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WTK Financial Services Ltd

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PROTECTING YOUR ESTATE FOR FUTURE GENERATIONS

Many individuals find the Inheritance Tax rules too complicated

2018/19 TAX CHANGES

New initiatives you need to know

Generous grandparents
The bank that likes to say 'yes'

Your money, your choice
Supporting your future financial requirements

Making the most of your pensions
Have you accumulated multiple plans that need reviewing?

Retirement wealth
What's the right answer for you?

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INSIDE THIS ISSUE

Welcome to our latest edition. Inside this issue, we look at why it's important to consider the tax implications of making financial decisions. The 2018/19 tax year is now upon us and a raft of new changes have come into force. The good news is that there is little change in the overall tax burden for basic-rate taxpayers. However, there are a number of areas that have changed that should be taken note of. On page 08, we look at what you need to know about the 2018/19 tax year changes and new initiatives.

By the time we have been working for a decade or two, it is not uncommon to have accumulated multiple pension plans. There's no wrong time to start thinking about pension consolidation, but you might find yourself thinking about it if you're starting a new job or nearing retirement. Turn to page 12 to read the full article.

If you struggle to navigate the UK's Inheritance Tax regime, you are not alone. Whether you are setting up your estate planning or sorting out the estate of a departed family member, the system can be hard to follow. On page 04, we look at how getting your planning wrong could also mean your family is faced with an unexpectedly high Inheritance Tax bill.

Forget the Lamborghini – 2.4 million UK grandparents have either raided their pension to support their grandchildren, or plan to in the future. On page 11, we look at research that shows a quarter of generous grandparents have already given away money to their grandchildren and have taken the funds from their pension.

A full list of the articles featured appears opposite – we hope you enjoy this issue.

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INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX ADVICE, TRUSTS AND WILL WRITING.

MAKE IT A DATE

Keeping your target retirement plans on track

MOST OVER-45S ARE NOT MAKING PLANS TO MATCH THEIR HOPES FOR THE FUTURE, ACCORDING TO RESEARCH FROM STANDARD LIFE[1]. THE VAST MAJORITY (86%) OF THOSE AGED 45 OR OVER ARE ALREADY DREAMING ABOUT ESCAPING THEIR WORKING LIFE FOR RETIREMENT, BUT ONLY 8% OF THE SAME AGE GROUP HAVE RECENTLY CHECKED THE RETIREMENT DATE ON THEIR PENSION PLANS TO MAKE SURE THEY ARE STILL IN LINE WITH THEIR PLANS.

Over half (56%) don't have a clear idea about when they want to retire, and only one in ten (10%) have worked out how much income they'll need when they decide to stop working. The study also reveals it doesn't get much clearer as you go up the generations: less than a fifth (17%) of those aged between 55 and 64 have recently checked to see if the retirement date on their pension policy is still fitting in with their plans.

Setting your retirement date on a pension plan does matter

Some people will have set their retirement date when they were in their 20s or 30s, and a great deal will have changed since then, including their State Pension age and perhaps their career plans. It may seem like a finger in the air guess when you're younger, but the date that you set for retirement on a pension plan does matter. It will often dictate how your money is being invested and the communications you receive as you get nearer to that date.

Why you need to keep your retirement plans up to date

Right support, right time

If the date you plan to retire changes or you simply want to take some of your pension without stopping working, it's important to tell your pension company. Otherwise, you may not receive information and support about your pending retirement at the most helpful times, as they'll be basing this on your out-of-date plans.

De-risking investments

Some investment options will start to move your pension savings into lower-risk investments as you get closer to retirement. If you don't have the right retirement date on your plan, you could be moving into these investments at the wrong time. For example, if you move into them too early, you could potentially miss out on investment returns that could increase the value of your pension savings. But if you move too late, you could be exposing your life savings to unnecessary risk.

Investment pot size

The size of the pension pot you need to build up to maintain your lifestyle when you come to retire will depend on when you plan to do so.

Income for life

If you're planning to buy an annuity at retirement, which will guarantee you an income for the rest of your life, the amount of income you'll get will depend on the size of your pot (and annuity rates at that time), your age, your medical history and your lifestyle factors. If you prefer to use your pension savings more flexibly, you can keep your money invested, and take it as and when you need. You're then responsible for making sure your life savings last as long as you need them to.

Work longer or retire earlier

Reviewing your retirement date regularly as you get older makes real sense, and most modern pension plans enable you to change and update this date whenever you choose. It needn't be the same as your State Pension age – you might want to work longer or retire earlier – but can't normally be before age 55. Some people who plan to slow down or stop work earlier are using money from their private pension savings to bridge the gap until they can start claiming State Pension. All you need to do is inform your pension company of your plans, even if they change again in the future. ◀

Source data:

[1] The research was carried out online for Standard Life by Opinium. Sample size was 2,001 adults. The figures have been weighted and are representative of all GB adults (aged 18+). Fieldwork was undertaken in November 2017.

