INTRINSIC

WEALTHMATTERS

ISSUE 11

BUDGET DEBRIEF – WHAT SAVERS AND INVESTORS NEED TO KNOW

Against a background of weaker financial news and increased market volatility, the 2016 Spring Budget introduced welcome changes for savers and investors.

Increased incentives

Whilst the adult Individual Savings Account (ISA) limit for the current tax year remains at £15,240, savers and investors will be able to choose to invest in cash ISAs, stocks and shares ISAs, or the Innovative Finance ISA which operates through peer-to-peer lending platforms, or a mixture of the three, up to the permitted allowance.

From April 2017 the ISA allowance will rise to £20,000; this is clearly good news for savers and investors looking to put more of their money into tax-sheltered funds.

The big surprise announcement was the launch from April 2017 of the Lifetime ISA. This is seen as recognition that those aged below 40 can often face a struggle saving for their first home and for their retirement years.

The annual allowance for this new account will be £4,000 and will form part of the overall £20,000 ISA limit. Open to those aged 18 to 40, savings will attract a government bonus of 25% on contributions made before the holder's 50th birthday, meaning that savers could receive a bonus of up to £1,000 a year credited at the end of the tax year in which contributions are made. Lifetime ISAs can be used either to save towards a first home (up to the value of £450,000) or as a way of planning for retirement. If using the ISA to buy your first home you can withdraw your savings and the bonus, tax free, once you have held it for one year. You can also withdraw your savings and the bonus from age 60, tax free, for use in retirement. The government will allow you to withdraw your savings for other purposes; however, the bonus may be lost and a 5% charge applied.

Increased personal allowances

The personal allowance, the amount you can earn before paying income tax, is increased to £11,000 in the current tax year and will rise to £11,500 from April 2017. The higher rate tax threshold is increased to £43,000 for this tax year and will rise to £45,000 in the 2017-18 tax year.

Capital Gains Tax

The first £11,100 of gains made in this tax year will be free from Capital Gains Tax (CGT). The Chancellor announced more good news in the form of a rate cut for those liable to CGT in the current tax year. In changes that the government hope will encourage further investment in business, a basic rate taxpayer will see the rate drop from 18% to 10%, and higher rate tax payers will see it fall from 28% to 20%. However, those who own a second property will continue to pay at either 18% or 28% when that property is sold.

The Chancellor decided to leave pension tax relief alone, meaning that the incentives to save remain in place.

Tax treatment varies according to individual circumstances and is subject to change.

The value of the investment can go down as well as up and you may not get back as much as you put in.

THIS ISSUE: DO YOU HAVE A FINANCIAL SAFETY NET? ONLY 29% OF WORKERS DO | SOPHISTICATED SCAMS ON THE RISE | DON'T RELY ON THE STATE PENSION OR AUTO-ENROLMENT FOR A GOLD STANDARD RETIREMENT

DO YOU HAVE A FINANCIAL SAFETY NET? ONLY 29% OF WORKERS DO

How would you and your family cope if you couldn't work? How would this impact your finances and your lifestyle? Research from a major insurer[1] shows that just 29% of workers have a financial shock absorber in place to protect them from life's unexpected and unwelcome events.

Those who do not have a back-up plan told researchers that they would have to dip into savings to survive financially; a third would consider downsizing to release additional funds. Others said they would rely on a spouse or partner's income to support them; 19% said they'd rely on an inheritance.

