ANGLO INTERNATIONAL
PERSONAL FINANCIAL MANAGEMENT

MoneyMatters

November/December 2014

More good news for *PENSIONS*

The million pound GUARANTEE

ISAs vs Pensions

It's a numbers game

When will YOU RETIRE?

THE Pensions Bill

● Lifestyle Protection ● Creating Wealth ● Tax Rules ●

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Savers could see deposits of up to £1m guaranteed as Bank of England looks to shake up savings protection

The Bank of England recently announced a shake-up of how savers would be covered if their bank went bust. The BoE is looking for banks to deposit up to £1million as cover for certain circumstances.

Such moves are as a consequence to remove the chaotic scenes witnessed in 2007 when there was a run on the Northern Rock bank. Money would be protected for up to six months, with cash also being moved into another bank.

Presently, £85,000 is protected under the Financial Services Compensation Scheme per banking licence if a bank or building society runs into trouble, this limit is set across the EU.

The new £1million limit would apply and support money temporarily deposited in a bank, where for instance house purchase capital is in transit or a personal injury claim is in process. This would cover roughly 99% of house sales in the UK.

As it stands customers, have to wait for their money up to seven working days under the current scheme, but under the new scheme it will be automatically transferred to another financial firm to avoid any confusion or delay when a business is failing.
This should enable faster access to their money.

The new bank in which the money enters would be chosen by a process that would see banks 'bid' for the customers.

The Bank of England has also set out plans to improve protection for insurance policies. The Introduction of 100% cover on the value of a product would be introduced, up from the current 90% figure.

This is for products where customers would be disadvantaged if they lost their cover, such as professional indemnity insurance or an annuity which is paying out.

The proposed increase for savers will bear a one-off cost of £390million, a bill in which 60 to 80% would fall on the biggest banks - the Bank of England stated the annual cost to the industry would be around £50million after the initial cost.

These potential rule changes are targeted to go ahead at the end of 2016 with the consultation finishing at the start of 2015.

Andrew Bailey, Deputy Governor of the Bank of England and Chief Executive of the Prudential Regulation Authority said: 'These proposals will allow customers to have continuous access to the money in their bank account or receive payment from the FSCS if this is not possible.'

'Additionally, the increase in FSCS limits for certain types of insurance will mean policyholders who may find it difficult to obtain alternative cover, or who are locked into a product, have greater protection if their insurer fails.'

When will you retire?

The Government wants people to continue working until they are 70 which in turn will delay even further the age at which people stop working and retire, according to plans from the Department for Work and Pensions.

The DWP's business plan, published in October 2014 stated 'good performance' on this score would be to raise average retirement ages by six months in a year, although it added that it would 'not normally expect' changes of this magnitude.

Retirement ages are on the increase and the Government welcomes this as it knows those nearing retirement are generally the higher rate tax payers and such losses to the Exchequer are hard to replace. Recent figures show that men retired at an average 64.7 years of age in 2014, compared to 64.5 in 2011-12. Women were retiring at 63.1 years of age in 2014, compared to 62.7 in 2011-12.

The state pension age, when people can begin to draw the state pension, is being raised and has a direct influence on average retirement ages and taxation income.
The DWP acknowledges that women's state pension age is rising far faster than for men. The faster rise in the state pension age for women, is being equalised with that of men at 65 by 2018. This is mostly responsible for the faster rise in women's average retirement ages.

The Pensions Minister Steve Webb suggests it's not simply the Government pushing people's retirement ages ever upward it's other factors too.

He said: 'Unplanned exit from the labour market can have catastrophic consequences for individuals' living standards into old age, and comes at great cost to the economy, business and society as a whole'.

'Having already abolished the discriminatory default retirement age, our focus now is on acting to prevent individuals being forced out of the labour market early, and where we cannot, supporting older workers to re-enter the world of employment.'

Successive Governments have identified getting people to work longer as key to putting the nation's finances on a sustainable footing. Some believe this is the first steps in the demise of the state pension as we know it.

Mr Webb said: 'If someone works an extra year they can add 10% to their pension for life. What we are doing is catching up with decades of longer living.'

'We are living longer but the labour market and people's retirement age has not been keeping up. I have fought against a vague target of trying to get people to work longer to have something more specific.'

Planned rises in the state pension age have been accelerated to help achieve this.

The current state pension age has been equalised for men and women so that, by 2018, everyone will only be able to claim a state pension when they turn 65, which is the current level for men.

Under Government plans, the age will then rise to 66 in 2020. In 2026 it will start to rise again so that it hits 67 by 2028.

In 2012, George Osborne confirmed that the Government will use an Office for Budget Responsibility report to create a solid link between the state pension age and rising life expectancy. It is likely to see the state pension age rise to 70 and beyond.

So the time has never been more right to plan for your own personal pension as it seems the state pension could be a long way off in the future.

The Government wants to raise the average retirement age by six months every year

PENSION TAX
warning on cash withdrawals

People taking advantage of a concession that will allow a pension fund to be used as a cash machine could be hit by large tax bills on their withdrawals.

