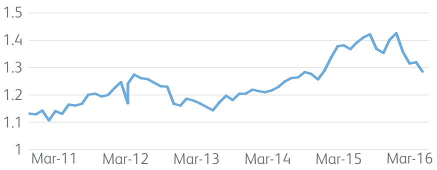
2plan®
wealth management

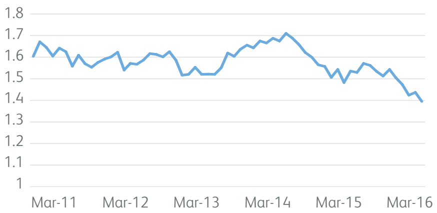
financial Newsletter

Edition 19 – Summer 2016

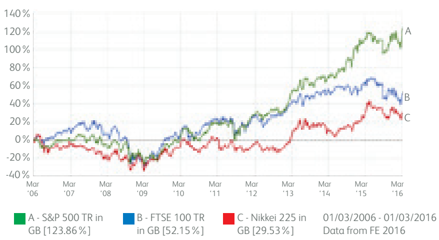
What is the British Pound worth vs. Euro?



What is the British Pound worth vs. Dollar?



World stock market performance over last ten years.



Base rate remains stable

The Bank of England's Monetary Policy overwhelmingly voted to again keep the base rate at 0.5%.

UK economic outlook

The UK economy is estimated to have increased by 0.4% between January and March 2016 compared with growth of 0.6% in quarter 4 2015.

The rise was in line with expectations and was the thirteenth consecutive quarter of positive growth for the UK.

Output increased in services by 0.6% in quarter 1 but the other three main industrial groupings within the economy decreased, with production falling by 0.4%, construction output by 0.9% and agriculture by 0.1%.

GDP was 2.1% higher in quarter 1 compared with the same quarter a year ago.

Inflation

- The Consumer Prices Index (CPI) increased by 0.5% in the year to March 2016, compared to a rise of 0.3% in the year to February.
- The rate has increased gradually since October 2015 although it is still relatively low in the historical context.
- Rises in air fares and clothing prices were the main contributors to the increase in the rate.
- These upward pressures were partially offset by a fall in food prices and a smaller rise in petrol prices than a year ago.

UK unemployment

- In the three months to February 2016 the number of unemployed people increased by 21,000 to 1.7 million, the Office for National Statistics said.
- The number of people aged from 16 to 64 not in the labour force (economically inactive) was 8.87 million during this period, 121,000 fewer than the previous year and the lowest total since May to July 2003.
- The total number of people now in work is 31.41 million, a rise of 20,000 on the previous quarter and 360,000 more than a year earlier.
- 74.1% of all people aged 16 to 64 were classed as employed, the joint highest since comparable records began in 1971.

KEY FACTS & FIGURES – The UK Economy		
BoE Base Rate	0.5%	Mar 2016
Unemployment	5.1%	Feb 2016
Inflation (CPI)	0.5%	Mar 2016

Agenda

Thinking ahead – Helping you make sense of all things retirement

Since the new pension freedoms came into effect in April 2015, the majority of people with more modest pension savings have mostly taken their whole pension as cash and paid income tax on the 75% of it that is taxable.

If you're considering taking the whole of your pension as a cash lump sum, there are a number of things you need to think about before making a decision.

What you should consider

Taking the whole amount as a cash lump sum is something to consider for people whose pension pot is modest – less than £20,000, perhaps. The money could be used to repay debt such as a mortgage or spend on home maintenance.

Taking all of the money as soon as you're able to do so, at age 55, isn't always a good idea. Even small amounts can grow quite quickly, especially if you keep investing. And, if you take your money early you may have nothing left at retirement other than your state pension.

Watch out for the tax on a cash lump sum – you could also be over-taxed and then have to claim some money back.

While the majority of people who have taken their whole pension pot as a cash lump sum have had small pots, this is by no means the only option for those in this position.

