ESMARTMONEY

SEPTEMBER/OCTOBER 2019

RETIREMENT RESILIENCE

TAKING THE REINS AND HAVING MORE CONTROL OVER YOUR PENSION POT

FINANCIAL SUPPORT
Looking after your lifestyle during a time of uncertainty

WHAT YOU NEED TO KNOW
Winners and losers under the new State Pension

PENSION SCAMMERS: SPOT THE WARNING SIGNS
Don't lose your life savings or be persuaded to invest in high-risk schemes

INSIDE THIS ISSUE

Welcome to the latest issue. At the time of writing, the UK Government said it is 'ready and willing' to do a deal to leave the EU if new terms are negotiated with Brussels. But the new Prime Minister, Boris Johnson, has vowed the UK will leave the EU 'come what may' by 31 October – the date the UK must depart if no deal has been reached.

Even though we don't definitively know what the impact of Brexit will be on both the UK and other countries' economies, it doesn't mean this is a necessarily a bad time to invest internationally. Any well-run investment portfolio should include exposure to companies from around the world. This gives investors access to a greater range of opportunities and allows portfolios to be insulated from any shocks that could affect individual economies.

Saving for retirement is one of our greatest financial priorities, especially as life expectancy is growing and retirements are likely to last longer. It may be the case that you want to take the reins and have more control of your pension pot. Turn to page 08 to see how, for appropriate investors, one option to consider is a Self-Invested Personal Pension (SIPP).

Nobody wants to worry about how they'll pay the bills if they become sick or injured and can't work. But illness or injury can strike at any time and can lead to serious financial trouble. On page 28, we look at the latest government figures that report the dramatic increase in the likelihood of long-term sickness absence when we age, leading to an employment absence of four weeks of more.

Also inside this issue, we also look at how to spot the warning signs if you're approached by a pensions scammer; consider the winners and losers under the new State Pension; and if you have accumulated a number of pension pots over the years from different employers, why consolidating them could be appropriate. A full list of the articles featured in this issue appears opposite.

IT'S GOOD TO TALK

We hope you enjoy this issue. To discuss any aspects of building, growing and protecting your future financial plans, please contact us – we look forward to hearing from you.

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WHAT'S IMPORTANT TO YOU?

REACHING THOSE MILESTONES STARTS WITH SETTING CLEAR FINANCIAL GOALS

We all have dreams for the future, and many of those dreams require money and planning to make them become a reality. Reaching those milestones starts with setting clear financial goals. Making decisions with a clear endpoint in mind can make it easier to achieve financial security and allow you to enjoy your life to the full, so we've put together this brief rundown to help you get closer to your goals today.

BE PREPARED FOR ANY FINANCIAL EMERGENCY

Typically, emergencies don't let you know they're on their way, and in some cases, you can't afford for them to happen – so it's always good to be prepared for any financial emergency with savings. The amount of rainy-day savings you need will of course depend on your situation, but financial experts recommend aiming to have around three to six months' worth of your regular expenses put away.

Savings can act as a safety net until you get back on your feet or until the situation changes. By having an emergency fund, it helps you deal with those surprises without needing to get into debt. Depending on your budget, saving might not be easy, but if you can spend less than you earn, it's recommended to put some money aside for a rainy day.

FOCUS ON YOUR TIME HORIZON

It's important to know the 'when' of your financial goals, because investing for short-term goals differs from investing for long-term goals. Your investment strategy will vary depending on how long you can keep your money invested. As your priorities or life circumstances change, you may also find that you want to delay certain goals by a year or two, while others you may want to try to meet sooner. And some – such as an expensive family holiday – you may decide to forego altogether.

It's important to stay flexible and adapt your timetable to your changing needs and priorities. While past performance is no guarantee of future results, historical returns consistently show that a well-diversified investment portfolio can be the most rewarding over the long term.

BE PATIENT

Building wealth for most of us takes time, so you have to be patient. And achieving your financial goals can have its ups and downs. But sometimes, challenges aren't about failing to reach your goals – they're about setting better goals in the first place. Set yourself up for success from the start by creating realistic, achievable financial goals that are connected to what's important to you.

If you know what your financial goals are, you can start working to accomplish them. And working out what those goals are is the very first step. Setting financial goals is essential to financial success. Once you've set these goals, you can then write and follow a roadmap to realise them. It helps you stay focused and confident that you're on the right path.

LITTLE AND OFTEN

Having set clear goals, getting started by saving little and often and seeing your own progress towards your goals can reinforce your motivation. Regular saving from a young age can make life easier when you need to access money quickly for a large purchase further down the line. Gradually watching those small amounts build up into more significant savings will further encourage you to save more.

One of the major benefits of long-term saving is the ability to make substantial gains through compound interest. 'Simple' interest is calculated on the original amount of a deposit. But compound interest is calculated on this amount and also on the accumulated interest of previous periods. Put simply, compound interest is 'interest on interest'. ◀

WANT TO TALK ABOUT YOUR FINANCIAL FUTURE?

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Investing for your retirement or the years to come could be the most important financial goal of your life. We'll help you build a goal-based financial plan that reflects what's most important to you. Discover how we can help you grow more than wealth.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS.

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WHAT YOU NEED TO KNOW

WINNERS AND LOSERS UNDER THE NEW STATE PENSION

The figures for people qualifying for the full new State Pension following its introduction in April 2016 reveal almost two in five pensioners (365,290 people, or 38% of claimants) receive less than £150 a week, while a further 314,290 people (33% of claimants) receive more than £150 a week[1].

The new State Pension is a regular payment from the Government that most people can claim in later life. You can claim the new State Pension at State Pension age if you have at least ten years' National Insurance contributions and are a man born on or after 6 April 1951, or a woman born on or after 6 April 1953. The earliest you can receive the basic State Pension is when you reach State Pension age.

BENEFITS BUILT UP OVER THE OLD AND NEW SYSTEMS

The full amount you can get under the new State Pension is £168.60 per week (in 2019/20), but this depends on your National Insurance (NI) record. If you have 35 years or more of NI contributions, you will get the full amount; between 10 and 34 years of contributions, you will receive a proportion of the pension; and less than ten years of NI contributions, you aren't eligible for the new State Pension.

The data also shows 282,447 pensioners (29% of claimants) are receiving a new State Pension from April 2016 with a 'protected payment', which essentially means they receive more than the new full State Pension, as benefits built up over the old and new systems are worth more than the new flat rate.

FOUNDATION OF MOST PEOPLE'S RETIREMENT PLANS

People can receive less than the full flat rate State Pension when their NI record is incomplete or have paid less than the 35 qualifying years required under the new rules (usually through periods of contracting out).

The State Pension is the foundation of most people's retirement plans, and yet this data shows more than half of those eligible to claim the State Pension under the new flat rate system receive less than the full amount. Given the various changes that have been introduced over the years, it's not surprising people find the whole system difficult to understand.

STATE PENSION TIPS

- Go online or contact DWP for an up-to-date State Pension forecast. DWP will use your NI record under old and new State Pension rules to calculate your State Pension
- Your 'starting amount' can be less than, more than or equal to the new full State Pension
- Consider paying voluntary NI contributions if there are gaps in your records (you can only usually go back six years)
- There is no benefit in paying voluntary NI contributions if you've built up 30 years under the old system before April 2016
- Ensure you've claimed credits for periods where you've not worked, for example, when unemployed or looking after children. This should happen automatically, but mistakes can and do happen, especially if you are self-employed
- You can claim for NI credits if you are caring for parents or grandchildren
- If you've been contracted out for any period before April 2016, you will have paid lower NI and therefore receive a smaller State Pension. Your private pension will have an element of 'Contracted Out Pension Equivalent', or COPE, which will allow for this
- Consider deferring your State Pension (although this is less financially generous than previously)

SPEND THE LONGEST TIME ON PREPARING FOR RETIREMENT

The State Pension can be a minefield. And remember, it is only really there to provide a basic standard of living when you retire. Of all the life events to plan for, you should spend the longest time on preparing for retirement.

If you're in your 50s or early 60s, you may increasingly be thinking more about retirement and how to plan for it. One of the most common dilemmas for people of this age is how to best fund their lifestyle once they've stopped work and maintain their pre-retirement standard of living. ◀

MEETING YOUR CHANGING NEEDS

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It's never too late to start planning for your future, so it's good to know you'll have our support. We'll help you put a plan in place for the future you want – and as time rolls by, you'll keep receiving professional advice and solutions to meet your changing needs. To find out more, please contact us.

Source data:

[1] Freedom of Information request, Canada Life – 6 June 2019

NOT READY TO GIVE UP WORKING AND RETIRE?