The withdrawals system was announced recently by the chancellor as an extension of the groundbreaking pension freedom system that will take effect next April 2015. Under these complex reforms, the purchase of an annuity will no longer be compulsory and instead anyone over the age of 55 will be allowed to make regular withdrawals from a fund.

With an increasing number of unemployed older people many may be tempted into withdrawing cash from their pension for everyday living costs without assessing the possible pitfalls.

In some circumstances, tax at the rate of 45% could be deducted before the payment is made by the pension company, even though the recipient is not or has never been a higher rate taxpayer. This may be because an emergency tax code could be used by the pension company if it has insufficient knowledge of its customer's financial position.

However, only 25% of the fund will be tax free. Any further sums taken out will be subject to tax based on the individual's total earnings for that tax bill. People who do wish to withdraw funds from their pension can avoid having to pay emergency tax by ensuring that the pension provider is given proof of the individual's tax code for the relevant year.

If an emergency code is used and too much tax is deducted from a withdrawal, then this can be reclaimed. But Revenue and Customs does not make immediate refunds. The possibility that a large chunk of tax could be taken is yet another reminder of how carefully people must plan before seeking to benefit from the new pension freedoms.

Pensions Bill

Details of the new pension reforms first announced in the March Budget have been set out in the Taxation of Pensions Bill published on 14 October 2014.

Chancellor George Osborne said people should "be able to access as much or as little of their pension as they want and pass on their hard-earned pensions to their family's tax free." People should be "free to choose what they do with their money".

What does this freedom mean in practice? How will retirement be effected after April 2015?

The new rules apply to investors aged at least 55 who have a personal or stakeholder pension, a SIPP, an AVC or any other defined contribution pension and come into effect from April 2015.

How you take your 25% tax-free cash

Most people can take up to 25% tax-free cash from their pension.

From April 2015 you'll be able to decide how you take that tax-free cash: take it all in one go upfront or have a portion of any withdrawals you make tax free.

So, someone with a pension worth £100,000 will have the choice of:

Taking the £25,000 tax-free cash all at once, with any subsequent withdrawals taxed as income;

Making a series of withdrawals over time and receiving 25% of each withdrawal tax free. For instance, someone making lump sum withdrawals of £20,000 would receive £5,000 of each withdrawal tax free. Equally, someone taking an income of £1,000 a month would receive £250 of that payment tax free. Please note: this will not be available through an annuity.

The second option could be attractive because it could help you manage your tax liability.

In addition, whilst your money is in the pension, it can remain invested. So, if your investments perform well you could end up with more money available to withdraw over time. On the other hand, if your investments perform badly you could end up with less money available to withdraw.

Freedom in how you take your pension

The Chancellor has described pensions as similar to bank accounts. This is because from April 2015, if you're aged at least 55, you'll be able to decide how to make withdrawals from your pension:

1. Take the whole fund as cash in one go
2. Take smaller lump sums, as and when you like
3. Take a regular income (via income drawdown – where you draw directly from the pension fund, which remains invested – or via an annuity – where you receive a secure income for life)

Please remember though, any withdrawals in excess of the tax-free amount will be taxed at your marginal rate (the highest rate of income tax you pay).

Both annuities and income drawdown are already available under current rules.

However, whilst currently the income you can take through income drawdown is usually subject to a maximum decided by the Government's Actuarial Department (known as the 'GAD limit'), from April 2015 there will be no limits.

It will be your responsibility to decide how much income to take, bearing in mind the more you take, the greater the risk you will run out of money later in life. We don't know how long we'll live, so it's important to think carefully about how much of your pension you can afford to take out.

Investors interested in taking advantage of the new freedoms, but wanting to take their tax-free cash now and start drawing from their pension before April 2015 could consider income drawdown now and benefit from extra freedom from next year.

Freedom when you pass your pension on

Until now there was little incentive to preserve a pension fund, because on death it could be subject to a punitive 55% pension 'death tax'.

This has now changed.

From April the 55% pension 'death tax' will be abolished. When you die, any money left in your pension can be passed on to your beneficiaries. They will benefit from the windfall subject to income tax at their marginal rate, tax free or subject to a 45% tax (if you die after age 75 and your beneficiaries take your pension as a lump sum).