Before the pension freedom changes came into effect most pension providers insisted that you have a minimum balance of £30,000, or even £50,000, in order to take regular or one-off withdrawals. This has now changed and some providers don't have any minimum at all.

So, even if your pension pot is only £10,000 you can leave it invested and take it 'bit by bit', if that's what suits you.

Combining smaller pots

Another option with small pension pots is to combine them. Bringing all your pensions together under one roof may save you some money in charges, as well as being easier to manage. But do think twice before you transfer any older pensions with guarantees. These guarantees are often valuable and may be worth paying a bit more in charges to keep. If in doubt, you should discuss this with your 2plan wealth management Independent Financial Adviser (IFA).

Think about the long term

Before the introduction of the pension freedoms, only people aged over 60 could take their pension as a cash lump sum.

Although it may be tempting to take your whole pension pot at age 55, remember that the money is supposed to see you through your whole retirement. At 55, you might think that you will be able to work forever, but age catches up with most of us at some point.

Remember that the state pension on its own may not be enough to maintain your current lifestyle when you're retired, so keeping some money in your pension until you eventually retire could be of benefit.

Although your pension pot at age 55 may look small, it's amazing what difference another 10-15 years worth of investment returns and continued contributions could make – although you should always be aware that the value of investments can go down as well as up and you may not get back what you invested.

For some, taking a cash lump sum at age 55 may be the right thing to do from a purely financial point of view. For example, those who are paying interest on debts at a particularly high rate – more than the investment return they can earn on their pension pot – may be better off taking cash and repaying debt.

Those who lose their job may also feel that they have no other option but to dip into their pension pot, particularly if this allows them to continue meeting their mortgage payments until they are back in work.

You could pay more tax than you expected

If you do take a cash lump sum from your pension, you may find that the tax you pay on the taxable part is a lot higher than expected. This is because initial withdrawals are taxed on an emergency 'month one' basis.

Month one tax assumes that your withdrawal will continue at the same level every month until the end of the tax year, even though you are only taking a single withdrawal.

For example, if you took £10,000 out at the end of April in one tax year, the month one basis would assume that you were going to earn £120,000 (12 months times £10,000) on top of any other taxable income.

This means you may end up paying an effective tax rate of over 30%, even though you are usually a basic rate or non-taxpayer. Any excess amount of tax can be reclaimed by filling in a tax form if you want to reclaim an overpayment immediately. Alternatively, you can wait until the end of the tax year, when Her Majesty's Revenue and Customs (HMRC) will automatically calculate and refund any overpayment.

Pensions vs ISAs

Generally speaking, taking money out of your pension to put it into an ISA may not be a good idea. Pensions, like ISAs, are tax efficient, but they don't form part of your estate for inheritance tax, whereas your ISA savings do.

Some people take their money out of their pension to place in a cash ISA without realising that they had the option to invest it in a cash deposit account within their pension. In most cases, you may be better leaving your money in your pension until you need it – especially if you expect to pay a lower rate of income tax in the future. Why pay a high rate of tax now to access your savings pot, when you could pay less in future?

If you've already taken money out of your pension but haven't yet spent it, consider keeping it in the most tax-efficient savings plan – for example, an ISA.

Alternatively, you could pay it back into your pension if you're still under 75. There are rules about paying money back into a pension once it has been taken out and limits on the amounts. You need to make sure that you stay within these rules, or you could pay a high tax charge.

- Even if you aren't earning you have a minimum pension contribution allowance of £3,600 per annum including basic rate tax relief, each year until you reach age 75.
- The maximum is generally 100% of earnings up to an annual allowance of £40,000.

However, taking certain types of retirement benefit could reduce the amount you are able to pay into your pension to £10,000 per year.

For more information on how your own retirement benefit choices may affect your annual allowance, please speak with your 2plan wealth management IFA.

Article written by John Lawson,
Head of Policy (Retirement Solutions) – Aviva.