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.

PROTECTING YOUR ESTATE FOR FUTURE GENERATIONS

Many individuals find the Inheritance Tax rules too complicated

IF YOU STRUGGLE TO NAVIGATE THE UK'S INHERITANCE TAX REGIME, YOU ARE NOT ALONE. WHETHER YOU ARE SETTING UP YOUR ESTATE PLANNING OR SORTING OUT THE ESTATE OF A DEPARTED FAMILY MEMBER, THE SYSTEM CAN BE HARD TO FOLLOW. GETTING YOUR PLANNING WRONG COULD ALSO MEAN YOUR FAMILY IS FACED WITH AN UNEXPECTEDLY HIGH INHERITANCE TAX BILL.

Reluctant to seek professional advice

Findings from a recent survey[1] revealed that over three quarters (77%) think the UK's Inheritance tax rules are too complicated. Yet despite this, only a third (33%) have sought professional advice on Inheritance Tax planning.

We understand that ensuring your Inheritance Tax planning is tax-efficient is a sensitive subject, and as a result planning opportunities can be missed. Early preparation is the key to success. Taking advantage of alternative methods to secure wealth and to shelter your estate will ensure that more wealth can be passed on to the next generation.

Exempt from Inheritance Tax

Every individual in the UK, regardless of marital status, is entitled to leave an estate worth up to £325,000. This is known as the 'nil-rate band'. Anything above that amount is taxed at a rate of 40%. If you are married or in a registered civil partnership, then you can leave your entire estate to your spouse or civil partner. The estate will be exempt from Inheritance Tax and will not use up the nil-rate band.

Instead, the unused nil-rate band is transferred to your spouse or registered civil partner on their death. This means that should you and your spouse pass away, the value of your combined estate has to be valued at more than £650,000 before the estate would face an Inheritance Tax liability.

Here's our snapshot of the main Inheritance Tax areas you may wish to consider and discuss further with us.

Steps to mitigate against Inheritance Tax

Make a Will

Dying intestate (without a Will) means that you may not be making the most of the Inheritance Tax exemption which exists if you wish your estate to pass to your spouse or registered civil partner. For example, if you don't make a Will, then relatives other than your spouse or registered civil partner may be entitled to a share of your estate, and this might trigger an Inheritance Tax liability.

Residence nil-rate band (RNRB)

If you're worried that rising house prices might have pushed the value of your estate into exceeding the nil-rate band, then the new 'residence nil-rate band' could be significant. Introduced in 2017, it can be claimed on top of the existing nil-rate band. It is £125,000 (2018/19) and will increase annually by £25,000 every April until 2020.

The RNRB is only available where a property that is (or was) used as the deceased's main residence is passed to a direct descendant. From 6 April 2021, the RNRB will then increase each tax year in line with CPI. The RNRB is also transferable between married couples and civil partners to the extent that it is not used on the first death. The RNRB is tapered by £1 for every £2 when a total estate is worth over £2 million.

Make lifetime gifts

All non-exempt gifts made more than seven years before death are exempt from IHT (a chargeable lifetime transfer CLT made up to 14 years before death can affect the IHT on a later CLT or failed Potentially Exempt Transfer). So it might be wise to pass on some of your wealth while you are still alive. This will reduce the value of your estate when it is assessed for IHT purposes, and there is no limit on the sums you can pass on. You can gift as much as you wish – this is known as a 'Potentially Exempt Transfer' (PET), or a CLT if made to a trust other than a bare/disabled person's trust. However, IHT will be immediately payable if the CLT (alone or cumulatively) exceeds the NRB (20% tax on excess).

If you live for seven years after making such a gift, then it will be exempt from Inheritance Tax. However, should you be unfortunate enough to die within seven years, then it will still be counted as part of your estate if it is above the annual gift allowance. You need to be particularly careful if you are giving away your home to your children with conditions attached to it, or if you give it away but

continue to benefit from it. This is known as a 'Gift with Reservation of Benefit' and is ineffective for IHT planning purposes.

Leave a proportion to charity
Being generous to your favourite charity can reduce your Inheritance Tax bill. If you leave at least 10% of your estate to a charity or number of charities, then your Inheritance Tax liability on the taxable portion of the estate is reduced to 36% rather than 40%.