ALMOST HALF OF UK EMPLOYEES EXPECT TO WORK BEYOND THE AGE OF 65

When you picture yourself in your golden years, are you sitting on a beach, hitting the golf course or working behind a desk? Not ready to give up working and retire? For those who find adjusting to retirement difficult, the transition can be made smoother by working. For many, working provides more than a salary. It provides happiness and purpose, and staying in the working world can provide many lifestyle benefits in addition to financial gains.

Not everyone wants to stop working when they reach State Pension age. Some of us still relish the stimulation of the daily routine, while others prefer to keep working for financial reasons. The good news is that there's no longer any requirement to call it a day at 65. In fact, most people can continue to work for as long as they want.

ILLEGAL TO DISCRIMINATE

This right is enshrined in law under the Equality Act 2010, making it illegal to discriminate on the basis of age in the workplace. Effectively, this means your employer cannot force you to retire or set a compulsory retirement age, unless it can clearly justify it.

Almost half of UK employees expect to work beyond the age of 65, but it is fear of declining health rather than a lack of funds that is keeping them in the workplace. In a recent global survey by Aegon[1], 48% of UK workers are planning to work beyond the age of 65, compared to just 22% of workers in France that expected to do so.

PURELY FINANCIAL REASONS

However, Britain is unlikely to have the oldest workforce in future, with 70% of workers in the Netherlands expected to be working at this stage of life. The survey also looked at the reason why people chose to continue working. Surprisingly, most people aren't staying in the workforce for purely financial reasons.

Over half of those in the UK (55%) who wanted to prolong their career said keeping active and keeping their brain alert was the most important benefit of continuing to work; a further 37% said they wanted to continue working because they enjoyed their job.

MAINTAINING GOOD HEALTH

The focus on maintaining good health and staying active through work tallies with people's concerns about later life. Declining physical health was cited as the largest retirement concern (48%), followed by fears of Alzheimer's or dementia (41%). Both elements of failing health were seen as more of a concern than running out of money (40%).

On average, workers in the UK expect to live to age 80 and to age 75 in good health, suggesting an expectation of spending five years in poor health. Only 28% of workers in the UK want a 'cliff edge' retirement where they stop working in one go – the lowest across Europe, and one of the lowest among the 15 countries surveyed.

TRANSITION INTO RETIREMENT

Workers in Spain, for example, are far more in favour of stopping work altogether and entering retirement, with 52% favouring this option. People are increasingly redefining their working years and time spent in retirement, choosing to blend work commitments with more free time as they transition into retirement. There's also a growing recognition that in addition to supporting our wealth, work can protect our health too.

An increasing State Pension age will explain why some see themselves having a longer working life, but the research shows an interesting association between health and remaining in paid employment. Today's generation of workers recognise that one of the best ways to protect their health is to remain active and that work can be part of an active life. ◀

MAXIMISE YOUR RETIREMENT SAVINGS NOW

Working beyond retirement age can give you a sense of purpose and, of course, a salary. But it still pays to plan for retirement so you won't have to work if you don't want to – or if it becomes physically difficult to do so. And since most people stop working three to four years earlier than planned, it's beneficial to maximise your retirement savings now, especially during your early working years. To discuss your requirements, please contact us.

Source data:

[1] The Aegon Retirement Readiness Survey 2018 was produced by The Aegon Center for Longevity and Retirement (ACLR), in collaboration with nonprofits The Transamerica Center for Retirement Studies, which is based in the US, and Instituto de Longevidade Mongeral Aegon, which is based in Brazil.

ACLR's mission is to conduct research, educate the public and inform a global dialogue on trends, issues and opportunities surrounding longevity, population ageing and retirement security.

Over the last seven years, over 100,000 workers and retired people around the world have been asked to share their views about retirement and inform debates about helping people prepare for the future. This year's report was based on the contributions from 14,400 workers and 1,600 retired people in 15 countries: Australia, Brazil, Canada, China, France, Germany, Hungary, India, Japan, the Netherlands, Poland, Spain, Turkey, the UK and the US.

A PENSION IS A LONG-TERM INVESTMENT.

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

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RETIREMENT RESILIENCE

TAKING THE REINS AND HAVING MORE CONTROL OVER YOUR PENSION POT

Saving for retirement is one of our greatest financial priorities, especially as life expectancy is growing and retirements are likely to last longer. It may be the case that you'd prefer to take the reins and have more control over your pension pot. For appropriate investors, one option to consider is a Self-Invested Personal Pension (SIPP).

Please note that a SIPP is a type of Personal Pension, and the rules as to how much you can contribute to a SIPP are the same as a Personal Pension. Also, when it comes to taking the pension, the same rules apply to both a SIPP and a Personal Pension.

SAVING DISCIPLINE

A SIPP is a tax-efficient wrapper for your pension investments and gives you control of your pension, whereas most members of a company pension scheme have very little control and almost no idea where their pension money is invested. SIPPs enforce saving discipline until retirement since you cannot withdraw your money early.

Also, with many of the UK's largest companies closing their final salary schemes to all members, many members now have to look at taking their pensions into their own hands. You can make both regular and one-off payments into your SIPP, and even putting a small amount away early will make a difference to how much you will eventually have to fund your retirement.

EXTRA FLEXIBILITY

Once you reach 55, you can access your whole pension pot. You decide how and when to use the fund built up in your SIPP to provide you with an income. You can take up to 25% of your fund as a tax-free lump sum and use the balance to provide you with a pension through income withdrawal from your SIPP, or through the purchase of an annuity. You can also take a series of lump sums from your SIPP – it's flexible.

SIPPs can be opened by almost anyone under the age of 75 living in the UK. You can open a SIPP for yourself or for someone else, such as a child or grandchild. Even if you've already retired, you can still open a SIPP and take advantage of the extra flexibility that it gives you over your pension savings in retirement – but you may be limited by how much you can pay into it.

INVESTMENT CONTROL

SIPPs offer a wider investment choice than most traditional pensions based on investments approved by HM Revenue & Customs (HMRC). They give you the chance to pick exactly where you want your money to go and enable you to choose and change your investments when you want, giving you control of your pension and how it is organised.

Most SIPPs allow you to select from a range of assets, including:

- Unit trusts
- Investment trusts
- Government securities
- Insurance company funds
- Traded endowment policies
- Some National Savings & Investment products
- Deposit accounts with banks and building societies
- Commercial property (such as offices, shops or factory premises)
- Individual stocks and shares quoted on a recognised UK or overseas stock exchange

TAX TREATMENT

You receive tax relief upfront from the Government when you make contributions, which can feel like the Government is giving you money to save for your retirement. Currently, an investor can receive up to 45% tax relief when they make a personal contribution to a personal pension such as a SIPP, with 20% paid by HMRC to the pension and any higher and additional-rate tax relief reclaimable via your tax return. The tax treatment of pensions depends on your individual circumstances and is subject to change in future. ◀

TIME TO TAKE CONTROL OF YOUR RETIREMENT PLANS FOR THE FUTURE?

A SIPP is not right for everyone, but the freedom it offers you compared to a traditional pension could far outweigh the extra time taken to run your own pension. To find out more about setting up a SIPP, please contact us and we'll arrange a meeting to discuss your requirements – we look forward to hearing from you.

Please note: you must pay sufficient tax at the higher and additional rates to claim the full higher-rate tax relief via your tax return.

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

CASHING OUT

PENSION CHANGES BROUGHT A WHOLE NEW RANGE OF OPTIONS TO CONSIDER

Unadvised retirees who are now able to dip into their pension are having to return to work to cope with juggling their finances, according to a new report[1]. Pension freedoms have given individuals control over how to spend their retirement savings, but a number of unintended consequences have emerged. Since rules governing how pensions can be taken were dramatically relaxed in 2015, more than a million over-55s have gone on a freedom-fuelled spending spree.

The pension changes brought a whole new range of options to consider. Individuals now have to think about whether they want an annuity, drawdown, cash or a combination of options; when to access their pension; if it is better to use savings first before drawing their pension; and so on.

However, it seems many don't really understand the consequences of these options. As a result, more than £23 billion has been 'cashed out' from the nation's pension pots via more than five million individual payments. The findings show the increase in retirees returning to the workforce since the introduction of pension freedoms four years ago is due to the number of options available and the lack of professional financial advice.

FACING FINANCIAL PRESSURE

A quarter of retirees who have returned to work since April 2015 say they were faced with financial pressure. Figures from HM Revenue & Customs show around one million over-55s withdrew a 25% tax-free lump sum from their pension in the last year, up 23% points from the 12 months prior.