Pension freedoms one year on

A year after the pension freedoms came into effect, Retirement Advantage is highlighting the way consumers and the industry have responded, while cautioning that more work is needed to ensure people get advice and shop around to get the best outcomes.

Andrew Tully, pensions technical director at Retirement Advantage, commented: "The pension freedoms have made people sit up and think about their pensions in a different way and this has also spurred the development of a variety of new products. Although it's clear people value the additional flexibility on offer, we haven't seen a swathe of retirees splurging their savings on Lamborghinis.

"Perhaps surprisingly, the biggest winner over the past 12 months has been the annuity. It is clear that the predicted demise of the annuity was premature as securing a guaranteed income is still favoured by many. Annuities are now being used in different ways, using 'money-back' guarantees, and often combined with drawdown in new blended products."

Same needs – new guarantees

Retirement Advantage conducted research following the introduction of the freedoms and found that certainty was ranked as the top priority for over 50s when thinking about income in retirement (43%), followed by flexibility (33%). This hierarchy is reflected in customer purchase decisions. The ABI recently reported that annuity sales are beginning to see a revival of fortune, with the number sold outstripping drawdown products for the first time in the most recent quarter with 21,200 sold, worth £1.1 billion, compared with 19,700 drawdown policies, worth £1.4 billion.

Andrew Tully commented: "Knowing that there is a guaranteed income coming in to pay the bills continues to be a real comfort to many retirees. Even among customers taking advantage of the blended products now available, we've found that 60% of their funds are allocated to the guaranteed annuity element.

"It is the change to death benefits available within annuities which has led to people seeing them in a new light. Where previously guarantees were only available for up to 10 years, since last April providers have offered longer guarantees of up to 30 years or 100% value protection. These improvements address the most significant historic criticism of annuities as it provides confidence their families will get their money back, whatever happens. Three quarters of our annuity applications include some form of guarantee, which increases to over 90% when annuities are purchased within drawdown."

New freedoms – old dangers

However, Retirement Advantage is warning that there is a significant risk of more people missing out on the best outcomes available following the introduction of the new freedoms. It highlights that more than two-fifths (42%) of drawdown customers and almost two-thirds (63%) of annuity customers did not use regulated financial advice in quarter 3 of 2015.

In addition, FCA data shows that 58% of income drawdown customers and 64% of annuity customers stayed with their existing provider. Retirement Advantage calculates that in the first six months of pension freedoms, those who did not shop around for their annuity will collectively miss out on £104 million of income over the course of retirement.

Pension scams continue to plague the market with recent research revealing that one in three people (35%) aged 55 or over has been targeted by a potential pension scammer in the past three months. These consumers have been offered free pensions advice or investment opportunities by phone, text or email.

Andrew Tully commented: "People are failing to seek advice and therefore not shopping around for either an annuity or drawdown product. This situation has actually got worse since pension freedoms and the market is clearly failing consumers. Not only are those purchasing annuities missing out on the best deals, but there is a real risk that retirees will go into drawdown who don't have the necessary capacity for loss or a suitable risk appetite. While drawdown is not a one-off purchase, it is still important retirees seek professional advice, as they could easily be caught out by high charging or complicated products.

"Scammers continue to prey on certain groups, using increasingly sophisticated and convincing ways of trying to defraud large amounts of cash from people's pensions. We all need to be on constant guard: if an opportunity sounds too good to be true, it almost certainly is. The recent campaign from The Pensions Regulator is to be applauded. We need to continue the focus on this important area of the pensions industry."

The future – opportunities and challenges

Looking ahead to the coming year, Retirement Advantage predicts that the new blended products will become increasingly popular as retirees seek to combine the certainty of an annuity to provide income for essential needs with the flexibility of drawdown to provide money for one-off costs or emergencies.

Andrew Tully comments: 'We've already seen strong demand with over £350 million in quotes for our new Retirement Account in just four months. This shows people want to combine a guaranteed income with the option to dip in and out of savings as necessary, within one product.