A worrying picture

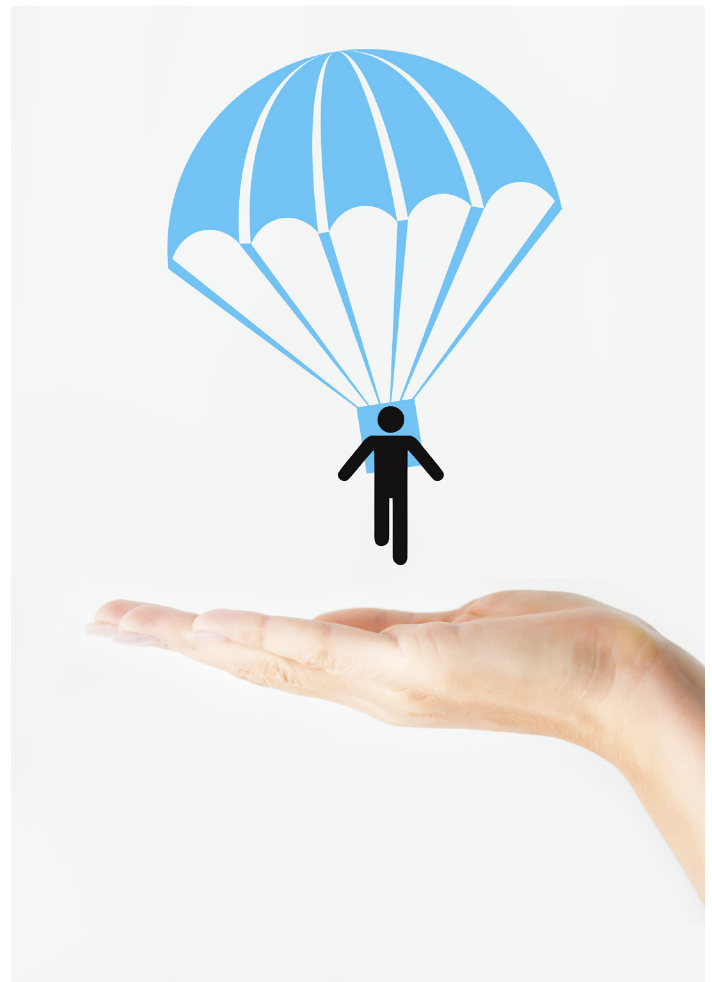
In a report by another familiar household insurer[2] entitled 'Deadline to the Breadline', findings show that most families have only enough money to cover their household expenditure for around 29 days. Most people interviewed for this survey believe that unexpected and unwelcome events will never happen to them, despite 50% of respondents knowing someone who was unable to work due to serious injury or illness.

How to protect your income

Clearly, it makes sense for every family to think about putting in place a financial safety net that would provide in the event of a crisis like a serious accident, illness or job loss. These unexpected events have the potential to seriously derail family finances. Reliance on savings isn't necessarily the right answer either; they could quickly be depleted if the situation continued for some time.

This is where insurance has a major part to play in keeping families financially protected and providing vital peace of mind. Income protection insurance replaces a percentage of your income if you can't work because of illness or injury. Critical illness cover pays out if you have a specific serious illness. You can also take out insurance that covers accident, sickness and unemployment.

Whilst spending money on protecting your income and lifestyle can seem like another regular financial commitment, it can prove invaluable when it's needed most.



In addition, major changes to benefits payable under the government's Support for Mortgage Interest mean that income payments to cover the interest payable on a mortgage will, from 2018, be in the form of a loan not a welfare benefit. This means that families should seriously consider how they could cover both interest and capital repayments on their mortgage if they faced financial difficulties. This is particularly true if you're self-employed and can't rely on help from an employer.

Getting the right cover

How much cover you need depends on your personal circumstances. Talking things through with your adviser will ensure that you have the right level of cover in place to meet your needs.

1 Aegon Research, September 2015

2 Legal & General, Deadline to the Breadline Report, 2014

SOPHISTICATED SCAMS ON THE RISE

The tactics used by scammers to encourage people to part with their hard-earned savings and pension funds are often highly-sophisticated and constantly changing, so it's very important for us all to be fraud aware.

Cape Verde property

Action Fraud[1], the UK's national reporting centre for fraud and cyber-crime, has issued a warning about a new scam that has recently come to their attention targeting people in their 50s and 60s. This involves fraudsters offering unregulated investments in alternative commodities such as hotel developments or property in Cape Verde. Often the cold calling 'pension companies' involved are neither regulated nor qualified to give advice and classify themselves as a 'trustee', 'consultant' or an 'independent advisor' and promise exceptionally high returns for investors willing to transfer their pension before retirement. What they offer is an unregulated investment that isn't covered by the Financial Services Compensation Scheme, meaning that money put into these highly-risky investments is not protected.

