point of insurance; it's there to protect you when the unexpected happens.**

Luckily for Mark, he was covered by this random act of nature, but without the right advice and the right policy, he might not have been so lucky.

**For trusted advice on home and contents insurance, please talk to us.**



# Investing for the next generation

In the early years this might translate into a surplus of toys or days out, but this stage eventually passes and thoughts turn towards the future transition from child to adulthood and beyond.

This longer-term perspective raises the question of how best to provide financial support through, what could be an expensive transition and inevitably this leads to a variety of issues:

- Are there particular needs which should be targeted or is it more important to have money available as and when your child needs it?
- Which investments would be appropriate?
- Is it possible to put some parental or other controls in place for when children can access the investment?
- Which are the most tax-efficient investments?

## Investing for life's key events

For today's children, the path through the early years of adulthood might cost rather more than that of their parents - and grandparents:

**Higher education** may be seen to be more important for gaining a reasonable job, but it also comes at a much higher cost. Taking into account tuition fees, accommodation and living expenses, a three-year degree is likely to cost the poorest students more than £50,000 according to a 2017 Institute of Fiscal Studies report. Before 1998, there were only grants and loans for tuition fees did not begin until 2006. Your generation may have left university with a bank overdraft, but the sum owing probably pales into insignificance compared to the five figure debts faced by today's graduates.

**Marriage** is an increasingly costly staging post for those who choose it. According to the annual wedding survey by Bridebook.co.uk the average cost of a wedding in 2018 was just over £30,000! Despite the cost, two thirds of couples questioned in the survey admitted to either going over budget or having no budget at all.

Getting on the first rung of the **property ladder** is another growing cost for the next generation. According to research by Halifax, first time buyers are having to find record deposits, with the national average exceeding £33,000. It's no surprise people are having to leave it until later to buy their first home.

Once they have the degree, the job and the home (and the mountain of debt), there's another long-term financing requirement which today's children will encounter: **retirement provision**.

## Take expert advice

Two principles that apply to many aspects of financial planning are particularly relevant when thinking about children:

1. The sooner you start the better, and the more scope there is for investments to grow (although there's still no guarantee that they will).
2. Take expert advice before making any decisions. The right investment set up in the wrong way can be worse than the wrong investment set up in the right way. DIY planning is not to be recommended, given the potential pitfalls.

## If you want to help your child progress through this financial landscape, please get in touch.

The value of your investments and any income from them can fall as well as rise and you may not get back the original amount invested.



# Is joint life cover best for couples?

If you want to help make sure your loved ones will have financial security if you pass away, life insurance cover is the answer. But, if you're part of a couple and you both need cover, should you take out single policies, or a joint policy that covers both of you?

With a single life policy, the insurer would pay out on the death of the policyholder and the policy would then lapse. With joint life insurance, however, the cover will apply to both policyholders and would pay-out either on the first or second death, depending on how the policy is set up.

Before you decide whether to take out single or joint life insurance policies, you'll need to decide what type of cover you need, and this will depend on your circumstances:

- **Term Assurance:** pays out a lump sum if you die within the agreed 'term' (ie. the amount of time you've chosen to be covered for). Term Assurance is typically taken out to protect a mortgage and, as such, can come with a level, or decreasing, sum assured - the latter reducing as you pay off your mortgage.
- **Whole of Life Insurance:** pays out a lump sum when you die, whenever that is - as long as you're still paying the premiums.

- **Family Income Benefit Insurance:** pays out a regular income, instead of a lump sum, to provide ongoing financial support for those who depend on you.

You could also add critical illness cover to your life insurance policy, which means you'll get a pay-out if you're diagnosed with a serious illness and your claim is accepted. The type of conditions covered can include cancer, heart attack and stroke and will depend on the insurance provider.