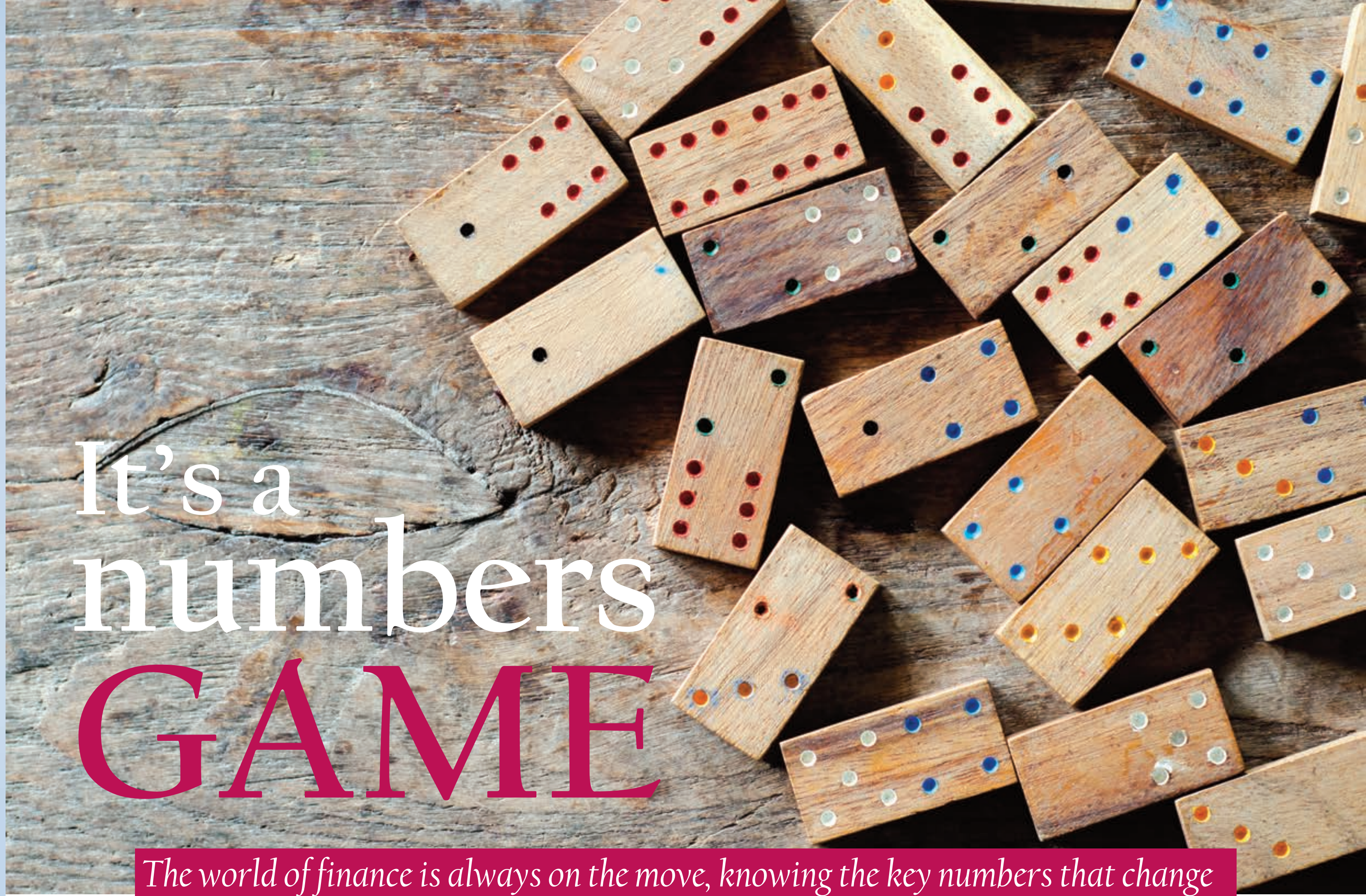
What happens if I'm already drawing my pensions?

If you're currently in income drawdown, you should be able to benefit from the new rules from April 2015.

If you've used the whole of your pension to buy an annuity, it's unlikely you'll be affected by the changes.

Investing

The new flexibility is making pensions extremely attractive. You can build up your pension fund, knowing from age 55 you can not only draw on your savings without the current restrictions, but also pass on any unused savings to beneficiaries' tax efficiently on death. However, with the freedom comes the responsibility of managing your pension responsibly.



It's a numbers GAME

The world of finance is always on the move, knowing the key numbers that change is essential. Just when we have got used to one set of allowances and tax breaks along comes the Government and shakes everything up again.

Budgets set by the Chancellor George Osborne always deliver a series of changes that leave people overwhelmed and confused. We look at the key numbers to hopefully encourage you to save more or avoid any hits that will eat into your pocket.

There are 1128 tax reliefs available to individuals and businesses, according to the latest report by the National Audit Office.

Most of the popular including ISAs, pensions and the inheritance tax nil-rate band threshold are shown below

£15,000 You can save £15,000 into an ISA each year from July 1 2014. It is the maximum amount you can save into a tax-advantaged each tax year (from April 6 to April 5).

The maximum ISA allowance of £15,000 will be universal. You can put it all in cash, all in stocks or shares or a mix of them both.

305 months It would take 305 months to save £1 million in a stocks and shares ISA, according to calculations by investment manager Fidelity. This assumes an investment today of the £15,000 limit. This example assumes the ISA limit is frozen for the next tax year of 2015-16 and then rises in line with inflation, then averaging 2.5 %, and 5% growth a year. This is only a model, but it does show the strength of constant saving.

£1.25 million Lifetime Allowance does put the bar onto how much you can save into a pension, this limit is on the amount of tax relief you are allowed. Break through this £1.25m limit, without protecting yourself and you will pay a tax change of 55% on any excess.