Email scams on the increase

Following several recent incidents where criminals have hacked into email accounts and diverted large payments, people buying and selling properties are being advised to exercise extreme care when communicating with their solicitors and conveyancers. More than 5,000 people were conned into sending planned payments to fraudsters' bank accounts last year alone[2].

With this type of fraud, the criminal gains access to either the client's or the solicitor's email account. They intercept mail containing bank account details, substituting them with their own information. They send emails to clients that look as if they have come from the solicitor, requesting payment to a specified account, but the sort code and account are changed so that when the payment is made, the funds are paid into the fraudster's account. These scams have come to be known as 'Friday afternoon fraud' as they are most likely to occur when details are sent by email rather than post to speed up a transaction ahead of a weekend or Bank Holiday.

With this type of hacking fraud on the rise, the advice is to use alternative forms of communication when dealing with high-value transactions. If you receive bank details by email, it's worth phoning the company and speaking to the person concerned to check that the details are correct.

How to keep safe

Action Fraud recommends that we all exercise care when giving any personal information online or to callers. It's important to destroy any unwanted documents containing personal information to avoid details falling into the wrong hands.

Fraudsters can be articulate and financially knowledgeable and regularly pose as bank staff, police officers and company officials to extract personal and financial information. Think twice before giving any personal information away.

1 Action Fraud, Pension Scam Alert – Cape Verde, April 2016

2 City of London Police figures reported on Radio 4's You & Yours programme, April 2016

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DON'T RELY ON THE STATE PENSION OR AUTO-ENROLMENT FOR A GOLD STANDARD RETIREMENT

Auto-enrolment can undoubtedly be regarded as a positive step in providing pensions for many workers who may not have any other pension provision in place. However, doubts have been raised as to whether the level of savings being made under the scheme will be enough to secure a comfortable retirement. In essence, while more people are saving, it's likely they're still not saving enough.

Contributions

The minimum amount saved into an auto-enrolment pension is currently 2% of salary, made up of 1% employee contribution and 1% employer contribution. By 2019, the contribution levels will be increased to 8%, made up of a 5% employee contribution (4% plus tax relief) and 3% (minimum) employer contribution.

Problems ahead?

One insurer[1] estimates that the average pension size for those aged 30-40 is just £14,000 but that a 35-year-old today needs to save £660,000 into their pension in order to maintain the same standard of living as a pensioner today. Cause for concern indeed.

The Pensions Policy Institute (PPI)[2] suggest pensioners will have insufficient funds for their retirement. The PPI base their workings on a person aged 35-44 (in 2015), earning an average wage of £27,000 per annum, saving the required 8%. In order to have a comfortable retirement income (based on two-thirds of working life wages) the worker would need to save enough to generate a retirement income of £18,000 a year in retirement. Their state pension is likely to be around £7,865, so the pension pot needs to deliver around £10,000 a year. By the time they reach their pensionable age of 68, their pot is likely to be £56,000, which only covers the retiree for five and a half years. Based on average annuity rates, purchasing an annuity with the £56,000 pot would provide just £3,200 per annum, leaving a shortfall of around £7,000 a year, after adding in the state pension.

> In essence, while more people are saving, it's likely they're still not saving enough

Opt-out

According to the government's pension scheme, the National Employment Savings Trust (NEST)[3], the half a million people who have opted out of auto-enrolment missed out on £35 million of tax relief from the government and £170 million in employer contributions.

Advice for the future

While auto-enrolment has its merits and can be regarded for many as a first step toward saving for retirement, the evidence is compelling that consideration should be given to supplementing these savings as the gap between pension savings and a comfortable retirement widens. With other savings and investment opportunities available, it makes sense to speak with your adviser to consider additional ways to build up funds, and save as much as possible for the future.

1 Royal London, 2015
2 Pensions Policy Institute, 2015
3 National Employment Savings Trust, 2015

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