There is a lot to think about when you're planning for retirement, and your circumstances will change over time, which is why it is important to obtain professional financial advice. There's no doubt the pension freedoms have been hugely popular, but for some retirees they have come at a high price. People now face more complicated decisions in retirement, and it's clear not everyone is getting it right.

SCALE OF THE PROBLEM

The figures also show other reasons for returning to work that include reigniting a sense of purpose and boosting social relationships. A report from the Pensions Policy Institute shows women particularly are continuing to struggle with pension savings. The average pension for a woman is currently £100,000 lower than for men.

Women's pension savings have historically been impacted by a combination of the gender pay gap, part-time working and the increased burden of childcare costs, but this figure lays bare the scale of the problem. ◀

TIME TO CONVERT YOUR PENSION POT INTO RETIREMENT INCOME?

When you're coming up to retirement, you have lots of decisions to make, not least how to convert your pension pot into retirement income. With more freedom comes more choice, and it's important to obtain professional financial advice to help you decide what to do with your pension pot. To review your options, please contact us – we look forward to hearing from you.

Source data:

[1] All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,028 adults, who have accessed their DC pension since 1 April 2015. Fieldwork was undertaken between 18 and 29 April 2019. The survey was carried out online for Zurich.

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SAVING ADEQUATELY FOR THE FUTURE

HOW MUCH SHOULD YOU TRY TO SAVE TO HAVE A COMFORTABLE RETIREMENT?

The number of people saving enough for a comfortable retirement has hit its highest ever level, with almost three in five Britons (59%) now saving adequately for the future[1]. This is a significant improvement from the 55% proportion recorded 12 months ago, suggesting this April's auto-enrolment step-up had an immediate positive impact on saving habits.

However, recent research[2] shows that the proportion of people not saving at all for later life remains static at 17%. Meanwhile, more than a fifth of UK adults (22%) – equating to almost eight million people – expect they'll never be able to afford to retire.

JUST HOW MUCH IS ENOUGH?

If you're decades away from retirement, you may not think it's necessary to start saving yet, as your money can be better spent elsewhere. But how much should you try to save to have a comfortable retirement? Just how much is enough? As a rule of thumb, you are likely to need in the region of 70% of what you were earning at the peak of your career to maintain that standard of living in your retirement.

Those who think they'll never be able to retire[3] are more likely to have no pension savings at all (35% of this group versus 26% national average), with over half (51%) expecting to rely solely on the State Pension in later life.

FINANCIALLY VULNERABLE

In fact, 'never-retirers' are those who are already financially vulnerable. They have an average income of £21,500 a year – significantly below the UK average salary of £27,396 – and are much more likely to have faced a financial emergency in the past, from an unexpected bill to a sudden drop in income (86% of this group versus 67% national average).

One of the concerns 'never-retirers' face is making sure their money lasts as long as they do. They are understandably anxious about making ends meet: 85% of them worry about running out of money in retirement, compared to 53% of the wider population, and almost three in five (63%) are worried they will have to work when they are no longer fit and healthy.

COMFORTABLE RETIREMENT

The number of under-30s not saving for retirement has fallen dramatically thanks to auto-enrolment: almost half a million under-30s started saving for the first time in the last two years[4], with four in ten (40%) 22-29-year-olds now saving adequately. This is a significant uplift from the 30% recorded in 2017. However, this still leaves three in five young people saving below the recommended level for a comfortable retirement, with 14% of 22-29-year-olds not saving anything.

The research highlights progress over the last 15 years. The proportion of people who are not in a defined benefit scheme and saving something for retirement has risen from an average of just 43% in 2007 to 55% today. The biggest gains have been among younger people, with an 18% rise in 22-29-year-olds saying that they save for later life.

POVERTY IN LATER YEARS

One in five people say they'll never be able to retire. With no further step-ups in auto-enrolment contributions planned, this is a timely reminder that bold action must be taken to ensure no one has to face the spectre of poverty in their later years.

While the past 15 years have proved that things have been changed for the better, auto-enrolment alone won't avert a pension crisis in the UK. Government and industry need to take the next step together and stop pretending the long-term savings challenge can be solved in isolation. ◀

TALK TO US ABOUT THE RIGHT PENSION STRATEGY FOR YOU

Pensions are a complex financial product – but they're also a very important way to ensure your long-term financial security. If you have any questions, or require any further assistance to find the right pension strategy for you, don't delay – please contact us.

Source data:

[1] Scottish Widows deems minimum adequate retirement savings as 12% of an individual's income.

[2] The research was carried out online for Scottish Widows by YouGov Plc across a total of 5,036 adults aged 18+. Data is weighted to be representative of the GB population. Fieldwork was carried out 11–29 April 2019.

[3] Almost 8 million (7,826,626) calculated as 22% of the GB adult population (50,744,595) who do not expect they'll ever be able to afford to retire

[4] Almost half a million under-30s (473,920) started saving for the first time calculated as: 20% were non-savers in 2017, reducing to 14% in 2019. This difference is calculated as 6% of 22-31-year-olds (who were 29 in 2017) (7,898,680).

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PENSION SCAMMERS:

SPOT THE WARNING SIGNS

DON'T LOSE YOUR LIFE SAVINGS OR BE PERSUADED TO INVEST IN HIGH-RISK SCHEMES

Don't let scammers enjoy your hard-earned pension proceeds. Anyone can be the victim of a pension scam, no matter how savvy they think they are. It's important that everyone can spot the warning signs.

Latest figures show that nearly one in ten over-55s fear they have been targeted by suspected scammers since the launch of pension freedoms, new research[1] shows. Cold-calling has been used by fraudsters trying to steal life savings or persuade people to invest in high-risk schemes.

Some 10.9 million unsolicited pension calls and messages are made a year, according to Citizens Advice. The new research suggests people could fall for at least one of six common tactics used by pension scammers.

CLAIMS OF GUARANTEED HIGH RETURNS

These include pension cold calls, free pension reviews, claims of guaranteed high returns and exotic investments. They also include time-limited offers and early access to cash before the age of 55 that can tempt savers into risking their retirement income.

Exotic or unusual investments are high-risk and unlikely to be suitable for pension savings. But worryingly, nearly a quarter (23%) of the 45-65-year-olds questioned say they would be likely to pursue these exotic opportunities if offered them.

GAINING EARLY ACCESS TO PENSION MONIES

Helping savers to access their pensions early also proved to be a persuasive scam tactic. One in six (or 17%) of 45-54-year-old pension savers say they would be interested in an offer from a company that claimed it could help them gain early access to their pension monies. Of all those surveyed, 23% say they would talk with a cold caller who wanted to discuss their pension plans, despite the Government's ban on pension cold-calls this January.

The FCA and the Pensions Regulator have warned that 42% of pension savers, equivalent to five million people, could be at risk of pension scams. The study found 9% of over-55s say they have been approached about their pension funds by people they now believe to be scammers since the rules came into effect from April 2015. Offers to unlock or transfer funds are tactics commonly used to defraud people of their retirement savings.

BEING DEFRAUDED OF SAVINGS IS A MAJOR CONCERN

One in three (33%) of over-55s say the risk of being defrauded of their savings is a major concern following pension freedoms. However, nearly half (49%) of those approached say they did not report their concerns because they did not know how to report or were unaware of who they could report the scammers to.

Most recent pension fraud data[2] from ActionFraud, the national fraud and cybercrime reporting service, shows 991 cases have been reported since the launch of pension freedoms involving losses of more than £22.687 million.

APPROACHED BY SUSPECTED SCAMMERS

The research found fewer than one in five (18%) of those approached by suspected scammers had reported their fears to authorities. Nearly half (47%) said the approaches involved offers to unlock pension funds or access money early, and 44% said they involved transferring pensions.

About 28% of those targeted by suspected fraudsters were offered alternative investments such as wine, and 20% say they were offered overseas investments, while 13% say scammers had suggested investing in crypto-currencies. Around 6% believe they have been victims of fraud.

LUCRATIVE OPPORTUNITY FOR FRAUDSTERS

Pension freedoms, though enormously popular with consumers, have created a potentially lucrative opportunity for fraudsters, and people need to be vigilant to safeguard their hard-earned retirement savings. If it sounds too good to be true, then it usually is, and people should be sceptical of investments that are offering unusually high rates of return or which invest in unorthodox products which may be difficult to understand.

Retirement savers can report suspected frauds on the ActionFraud helpline 0300 123 1047 or online at www.actionfraud.police.uk/report_fraud, and more advice is available at www.thepensionsregulator.gov.uk/pension-scams or by calling the Pensions Advisory Service on 0300 123 1047. ◀

KNOW THE WARNING SIGNS

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It doesn't matter the size of your pension pot – scammers are after your savings. Get to know the warning signs, and before making any decision about your pension, be ScamSmart and check you are dealing with an FCA authorised firm. For further assistance, please contact us.