Individual protection is available if the value of your pension benefits at April 5 2104 exceeded £1.25 million. This provides you with your own personal lifetime allowance equal to your existing savings at the time, subject to a maximum of £1.5 million.

£26,760 By leaving it late you would have to invest £26,750 each year of your current salary if you started a pension at the age of 50 to be able to achieve a retirement income at 65 of £20,000 per year, assuming a growth rate of 5.5% and inflation at 2.5%.

£325,000 Inheritance tax is charged at 40% on the value of an individual's estate over the nil-rate band threshold, which is £325,000 for an individual.

However, IHT is not payable when an estate passes between a husband and wife or from one civil partner to another. Married couples or civil partners can transfer the unused element of their IHT-free allowance to their spouse when they die. A couple would therefore have a total useable tax allowance of £650,000 by doubling up their allowance this financial year.

£11,000 Capital Gains Tax (CGT) is an allowance that offers everyone the ability to make a profit of up to £11,000 in this tax year without paying CGT and the tax does not apply to transfers of assets between married couples or civil partners. Careful management means a couple can, therefore, make a profit of £22,000 and pay nothing. Beyond this basic rate taxpayers pay 18%, while higher rate payers pay 28%.

£6,000 Selling personal possessions, including books, furniture, old coins, paintings, etc, for less than £6,000, any profit is tax-free. The sale is CGT exempt, if the objects are owned and sold by a married couple, the exemption increases to £12,000.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

More good news for Pensions

Following the pension reforms introduced in the Budget this year, the Government has recently announced further changes to the tax treatment of pensions on death.

These new changes, which are yet to be confirmed, will make it possible for money purchase pension funds, including those already in drawdown, to be passed on to beneficiaries free of tax.

This should encourage investors to maximise their pension contribution allowances. You can now save into your pension fund, knowing you can now draw on all of your savings from age 55, but you can also pass on any unused savings to beneficiaries' tax free on death.

At present, it is only possible to pass on a pension as a tax-free lump sum if you die before the age of 75 and you have not taken any tax-free cash or income. If you have, the fund is subject to a 55% tax charge.

As of April 2015, regardless of when you die, you can pass on your pension tax free, provided your beneficiaries keep the money in a pension. Should they decide to make withdrawals, they only pay income tax at their highest marginal rate, providing you die after age 75.

This includes:

- Pension funds paid out from drawdown before or after age 75 from a standard pension will not be subject to the 55% tax charge
- Drawdown funds can be paid to inheritors as pension assets tax free
- Income taken from inherited pension funds is tax free if the member died before 75

The tables below show the difference between old and new rules at a glance.

The Inheritance Tax (IHT) rules remain the same for both old and new rules where pensions are usually held in trust outside your estate and therefore inheritance tax isn't usually applied.

Generally pension providers should allow you to nominate your beneficiaries, when you begin your pension. It should also be possible to change the beneficiary should your circumstances change over time. This nomination is not usually legally binding; however it does make your provider aware of your wishes.

It is expected that the new rules will be effective from April 2015. The information currently available suggests the announced death benefits flexibility will apply to death benefits paid after April 2015.

If you have already decided to go into drawdown, there should be no advantage in delaying. Even if the worst happened and you died before April 2015, your beneficiaries could opt to delay taking any lump sum payments until after April 2015.

Those currently in income drawdown should be able to benefit from the new rules from April 2015.

Those who have used their pension to buy an annuity, will be unaffected by the new changes. An annuity will stop on your death unless you have chosen to protect the income.

Death BEFORE age 75

	Old rules	New rules
Lump sum	Tax free or 55% tax if in drawdown	Tax free
Income	Taxed as income (via an annuity or drawdown) Option available only to dependents	Tax free if taken via drawdown Taxed as income if taken via an annuity Option available to any beneficiary

Death AFTER age 75

	Old rules	New rules
Lump sum	Subject to 55% tax	Subject to 45% tax (unless paid as income)
Income	Taxed as income Option available only to dependents	Taxed as income Option available to any beneficiary

Death benefits may be subject to a lifetime allowance tax charge.

VCTs

How we invest our capital has expanded dramatically over the years. Options range from individual company share ownership to more unfamiliar territory.

One "in vogue" option is Venture Capital Trusts (VCTs), they trade on the London Stock Exchange (LSE) alongside other publicly listed companies. They aim to produce a profit by investing in small, often unquoted, companies usually needing more investment to help them grow their business. VCT managers are extremely experienced; they use this experience to help the business grow, taking a hands-on approach, to the investee company by taking a seat on the board.

VCTs, don't invest purely for growth. VCTs often provide part of their investment as a loan to the merging business with a smaller amount in shares. Such loans can help generate an income, which is paid to investors in the VCT. When underlying businesses are sold, a portion of any gain is paid to VCT investors as a dividend.

Many VCTs pay a tax-free dividend of around 5%. The majority of returns from VCT investment come from dividends, rather than capital growth. However, the fact remains that investing in smaller companies is higher risk and VCTs are aimed at more sophisticated investors.

