FinancialLandscape

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Plan for the life you want

Building up your nest egg is more discipline than difficult

For today's retirees, retirement has changed almost beyond recognition since their parents' day. Building a retirement fund requires one to save enough money to pay your bills and continue living comfortably when you are no longer drawing an income.

The thought of it may be daunting; it can feel like an impossible mission. But with early planning, building up your nest egg is more discipline than difficult. The process of building a retirement fund typically involves a combination of consistent saving and long-term investments. But first, you need to figure out how much you need in order to set a goal.

FUNDS TO LIVE LIFE TO THE FULL IN RETIREMENT

Retirement is an exciting period in life. You might be looking forward to taking a trip to somewhere you've always wanted to go, dedicating more time to a favourable hobby or spending more time with family and friends. However, many people feel concerned about not having the funds to live life to the full in retirement.

Making sure you have enough money to enjoy your retirement is a matter of sensible planning and being proactive. Ask yourself, what decisions can I make today to start preparing for retirement? Investing even small amounts of money on a regular basis in preparation for retirement could leave you with a larger nest egg.

HEAD START ON A RETIREMENT NEST EGG

Investing for growth is suited for those who want to get a head start on a retirement nest egg but won't be retiring until further into the future. If your goal is to invest for growth, this means that you are more focused on growing your initial investment over a medium-to-long period of time (five years plus) and do not intend to use the investment to boost your current monthly income. For those investing for growth, investing as far in advance as possible from when they plan to start withdrawing the investment should give their funds the best chance of maximum growth.

The key lies in considering a number of different factors:

RISK APPETITE

If you do not already have a large sum of retirement savings, you probably shouldn't take too much risk when you invest since you may not have the luxury of time to recoup the losses should your investment turn awry.

TIME HORIZON

You can consider allocating your investments into products suitable for different investment horizons (short, medium and longer term) depending on your risk appetite. For example, a short-term investment can include some riskier asset such as single equities or investing in a fast-growing speciality fund. You should always be reminded that with higher expected returns come higher risks.

INFLATION

If you choose to save your way to retirement by putting cash in a savings account, the value of your money may be eroded due to inflation. In order to ensure that the money you have now preserves it's purchasing power during your retirement years, you need to choose savings or investments that give you higher returns above inflation.

DIVERSIFICATION

The key to growing your retirement fund includes having different asset classes in your portfolio, which is otherwise known as 'diversification'. Diversification not only helps you manage the risk of your investments, but it also involves re-balancing your portfolio to maintain the risk levels over time. ■

BUILD YOUR RETIREMENT FUNDS

Planning for your retirement can seem like a daunting process. Keep in mind that there are no hard and fast formulas to how you build your retirement funds, but keeping the above factors in mind will definitely help you work towards achieving your retirement goals. Want to review how to enhance your retirement plans? Please contact us.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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Financial planning for people and business.

Planning opportunities

Making new year's tax saving resolutions

At this time of year, we think about new year's resolutions, and it's also a good time to start planning our tax affairs before the end of the tax year on 5 April. As you think about 2019 and your goals for the new year, we can help to start you off on the right financial footing. It's well worth spending some time in January to think about your money so you can achieve your goals as quickly as possible.

Tax planning might not sound very exciting, but it can have a dramatic effect on your personal finances. The Government and HM Revenue & Customs (HMRC) continue to clamp down on what they regard as tax avoidance and unacceptable tax planning. But there is still much that can legitimately be done to save or reduce tax.

MEETING YOUR FINANCIAL GOALS

Tax planning is one part of meeting your financial goals. By taking action now, it may give you the opportunity to take advantage of appropriate reliefs, allowances and exemptions, and consider whether there are any relevant decisions that you need to make sooner rather than later. Many of the tax and investment planning opportunities available require action to be taken before 5 April 2019.

While some people avoid making new year's resolutions for fear that they will only break them, people who make financial new year's resolutions are more likely to end 2019 in better financial shape than when they began.

READY TO PUT THE TIPS INTO ACTION?

Here we've provided some of the main areas you may wish to discuss with us, if appropriate to your particular situation.