Source data:

[1] Consumer Intelligence conducted an independent online survey for Prudential between 23 and 25 February 2018 among 1,000 UK adults aged 55+ including those who are working and retired

[2] www.actionfraud.police.uk/fraud-az-pension-liberation-scam

LOST PENSIONS

MAKE SURE YOUR PENSION SAVINGS DON'T GET LEFT BEHIND

The employment landscape has evolved significantly over the last few decades, and changing jobs multiple times before retirement is now very much the norm. Even if you have not had that many jobs, you may still have a number of different pensions to keep track of.

Nearly two thirds of UK savers have more than one pension, and changing work patterns mean that the number of people with multiple pensions will increase. People typically lose track of their pensions when changing jobs or moving home. The average person will have around 11 different jobs over their lifetime[1]. The Government predicts that there could be as many as 50 million dormant and lost pensions by 2050.

MULTIPLE PENSIONS

As a result, many people have multiple pensions set up, as they have been automatically enrolled into a new pension scheme each time they have started a new job. The scale of the UK's lost pensions was highlighted in the latest research carried out on behalf of the Association of British Insurers (ABI)[2].

In the largest study yet on the subject, the Pensions Policy Institute (PPI) surveyed firms representing about 50% of the private defined contribution pensions market. From this, PPI found 800,000 lost pensions worth an estimated £9.7 billion. It estimates that, if scaled up to the whole market, there are collectively around 1.6 million pots worth £19.4 billion unclaimed – the equivalent of nearly £13,000 per pot.

DIFFERENT EMPLOYERS

If you have accumulated a number of pension pots over the years from different employers, consolidating them could be appropriate. By bringing together all your different pension pots, it can help give you a clearer picture of your financial position, enabling you to make more informed decisions about your retirement savings.

Bringing together multiple pension pots could be a sensible move if you have a number of pension pots and want more control over your money or less hassle managing them. You may also be unhappy with the performance of a current provider, the choice of investments offered by them or the high fees.

VALUABLE BENEFITS

However, a pension consolidation is not always appropriate. It may not be sensible to consolidate your pensions if you are a member of a defined benefit pension scheme. If you transfer out of this type of pension, you may be giving up guaranteed benefits and potentially taking on greater risk.

Also, if you have a pension that comes with valuable benefits (for example, a pension that allows you to buy a higher income in the future via a 'Guaranteed Annuity Rate') or your pension provider charges high fees to transfer to another provider, pension consolidation may not be the right option. ◀

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MAKING THE RIGHT CHOICES

Because there are both advantages and disadvantages associated with consolidating pension pots, it can be a complex decision to work out whether it's the best move to make, particularly if defined benefit plans are involved – you'll want to be sure you're making the right choices. That's where professional financial advice comes in – and we can help you on your way.

Source data:

[1] The Lost Pensions Survey includes data from 12 large insurers, covering around half of the defined contribution pensions market.

[2] The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry.

TRANSFERRING OUT OF A FINAL SALARY SCHEME IS UNLIKELY TO BE IN THE BEST INTERESTS OF MOST PEOPLE.

A PENSION IS A LONG-TERM INVESTMENT.

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

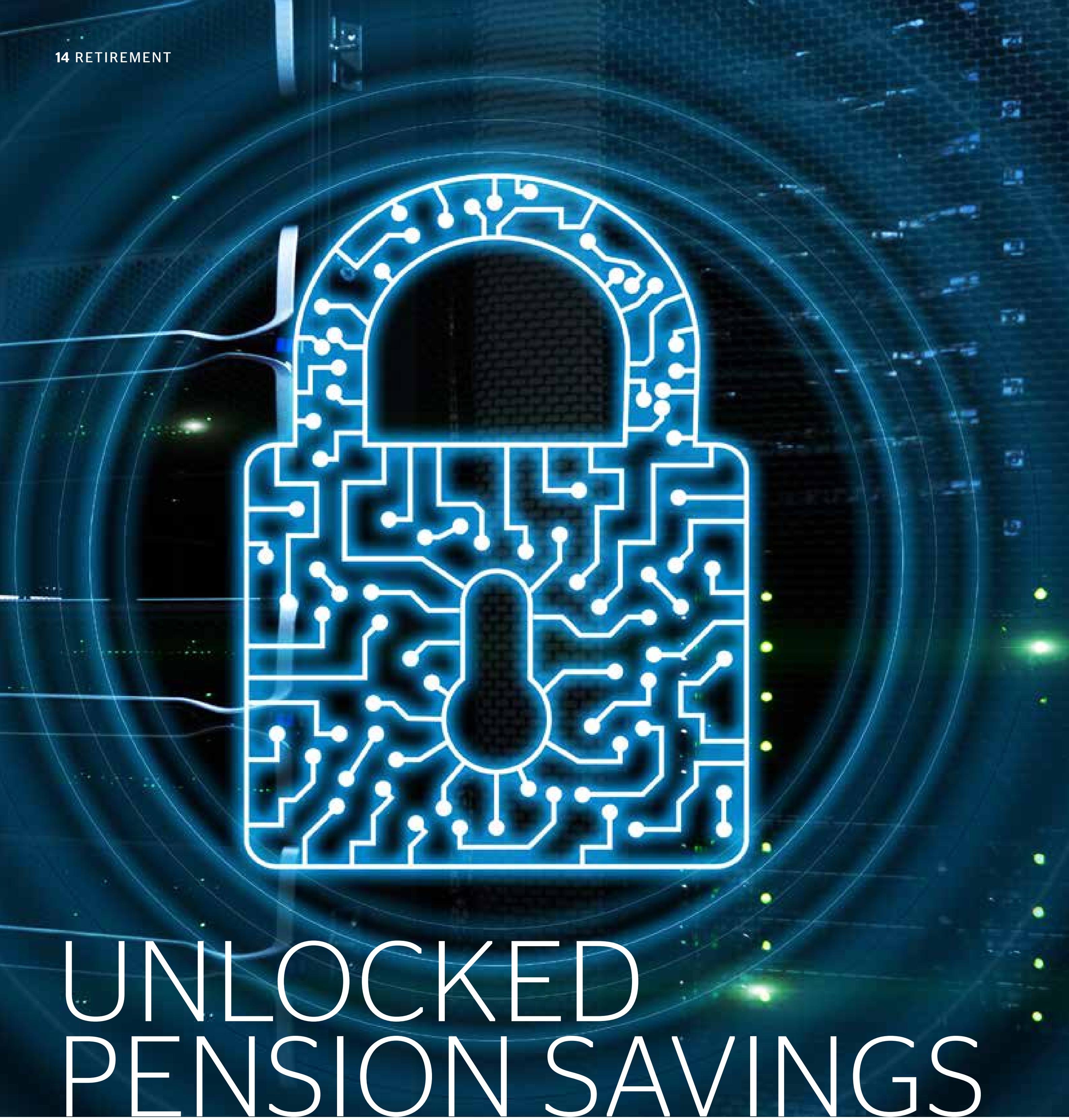
PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN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

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

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

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



UNLOCKED PENSION SAVINGS

CRITICAL GAP IN CONSUMER AWARENESS

Drawdown allows most pension holders to withdraw a tax-free lump sum and reinvest the remainder as an income. But hundreds of thousands of DIY drawdown investors are unaware they can scale back or stop their withdrawals, putting them in danger of draining their retirement savings too rapidly, according to new research[1].

Half (52%) of all over-55s taking an income in drawdown do not know they can reduce the value of their withdrawals, and more than half (56%) are unaware they can stop them – despite income flexibility being a defining feature.

CRITICAL GAP IN CONSUMER AWARENESS

The findings of people who have unlocked their pension savings since the 2015 pension reforms highlight a 'critical gap in consumer awareness', which is estimated to potentially leave half of the 615,000 people in drawdown exposed if there is a stock market correction.

If share values move downwards, investors risk falling into a trap known as 'pound-cost-ravaging'. This is where, as stock prices drop, retirees are forced to sell more investments to achieve the same level of income, depleting the capital of their pot more quickly and reducing its future growth.

FLEXIBILITY TO SHIFT INCOME UP OR DOWN

Taking an income is entirely up to the individual and withdrawals can be made at any time. However, the length of time you can take an income depends on the value of your drawdown pot, the amount you take as income, investment growth and charges. If your drawdown pot runs out before you die, your income will stop.

Drawdown gives people the flexibility to shift their income up or down as their spending needs change or markets fluctuate, yet a high proportion of people are seemingly in the dark over the control they have.