The Government offers generous tax relief to those who invest in new issues of VCT shares. An income-tax rebate of up to 30% is available on the initial investment, meaning a subscription of £10,000 in effect costs you £7,000. Up to £200,000 can be invested each tax year and there is no capital gains tax to pay on the disposal of VCT shares. Any dividends are also paid free of tax.

To qualify for the 30% income tax relief, you must remain invested for a minimum of five years. Investors might consider VCTs, once they have used up their pension and ISA allowances, given the tax breaks they offer.

VCTs do fit in an existing portfolio and should be viewed as a pre-retirement plan to help build up tax-free income until retirement. Many investors do consider VCTs as very high risk and, therefore, they are often completely overlooked or avoided.

There are risks, but it is spread by investing in a portfolio of companies. Since VCTs were introduced in the mid-1990s, managers have become more experienced in their field and often have a vested interest; so by investing their own capital alongside other investors, they have their own risk and reputation to consider.

If you have utilised your ISA allowance and contributed fully to your pension, you may want to take a closer look at VCTs.

'Inflation-proof' your income

Investing in the stock market is a popular way to generate additional income for those in retirement, especially with interest rates likely to remain low for the foreseeable future.

Shares offer the potential for significant long-term income growth. This is vital for those who may rely on the income from their investments for 20 years or longer. Even a relatively low rate of inflation will significantly erode spending power over the long term, so having a fixed income can be disastrous.

By investing in companies which pay rising dividends, investors can 'inflation-proof' their income – though of course it also means the value will inevitably fluctuate along with the share price. These are exactly the types of companies sought by equity income funds, which principally invest in companies with an attractive dividend.

Furthermore, these funds also offer the potential for capital growth, as they have an in-built 'buy low, sell high' discipline. Investing when a company is out-of-favour, and the share price depressed, should result in a boosted yield. If the value of the stock is then recognised by the wider market, the share price rises and the yield falls. The manager could then sell the stock at a profit, having enjoyed an elevated income stream. If markets go through a tough patch the income usually falls proportionately, meaning that the longer term value is eroded.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

Income Drawdown

The alternative to buying an annuity at retirement is Income Drawdown. You draw a variable income directly from the pension fund and the balance stays invested as you choose.

Being in total control of the pension fund is what gives income drawdown its appeal, but it comes with considerable risks, because it's you who decides where to invest, and how much income to take.

Many are now choosing income drawdown for a variety of reasons. We look at some potential investment strategies to consider.

Take tax-free cash with no income

Pensions normally allow 25% to be taken tax-free as cash from your pension, leaving the rest invested in income drawdown. There is no requirement to take an income if you don't need it.

A option could be to wait for the more flexible pension rules to come into effect in April 2015.

If you don't intend to take an income until later in retirement, you can probably afford to be a little more aggressive in your investment approach, keeping the fund invested in the stock market via investment funds, or if you have the appetite, directly in shares. Retirement can last 20-30 years, over this period of time shares have historically out-performed other asset classes such as cash, or gilts (Government bonds). Remember, though, there are no guarantees and any investments can fall in value as well as rise so you could get back less than what you invest.

Take a regular income

If your plan is to take an income from your drawdown fund then your investments need to keep pace with your withdrawals, or you may exhaust your fund. If you take too much and investments don't do as well as you thought, your fund value and future income will fall. Investing solely in cash will protect the value of the fund short term, but isn't so suitable long term as it is much less likely to produce the level of returns required to sustain your withdrawals.

An option would be to draw the income generated by your investments, leaving the investments themselves intact to grow over time. This is called drawing the 'natural yield'. Should markets fall, you should still receive an income whilst you wait for the capital to recover.

Use Diversification

Smoothing the volatility of shares can be found by an exposure through a collection of equity income funds. These aim to invest in firms that have the potential for rising dividends over the long term, whilst offering potential for your capital to grow. The fund manager spreads your money across a range of dividend-paying companies, spreading risk.

Additionally, to diversify your income further you could also consider bond funds, both corporate and Government bonds. The income they provide is still reasonably attractive in the current low interest rate environment, keeping in mind an unexpected jump in interest rates or rising inflation expectations would generally result in prices falling but, the income should remain the same.

With such a consideration an option could be strategic bond funds, where the manager has the freedom to seek out the best opportunities, while also having the ability to offer some shelter in tougher times.

Looking to maximise income

Capital withdrawals provide big injections of income but there are inherent risks with this approach, withdrawing capital when your portfolio is in decline will compound your losses.

There are steps you can take to reduce this risk. The first is to ensure your portfolio is diversified and not entirely dependent on the performance of the stock market. Funds have the potential to perform in a variety of market conditions.

Consider holding at least a year's required income in cash. If markets fall, having a cash buffer to draw upon allows you to watch market trends, whilst still receiving an income.

Reducing or stopping income withdrawals temporarily whilst the markets are in turmoil is also a strategy you can adopt, thus preserving your funds longer term.

