Millfield Osceola

The Adviser Summer 2016

Brexit

Will Brexit affect my pension?

The outcome of the Referendum to leave the EU wasn't certain.

The effects on the market are unknown, no one can predict exactly what is going to happen. We have never left the EU before and it will take time.

LISA - The new Lifetime Individual Savings Account

Open a Lifetime Individual Savings Account (LISA) between the ages of 18 and 40, and any savings you put into it before your 50th birthday will receive an added 25% bonus from the government.

They will get it anyway?

It's a myth when you die that your loved ones will automatically inherit all your assets.

Brexit

Will Brexit affect my pension?

It’s too early to say what the effects of Brexit will be, though timing is important if you’re thinking of buying an annuity.

If you are considering buying an annuity now, shop around and get the best deal.

Don’t Panic

No one can predict the effect on financial markets due to Brexit, this has never happened before and it will take time to come out of the EU.

Although investors can expect some volatility in the market, generally, the wrong thing to do when markets fall by a reasonable margin is to panic and sell out.

Annuity rates

An annuity is a product available for retirees and offers an income for life, bought at retirement with all or part of a person’s pension savings.

Less confidence in the market due to the uncertainty of Brexit may see a decrease in annuity rates. Mark Carney indicated that interest rates may go down to cushion the blow to the UK economy. If you are considering buying an annuity now, shop around and get the best deal. Once you’ve obtained a quote from an annuity company the terms are usually guaranteed for between two and four weeks. It is always worth shopping around to get the most competitive terms.

Some savers have taken advantage of new pension freedoms introduced last year to keep their nest eggs invested and withdraw cash as and when they need. This process is known as drawdown.

You may need to consider a blend of guaranteed income using an annuity and drawdown. You always need to ensure you shop around to get the best deal.

The value of your pension can go down as well as up, so you could get back less than you invested.
Taking income or withdrawals in excess of fund growth may result in the fund running out quicker than expected.
Inflation will reduce how much your income is worth over the years

Under the new pension rules, savers are entitled to withdraw pension cash from the age of 55.
Up to 25% of this money can be tax-free. This applies to both workplace and personal pensions.
The danger is that people who automatically cash in 25% of their pot could be doing so at a point when share values are low.

Hello LISA!

LISA - Lifetime Individual Savings Account

Hello LISA!

Open a Lifetime ISA account between the ages of 18 and 40, and any savings you put into it before your 50th birthday will receive an added 25% bonus from the government.

LISA Accounts will be available from April 2017, there is no maximum monthly contribution.

You can save as little or as much as you want each month, up to £4,000 a year.

From April 2017 the total amount you can save each year into all ISAs will also be increased from £15,240 to £20,000.

Use it to save for a first home

Your savings and the bonus can be used towards a deposit on a first home worth up to £450,000 across the country.

Accounts are limited to one per person rather than one per home – so two first time buyers can both receive a bonus when buying together.

If you have a Help to Buy ISA you can transfer those savings into the Lifetime ISA in 2017, or continue saving into both – but you will only be able to use the bonus from one to buy a house.

Use it to save for retirement

After your 60th birthday you can take out all the savings tax-free.

You can withdraw the money at any time before you turn 60, but you will lose the government bonus (and any interest or growth on this).

You will also have to pay a 5% charge if you withdraw any money before you are 60.

- ☑ You can save up to £4,000 a year, and get a 25% bonus at the end of each tax year
- ☑ The Lifetime ISA is an individual product, couples can have one each
- ☑ You're not locked in. You are free to transfer it to another provider
- ☑ Lifetime ISAs launch on 6th April 2017, but you must be aged 18 or over and under 40 when you open one
- ☑ You can have a Lifetime ISA and a Help to Buy ISA
- ☑ You can use it to save for retirement
- ☑ The money is to be used towards first home worth under £450,000 or once you're over 60 towards retirement
- ☑ Because it's an ISA, the savings interest is tax free
- ☑ You can open a Help to Buy ISA and transfer it to a Lifetime ISA from April 2017

Lifetime ISA

You can save up to £4,000 each year, and receive a government bonus of 25% – that's a bonus of up to £1,000 a year. You can use some or all of the money to buy your first home, or keep it until you're 60 – it's up to you.

But can a lifetime ISA be considered as a viable choice to a pension?

LISA

A LISA is a lifetime individual savings account, they start in April 2017.

With a LISA you save from net income (after tax). So, to put £80 in costs you £80. However, if 25% is added to it, that means you've got £100.

You can withdraw totally tax-free (at age 60) from a LISA.

You have the flexibility to use the cash that you're saving towards your home towards retirement too.

You need to be over 60 to use the cash in an LISA without incurring a penalty.

Pension

With a pension you save from gross income (pre-tax). So, as a basic-rate taxpayer, to save £100 only costs you £80 from your pay packet, as that's all you would've received.

If you're employed, auto-enrolment means your employer has to match some of your contributions in a pension.

Higher-rate taxpayers get relief at 40% in a pension.

You can take money from your pension aged 55+

With a pension you can take 25% tax free.

The introduction of the new Lifetime Individual Savings Account (LISA) in April 2017 is aimed at helping young people save flexibly for the long term.

To enable them to save for a first home and for their retirement without having to choose one over the other.

The Lifetime ISA is designed as a way to save for retirement, just like a pension.

Some people will see it as an alternative; others will see it as an additional measure, as you can have both. But the two are quite different.

Lifetime ISAs launch on 6 April 2017, and you must be aged 18 or over but under 40 when you open one

Think they will get it anyway?

It's a myth to think that your spouse will automatically inherit if you die and don't have a will

In England and Wales

The husband, wife or civil partner keeps all the assets (this includes the family home, money, pay outs from a life policy, personal possessions, pensions), up to £250,000.

The Remainder is split 50:50

The remainder is split 50:50 between the spouse and the children.

In Scotland

The husband, wife or civil partner gets the house up to a value of £473,000. They'll get a lump sum of £473,000 if the house is worth more, and may have to sell off the property.

They also get:

furniture and moveable household goods up to the value of £29,000
up to £50,000 in cash
a third of the rest of the estate

The children will get two-thirds of the rest of the estate.

If a son or daughter has already died, their children (the grandchildren of the deceased) will inherit in their place.

If you remarry

If you remarry you might want your children to inherit some of your estate but their inheritance may be affected if you have no will. If your share of the estate is £250,000 all of it go to your new husband/wife and nothing to your children.

Find out more at gov.uk/inherits-someone-dies-without-will

Write a will

Write a will to make sure the right people benefit.
You can buy a DIY will pack but a solicitor can ensure your will is written correctly.
Wills can be contested, so it may be worth considering a trust to ensure your children inherit.
If you would like assistance with your Will and Estate planning please get in touch with us

Will Writing is not regulated by the Financial Conduct Authority

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