PROTECT PORTFOLIO FROM POUND-COST-RAVAGING

If investment returns come to a sudden halt, pension holders need to be prepared to step on the income brakes. People who are unaware they can slow down or stop their income could seriously damage their savings and deplete their pots too soon.

Savers can protect their portfolio from pound-cost-ravaging by holding up to two years' worth of living expenses in cash, which reduces the need to sell investments when prices are falling, giving them a chance to ride out short-term bumps in the stock market. Alternatively, limiting withdrawals to the 'natural' income from share dividends or bonds leaves the underlying investment intact, giving it a better chance to regain lost ground when markets recover.

OBTAINING PROFESSIONAL FINANCIAL ADVICE IS KEY

The research found significant differences between consumers who have sought professional financial advice and those who haven't. Just 35% of non-advised consumers understood they could reduce their drawdown income, compared to 77% of people getting ongoing advice. And some 33% of non-advised consumers were aware they could stop their drawdown income, versus 73% of those speaking to a professional financial adviser.

The reality is that some pension holders are making complex choices in drawdown without fully understanding how it works. To overcome this critical gap in consumer awareness, it's important that people engage with their savings in drawdown and obtain professional financial advice.

PROTECTING DRAWDOWN SAVINGS IN A MARKET DOWNTURN

Diversify your investments – a well-diversified portfolio is a good defence against market falls. By investing across a variety of different asset classes, sectors and regions, you can spread the risk much wider than when all your investments are concentrated in a single area.

Build a cash buffer – building up a cash buffer can protect against stock market corrections. If the worst happens and the stock market falls from its high, then having a reserve of cash gives you an income to fall back on. Holding one to two year's cash means you won't be forced to sell when prices are falling, thereby locking in losses. Instead of cashing in funds, you can dip into cash reserves, giving your pot a chance to regain lost ground.

If it comes to the worst, turn off the taps – in drawdown, you can turn off the income taps whenever you like. Selling funds after markets have fallen means there is no chance to make up losses, shrinking your pension fund and reducing its future growth. If you can afford to, scale back your withdrawals or place them on hold until markets have recovered. Alternatively, limit the level of withdrawal to the 'natural' income from share dividends or bonds. This leaves the underlying investment intact, giving it a better chance to recover when markets rise.

You don't have to fully retire to start claiming your pension savings. In fact, increasingly more people are choosing to take their pension savings gradually while they scale down their work hours. So from the age of 55, there is an option to access your pension savings and ease into retirement gently, but don't forget you need to make sure that you have enough to last for the whole of your retirement. ◀

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BUILDING A FUTURE THAT MATTERS

We help our clients achieve their financial goals through tailored and flexible investment solutions. If you would like to discuss which retirement income method may be best for you based on your personal needs and goals, or to review your current retirement plans, please contact us.

Source data:

[1] All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,028 adults, who have accessed their DC pension since 1 April 2015, of which 1,191 are drawing a regular income in drawdown. Fieldwork was undertaken between 18 and 29 April 2019. The survey was carried out online for Zurich.

FCA Retirement Income Data Bulletin September 2018 shows 435,769 people took out drawdown between April 2016 and March 2018. If numbers grew at the same pace as October 2017 to March 2018 (90,504), Zurich estimates the population in drawdown would have increased by 181,008 between April 2018 and March 2019, resulting in 616,700 people in drawdown. https://www.fca.org.uk/publication/data/data-bulletin-issue-14.pdf

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LASTING THE DISTANCE

THE EARLY RETIREMENT DREAM LIVES ON, BUT AT WHAT COST?

Whether you choose or need early retirement, having a plan can give your money the best chance of lasting the distance. Whether lifestyle preferences or circumstances beyond your control are behind your decision to retire early, you'll need to make a plan to help your retirement savings last, while still enjoying your favourite comforts in life.

But with increasing numbers now working past traditional retirement ages[1], stopping work can seem a long way off, especially for younger people. But the good news is that the early retirement dream lives on, according to new research[2].

ESCAPE THE DAILY GRIND EARLY

Nearly two thirds (60%) of those stopping work this year are doing so before their expected State Pension age or company pension retirement date. The study also found that the average expected retirement income, inclusive of savings and State Pension, for those retiring early is £18,567, compared to £21,961 for those not retiring early.

It appears that those planning to escape the daily grind early feel the most comfortable when it comes to their financial situation in retirement, with over half (56%) saying they feel financially well prepared, compared with 49% of those working towards their expected retirement date. That's reflected in the numbers taking professional financial advice – 68% of early retirees are seeking professional advice, compared with 60% of those working until their projected retirement age.

MAKE THE MOST OF FREE TIME

The average age of those retiring early is 57, and early retirees will be making the most of their free time – over a third (37%) plan to take up a new hobby or sport, 27% will start voluntary or charity work, and nearly a fifth (17%) are planning a long-term holiday or gap year.

It's encouraging to see that so many of this year's retirees are in a comfortable enough financial position to enable them to retire early. People stopping work early are not planning to put their feet up – they want to keep busy and active by taking up hobbies, sports and charity work, and some are even planning a post-work gap year.

IDENTIFY THE BEST COURSE OF ACTION

These are nice ways to spend your retirement but can be expensive, and with everyone living longer than ever before, it is vital to ensure you can fund your entire retirement. Seeking professional financial advice can help you identify the best course of action to achieve your specific financial retirement goals at any stage in your working life.

The East Midlands is the early retirement capital of the UK, with 72% of its retirees retiring early, closely followed by Wales (69%) and Yorkshire and the Humber (67%). ◀

TIME TO UNLOCK AN EARLY RETIREMENT?

If you're thinking about early retirement, it's important to understand what this means to you and to have a plan to make it happen. And your planning doesn't stop once you commence your early retirement – you need to be flexible and be prepared to adjust as you move through your life. To discuss your requirements, please contact us.

Source data:

[1] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemploy eetypes/articles/fivefactsaboutolderpeopleatwork/2016-10-01

[2] Research Plus conducted an independent online survey for Prudential between 29 November and 11 December 2017 among 9,896 non-retired UK adults aged 45+, including 1,000 planning to retire in 2018.

ECONOMICALLY ACTIVE

WHY LONGEVITY ALSO BRINGS WITH IT SOME UNIQUE FINANCIAL CHALLENGES

Statistics clearly show that Britons are living longer. While a long life can be a good thing, longevity also brings with it some unique financial challenges. Our ageing population is drastically altering the economic landscape of the UK, the latest figures from the Office for National Statistics (ONS) have indicated.

According to the ONS, nearly a quarter of the UK population (24%) will be 65 or older by 2042, and they predict around five times as many 65-69-year-olds will be economically active in 2067 (50.55% of the age band) compared with 1992 (10.21%).

OFFSETTING FINANCIAL STABILITY

Longevity, while clearly beneficial for individuals and society as a whole, is a financial risk for governments and defined-pension providers who will have to pay out more in social benefits and pensions than expected.

But it may also be a financial risk to individuals who could run out of retirement resources themselves. These risks build slowly over time, but if not addressed soon could have large negative effects on already weakened private and public sector balance sheets, making them more vulnerable to other shocks and potentially offsetting financial stability.

OLD AGE DEPENDENCY

There has also been a 29% point increase in the number of working women aged 60 to 64, the data showed. As a result, the ONS has suggested the old age dependency ratio – the traditional measure of the population age structure – is 'outdated', as more people work up to and beyond the State Pension age.

An ageing population pushes out the age people are choosing to retire. The pension freedoms and changing attitudes towards work have enabled individuals to adopt a more transitional approach to retirement. More and more people are staying in work longer and gradually reducing their hours. Those who keep working are also contributing to the country's economy. Indeed, many who have stopped working also contribute by providing unpaid care to family members.

SOCIAL CARE NEEDS

As the ONS figures suggest, the ageing population is redefining the way people work into retirement. However, it is expected that increasing numbers will also need social care in later life as a result. The survey found that 40% of people in the UK see losing their independence as a retirement concern, while a third (29%) said they were concerned about needing to move into a nursing home in retirement.

QUALIFYING FOR LOCAL AUTHORITY FUNDING FOR CARE COSTS

If you have savings and assets of more than the amount in this table, you'll have to pay for your own care:

Region	Savings threshold for local authority funding in 2019/20
England	£23,350
Wales	£24,000 (care at home) or £50,000 (care in a care home)
Scotland	£27,250
Northern Ireland	£23,250

Even if your income and savings are above this limit, you still have the right to a care needs assessment, regardless of your financial situation. Your local authority or trust might still take some of your income if you're below these limits.