"For the freedoms to be a genuine success, the Government and industry must together do more to ensure that retirees get professional advice and shop around to get the best outcomes, while doing all we can to seek out the scammers. Otherwise we risk a second year anniversary marred by stories of people losing out and a system failing the people it set out to benefit."

Written by Andrew Tully,
Pensions Technical Director – Retirement Advantage.

Market outlook – Architas

The official Brexit campaigns have now begun, with the referendum due to be held on 23rd June 2016. The electorate will vote on the question: 'Should the United Kingdom remain a member of the European Union or leave the European Union?' and decide if Britain will stay in the world's largest trading bloc, or resume its status of an island nation with a strong merchant and diplomatic history and the fifth largest national economy in the world, but with a different relationship with the European Union (EU) than what we have currently.

Brexit has cast a shadow over UK markets, with uncertain prospects for the economy leading to a weaker pound and apparently undermining investment and growth. Equity markets, however, have diverged with large cap stocks performing more in line with the US and better than their EU counterparts while smaller companies have suffered more, reflecting their greater exposure to UK rather than overseas consumers. Gilts have been surprisingly resilient, primarily because of the prospect of continued lower interest rates from the Bank of England for a longer period of time.

A UK vote for Brexit might usher in an extended period of volatility as the UK's trading arrangements with the EU and the rest of the world are renegotiated. If the 2014 Scottish independence referendum is a reliable guide, we could expect to see a further uptick in sterling asset volatility until the referendum result is in. The closer the polls are, the more pronounced this is likely to be and the weaker sterling assets will be.

There was a significant amount of volatility in UK currency and stock markets in the run up to the 2014 Scottish independence referendum, followed by a relief rally when the 'no' vote was announced. The referendum in Scotland, amongst many others, highlight that voters have a tendency to vote for the status quo ante, and that betting markets have been more successful than the pollsters at predicting the result!

Anticipating more difficult markets ahead we began lightening sterling holdings in quarter 4 last year. As the opinion polls have narrowed we have continued to reduce our exposure and raised our foreign currency holdings as a partial hedge.

The Bank of England Governor Mark Carney has stated that the Bank of England would not take a position on whether Britain should stay in the 28-member bloc but in January stated that there was "the possibility of a risk premium being attached to UK assets" adding to the riskiness of the situation.

Patience, discipline and diversification become ever more important in times of uncertainty. In a volatile 2016 this message has already been vital, and it will become more important until the market implications of the referendum decision become clearer.

Considering this wide-ranging uncertainty, we at Architas believe it wise to set a strategic view we are prepared to stick with and be prepared for tactical opportunities, or alternatively put your money in a fund with a flexible mandate that can respond rapidly to changing circumstances. In short, stay invested but be prepared for volatility.

Article written by Caspar Rock, Chief Investment Officer – Architas.

Market outlook – Fidelity

March of market rally

Equity markets rallied strongly in March, as concerns over the strength of global growth faded and central banks worked to reassure markets. This helped our income funds recover from the market volatility of early 2016, with asset classes such as high yield bonds and equities rallying strongly.

While this will be welcome for income investors, we remain focused on the need to provide a sustainable income stream. In this context, we continue to favour Hybrids, such as high yield bonds and loans, which offer a good level of income for the risk involved. Adding to these asset classes on the back of weakness can also help to protect a portfolio during more volatile markets, as you invest when poor sentiment is already baked into the price.

ECB wields the biggest bazooka

Central banks were back in full easing mode over March, with the European Central Bank (ECB) unveiling a €20 billion increase in its quantitative easing programme, and the inclusion of investment grade corporate bonds for the first time. This is a strong positive for European risk assets, as well as the European economy more widely. Waiting to see the impact of its new negative rates policy, the Bank of Japan remained on hold, though there have been signs that they could ease further as soon as April.