Set up a trust
Family trusts can be useful as a way of reducing Inheritance Tax, making provision for your children and spouse, and potentially protecting family businesses. Trusts enable the donor to control who benefits (the beneficiaries) and under what circumstances, sometimes long after the donor's death. Compare this with making a direct gift (for example, to a child) which offers no control to the donor once given. When you set up a trust, it is a legal arrangement, and you will need to appoint 'trustees' who are responsible for holding and managing the assets. Trustees have a responsibility to manage the trust on behalf of and in the best interest of the beneficiaries, in accordance with the trust terms. The terms will be set out in a legal document called 'the trust deed'.

Types of trust you might consider

Bare (Absolute) Trusts
The beneficiaries are entitled to a specific share of the trust, which can't be changed once the trust has been established. The settlor (person who puts the assets in trust) decides on the beneficiaries and shares at outset. This is a simple and straightforward trust – the trustees invest the trust fund for the beneficiaries but don't have the power to change the beneficiaries' interests decided on by the settlor at outset. This trust offers potential Income Tax and Capital Gains Tax benefits, particularly for minor beneficiaries. However, it should be borne in mind that if a parent creates a bare trust for their minor unmarried child – and the gross income is more than £100 a year – under the 'parental settlement' rules, all the income will be taxed on the parent.

Life Interest Trusts
Typically, one beneficiary will be entitled to the income from the trust fund whilst alive, with capital going to another (or other beneficiaries) on that beneficiary's death. This is often used in Will planning to provide security for a surviving spouse, with the capital preserved for children. It can also be used to pass income from an asset on to a beneficiary without losing control of the capital. This can be particularly attractive in second marriage situations when the children are from an earlier marriage.

Discretionary (Flexible) Trusts
The settlor decides who can potentially benefit from the trust, but the trustees are then able to use their discretion to determine who, when and in what amounts beneficiaries do actually benefit. This provides maximum flexibility compared to the other trust types, and for this reason is often referred to as a 'Flexible Trust'. ◀

Source data:

[1] Canada Life's annual Inheritance Tax monitor survey of 1,001 UK consumers aged 45 or over with total assets exceeding the individual Inheritance Tax threshold (nil-rate band) of £325,000. Carried out in October 2017.

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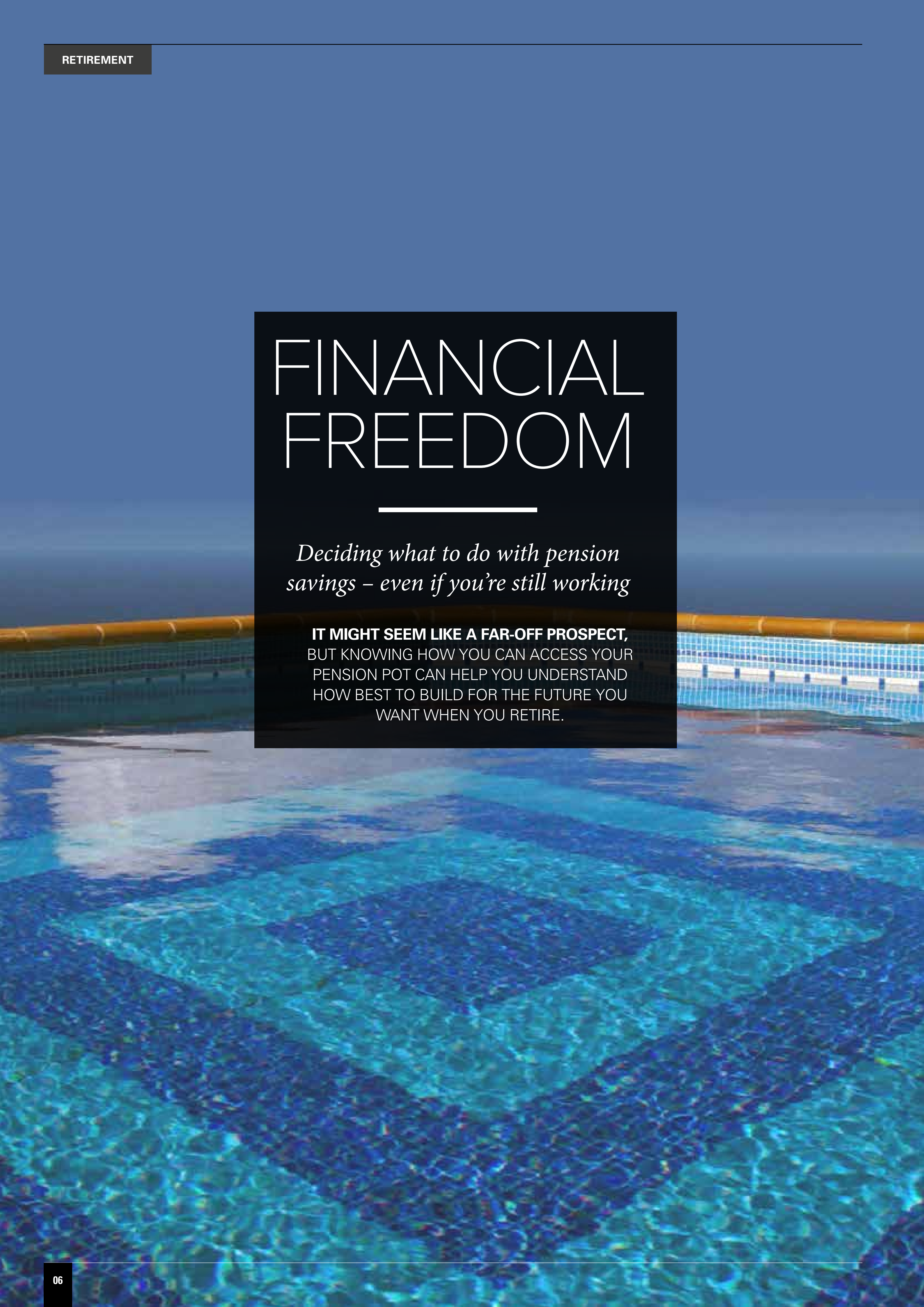