SUPPORTING LONGER LIVES

According to *The Lancet*, it is predicted that 2.8 million people over the age of 65 will require nursing and social care by 2025. Increased longevity is a point of celebration, but a consequence of living longer is that people need to have adequate funds to support their longer lives – and with increasing numbers facing the need for social care, plans need to be put in place to fund it.

The funding of social care is an emotive subject, but there's a very audible message that people want to remain in their home rather than having to sell it as a means of paying for residential social care. Individuals need to have a clear understanding of what they'll be expected to pay should they need care, and there needs to be an overall limit or 'cap' on their share of care costs. ◀

ACHIEVE YOUR LONG-TERM FINANCIAL GOALS

Want to find out more about how we can help you to achieve your long-term financial goals without the need to have money worries in later life? If you would like to know how we can help with your investment and wealth management needs, please get in touch. We look forward to hearing from you.

WILL I HAVE ENOUGH MONEY THROUGH RETIREMENT?

MISMATCH BETWEEN RETIREMENT EXPECTATIONS AND ACTUAL REALITY

Retirement is a chance to do more of what you enjoy. When it comes to planning for your retirement, you need to think about what you'd like your life to be like. There is no set retirement age in the UK any longer, so you can carry on working as long as you like (or as long as you need to).

When we talk with people about their financial futures, we hear this concern more than anything else: 'What if I don't have enough money to make it through retirement?' And after years of stagnant interest rates, drops in annuity rates and rising inflation, these events have had an impact on the cost of living for some of those relying on pensions, savings or fixed retirement incomes.

PENSION POT NOT AS BIG AS EXPECTED

Longevity risk means outliving your assets. If this happens, you may have to change your standard of living and, possibly, go back to work. Research conducted by Saga[1] has revealed that over a quarter of people are finding the lifestyle they dreamed of in retirement may no longer be affordable. As a result, enjoyment of their retirement is at risk, with socialising in particular cut down in order to preserve an inheritance for their children.

The mismatch between retirement expectations and reality has revealed that 40% admitted their pension pot was not as big as they expected, one in three had not forward planned their finances, and a third stated they are concerned about leaving an inheritance to their children.

NOT CONSIDERING RETIREMENT FINANCES

Almost one in five adults believe that their children are dependent on their future inheritance, and 53% would feel guilty if they didn't leave an inheritance. Unexpected costs affecting 28% of people have also been highlighted as a risk to enjoying retirement, with one in six claiming that they simply had not considered their retirement finances.

It is simply not the case anymore that older homeowners are all 'rich'. While some individuals may be asset-rich, the reality is that for some, cash flow is more of an issue. Debt in retirement is becoming more common, with one in fourteen people in their 60s and above still paying off a mortgage, and one in six paying off car finance or another kind of loan for either themselves or their children. Typically, those who still have outstanding debt in their 60s are spending 18% of their monthly income on paying it off.

FEELING THE SQUEEZE ON A FIXED INCOME

People's expectations about their retirement age have changed considerably in recent years. Changes to the State Pension and the impact of an increasing life expectancy have had a big effect. But the economic situation over the past decade has left many people on a fixed income feeling the squeeze. The research has shown that people are increasingly viewing their property as an asset which forms part of their retirement planning.

Saving for retirement is vital, but many people still ask: 'How much pension do I need?' The precise amount you'll need to save each month to retire once you reach your planned retirement age will depend entirely on the kind of lifestyle you plan on having once you stop working. And if you're not on track for the retirement lifestyle you want, there are measures you can put in place to help fund a potential gap in your savings. ◀

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HELPING YOU PLAN YOUR FINANCIAL FUTURE

Having a clear financial plan is essential – whether you're saving for the future or considering your options at retirement, you'll want to be sure you're making the right choices. We can help you on your way. If you would like to speak to someone directly or have any questions, please contact us.

Source data:

[1] Saga Personal Finance – 9 October 2018

THE FUTURE OF WORK IS COMING

TANGIBLE BENEFITS OLDER WORKERS BRING TO THE WORKPLACE

The days of an employee turning 65, getting a gold watch or carriage clock and being ushered into a new world of golf, retirement communities and early-bird specials are rapidly disappearing. People are living longer, and organisations are shifting their attitudes toward older workers as a result.

Rising life expectancies and an ageing workforce present organisations with unprecedented challenges and untapped opportunities. As talent markets grow more competitive, more organisations are finding it more valuable to keep older workers rather than replace them with younger ones. But although nearly three quarters (71%), or 23 million employees[1], plan to work beyond the age of 65, two in five of these (41%) – equivalent to 9.5 million workers – are concerned their health will make it difficult to do so, according to new research[2].

BENEFITS THAT OLDER WORKERS BRING TO THE WORKPLACE

Despite some negative perceptions, a significant proportion of employees recognise the tangible benefits that older workers bring to the workplace. Three in ten (28%) UK workers believe that a mix of older and younger workers is desirable because it creates a wider range of skills in the workforce.

Meanwhile, two in five say that their employer values the experience (43%) and loyalty (40%) of older workers. Demonstrating the latter, among survey respondents aged 55 and above, almost two thirds (62%) have been with their employer for ten years or more. A third of UK employees (32%) also acknowledge that older workers help younger staff by coaching and mentoring them.

OLDER WORKERS IN THE COUNTRY IS SET TO INCREASE

The UK's ageing population means that the number of older workers in the country is set to increase in the coming years, providing employers with the opportunity to tap into the value of this underused talent pool. For example, if half a million keen and able older workers who are currently out of work returned to employment, the UK's GDP would increase by £25 billion per year[3].

Employers have a duty of care towards older workers, particularly as a majority (68%) of those planning to work beyond 65 intend to stay in the same job. However, some employers could lose out on retaining valuable older workers because they do not do enough to support employee health. Among the 14% planning to switch jobs when working beyond the age of 65, a fifth say it is because their current job is either too physically demanding (22%) or too stressful (20%).

MOST HIGHLY VALUED BENEFITS FOR EMPLOYEES OVER 65

Employers keen to retain older workers must address these issues, especially considering it costs an average of £30,000 to replace an employee[4]. The research reveals that flexible working (32%) and appropriate workplace benefits (16%) are the best ways to attract and support older workers and can help to resolve issues such as a stressful or excessive workload.

Employees planning to work beyond 65 indicate that income protection (17%) and life insurance (16%) would be the most highly valued benefits, while one in ten value critical illness cover (13%) or an Employee Assistance Programme (10%).

INVALUABLE COMPONENT OF THE UK WORKFORCE

The research highlights the fact that older workers are an invaluable component of the UK workforce given their extensive industry knowledge and expertise that all colleagues – particularly younger generations – can benefit from. They also represent a valuable talent pool for employers as Britain struggles to counter a growing skills shortage. It's an unfortunate fact of life that health concerns tend to become more frequent as we age, and they will become more common in the workforce as we live and work for longer.

According to the research, workers over the age of 65 have a more immediate need for employee benefits that provide both financial and emotional support should they become ill or suffer an injury. Employers who want to keep and recruit these valuable workers should offer protection products that have the additional benefit of offering a wide range of support services – from early intervention to employee-assistance programmes and second medical opinion services. All of these can be used without having to make a claim, adding daily value and proving employers' commitment to their staff's health. ◀

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ACHIEVING A FULFILLING LIFE

As we get older, financial independence plays an increasingly vital role in ensuring we achieve a fulfilling life. But unforeseen life events and circumstances can potentially impact on our finances in a number of different ways. To discuss any concerns you may have or to review your current situation, please contact us.

Source data:
[1] ONS Labour Market Statistics, May 2019. There are 32.70 million people aged 16 years and over in employment in total.
[2] Canada Life Group Insurance. Based on a survey of 1,002 full and part-time employees, carried out in April 2019.
[3] RSPH, That Age Old Question.
[4] Oxford Economics, The Cost of Brain Drain.

PENSIONER WEALTH

INCOME GAP BETWEEN THE WEALTHIEST AND POOREST PENSIONERS IS GROWING

The members of Britain's baby boomer generation who are now entering retirement have been called 'the richest generation in history'. But the income gap between the wealthiest and poorest pensioners is growing, with those in the top pension income band now having an average weekly income of almost £1,000.

Government figures on pensioner wealth show that the average weekly income for the wealthiest pensioners has grown faster over the past ten years than those in the lowest income group.

SOURCES OF PENSIONERS' INCOME

The richest 20% of pensioners, equivalent to 840,000 couples, now have an average net income (after Income Tax, National Insurance and Council Tax) of £988 per week. This equates to an annual income of £51,376. These government figures include all sources of pensioners' income such as pensions, investments, earnings and benefit income.