TOPPING UP YOUR PENSION

Pensions are now more flexible than they have ever been and remain extremely tax-efficient. You'll receive tax relief at the basic rate of 20% on contributions made to personal and workplace pensions. So for every £80 you pay in, HMRC will top it up to £100. If you're a higher or additional rate taxpayer, you can claim back up to an additional 20% or 25% through your self-assessment tax return. However, if you are a Scottish taxpayer, the tax relief you will be entitled to will be at the Scottish Rate of Income Tax, which may differ from the rest of the UK.

But you'll need to watch out for the annual pension allowance. This is the limit on the amount that can be contributed to your pension each year while still getting tax relief. For the 2018/19 tax year, for most people it's £40,000, or the value of your whole earnings – whichever is lower. Lower allowances may apply if you have already started drawing a pension, or if you are a higher earner with income plus pension contributions that total above £150,000.

If you've used your full allowance in the current tax year but not in recent years, you may also (depending on your circumstances) be able to 'carry forward' any annual allowance which you haven't taken advantage of in the three previous tax years. There's also the Lifetime Allowance to consider. If the value of all your pensions is more than £1,030,000, anything over this limit will be taxed when you start using it.

TAKING YOUR ISA TO THE MAX

One of the easiest ways to reduce your tax bill is to shelter any returns above your allowances in an Individual Savings Account (ISA), which is a tax-efficient wrapper. For the 2018/19 tax year, you can put up to £20,000 into an ISA. For a couple with two children, the total ISA allowance available to the family is £48,520, which comprises £20,000 for each adult plus £4,260 of Junior ISA allowance per child.

You can choose to hold all of that in a Cash ISA, or put it into a combination of investments, including funds, shares, gilts and bonds through a Stocks & Shares ISA, or you can invest in peer-to-peer lending through an innovative finance ISA. Alternatively, you can split your allowance between a cash, stocks and shares, innovative finance and a lifetime ISA. However, with a lifetime ISA, you can only allocate up to £4,000 of your £20,000 allowance. You also must be aged between 18 and 39 when you start and can deposit up to £4,000 per year until your 50th birthday. The Government will add an annual bonus of 25% (up to a maximum of £1,000 per year) to any savings.

You won't be taxed on returns from savings or investments held in an ISA, nor will you have to pay Capital Gains Tax (CGT) on any of the profits you make above the annual CGT allowance, which in the 2018/19 tax year is £11,700. The standard CGT rate is 10%, while the higher rate is 20%.

GETTING PERSONAL WITH YOUR ALLOWANCE

Everyone has a certain amount of income they can earn each year without paying Income Tax, known as their 'personal allowance'. For the 2018/19 tax year, this amount is £11,850.

Your personal allowance is in addition to the Personal Savings Allowance (PSA). Since April 2016, savings interest has been paid tax-free, which means that most savers no longer have to pay Income Tax on the savings income they receive.

Your PSA depends on which Income Tax band you are in, with basic rate taxpayers entitled to a £1,000 allowance, while higher rate taxpayers receive a £500 allowance. Additional rate taxpayers are not eligible for a PSA.

Investors also have a dividend allowance which means that individuals receive their first £2,000 in dividends tax-free, but any dividends above this amount will be charged at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Take advantage of your marriage vows. If one spouse is a higher rate or

additional rate taxpayer and the other doesn't pay tax at all, it could be more tax-efficient to put the account solely in the non-taxpayer's name. This would give that spouse full ownership of the account, so you'll need to make sure you're both happy with the arrangement.

KEEPING YOUR INHERITANCE IN THE FAMILY

ISAs and pensions are the two big ways to shelter your money from tax, but there are other tools at your disposal. Your estate is valued when you pass away and chargeable to Inheritance Tax (IHT) at 40%, although the first £325,000 nil-rate band (NRB) is exempt. Anything that goes to your spouse is also exempt.

Married couples and those in registered civil partnerships can also benefit from an additional family home allowance, which makes it easier to pass on the family home to direct descendants without incurring IHT charges. This was introduced on 6 April 2017, starting at £100,000, and will be phased in gradually until the total IHT threshold reaches £500,000 per person in 2020/21.

