LFAMONEYTALK

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Six pension mistakes you can't afford to make

Putting a scarlet sock in the white wash might be crushing for a week, but make a mistake with your pension and you could pay for it for the rest of your life. Here's the low-down on what not to do.

Assuming your employer's scheme plus your state pension will be enough

Most people need some form of additional pension to live comfortably when they retire.

Putting it off

You know you should start saving for your future and you fully intend to but just not today. You might want to rethink this one. Because if you put it off, it's not just what you could have saved that you'll miss out on. You'll also be kissing goodbye to any tax relief you'd get on your payments – this can help boost your pension fund.

How your investments perform and importantly, how long you've been saving for also help determine how much you have when you retire. So, if you put off saving in a pension, you'll have to pay a lot more in to make up for lost time and you'll miss out on the effects of potential compound growth.

Compound growth, eh?

It sounds a bit complicated and we won't go into the formula of how it's worked out, but put simply, compound growth is the force that can help grow your pension fund. Think of it as growth on the growth that helps savings grow at a faster rate than simple growth.

Not saving enough

Well you're not alone on that front. According to the Money Advice Service, 'More than half of people in the UK either aren't saving at all for their retirement or they aren't saving nearly enough to give them the standard of living they hope for when they retire.'* But how much is enough? Well, it depends on what you want in retirement and what other savings you've squirrelled away. To get an idea of how much you might need and how much you might get, seek professional financial advice.

Thinking your home is your pension

Come retirement, you may find yourself in the lucky position of living in a mortgage-free house that's too big for you. You might think you will sell up to buy something smaller and use the equity left over to fund your retirement. For a start, you may not be ready to sell – and even if you are, it could take time to find a buyer at the price you need. Then there are the moving and legal costs.

Opting out of your employer's pension

Did you know if you opt out of your employer's pension scheme you could also be waving goodbye to potentially thousands of pounds? That's because when you pay in, your employer will usually pay in too – as long as you're still employed there. And they might match your payments, so the more you pay in, the more they might pay in too – check your pension plan documents to find out what your employer will pay.

Not keeping track of your pensions

Do you know how much your pension is worth? Do you know how many pensions you have or where they are? How about the type of funds they're invested in or how much risk is involved? If you passed on any of these questions, it's time to take stock and review your pension.

A good rule of thumb is to check your pension savings at least once a year. Find out if your pension is on track to give you a retirement you'll love by speaking to your financial adviser.

* Source: moneyadviceservice.org.uk as at June 2016.

Also in this issue

Find out more

If you would like to find out whether you are saving enough for a comfortable retirement call Richard Cakans, Professional Financial Adviser on 07946 438807 or email richard.cakans@lighthousefa.co.uk.

The value of your investments can go down as well as up, so you could get back less than you invested. A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

Lifetime ISA set to boost savings for the under 40s

Lifetime ISAs will offer flexibility and attractive benefits for people under 40 saving to buy their first home and for retirement. Here we look at what is likely to make them the savings vehicle of choice for younger people.

Data shows that there could be a healthy market for Lifetime ISAs, including among people saving for retirement. According to research conducted for the Scottish Widows Retirement Report, at least 46% of people in their thirties are saving for retirement outside their existing pension.

The typical extra amount these people are saving is £150 a month. This could already be in a current ISA and it suggests that a significant number of people could switch those savings into a new Lifetime ISA.

The new accounts, which will be available from 6 April 2017, will have a number of attractive benefits. They will allow people between the ages of 18 and 40 to save a maximum of £4,000 a year for retirement or to buy their first home.

Tax benefit and bonus – if you meet the criteria

Savers will receive an upfront tax benefit of 25% on all money they invest in a Lifetime ISA up to the age of 50, which is a bonus of £1,000 a year on the maximum investment. Withdrawals are also tax-free from age 60 and, assuming this benefit stays in place until they retire, it will give savers a valuable double tax relief boost.

Many people will also find the dual purpose of Lifetime ISAs attractive. Savers can use some or all of the money to buy their first home, although the properties they buy must cost less than £450,000, and keep the tax benefits. Or they can keep it until 60 and use it to supplement their retirement income.