Mixing your income

The main point to income drawdown is the income is variable and not secure. Yet in retirement, it's good to have some level of secure income to cover basic living expenses and bills.

You could use some of your pension to provide the security of an annuity with income drawdown. This option can offer the best of both worlds.

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How to transfer your stocks and shares ISA to another provider

With the recent shake up of Commissions, investors are witnessing many changes this year.

With trail commission on funds bought via investment platforms scrapped since 1 April 2014, many investment platforms have had to introduce new ways of charging for their services.

Platforms have now moved to charging either a percentage-based fee, a flat fee or a combination of the two. This makes it easier to compare different platforms.

This means, if you have a relatively small portfolio a platform charging a percentage based fee may be more competitive. If you have a larger portfolio, a fixed fee is likely to offer you the best option. Should you want to manage your ISA, it's important to know the dealing charges.

Also consider the type of investments on offer. Most platforms offer access to hundreds of different investments but there can be gaps, so make sure your favourites are available.

You can transfer an ISA to a NISA, a New ISA or even an ISA. They're all exactly the same thing.

Cash ISA transfer

If you find a better rate or you just want to consolidate your ISAs so they're all in one place and easier to manage, it's very simple to do and should take around 2-3 weeks. Contact the new provider, they will ask you to complete a transfer form and, if necessary, open a new ISA for you.

Do not withdraw the money yourself as it will lose its tax-free ISA status and make sure there are no penalties for switching, which could be the case with fixed rate deals.

Stock transfer

It is possible to transfer existing investments into an ISA wrapper, making them more tax-efficient. Currently the rules do not allow transferring directly into your ISA but, on a platform, the stocks and shares transfer process is still pretty straightforward.

'Bed and ISA' enables you to sell the shares then buy them back immediately from your ISA. There are a couple of points to be aware of when doing this.

First, the repurchase happens immediately after the sale to limit exposure to price movement, but you might get back a lower number of shares within your ISA. Commission, stamp duty and any bid offer spread absorbs them. Also, because you've sold shares you will realise any capital gains or losses.

A point to remember is that shares in a company Share Save or SAYE scheme can be transferred directly into an ISA, providing this happens within 90 days of the shares being released.

Stocks and shares ISA transfer

Transferring a stocks and shares ISA, especially if you find a more competitive platform is relatively easy:

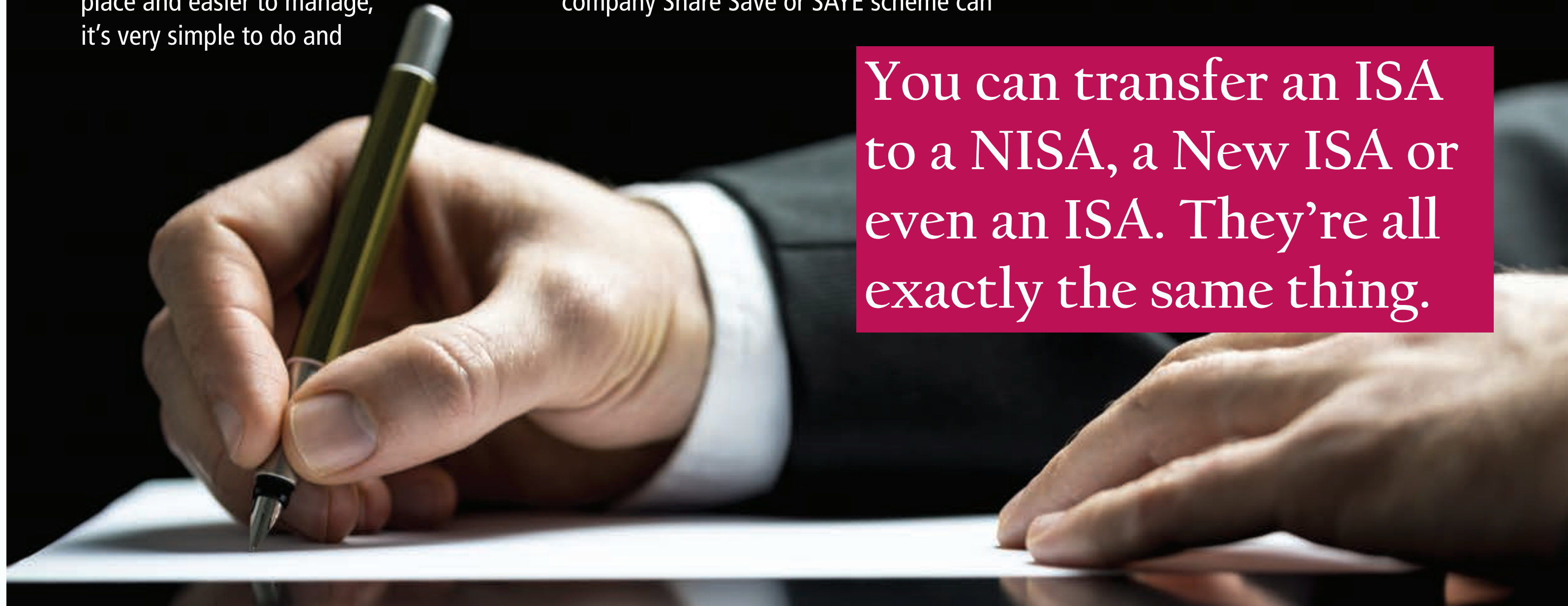
Contact the new provider and set up an ISA account with them.