FINANCIAL FREEDOM

Deciding what to do with pension savings – even if you're still working

IT MIGHT SEEM LIKE A FAR-OFF PROSPECT, BUT KNOWING HOW YOU CAN ACCESS YOUR PENSION POT CAN HELP YOU UNDERSTAND HOW BEST TO BUILD FOR THE FUTURE YOU WANT WHEN YOU RETIRE.

On 6 April 2015, the Government introduced major changes to people's defined contribution (DC) private pensions. Once you reach the age of 55 years, you now have much more freedom to access your pension savings or pension pot and to decide what to do with this money – even if you're still working.

Depending on the scheme, you may be able to take cash lump sums, a variable income through drawdown (known as 'flexi-access drawdown'), a guaranteed income under an annuity or a combination of these options. This means being faced with the choice of deciding how much money to take out each year and setting an appropriate investment strategy. It goes without saying that your income won't last as long if you take a lot of money out of the pension pot early on.

What are your retirement income options?
There are many things to consider as you approach retirement. You need to review your finances to ensure your future income will allow you to enjoy the lifestyle you want. You'll also be faced with a number of different options available for accessing your pension. Being faced with such an important decision, it's essential you obtain professional financial advice and guidance. We've provided an overview of the main options.

Keep your pension pot where it is
You can delay taking money from your pension pot to allow you to consider your options. Reaching age 55 or the age you agreed with your pension provider to retire is not a deadline to act. Delaying taking your money may give your pension pot a chance to grow, but it could go down in value too.

Receive a guaranteed income for life
A lifelong, regular income (also known as an 'annuity') provides you with a guarantee that the income will last as long as you live. A quarter of your pension pot can usually be taken tax-free, and all the annuity payments will be taxed.

Receive a flexible retirement income
You can leave your money in your pension pot and take an income from it. Any money left in your pension pot remains invested, which may give your pension pot a chance to grow, but it could go down in value too. A quarter of your pension pot can usually be taken tax-free, and any other withdrawals will be taxed whether you take them as income or as lump sums. You may need to move into a new pension plan to do this. You do not need to take an income.

Take your whole pension pot in one go
You can take the whole amount as a single lump sum. A quarter of your pension pot can usually be taken tax-free – the rest will be taxed. You will need to plan how you will provide an income for the rest of your retirement.

Take your pension pot as a number of lump sums
You can leave your money in your pension pot and take lump sums from it as and when you need until your money runs out or you choose another option. You can decide when and how much to take out. Any money left in your pension pot remains invested, which may give your pension pot a chance to grow, but it could go down in value too. Each time you take a lump sum, normally a quarter of it is tax-free and the rest will be taxed. You may need to move into a new pension plan to do this.

Choose more than one option and combine them
You can also choose to take your pension using a combination of some or all of the options over time or over your total pot. If you have more than one pot, you can use the different options for each pot. Even if you only have the one pot, it is possible to have a combination of guaranteed income for life with a flexible income.

Significant effect on the amount of income available
The earlier you choose to access your pension pot, the smaller your potential fund and income may be for later in life. This could have a significant effect on the amount of income available to you, meaning it may be less than it could have been, and it could run out much earlier than expected.