These wealthy 'pensioners' have seen their weekly income increase by 15% over the last decade – from £858 to £988. In contrast, the poorest 20% have seen a lower 14% increase from £234 to £267 for the same period. This means the current difference between the income of the top and bottom 20% of pensioner couples has risen by almost £100 from £624 to £721 per week.

HIGHEST INCOME DISTRIBUTION BAND

Over the last ten years, pensioner couples in the highest income distribution band have seen their average weekly income increase to £988 a week. This large proportion of retired couples can legitimately consider themselves 'pensioner millionaires'.

In fact, while many people may assume their house is their most valuable asset, for many it could actually be their pension.

REACHING THE STATE PENSION AGE

However, the figures also show the bottom fifth have an average weekly income over £700 less at just £267 per week per couple, or £134 per individual, which is substantially under the full rate of the new State Pension, currently £168.60 per week.

Many of these pensioners may have reached State Pension age before 5 April 2016 and be receiving the 'old' State Pension or have had insufficient National Insurance records to qualify for the full rate. ◀

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LOOKING TO BOOST YOUR RETIREMENT INCOME?

Wherever you currently are in your retirement journey, we're here to provide the professional financial advice you deserve, whether it's starting a pension, saving more into your plan or to help with your options for retirement. To find out more and discuss your options, please speak to us.

Source data:
Department of Work and Pensions Financial year 2017/18, 28 March 2019 – https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/822623/pensioners-incomes-series-2017-18-report.pdf

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PENSION SHORTFALL EXPOSURE

SIGNS YOU ARE NOT FINANCIALLY READY TO RETIRE

Those potentially most exposed to a pension shortfall are not people just entering the workforce, most of whom presume they will work until their 70s and will receive limited support from the state. Those most at risk of enduring a more frugal older age are those currently in their 40s and 50s who grew up assuming that the pensions system their parents enjoyed – generous income and retirement in their mid-60s – was the norm.

This presents a worrying preview of what could befall millions of workers who will retire in the coming decades. Currently one in four (26%) retirees returning to work after dipping into their pension say it is because they are struggling financially, according to new research[1]. More than a quarter of people who have gone back to work since the pension freedoms cited financial pressures as among the reasons for re-entering the workplace.

NOT PLANNING PROPERLY FOR RETIREMENT

Since the pension reforms were introduced in 2015, savers have been able to take a 25% tax-free lump sum from their pension and draw money flexibly, like a bank account. Latest figures from HM Revenue & Customs (HMRC) show more than half a million over-55s have withdrawn cash from their pension in the last tax year alone, taking a collective £8.18billion[2] – a jump of 23% compared to the previous year.

But there are fears that savers are not planning properly for retirement, which is forcing some back into work. There's no doubt the pension freedoms have been hugely popular, but for some retirees they have come at a high price.

GRINDSTONE OR AN IMPOVERISHED OLD AGE?

People now face more complicated decisions in retirement – including choosing where to invest their savings and how much to withdraw – and it's clear not everyone is getting it right. Pensioners who don't plan for retirement or obtain professional financial advice or guidance could face a return to the grindstone or an impoverished old age.

Making a mistake with your pension in later life can be financially devastating – especially if you can't go back to work. One of the most important steps you can take is to calculate how much you have to live on. We can help you calculate your income and expenditure and consider how long you might need to make your savings last to reduce the risk of emptying your pension too soon.

REASONS FOR RETURNING TO WORK

Overall, one in ten (11%) of people who have accessed their pension since the 2015 reforms have gone back to either full or part-time work, or say that they intend to. Asked for all the reasons they have returned to work, 41% of retirees – the highest percentage – said they needed a sense of purpose. Some 35% said they missed the social side, and 20% because they were bored.

Increasingly, more and more older people are finding themselves in a similar situation as Baby Boomers reach retirement age without enough savings and as housing costs and social care expenses rise. Many people reaching retirement age don't have the pensions that lots of workers in previous generations did. So thinking about retirement can be stressful, but it doesn't have to be as long as you obtain professional financial advice and take action. ◀

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FINANCIAL INDEPENDENCE IN LATER LIFE

One thing retirement is not is an age – not anymore, anyway. Today, you have new pension freedoms to decide when and how you retire. We can help you build the wealth you need to achieve financial independence in later life and maximise your income. If you want to know more, speak to us and arrange a meeting.

Source data:

[1] All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,028 adults, who have accessed their DC pension since 1 April 2015. Fieldwork was undertaken between 18 and 29 April 2019. The survey was carried out online for Zurich.

[2] HMRC: Flexible Payments from Pensions: April 2019 Official Statistics.

A PENSION IS A LONG-TERM INVESTMENT.

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

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

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

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

BOOSTING INVESTMENT RETURNS

OUT OF ADVERSITY COMES OPPORTUNITY

Under new Prime Minister Boris Johnson, the Government has toughened its stance on a no-deal Brexit, which it has said is 'now a very real prospect'. 23 June marked three years since the UK voted to leave the European Union.

Three years on from the 2016 referendum, and with ongoing political wrangling, the eventual outcome of Brexit is still uncertain. Brexit-related uncertainty and the challenging domestic backdrop mean investors need to be smarter about how they invest, which is why it is essential to obtain professional financial advice. As Benjamin Franklin once said, 'Out of adversity comes opportunity.'

REFLECTING YOUR FUTURE CAPITAL OR INCOME NEEDS

As the uncertainty around Brexit continues, the need for asset allocation has never been more important. This is because most investment returns are explained by asset allocation, which means it matters more about how you divide up your pot than it does whether you pick the best or even worst funds in each of those asset classes.

Uncertainty is a fact of life when it comes to investing and should not be a reason to put off investing. The important thing to remember is to not let your investment decisions be driven by your emotions. This means that your overall asset allocation needs to reflect your future capital or income needs, the timescales before those capital sums are required, the level of income sought, and the amount of risk you can tolerate. Investing is all about risk and return.

INDIVIDUAL ATTITUDE TOWARDS RISK

Not only does asset allocation naturally spread risk, but it can also help you to boost your returns while maintaining, or even lowering, the level of risk of your portfolio. Most rational investors would prefer to maximise their returns, but every investor has their own individual attitude towards risk.

Determining what portion of your portfolio should be invested into each asset class is called 'asset allocation' and is the process of dividing your investment/s between different assets. Portfolios can incorporate a wide range of different assets, all of which have their own characteristics like cash, bonds, equities (shares in companies) and property.

NOT PUTTING ALL YOUR EGGS IN ONE BASKET

The idea behind allocating your money between different assets is to spread risk through diversification and to understand these characteristics and their implications on how a portfolio will perform in different conditions – the idea of not putting all your eggs in one basket.

Investments can go down as well as up, and these ups and downs can depend on the assets you're invested in and how the markets are performing. It's a natural part of investing. If we could look into the future, there would be no need to diversify our investments. We could merely choose a date when we needed our money back, then select the investment that would provide the highest return to that date.

COMBINING A NUMBER OF DIFFERENT INVESTMENTS

Moreover, the potential returns available from different kinds of investment, and the risks involved, change over time as a result of economic, political and regulatory developments, as well as a host of other factors. Diversification helps to address this uncertainty by combining a number of different investments.

When putting together a portfolio, there are a number of asset classes, or types of investments, that can be combined in different ways. The starting point is cash – and the aim of employing the other asset classes is to achieve a better return than could be achieved by leaving all of the investment on deposit.

CASH

The most common types of cash investments are bank and building society savings accounts and money market funds (investment vehicles that invest in securities such as short-term bonds to enable institutions and larger personal investors to invest cash for the short term).

Money held in the bank is arguably more secure than any of the other asset classes, but it is also likely to provide the poorest return over the long term. Indeed, with inflation currently above the level of interest provided by many accounts, the real value of cash held on deposit is falling.

Your money could be eroded by the effects of inflation and tax. For example, if your account pays 5% but inflation is running at 2%, you are only making 3% in real terms. If your savings are taxed, that return will be reduced even further.

BONDS

Bonds are effectively IOUs issued by governments or companies. In return for your initial investment, the issuer pays a pre-agreed regular return (the 'coupon') for a fixed term, at the end of which it agrees to return your initial investment. Depending on the financial strength of the issuer, bonds can be very low or relatively high-risk, and the level of interest paid varies accordingly, with higher-risk issuers needing to offer more attractive coupons to attract investment.