Complete an ISA transfer form, which will request the ISA details you are transferring and how much of it you would like to transfer

Decide whether you want an "in-specie transfer", this is where your existing holdings are moved over or whether you are selling all or some of your holdings first and transferring the cash value.

Your new provider will notify you when your transfers are completed. HM Revenue & Customs has set a 30 working days time limit for transfer, however, some providers have been taking longer with transfers, particularly those that are in specie. Where this happens, you should contact the new provider. If are still not satisfied you can contact the Financial Ombudsman Scheme, who will investigate on your behalf.

You can transfer an ISA to a NISA, a New ISA or even an ISA. They're all exactly the same thing.



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Make your savings go further

Most working age people in the UK could make a dramatic change to their retirement stability by making some incremental changes to their saving habits, according to new research published by the Department for Work and Pensions (DWP). People are not saving enough to provide themselves the standard of living they are used to when they retire. It is estimated that around 12 million people in the UK need only to make modest changes to safeguard their financial future.

The DWP research suggests that landmark reforms of the State Pension system, working to introduce workplace pension schemes with auto-enrolment and efforts to help older job-seekers get back into work, are all playing a key role in tackling the problem of under-saving.

Many of the 12 million people who are saving too little are already on the right savings track and could safeguard their financial future by putting away just a little more. The analysis finds that of the 12 million, almost half are at least 80% of the way towards achieving their retirement income target, while only 8% are less than 50% there.

The Government's pension reforms have had the biggest positive impact on the lower earners, the focus is now on those people in the middle and higher income groups, who are amongst the worst. Whilst the problem is amongst all income groups, it is those in the middle and higher income groups who, statistically, face the biggest income hit when they take retirement.

The research shows that higher income groups could benefit significantly from higher contributions but recognises that, if set too high, these rates could, prove difficult for lower earners and encourage more people to opt out of workplace pensions entirely. The DWP is considering what work is needed to consider pension contribution rates which strike the right balance between providing improved retirement outcomes for all but without having a detrimental impact on working life incomes.

The DWP research highlights three key factors leading to poor retirement income prospects:

1. **Not having a full work history:** This can result in a reduced entitlement to the State Pension, due to the lack of National Insurance contributions and a reduced time period to grow private pension savings. This is most typical amongst lower-income groups.
2. **Not contributing to private pensions:** This is more typical of people in the middle-income groups, who are in work.
3. **Not contributing enough to private pensions to generate a large enough retirement income:** This is most typical of people in the higher-income groups.

The research document sets out the scale of the savings challenge facing the UK, as the average age of the country's population continues to rise. The number of people classed as under-saving is defined by a replacement rate which measures retirement income as a percentage of working age income.

The DWP research concludes that:

- The maintenance of the triple lock guarantee, introduced by the Government in 2010, into future years will prevent the number of under-savers increasing further.
- Action to increase employment levels amongst people aged between 50 and State Pension age and to encourage people to remain in workplace pensions
- Most significantly, to recognise that increasing contributions paid into workplace pensions could have a positive impact on reducing under-saving.

Sources: https://www.gov.uk/government/news/take-action-now-to-safeguard-your-retirement-pensions-minister

It is estimated that around 12 million people in the UK need only to make modest changes to safeguard their financial future.

PENSIONS vs ISAs

How do they compare after the new pension rules?

What factors should you consider? New rules have dramatically changed how pensions work: what is the impact of these changes?

It's one of investors' most common questions: should I invest in an ISA or a pension? Ideally, investors should consider taking advantage of both their ISA and pension allowances fully each year. But in reality, most of us can only afford to invest a set amount each tax year and therefore have to decide what proportion to allocate to each tax wrapper.

1. Access to your money

- **ISAs:** you can access your money at any time, with no tax to pay on any withdrawals.
- **Pensions:** you can only normally access your money from age 55; the first 25% is usually tax-free, and the rest subject to income tax at your highest marginal rate.

What is the effect of the new pension rules? From April 2015 investors will have far more freedom over how they access money in their pensions from age 55. After the 25% tax-free cash, you can take a regular income or ad-hoc lump sums, even the whole fund as cash, subject to income tax.

2. Tax treatment when you pass the investment on, after death

- **ISAs:** ISA investments are normally subject to Inheritance Tax (IHT) of 40%, if the total value of your estate exceeds the 'nil-rate band'. This is currently £325,000 for individuals, or up to £650,000 if you inherit your spouse's or civil partner's unused allowance.
- **Pensions:** Pensions are usually exempt from IHT, and instead taxed at 55% if you die when you are over 75 or while in income drawdown.