Taking an appropriate income or money from your pension is very complex. We'll help you access your options. Remember: if you choose to only withdraw some of your money, what's left will remain invested and could go down as well as up in value. You could also get back less than has been invested. Also, if you buy an income for life, you can't generally change it or cash it in, even if your personal circumstances change. And the inheritance you can pass on depends on what you decide to do with your pension money. ◀

“A lifelong, regular income (also known as an annuity) provides you with a guarantee that the income will last as long as you live. A quarter of your pension pot can usually be taken tax-free and any other payments will be taxed.”

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ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

2018/19 TAX CHANGES

New initiatives you need to know

IT'S IMPORTANT TO CONSIDER THE TAX IMPLICATIONS OF MAKING FINANCIAL DECISIONS. THE 2018/19 TAX YEAR IS NOW UPON US AND A RAFT OF NEW CHANGES HAVE COME INTO FORCE. THE GOOD NEWS IS THAT THERE IS LITTLE CHANGE IN THE OVERALL TAX BURDEN FOR BASIC-RATE TAXPAYERS. HOWEVER, THERE ARE A NUMBER OF AREAS THAT HAVE CHANGED THAT SHOULD BE TAKEN NOTE OF.

Here's what you need to know about the 2018/19 tax year changes and new initiatives.

Personal Allowance

The tax-free Personal Allowance is the amount of income you can earn before you have to start paying Income Tax. All individuals are entitled to the same Personal Allowance, regardless of their date of birth.

In the 2017/18 tax year, the Personal Allowance was £11,500, and it has risen to £11,850 in the 2018/19 tax year. This means you can earn £350 more in the 2018/19 tax year than in the previous tax year before you start paying Income Tax. However, bear in mind that the Personal Allowance is reduced by £1 for every £2 of an individual's adjusted net income above £100,000.

A spouse or registered civil partner who isn't liable to Income Tax above the basic rate may transfer £1,190 of their unused Personal Allowance in the 2018/19 tax year, compared to £1,150 in the 2017/18 tax year to their spouse or registered civil partner, as long as the recipient isn't liable to Income Tax above the basic rate. You are eligible for this transfer if you're married or in a civil partnership, you don't earn anything, or your income is £11,850 or less and your partner's income is between £11,851 and £46,350 (or £43,430 if you're in Scotland).

Higher-rate threshold

The threshold for people paying the higher rate of Income Tax (which is 40%) increased from £45,000 to £46,350 in the 2018/19 tax year (this does not apply in Scotland to earned/pension income, but it does apply to savings and dividend income). This new figure also includes the increased Personal Allowance (where a full Personal Allowance isn't available, the higher rate threshold will be lower).

Dividend Allowance

The Chancellor of the Exchequer, Philip Hammond, announced in the Spring Budget 2017 that the Dividend Allowance would reduce from £5,000 to £2,000 from 6 April 2018.

Any dividend income that investors earn above the £2,000 allowance will attract tax at 7.5% for basic-rate taxpayers, while higher-rate taxpayers will be taxed at 32.5% and additional-rate taxpayers at 38.1%.

This may impact on shareholders of private companies paying themselves in the form of dividends, for example, rather than salary. Investors with portfolios that produce an income in the form of dividends of more than £2,000 a year, which are held outside ISAs or pensions, will also be affected by the reduction in the allowance.

National Insurance Contributions (NICs)

NICs will be charged at 12% of income on earnings above £8,424, up from £8,164 until you are earning more than £46,350, after which the rate drops to 2% on the excess. It's the same in Scotland.

Auto enrolment contributions

Auto enrolment contribution rates have increased for employees and employers. In the previous 2017/18 tax year, the minimum total contribution was 2%, with employers subject to a minimum of 1%. From 6 April 2018, the total minimum increased to 5%, with employers subject to a minimum of 2%, depending on the definition of earnings used – these figures apply where qualifying earnings are used. The employee contributes the difference between the two.

Pension Lifetime Allowance

The Lifetime Allowance increased from £1 million to £1.03 million in the 2018/19 tax year. This is the maximum total amount you can hold within all your pension savings without having to pay extra tax when you withdraw money from them.

If the total value of your pension savings goes over the Lifetime Allowance, any excess will be taxed at a rate of 25% in addition to your marginal rate of Income Tax if drawn as income, or 55% if you take it as a lump sum.

State Pension

There has been a 3% rise for the old basic State Pension and the new flat-rate State Pension. If you're on the basic State Pension (previously £122.30 per week), this has increased to £125.95. The flat-rate State Pension has increased from £159.55 to £164.35 a week.

Inheritance Tax

Although the standard nil-rate band is frozen at £325,000, the residence nil-rate band (RNRB) has risen from £100,000 to £125,000. The RNRB enables eligible people to pass on a property to direct descendants and potentially save on death duties.