The residence nil-rate band (RNRB) acts as a top-up to the current IHT NRB and works in a similar manner by reducing the value of your estate that is subject to IHT at the full rate of 40%. It is potentially available for deaths on or after 6 April 2017 where, in general terms, an interest in the family home is left under your will to your children, grandchildren or other lineal descendants. The RNRB is set-off against the value of your estate ahead of the NRB, and the maximum RNRB amount allowed on a death in the 2018/19 tax year is £125,000.

Current tax rules also enable you to give away up to £3,000 free of IHT each tax year. You can give away more than this amount if you want to, but you must live for at least seven years from the date of the gift for it to be exempt from IHT.

DON'T LEAVE YOUR TAX RETURN UNTIL THE LAST MINUTE

The deadline to submit your tax return online is 31 January. Failure to meet the HMRC deadline can result in penalty fines or extra interest charges.

You'll be required to submit your tax return if you fall into one of these categories:

- You are self-employed, a business partner or director of a limited company
- You're an employee or pensioner with an annual income of £100,000 or more
- You have a pre-tax investment income of £10,000 or more
- Your income (or your partner's) was over £50,000 and one of you claimed Child Benefit
- You have income from abroad that you need to pay tax on
- You were a trustee of a trust or a registered pension scheme
- You received a P800 form from HMRC saying you didn't pay enough tax last year
- You didn't pay what you owe through your tax code or with a voluntary payment
- You're a 'name' at the Lloyd's of London insurance market
- You're a minister of religion
- You're a trustee or representative of someone who has died

TAKING CONTROL OF YOUR FINANCES

Setting resolutions at the beginning of a new year can help you reach short and long-term goals and even improve the way you feel. Taking control of your finances is a great feeling, so if you would like to discuss any aspects of your financial plans, please speak to us – we look forward to hearing from you.

Managing risk

Pensioners ‘in the dark’ over how to protect their pots if markets tumble

Many retirees are at risk of overlooking their pension finances by falling into an avoidable trap, according to new research.

A third (36%) of people keeping their pension invested through retirement could be hit harder by falling markets as they do not have a cash safety net to fall back on, research has found[1]. And even though two thirds (64%) of retirees are holding cash in reserve, fewer than one in ten (8%) would think to use it if there was a ‘significant’ drop in the stock market.

Diversification across asset classes and regions is important for pensions, which is important not just for good returns but also to manage the risks inherent in different asset classes and geographies.

BUFFER OF CASH

Some retirees in drawdown will hold a buffer of cash which they can call on in volatile markets. By taking income from cash held inside their pension instead of their invested assets, they are not forced to sell investments at lower prices.

This can help to protect them from ‘pound-cost-ravaging’ where, as stock prices drop, retirees are forced to sell more investments to achieve the same level of income, depleting the capital of their pot quicker and reducing its future growth.

DIVERSIFY TO AVOID STRETCHING INCOME

Diversification is essential to protecting your assets in a market crash. As ever, picking a portfolio of non-correlated investments, diversified by geographical region, asset class and sector, can help to reduce a portfolio’s overall volatility and create greater stability of returns.

HAVE A SAFETY NET

Building up a cash buffer can protect against falling stock markets and means you might not have to reduce their standard of living while the market corrects. Holding two years’ cash means you won’t be forced to sell when prices are falling, thereby locking in losses. Instead of cashing in funds, you can dip into cash reserves, giving their pot a chance to regain lost ground.

INVEST IN MULTI-ASSETS

Multi-assets, as the name suggest, invest in different types of assets, from equities to property. In a downturn, some asset classes may not fall by as much as others, meaning multi-asset funds can help to smooth out the effects of a market crash while offering investors greater level of protection.

HAVE A NUMBER OF BUCKETS

Having a medium-term investment bucket and longer-term investment bucket can help to manage the mood swings of the stock market. The cash bucket is fed by the medium bucket, which is in turn fed from the long-term bucket.

REBALANCE

Rebalancing can help to maintain the overall risk of a portfolio in line with your needs. Rebalancing won’t necessarily provide a greater investment return, but it is a protection mechanism against creating undue or unanticipated risk. ■

SAVE TODAY TO ENJOY TOMORROW

Whatever you want from retirement, one thing is certain – to give you the retirement you want and deserve, you need to plan ahead. Speak to us to find out how we can help you.

Source data

[1] All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 660 adults whose pension is in drawdown. Fieldwork was undertaken between 3 and 15 October 2018.