The Fed also remained on hold, though the extent of Janet Yellen's (the Chair of the Board of Governors of the Federal Reserve System) dovish tone was a surprise, particularly considering January's uptick in core PCE inflation, to 1.7% year-on-year. This is already running ahead of expectations for the end of the year, while the American economy continues to generate robust jobs growth. If we continue to see inflation and employment strengthening in the US, then the Fed won't be able to reassure the markets with dovish statements for too much longer.

Assessing the balance of risks to income assets

Tighter monetary policy in the US would likely lead to a stronger dollar, making it harder for emerging-market borrowers to repay their hard (mostly dollar denominated) debt. Both government and investment grade bond valuations would likely fall, as investors would be less likely to tolerate record low yields in a higher interest rate environment. Rising rates might make the yield on cash more appealing, but the Fed is only likely to raise rates if they have to – i.e. due to a pick-up in inflation. As such, income investors would be unlikely to see any rise in their real income from cash.

Article written by Eugene Philalithis,
Multi Asset Portfolio Manager – Fidelity Solutions.

Market outlook – Invesco Perpetual

The UK budget, delivered mid-March, was accompanied by a cut in forecast growth for 2016 to 2% by the Office for Budget Responsibility (OBR), which had previously forecast that the economy would grow 2.4% this year. The budget had minimal impact on the stock market, which instead seemed to take direction from other central banks and from some recovery in depressed oil and mineral prices.

The European Central Bank (ECB) surprised financial markets by cutting interest rates in the eurozone to zero and stepping up the pace of its quantitative easing programme, with an increase of €20 billion in bond purchases per month. The ECB will also now be buying up investment grade corporate bonds – a move which was seen as positive for UK life insurers.

There was good news for some of the previously beleaguered power generators and energy suppliers, as the UK Government announced an additional capacity auction for 2017/18, along with other measures tilting the rules in favour of large plants and deterring small diesel generation assets. This represents the first major positive news for generators in two and a half years.

This should be most significant for Power Station owners Drax, but should also prove favourable for energy companies such as SSE and Centrica. Meanwhile the Competition and Markets Authority announced its proposals to reform the energy market and open up competition, which were seen as less negative to the industry than had been feared.

The latest review from industry regulator Ofcom was seen as negative for BT, which will have to reduce the prices it charges for high-speed business lines. Furthermore, the company will have to extend bids to rival firms to install their own equipment using the company's fibre connections.

Article written by Hilary Cook,
UK Equities Product Director – Invesco Perpetual.

Market outlook – Rathbones

For hundreds of years, Britons have had a muddled history with Europe. While a part of Europe, the UK is certainly not 'Continental'. Over the years, this conflict seems to push the UK through cycles of ignoring developments across the Channel, to becoming ever-more connected and bound to Europe. This conflict has influenced British politics, trade and public opinion for centuries.

This latest era of linkage was ushered in on 1st January 1973, when the UK joined the European Economic Community, which later became the European Union (EU). Just two years later Harold Wilson's Labour government held a referendum to gauge the mood for continued membership. Voters overwhelmingly supported the pact, with 67% in favour on a 65% turnout.

Fast-forward 40 years, and the UK is preparing for another referendum next month, based on an uneasy relationship with the European project. Recently, the debate has moved to determining whether the UK government – and its citizens – would be better off financially if it left the EU to go it alone.

This is quite uncertain territory, however. The government's coffers would improve on the face of it, but much of the savings would likely be lost to state support for industries affected by punitive tariffs (under a hard Brexit scenario) or continuing contributions to the European Economic Area (under a soft Brexit scenario, where the UK remains part of the single market). It is impossible to know, too, what kind of deal the UK could secure to retain access to the single market should voters call for a Brexit.

There are many unanswered questions. If the UK votes to leave, would it keep full access to the single market, which takes almost half its exports? If so, might it have to accept most EU rules and pay money to Brussels in return, like Norway or Switzerland?