## Weighing up the benefits

Once you've agreed on the right type of cover, there are a number of other factors to consider to determine whether single, or joint life cover is best for you and your other half, including:

- **Cost:** a joint life policy may be less expensive than two single life policies. Level of cover - if your partner earns more than you you might want them to have a higher level of cover, since the financial impact of their death would be greater than yours. In this respect two policies may be better as they will have different sums assured.
- **Existing cover:** either, or both of you may have existing life cover through your employer, or an existing plan. It's important to check what's already in place so that you have a true picture of your protection shortfall. You don't want to pay for something that's already covered.
- **Your relationship:** It's not necessarily something you want to think about but some insurers include a separation benefit. This means if your relationship breaks down during the policy term, you could cancel it and start two individual policies without having to provide additional medical information.



**If you're not sure whether single or joint life cover is best for you, or you'd like to review your existing cover, please get in touch.**



# Practical ideas for downsizers

Getting fed up of everyone coming round to yours for Christmas?

Or are you rattling round a large house because your kids have grown up and flown the nest?

Or perhaps you've found a lovely little property in a part of the country you've always wanted to live?

Whatever your reason for downsizing we've got some practical steps to help you make the most of the move...

## Measure up

Whether you're moving into a two-bed bungalow or a one-bed flat, you'll still need to know how much less space you'll have in your new home so that you can take your treasured furniture and possessions with you. Most estate agents provide online floorplans but if not, make sure you contact them, or the seller, to get the measurements.

You can then check the size of larger pieces of furniture you want to take with you to make sure they fit. And not only that, but they can be angled around tight hallways or doorways.

## Declutter

There are a million and one self-help books and TV shows that tell you how they think you should declutter. It may be emotional, but it can pay to be both practical and cutthroat. Divide everything up according to its fate: 'keep', 'sell', 'donate' (to family or charity), 'recycle' and 'bin'.

Be practical - especially when it comes to larger items. Do you really need three extra duvets? And when scouring through cupboards and other storage, if you find something that's been at the back of a cupboard for 10 years you can probably assume it would do the same in your new home.

Don't feel as though you have to give up all those sentimental items though. If it 'brings you joy', keep it. And lock-up storage can be very reasonably priced if you have to resort to it.

## Don't forget the costs

Moving to a smaller home may well help you save money on things like gas and electricity, council tax and general upkeep, but remember you'll be incurring costs when you move. Stamp Duty Land Tax (or Land and Buildings Transaction Tax/ Land Transaction Tax), solicitors fees, surveys and valuations can all add up.

Planning your downsize and budgeting for the costs involved in the move will help to make it a simple and stress free exercise.

**If you're thinking of downsizing, we can explore your options and discuss changes to your financial plan that can help to make more of your new circumstances.**

# Coming to the end of your interest-free equity loan period

The government launched its Help to Buy equity loan in April 2013 and since then 210,964 properties have been bought under the scheme.

First-time buyers and people moving to a new-build home worth up to £600,000 have benefited from the scheme, which provides an equity loan of up to 20% of the cost of the property interest free for the first five years. But what happens when you come to the end of the interest-free period?

## Continue paying

If you haven't paid your equity loan off by the end of the five-years, you'll be charged 1.75% interest on the outstanding loan amount and this will increase by the Retail Prices Index (RPI) plus 1% each year.

## Sell the property

If you choose to sell your home, you'll need to repay the equity loan in full. If the value of your property has stayed the same and your loan was 20% then your repayment will be 20% of the value of your home.

If the value of your home has increased or decreased the amount you pay will change by the same percentage. So, if your home is now worth 5% more than when you originally bought it you'll owe an extra 5% of original loan value.

## Remortgage and keep the loan

If you want to remortgage and keep your equity loan, the new mortgage must not exceed the current mortgage and cannot be longer than the entire term of the existing mortgage. For example, if you remortgage five years after taking a 25 year Help to Buy equity loan, your current mortgage must not be longer than 20 years. You will of course have to start paying interest on your equity loan.

## Remortgage and pay the loan

If you choose to increase your borrowing to remortgage to pay the equity loan off in full you'll need to be aware of any changes in the size of your equity loan just as if you were selling.

If your original equity loan value was £20,000 – below is indicative values of the amount owing when you come to sell

House value decreased 5%

£19,000

House value the same

£20,000

House value increased 10%

£22,000

**Your home may be repossessed if you do not keep up repayments on your mortgage**

There are a number of options when it comes to the end of your five-year equity loan period. Contact us and we can discuss the right option for you.

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