Access to your money

Crucially, the money is not tied up – savers can withdraw it before they are 60, but if they do (unless it is to buy their first house or are terminally ill) they will lose the government bonus, and any interest or growth on this, and pay a 5% charge. The Government is also consulting on whether savers could withdraw the money with benefits intact for any other life events.

Incentive to keep your money invested until retirement

Ian Naismith, head of pensions development at Scottish Widows, says one of the main reasons young people do not save into a pension is their concern that they won't be able to access their money until they reach the age of 55, or even older in the case of some people.

He added that the Lifetime ISA has a clever design in that it addresses this concern while also providing a strong incentive to keep the money until retirement.

As such, it could have broad appeal for people looking for a flexible top-up to existing pensions. However, Mr Naismith emphasised that the biggest beneficiaries would be the self-employed. "The self-employed do not currently save a lot for their retirement," he says. "It is really important that they are given more suitable incentives and education to do that. The Lifetime ISA will help."

Not a replacement for employers' pension scheme

He also gave a strong warning that employees should not see the Lifetime ISA as an alternative to an employer's pension as its benefits, especially the employer's contributions, make them much more attractive.

Savers can use some of or all the money to buy their first home, although the properties they buy must cost less than £450,000, and keep the tax benefits. Or they can keep it until 60 and use it to supplement their retirement income.

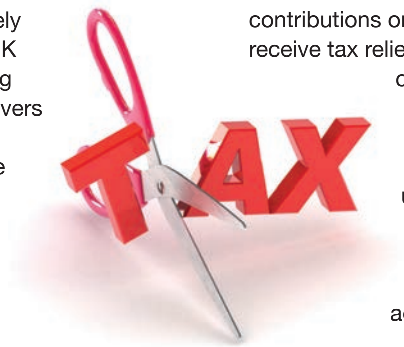
Find out more

If you would like to find out more about Lifetime ISAs call Richard Cakans, Professional Financial Adviser on 07946 438807 or email richard.cakans@lighthousefa.co.uk.

Optimise your tax: use your reliefs and allowances

Britons are likely to waste £4.6bn* in 2016 by not taking advantage of tax reliefs and allowances created for them by the government. Three in five taxpayers admit they haven't done anything to reduce their tax waste in the last year.

£1.9bn* tax relief is likely to be wasted in the UK in 2016 by not utilising pensions. 47%* of savers think they are already paying as little tax as they could. We look at what you can do to optimise the amount of tax you pay.



Your savings

You could keep more of your savings in an Individual Savings Account (ISA). In the 2016/17 tax year you can save as much as £15,240 into an ISA and then take any growth and income tax-free.

Your investments

Other than gains on residential property, you'll pay capital gains tax at 10% on any gains that fall within any unused basic-rate tax band you have. And you'll pay it at 20% on any gains that fall outside your basic-rate tax band. However, you only pay tax on the amount of any gain above the capital gains tax exemption. For 2016/17 this is £11,100.

You can sell any assets you have that are not in an ISA or other tax-free wrapper for a gain up to the annual capital gains tax exemption (£11,100 in 2016/2017) without having to pay tax (in that tax year) – use it or lose it! Please remember if you're married or in a civil partnership, spouses and civil partners are treated as separate individuals so each has their own annual exemption.

Your retirement plan

Pensions can be the most tax-efficient way to save. For example, a basic-rate taxpayer only has to pay in £800 to have £1,000 invested in their pension pot. You should get tax relief on pension contributions you make. This is limited to the higher of £3,600 or 100% of your relevant earnings capped at £40,000 before tax charges may apply. This £40,000 is known is your annual allowance. Your employer will also make contributions on your behalf. Whilst you will not receive tax relief on their contributions, what they contribute will count towards your annual allowance.

It may be possible to use up any unused allowance you have from the previous three years. This is a complicated area so it's important that you speak to your financial adviser about it.

Your estate: the total value of what you own

There is a lot you can do not only to make sure that your estate (the total value of everything you own) goes to who you want, but also to minimise any inheritance tax that might be payable.