The profusion of question marks will remain after results day. If Britons vote to leave, negotiations over the terms of withdrawal could last up to two years before any outcome becomes discernible. And uncertainty alone can be enough to delay business investment and increase the volatility of financial markets; another unquantifiable cost. Potential gains from new trade deals, initiated by a UK unfettered by the EU, are also impossible to measure ahead of time.

The potential effects of a Brexit or the status quo appear finely balanced, much more so than the campaign rhetoric implies.

Article written by Edward Smith,
Asset Allocation Strategist – Rathbone Investment Management.

The increasing cost of regulation

Advice firms are regulated by the Financial Conduct Authority (FCA), which is the independent watchdog that regulates the financial services industry. In addition, this includes being covered by such regulatory bodies as the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS).

These organisations help settle disputes between consumers and UK financial services businesses, as well as providing a fund of last resort. Financial advisers fund these bodies through direct fees and levies which also necessitates investment in compliance staff and equipment to ensure they can meet their many regulatory obligations.

As a client of 2plan wealth management, you not only receive professional financial advice but also have the protection of such schemes as the FOS and FSCS as your adviser is authorised and regulated by the FCA through 2plan wealth management.

2plan wealth management also works closely with The Association of Professional Financial Advisers (APFA). APFA is the representative body for the financial adviser profession and in turn makes representation on behalf of the industry at Government, Treasury and FCA levels.

It was recently announced that for 2016/17, the FSCS levy would be £337 million, with those firms classed as operating in the life and pensions sector (which 2plan wealth management are) paying a levy of £90 million, higher than the forecasted figure of £80 million.

The FSCS levies have been consistently high for financial advisers, particularly over recent years and have now reached an all-time high, with many firms seeing huge increases in their levy payment. For many firms these levies have become unsustainable and their unpredictability undermines good business planning as well as impacting upon the cost of providing financial advice.

To put this into context, recent research by APFA showed that profits fell across advice businesses despite an 8% rise in turnover. Retained profits fell by 65%, from £171 million in 2014 to £61 million last year. This demonstrates the impact of FSCS levies and the sheer cost of regulation to advice firms.

The unpredictability of these levies and the need to find funds at short notice puts severe pressure on firms. It prevents firms from investing in their businesses and from expanding and recruiting into the profession. This is coupled with the sense of unfairness that good, honest advisers are paying for consumer losses caused by rogue firms and advisers marketing unregulated products. There is particular concern over the increase in the number of unregulated products – which are more often than not high-risk and complex in nature – due to a number of high-profile instances where consumers have lost most, if not all of their investment.

At the moment, consumers can be compensated for non-regulated products because the adviser is regulated by the FCA. We are working with APFA and the FCA to bring about change whereby an unregulated product would not afford the same protection for those people taking extreme risks. They would be made aware of the lack of protection and only allowed to proceed under strict criteria.

This may even deter retail consumers from investing in products that are not appropriate for them. If consumers still want to invest in unregulated products then it would be their decision to take the risk. Consumers taking a more cautious approach would not then be made to bail out those that make these types of higher-risk investments.

Ultimately, consumers will need to pay more towards the rising cost of regulation if they want to continue to have the comfort of receiving regulated financial advice and the protection this brings with it. By working closely with your adviser, who has strict controls over them by a regulated firm in 2plan wealth management – who in turn work closely with the FCA and APFA – we aim to bring you this comfort.

However, we will need to continue to inform clients on the challenges the financial services industry is facing, such as the damage caused by unregulated products being marketed to consumers who are not aware of the risks involved and the direct impact this has towards the rising costs of regulation.

Annuities – The value of shopping around

The pension reforms that came into effect in April 2015 opened up the industry in dramatic fashion. The major change that was introduced was the removal of the compulsion for individuals to purchase an annuity with their pension savings.