Capital Gains Tax

Capital Gains Tax is charged on profits that are made when certain assets are either transferred or sold. There's no tax to pay if all gains made in a tax year fall within the annual Capital Gains Tax exemption. For the 2018/19 tax year, this is £11,700 (it was £11,300 for the 2017/18 tax year).

Buy-to-let landlords

Changes mean that only 50% of mortgage interest will be able to be offset when calculating a tax bill, compared with 75% previously. This is being phased in between April 2017 and April 2020. You will still be able to deduct some of your finance costs when you work out your taxable property profits during the transitional period. These deductions are gradually withdrawn and replaced with a basic-rate relief tax reduction. ◀

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RETIREMENT WEALTH

What's the right answer for you?

THE FIRST INCREASE IN MINIMUM AUTOMATIC ENROLMENT (AE) WORKPLACE PENSION CONTRIBUTIONS CAME INTO EFFECT ON 6 APRIL[1]. ACCORDING TO RESEARCH FROM SCOTTISH WIDOWS, HOWEVER, ONE IN FIVE BRITONS (20%) – AMOUNTING TO MORE THAN TEN MILLION PEOPLE – SAY THEY'LL WORK UNTIL THEY'RE PHYSICALLY UNABLE TO, WHILE ONE IN 20 (6%) – ANOTHER THREE MILLION PEOPLE – SAY THEY EXPECT TO WORK UNTIL THEY DIE.

While the increase in AE workplace pension contributions will help people narrow the gap in their retirement savings, there are many who need to be doing more to ensure a comfortable retirement. The research shows that 44% of people are not saving Scottish Widows' recommended 12% of their salary towards retirement each year[2], which is more than double the new minimum AE contribution level of 5%.

Expectation to continue working at least part-time

In addition, the findings reveal that more than half (51%) of Britons expect to continue working at least part-time past retirement age, and a fifth (18%) say that working beyond the age of 65 will be a necessity rather than a choice.

Only a quarter (24%) expect to have completely retired by the time they're 65, the research reveals. Young people are least hopeful of this being a possibility, with only one in 20 (5%) of 18 to 24-year-olds expecting to retire by the age of 65, but this proportion doubles among 25 to 34-year-olds (11%) and triples among 35 to 44-year-olds (16%).

Delaying retirement – make it a choice, not a necessity

Nearly one in five (18%) people say they'll work longer than they want to because they worry about their level of savings. Just under a third (32%) of 25 to 54-year-olds worry they haven't been saving enough in their early years, and two fifths (39%) of people fear running out of money completely in retirement.

Interestingly, women are more concerned than men about the cost of later life. Just over two fifths (43%) of women are concerned that they'll run out of money during retirement, while only a third (34%) of men feel this way. Others worry about facing potential shortfalls due to policy change, with four in ten (37%) citing concern about changes to the State Pension, such as a further increase to the retirement age.

Preparing for the costs of retirement

Despite the majority of British adults recognising the need to work longer to prepare for their retirement, a significant number have no contingency in place should they face increasing costs in later life. When told that people going into a nursing home can expect to pay an average of £866 per week for this, 22% of respondents said they'd never considered how they would cover this cost, and another 22% said they'd rely on the state to pay for care.

However, more than three in five (62%) people say they are unsure what behaviour they would change to make up for increasing retirement spending. Only 12% say they will hold off drawing down their maximum pension allowance for as long as possible, and just 8% say they will forego leisure spending to prepare for retirement spending. ◀

Source data:

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 3,535 adults. Fieldwork was undertaken between 17 and 22 January 2018. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

[1] From 6 April 2018, the minimum contribution is 5%, with at least 2% from the employer; from 6 April 2019, the minimum contribution is 8%, with at least 3% from the employer.

[2] 2017 Scottish Widows Retirement Report – 44% of people aged 30+ are not saving adequately for retirement.

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.

YOUR MONEY, YOUR CHOICE

Supporting your future financial requirements

YOU CAN PAY INTO AS MANY PENSION SCHEMES AS YOU WANT; IT DEPENDS ON HOW MUCH MONEY YOU CAN SET ASIDE. THERE ARE SEVERAL DIFFERENT TYPES OF PRIVATE PENSION TO CHOOSE FROM, BUT IN LIGHT OF RECENT GOVERNMENT CHANGES THE TAX ASPECTS CAN REQUIRE CAREFUL PLANNING. SO WHAT DO YOU NEED TO CONSIDER?

The UK Government currently places no restrictions on the number of different pension schemes you can be a member of. So, even if you already have a workplace pension, you can have a personal pension too, or even multiple personal pensions. These can be a useful alternative to workplace pensions if you're self-employed or not earning, or simply another way to save for retirement.