Inheritance tax is paid at a rate of 40% on the value of your estate above your nil-rate band. The nil rate band for an individual in 2016/17 is £325,000. Ways of reducing the amount of inheritance tax payable include:

- making gifts
- using trusts
- leaving gifts to charity.

You should seek professional advice to ensure you make the right decision at the right time.

* Source: unbiased.co.uk.

Find out more

If you would like to find out how you may be able to optimise the amount of tax you pay call Richard Cakans, Professional Financial Adviser on 07946 438807 or email richard.cakans@lighthousefa.co.uk.

Ways of optimising the tax you pay:

- **make sure you use as much of your ISA allowance as possible**
- **take advantage of your capital gains tax exemption**
- **make the most of the tax relief you get when making pension contributions**
- **reduce the value of your estate to reduce inheritance tax that might be payable.**

The value of your investments can go down as well as up, so you could get back less than you invested. A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

Tax advice which contains no investment element is not regulated by the Financial Conduct Authority.

The information is based on our understanding, as at May 2016, of current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice.

Financial protection: can you afford not to have it?

We can never be sure what's waiting for us round the next corner. It could be great – a new job, a new baby or even a lottery win. But sometimes, life throws the unthinkable at us.

Many of us know someone who has died young or even heard of someone's battle to survive a serious illness Anyone who's seen a family trying to deal with these things will know that the financial and emotional impact can be devastating. We think it'll never happen to us, but it could. And having protection insurance can make dealing with the consequences a lot easier.

Life cover – financial protection if you die.

Most people who buy life cover buy just enough to pay off their mortgage if they die. But is this really enough? For most of us, our mortgage is only one of the many financial commitments we have. Credit cards, personal loans, council tax, childcare costs, food and utility bills are just some of the other regular payments that we have to make. And most of these commitments wouldn't go away if one of the breadwinners died.

You can buy life cover that pays out as a lump sum or a monthly income to cover the bills if you have to make a claim. You can even combine both types of payment in one plan to give your family protection that covers the mortgage and provides the income they would need to live in the family home without you.

Critical illness cover

Critical Illness cover provides financial protection for you and your family if you become ill with one of a list of defined critical illnesses. If you were to become seriously ill tomorrow, what impact would this have on you and your family? And what would your priorities be? For most of us our biggest concern would be surviving the illness and recovering from it. But it can be difficult to focus 100% on getting better if you're worried about the next big bill that's going to come through the door. Sadly this is a reality for many families whose lives have been turned upside down by illness.

Income protection

Income protection can provide a monthly income if you become ill with an illness that may not be critical, but is severe enough to stop you from going to work for a long time.

The working world has changed dramatically in recent years. One thing remains constant however, and that's the fact that most of us need to work to pay the bills and to enjoy all the good things in life like holidays, cars and meals out. But bills don't stop arriving – even if we are very sick. If you fall ill or have an accident and are unable to work, the sudden loss of income could be devastating. Even if you don't earn an income but look after the home all day, it would be very expensive to pay someone to do all the work that you do.

It might cost less than you think

How much would you pay to know that your family are protected if you die or become ill? £10 a month, £20 a month, £50 a month, or even more? Perhaps that kind of peace of mind is priceless. And given the opportunity, wouldn't you want to make sure that your family would be financially secure?

It might cost less than you think and be more valuable than you can imagine. We're all different. What we need, what we can afford and what protection plan is right for us depends on the life we lead. Your financial adviser can tailor an affordable plan to suit your own personal circumstances.

Even a little protection is better than nothing. And protecting your family isn't only about making sure they have enough money. In the first days and weeks of coping with a life-changing event, being able to talk to an independent expert about your concerns and fears could be invaluable That's why some protection plans now offer more than a financial payout – they offer practical and emotional help and support for the whole family if you ever have to make a claim. So if it's a question of affordability, can you afford not to buy protection?

How much would you pay to know that your family are protected if you die or become ill? £10 a month, £20 a month, £50 a month, or even more? Perhaps that kind of peace of mind is priceless.

Find out more

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