As individuals now had greater access to their pensions it was thought this would have a detrimental effect on the annuity market. In the 12 months or so since pension freedoms what has been shown is that, contrary to what some believed, the security of income that annuities provide is something that is still valued by consumers.

What has been evident though that is that a high number of people still do not explore the Open Market Option (OMO) and shop around to get the best possible annuity available. The OMO is the term used to describe the choice an individual has in being able to get the best possible annuity rate for their pension on the market.

The Financial Conduct Authority (FCA) published its Retirement Income Market Data study in January 2016 (covering the period July-September 2015) which showed that 64% of annuity customers remained with their existing pension provider and did not shop around.

This came on the back of the FCA's review of the annuities market in February 2014 that found 80% of individuals who purchased their annuity from their existing provider could have secured a better deal on the open market. In particular, the FCA identified individuals with either small pensions or those eligible for an enhanced annuity as being particularly at risk of not getting a good deal.

There are a number of factors that can impact on the amount of pension income that can be obtained, with the result being that a higher annuity can be obtained if you shop around at the point you receive the OMO from your existing provider.

Guarantees

Older pensions may contain a Guaranteed Annuity Rate (GAR). As annuity rates have fallen over time, the GAR may be a lot higher than the best rates currently on offer in the open market so care needs to be taken when shopping around.

Health

If you suffer from, or have suffered from, any illness or even a genetic medical condition this could increase the level of annuity payment that you could receive as companies factor in life expectancy when calculating the annuity rate on offer.

Lifestyle

A previous occupation or the amount you smoke or drink can affect the amount of annuity you could receive. Similarly, if you are in adverse health you may qualify for an enhanced annuity.

Location

Certain companies may be prepared to offer a higher annuity payment if you live in an area where statistically people died at an earlier age than compared to the national average.

Annuity shape

The annuity shape is the basis upon which the annuity is calculated. This will vary depending upon which options and factors are included. The OMO will generally be on a standard basis containing no guarantee, no escalation, either a nil or 50% spouse's pension and a tax free lump sum of the maximum amount of 25%. You will therefore need to decide on what shape is best for you.

It is therefore vital that when making any decision with regards to your income in retirement that you consider all of the available options. Your 2plan wealth management Independent Financial Adviser can discuss your personal circumstances and explain these options with you.

Preparing for the unexpected

Most of us wouldn't think twice about insuring our home, car, TV or smart phone – material things we see and use every day. We even make sure our pets and holidays are covered. So why don't we feel the same about protecting our families?

Perhaps it's because we assume that when our lives come to an end, we'll be old, our loved ones will be financially secure and our financial responsibilities will have been taken care of. Sadly, this situation isn't always the reality. And, even if we do live a long and happy life, we may at some point suffer an illness or accident that prevents us from working or makes us a victim of unemployment.

It's therefore sensible to consider how best you'd protect your finances – and those of your family – if the unexpected were to happen.

Life and protection insurance

Protection insurance should be considered essential, especially if you have a family or people that rely on your income.

If you suffered a serious illness or injury, you may lose your income. Similarly, if you died, would your loved ones be able to maintain their lifestyle without your income?

If you have a mortgage, people who depend on your income, or you want to protect your lifestyle in the event of illness, protection insurance could help you and your family avoid a financial disaster.

Serious and critical illness insurance

Serious illness and critical illness plans pay out a tax-free lump sum on the diagnosis of a range of serious conditions. The conditions covered will vary depending on the insurer.

Many people buy serious and critical illness insurance when they take on a major commitment, like a mortgage, or start a family. However, since we'd all like to have our financial commitments lightened if we were to suffer a serious illness or injury, the cover is relevant for most of us at any time.

Income protection insurance

Income protection insurance pays out a regular income if you become unable to work because of illness or injury.

It could help you keep up with your mortgage repayments or rent, and other day-to-day living costs until you are able to return to work.

The premium you'll pay will vary depending on these factors and others such as your age, health, the nature of your job and the level of income you wish to protect.