Any UK resident can pay into a personal pension – although the earlier you invest, the more likely you are to be able to build up a substantial pension pot. However, the maximum that can normally be contributed to all your pensions during the tax year and receive tax relief (known as the 'annual allowance') is £40,000 (not taking into account any unused annual allowance that may be available to carry forward). Some people who are high earners with 'threshold income' above £110,000 and 'adjusted income' of £150,000 or more will be subject to tapering and have a reduced Annual Allowance.

Tax relief on pension contributions

A private pension is designed to be a tax-efficient savings scheme. The Government encourages this kind of saving through tax relief on pension contributions.

In the 2018/19 tax year, pension-related tax relief is limited to either 100% of your UK earnings, or £3,600 per annum – whichever is highest. Contributions are limited by the current annual (£40,000) and lifetime allowances (£1,030,000) for most people, but not all, so it will be worth checking (not taking into account any unused annual allowance that may be available to carry forward).

Annual allowance

The annual allowance is the maximum amount that you can contribute to your pension each year while still receiving tax relief. The current annual allowance is capped at £40,000, but may be lower depending on your personal circumstances.

In April 2016, the Government introduced the tapered annual allowance for higher earners. For individuals with 'threshold income' above £110,000 and 'adjusted income' of £150,000 or more, the standard £40,000 annual allowance will be reduced by £1 for every £2 of 'adjusted income' they have over £150,000. However, the maximum reduction will be £30,000 – taking the highest earners' annual allowance down to £10,000.

Any contributions over the annual allowance won't be eligible for tax relief, and you will need to pay an annual allowance charge. This charge will form part of your overall tax liability for that year, although there is the option to ask your pension scheme to pay the charge from your benefits if it is more than £2,000 and contributions to that scheme exceeded £40,000. It is worth noting that you may be able to carry forward any unused annual allowances from the previous three tax years in order to reduce, or eliminate, any annual allowance charge payable.

Lifetime allowance

The lifetime allowance (LTA) is the maximum amount of pension benefit that can be drawn without incurring an additional tax charge, currently £1,030,000. What counts towards your LTA depends on the type of pension you have:

- **Defined contribution – personal, stakeholder and most workplace schemes** The amount of money in your pension pots that goes towards paying you, however you decide to take the money
- **Defined benefit – some workplace schemes** Usually 20 times the pension you get in the first year plus your lump sum – check with your pension provider

Your pension provider will be able to help you determine how much of your LTA you have already used up. This is important because exceeding the LTA will result in a charge of 55% on any lump sum and 25% on any other pension income such as cash withdrawals. This charge will usually be deducted by your pension provider before you start getting your pension.

Pension protection

It's easier than you think to exceed the LTA. If you are concerned about exceeding your LTA, or have already done so, it's essential to obtain professional financial advice. It may be that you can apply for pension protection. This could enable you to retain a larger LTA and keep paying into your pension – depending on which form of protection you are eligible for. We can assess and review the options available to your particular situation.

Alternative savings

In addition to pension protection, if you have reached your LTA (or are close to doing so), it may also be worth considering other tax-effective vehicles for retirement savings, such as Individual Savings Accounts (ISAs). In the current tax year, individuals can invest up to £20,000 into an ISA.

The Lifetime ISA launched in April 2017 is open to UK residents aged 18 or over but under 40, and will enable younger savers to invest up to £4,000 a year tax-efficiently –any savings you put into the ISA before your 50th birthday will receive an added 25% bonus from the Government. After your 60th birthday, you can take out all the savings tax-free, making this an interesting alternative for those saving for retirement, or it can be accessed tax-free and penalty-free before age 60 for first home purchase.

Pension beneficiaries

There will normally be no tax to pay on pension assets passed on to your beneficiaries if you die before the age of 75 – as long as the total assets are less than the LTA. If you die aged 75 or older, the beneficiary will be taxed at their marginal rate. ◀

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

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

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.

GENEROUS GRANDPARENTS

The bank that likes to say 'yes'

FORGET THE LAMBORGHINI – 2.4 MILLION UK GRANDPARENTS[1] HAVE EITHER RAIDED THEIR PENSION TO SUPPORT THEIR GRANDCHILDREN OR PLAN TO IN THE FUTURE. ACCORDING TO RESEARCH FROM LV=, A QUARTER OF GENEROUS GRANDPARENTS (25%) WHO HAVE ALREADY GIVEN AWAY MONEY TO THEIR GRANDCHILDREN[2] HAVE TAKEN THE FUNDS FROM THEIR PENSION. A FURTHER ONE IN SIX (16%) PLAN TO USE THEIR PENSION FOR THIS REASON ONCE THEY REACH RETIREMENT AGE.

Open-handed grandparents are willing to give away substantial amounts to their grandchildren, whether from their pensions, savings or wages, with the average grandparent having already spent £1,633. More than one in 20 (6%) have given gifts of more than £10,000.