What is the impact of the new pension rules? On 29 September, the Chancellor announced (subject to confirmation) this 55% tax, sometimes known as pension 'death tax', will be abolished if someone dies before age 75. If they die after age 75, the beneficiary may have to pay tax, but usually only at their income tax rate.

This means it should be possible to use pensions for estate planning, although contributions made while in ill health or within two years of death may still be subject to IHT.

3. Tax savings when you invest

- **ISAs:** investments can grow free of capital gains and income tax.
- **Pensions:** investments can grow free of capital gains and income tax. In addition, you can also benefit from up to 45% tax relief on pension contributions, so currently the effective cost of a £10,000 investment could be as little as £5,500, depending on your circumstances.

4. Available allowances

- **ISAs:** this year you can invest up to £15,000.
- **Pensions:** this year most UK residents under age 75 can invest up to as much as they earn and receive tax relief, subject to a £40,000 annual allowance. There are two main exceptions:
  Non-earners, who can contribute up to £3,600 gross (a payment of up to £2,880, plus automatic tax relief of up to £720);
  High earners, who can contribute up to £190,000 if they have unused annual allowance from previous years, and meet the other criteria of the 'carry forward' rule.

5. Eligibility

- **ISAs:** Any UK resident can invest in an ISA.
- **Pensions:** Any UK resident under age 75 can contribute to a pension and receive tax relief.

6. Investment choice

- **ISAs:** Stocks & Shares ISAs allow you to invest in funds, shares (including AIM), investment trusts, ETFs, gilts, bonds and cash.
- **Pensions:** Personal and stakeholder pensions only allow you to invest in funds – typically from the insurer's own range. SIPPs (Self Invested Personal Pensions) allow you to invest in funds from fund management companies, shares (including AIM), investment trusts, ETFs, gilts, bonds and cash.

So what should an investor choose: an ISA or a pension?

The answer will ultimately depend on your circumstances, aims and priorities.

Are you saving for retirement, or for other goals? Might you need to access your money before age 55? How much can you afford to save each year? Are you planning to take an income from all your investments, or want to pass them on when you die?

Please note: tax benefits depend on circumstances and tax rules can change.

Once you've decided to invest, don't delay your action. Both ISAs and pensions offer remarkable benefits and the sooner you invest, the longer your money has to grow.

The value of your investment and the income from it can go down as well as up and you may not get back the original amount invested. Past performance is not a reliable indicator for future results. Please contact us for further information or if you are in any doubt as to the suitability of an investment.

How to find your hidden treasures

With the economy still recovering, money is still tight for many families. But it is possible to grow your finances by tracking down lost money that is rightfully yours.

PREMIUM BONDS

It s thought that there are one million National Savings & Investments Premium Bond winners who have so far failed to come forward for prizes worth a total of more than £47 million.

Typically these remain unclaimed because winners move house or overseas. They also get forgotten when bought by parents for children. The good news is that there is no time limit on claiming.

If you think you have a forgotten NS&I Premium Bond or account, write to Tracing Service, NS&I, Glasgow, G58 1SB.

FORGOTTEN SAVINGS

There have been a number of mergers, takeovers and flotation's in the savings industry over the past 20 decades, during this time it is easy to lose track of a savings account or two.

If you suspect that you have dormant savings, (no activity over 12 months for current accounts) and (three to five years for savings accounts), try the free service mylostaccount.org.uk.

This ties together schemes run by the British Bankers' Association (BBA), the Building Societies Association (BSA) and NS&I.

Money unclaimed for 15 years is now seized by the Government and spent on good causes – but you still have the right to claim it back.

Flotation's of mutual insurers and building societies directed billions in windfall cash payments and shares to millions of customers and most surprisingly a high number of people failed to claim them.

LOST PENSIONS

Employees often work for numerous companies during their career these days, which mean they can accumulate several pension plans along the way.

If you think you have lost track of a pension, try the Pension Tracing Service, which holds details of 200,000 personal and company pension schemes.

When you have traced your lost pension get in touch with the plan provider. Contact the free Pension Tracing Service at gov.uk/find-lost-pension or phone 0845 600 2537.

UNCLAIMED ESTATES

The death of distant relatives could be unknown to you and should you become the beneficiary of an unknown estate, you will certainly become one of the estimated 11,500 unclaimed estates, which are in the process each year and millions of pounds are paid out to long lost or never known relatives.

A good place to look if you think you maybe a beneficiary is Bona Vacantia, a government website listing unclaimed assets since 1997. The deadline for claiming is usually 12 years after the death, but it may be extended to 30 years at the discretion of the Treasury Solicitor.

STOP MONEY LEAKS

People can save hundreds of pounds annually by good money management.

Direct debits that should be cancelled, paying unnecessary interest on credit cards and failing to redeem loyalty card benefits are just a few of the bad money habits that lose people cash each year.

Comparison website Gocompare suggests these money leaks work out at a collective £12.2 billion a year.

For more information on any subject that we have covered in this issue, or on any other subjects, please tick the appropriate box or boxes, include your personal details and return this section to us.

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