You should always review your level of protection insurance whenever there are significant changes in your life. Getting married or moving in with a partner, buying a home, having children or changing your job can all have an impact on your financial obligations.

Even if your circumstances don't change significantly, it can be worth reviewing your arrangements to see if you can find a more suitable policy. Having said that, it's important to ensure the cover of any new policy meets your needs, and that you're aware of any benefits you may lose compared to your existing policy.

If you would like to discuss the specific options for your circumstances, or to simply review if you have the right level of cover in place speak to your 2plan wealth management Independent Financial Adviser.

Lifetime ISA – Long term savings scheme or Trojan horse?

When the Green Paper on 'Strengthening the Incentive to Save' was published last Summer we thought that the 2016 Budget might be a momentous one for pensions.

Radical reform to pension tax relief was on the table, with the lead options including scrapping tax relief in favour of a pensions ISA regime or a new flat rate of tax relief for all. About ten days before the Budget the Treasury let it be known that radical reform was off the table and so we were expecting a relatively quiet Budget when it came to pensions.

The good news is that we got no further changes to the Lifetime and Annual Allowances, though damaging changes to each still went ahead in April 2016.

The more mixed news was the creation of the 'Lifetime ISA' (LISA) which some see as a Trojan Horse for the abolition of pension tax relief in years to come.

On the face of it, there is little to criticise in a new long-term savings scheme which combines a government top-up with the ability to make withdrawals, albeit with a penalty. This could certainly be an interesting option for the self-employed, who are increasingly unwilling to lock themselves in to long-term pension saving but who clearly need more retirement provision than they currently have.

But the big worry (apart from the potential expansion of the LISA into a full-blown pensions ISA for all) is the potential impact on automatic enrolment and pension saving more generally.

The Chancellor indicated that the LISA was being brought forward in part because many of those under 40 "...haven't had such a good deal from the pension system." Since we already have a 'help-to-buy' ISA to assist young people in raising the deposit for a first home, the LISA was clearly being presented as a 'house first, pensions next' product.

The big worry is that younger people, who are unlikely to have much in the way of spare cash, might opt to put all their savings eggs in the LISA basket and opt out of workplace pension saving, especially if they do not benefit from financial advice. If they focus on the LISA and stay with it through their lifetime – as the name suggests! – we estimate that they could lose around £29,000 in employer pension contributions even without taking account of the investment growth on those contributions.

Equally worrying would be if they delay starting to save for a pension until they have bought their first house, perhaps well into their thirties. Just at the point that millions of people in their twenties and thirties have started to build up a workplace pension through automatic enrolment, there is a danger of mass opt-out as the understandable desire to build a deposit for a house becomes the dominant motivation.

It would be deeply regrettable if the desire to have a bold Budget announcement was to undermine the recent growth in workplace pension coverage, one of the biggest social policy successes of the last decade.

Lifetime ISA: in detail

From April 2017, those over 18 and under 40 will be able to open a new Lifetime ISA. This will allow up to £4,000 of savings each year to which the Government will add a 25% bonus. Contributions will be made with the individual's own cash. This additional bonus will be payable up to a maximum of £1,000 for each year between the ages of 18 and 50. The money in a Lifetime ISA can be used to:

- Supplement retirement income from age 60, unlike a pension where it is age 55; or
- Accessed before then to help first time buyers buy a home worth up to £450,000 at any time from 12 months after opening the account.

Individuals will be able to withdraw money before age 60 for other purposes however the Government's element of the fund, including any interest or growth on the bonus will be returned to the Government. In addition there will be a 5% charge.

The maximum that can be paid into a Lifetime ISA will therefore be £128,000 with a maximum bonus of £32,000.

Article written by Steve Webb,
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If you would like to discuss any of these topics in more detail, please feel free to contact me to make an appointment. If you have friends, family members or colleagues who you think would be interested in these topics, please pass this newsletter to them.

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