The generosity shows no sign of stopping, with many grandparents (56%) planning to give away even more money in future. The average grandparent expects to give away £2,938 in the coming years, with charitable grandmas expecting to give away £173 more than grandads on average.

Living inheritance

Pension savings are used to help with a wide range of things, from helping grandchildren get on the housing ladder (21%) and other high-ticket items like university fees (20%) or cars (17%). A similar number would help out with more day-to-day expenses such as bills (21%) and hobbies (19%).

Grandparents often view the financial gifts they make as a 'living inheritance', with more than a third (37%) wanting to be around to see their grandchildren enjoy the money[3].

Retirement focus

It's heart-warming to see grandparents so willing to help out their grandchildren both day-to-day and with large ticket purchases. With one in five using their pension to help out, it's important that these kind individuals plan for their retirement and have enough money left for themselves, as even smaller outgoings like bills can become harder to meet later in life.

The generosity of grandparents in Britain is clear to see, and it is great that so many feel comfortable enough to be able to help out their family and plan to continue doing so. However, the average retirement is now much longer than for past generations, and people's lifestyle and associated costs are likely to change over this period. ◀

Source data:

[1] According to ONS Population Pyramid, there are 49,533,900 people aged over 18 in the UK. The research found that 39% of a sample of 2,002 adults were grandparents, indicating there are 19,318,221 grandparents in the UK. 56% of grandparents have helped or plan to help their grandchildren, and 22% of these would use their pension to do so. Therefore, 2.38 million grandparents have helped or plan to help their grandchildren, using their pension.

[2] According to research carried out by Opinium Research on behalf of LV=, 25% of grandparents have already taken money from their pension to give to their grandchildren.

[3] Statistics from research carried out on behalf of LV= by Opinium Research in June 2014 (total sample size = 2043). The press release for this research was issued on 20 June 2014.

The research was carried out by Opinium Research from 13–16 October 2015. The total sample size was 786 British grandparents over the age of 30, and the survey was conducted online. Results are weighted to a nationally representative criteria.

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.

MAKING THE MOST OF YOUR PENSIONS

Have you accumulated multiple plans that need reviewing?

BY THE TIME WE HAVE BEEN WORKING FOR A DECADE OR TWO, IT IS NOT UNCOMMON TO HAVE ACCUMULATED MULTIPLE PENSION PLANS. THERE'S NO WRONG TIME TO START THINKING ABOUT PENSION CONSOLIDATION, BUT YOU MIGHT FIND YOURSELF THINKING ABOUT IT IF YOU'RE STARTING A NEW JOB OR NEARING RETIREMENT.

Consolidating your pensions means bringing them together into a new plan, so you can manage your retirement savings in one place. It can be a complex decision to work out whether you would be better or worse off combining your pensions, but making the most of your pensions now could have a significant impact on your retirement.

Retirement savings in one place

Whenever you decide to do it, when you retire it could be easier having a single view of all of your retirement savings in one place. However, not all pension types can or should be transferred. It's important that you obtain professional advice to compare the features and benefits of the plan(s) you are thinking of transferring.

Some alternative pension options may offer the potential for a better investment return than existing pensions – giving the opportunity to boost savings in retirement without saving any more. In addition, some people might benefit from moving their money to a pension that offers funds with less risk – which may not have been available before. This could be particularly important as someone moves towards retirement, when they might not want to take as much risk with their money they've saved throughout their working life.

Keeping track of the charges

If you have several different pensions, it can be difficult to keep track of the charges you're paying to existing pension providers. By combining pensions into a new plan, lower charges could be available – providing the opportunity to boost retirement savings further. However, it's important to fully understand the charges on existing plans before considering consolidating pensions.

Combining pensions into one pot also reduces paperwork and makes it easier to estimate the income you can expect to receive in retirement. However, before you make the decision to consolidate pensions, it's essential to make sure there is no loss of benefits attributable to an existing pension.

Review your pension situation regularly

It's essential that you review your pension situation regularly. If appropriate to your particular situation and only after receiving professional financial advice, pension consolidation could enable existing policies to be brought together in one place, ensuring they are managed correctly in line with your wider objectives.

Gone are the days of a job for life. So many of us may have several pensions accumulated over the years – some of which we may have left with former employers and forgotten about! Your pension can and should work for you to provide a better quality of life when you retire. Looked after correctly, it can enable you to do more in retirement, or even start your retirement early. ◀

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.

THERE IS NO GURANTEE EQUAL OR HIGHER INCOME/RETURNS WILL BE ACHIEVED WHEN COMPARED TO YOUR EXISTING ARRANGEMENT.

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