As long as the issuer is still solvent at the time the bond matures, investors get back the initial value of the bond. However, during the life of the bond, its price will fluctuate to take account of a number of factors, including:

- **Interest rates –** as cash is an alternative lower-risk investment, the value of government bonds is particularly affected by changes in interest rates. Rising base rates will tend to lead to lower government bond prices, and vice versa
- **Inflation expectations –** the coupons paid by the majority of bonds do not change over time. Therefore, high inflation reduces the real value of future coupon payments, making bonds less attractive and driving their prices lower
- **Credit quality –** the ability of the issuer to pay regular coupons and redeem the bonds at maturity is a key consideration for bond investors. Higher-risk bonds such as corporate bonds are susceptible to changes in the perceived creditworthiness of the issuer

EQUITIES

Equities, or shares in companies, are regarded as riskier investments than bonds, but they also tend to produce superior returns over the long term. They are riskier because, in the event of a company getting into financial difficulty, bond holders rank ahead of equity holders when the remaining cash is distributed.

However, their superior long-term returns come from the fact that, unlike a bond which matures at the same price at which it was issued, share prices can rise dramatically as a company grows.

Returns from equities are made up of changes in the share price and, in some cases, dividends paid by the company to its investors. Share prices fluctuate constantly as a result of factors such as:

- **Company profits –** by buying shares, you are effectively investing in the future profitability of a company, so the operating outlook for the business is of paramount importance. Higher profits are likely to lead to a higher share price and/or increased dividends, whereas sustained losses could place the dividend or even the long-term viability of the business in jeopardy
- **Economic background –** companies perform best in an environment of healthy economic growth, modest inflation and low interest rates. A poor outlook for growth could suggest waning demand for the company's products or services. High inflation could impact companies in the form of increased input prices, although in some cases companies may be able to pass this on to consumers. Rising interest rates could put strain on companies that have borrowed heavily to grow the business
- **Investor sentiment –** as higher-risk assets, equities are susceptible to changes in investor sentiment. Deterioration in risk appetite normally sees share prices fall, while a turn to positive sentiment can see equity markets rise sharply

PROPERTY

In investment terms, property normally means commercial real estate – offices, warehouses, retail units and the like. Unlike the assets we have mentioned so far, properties are unique – only one fund can own a particular office building or shop.

The performance of these assets can sometimes be dominated by changes in capital values. These unusually dramatic moves in capital value illustrate another of property's key characteristics, namely its relative illiquidity compared to equities or bonds. Buying equities or bonds is normally a relatively quick and inexpensive process, but property investing involves considerable valuation and legal involvement.

The more normal state of affairs is for rental income to be the main driver of commercial property returns. Owners of property can enhance the income potential and capital value of their assets by undertaking refurbishment work or other improvements. Indeed, without such work, property can quickly become uncompetitive and run down. When managed properly, the relatively stable nature of property's income return is key to its appeal for investors.

DIVERSIFICATION

If we could see into the future, there would be no need to diversify our investments. We could merely choose a date when we needed our money back, then select the investment that would provide the highest return to that date. It might be a company share, or a bond, or gold, or any other kind of asset. The problem is that we do not have the gift of foresight.

Diversification helps to address this uncertainty by combining a number of different investments. In order to maximise the performance potential of a diversified portfolio, managers actively change the mix of assets they hold to reflect the prevailing market conditions. These changes can be made at a number of levels, including the overall asset mix, the target markets within each asset class and the risk profile of underlying funds within markets.

As a rule, an environment of positive or recovering economic growth and healthy risk appetite would be likely to prompt an increased weighting in equities and a lower exposure to bonds. Within these baskets of assets, the manager might also move into more aggressive portfolios when markets are doing well and more cautious ones when conditions are more difficult. Geographical factors such as local economic growth, interest rates and the political background will also affect the weighting between markets within equities and bonds.

In the underlying portfolios, managers will normally adopt a more defensive positioning when risk appetite is low. For example, in equities, they might have higher weightings in large companies operating in parts of the market that are less reliant on robust economic growth. Conversely, when risk appetite is abundant, underlying portfolios will tend to raise their exposure to more economically sensitive parts of the market and to smaller companies. ◀

TIME TO DO MORE WITH YOUR MONEY?

Whatever your level of confidence, we can help you make better-informed investment decisions. We'll demystify a complex subject and provide professional advice to enable you to build an investment portfolio that meets your investment goals, whatever your risk level. Please contact us to discover your options.

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 AND DEPEND ON YOUR INDIVIDUAL CIRCUMSTANCES.

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TAXING TIMES AHEAD

DON'T BE PENALISED BY THE TAX SYSTEM WHEN YOU EXERCISE YOUR FREEDOMS

The 'pension freedom' reforms of 2015 were welcomed by consumers, as they vastly widened options available to most savers at retirement. Pension freedoms allow savers to have the flexibility on how and when to spend their money without being penalised by the tax system, but it is worrying that some individuals plan to withdraw more than the tax-free lump sum limit.

POTENTIAL TAX BILL SHOCK

For those who take their entire pension fund in cash, they not only face paying more in tax than they have to but also put their long-term retirement income security at risk. If you exercise this option, you can't change your mind – so you need to be certain that it's right for you.

Around one in ten (10%) planning to retire this year expect to withdraw their entire pension savings as one lump sum, new research[1] reveals, risking a potential tax bill shock and their future retirement income. The findings show in total that one in five (20%) retiring this year will risk avoidable tax bills by taking out more than the tax-free 25% limit on withdrawals.

FLEXIBLE PAYMENT WITHDRAWALS

The research suggests that some of this cash has been spent paying down debt, renovating homes, upgrading cars or helping adult children onto the property ladder. However, not everyone is necessarily spending all the cash – the main reason given by those taking all their fund in one go was to invest in other areas such as property, a saving accounts or an investment fund (71%). And interestingly, research shows around two thirds (66%) of people are planning on retiring early.

Since the launch of pension freedom reforms in April 2015, more than 1.1 million people aged 55-plus have withdrawn around £15.744 billion[2] in flexible payments. Government estimates[3] show around £2.6 billion was paid in tax by people taking advantage of pension freedoms in the 2015/16 and 2016/17 tax years, with another £1.1 billion raised in the 2017/18 tax year.

SHOW ME THE MONEY

The most popular use of the cash is for holidays, with 34% planning to spend the money on trips. Around (25%) will spend the money on home improvements, while one in five (20%) will gift the money to their children or grandchildren. Other popular uses include buying cars or paying off mortgages.

Top five items retirees plan on spending their lump sum cash on	Percentage
Holiday(s)	34%
Home improvements/decoration	25%
Gifts to children or grandchildren	20%
New car or second-hand car	20%
Paying off mortgage	18%

ADDED TO YOUR OTHER INCOME

Under rules introduced in April 2015, once you reach the age of 55, you can now take your entire pension pot as cash in one go if you wish. However, if you do this, you could end up with a large tax bill and run out of money in retirement.

Three quarters (75%) of the amount you withdraw counts as taxable income. Depending on how much your pension pot is, when it's added to your other income, it might increase your tax rate. Your pension scheme or provider will pay the cash through a payslip and take off tax in advance – called 'PAYE' (Pay As You Earn).

HIGHER RATE TAX BAND

You could end up paying more if your withdrawal added to any other income in that

year takes you into a higher rate tax band. You may pay less tax if you spread out your cash withdrawals over several years and keep below higher rate bands. If you are thinking of totally withdrawing your pension fund, you might want to take into account any other earnings that you will have in the tax year, as the pension fund will be added to your earned income for tax purposes.

DRAWING PENSION FUNDS IN STAGES

Everyone has a personal tax allowance of earnings before they pay tax, which might provide a way to draw pension funds in stages over a number of years. It's a good idea to only take cash from your pension if you need it. The more you take now, the less you'll have in future. Once you go over your tax-free cash limit, you'll pay Income Tax on the rest.

Taking out more than your tax-free cash limit (when you start accessing taxable income) restricts the payments you or an employer can make to any of your pensions to £4,000 a year. This can be a problem if you're still earning and either have other savings you want to pay into a pension or if you want to make significant payments into any of your pensions. In addition, any means-tested state benefits you receive may be affected if you take cash or income from your pension – check this isn't going to be a problem before going ahead. ◀

ONE OF THE MOST IMPORTANT DECISIONS YOU WILL MAKE FOR YOUR FUTURE

For many or most people, it will be more tax-efficient to consider one or more of the other options to gain access to a pension pot. Deciding what to do with your pension pot is one of the most important decisions you will make for your future. When looking at the best income option for your retirement, it is essential to obtain professional financial advice. To find out more, please contact us.

Source data

[1] Research Plus conducted an independent online survey for Prudential between 29 November and 11 December 2017 among 9,896 non-retired UK adults aged 45+, including 1,000 planning to retire in 2018.

[2] www.gov.uk/government/uploads/system/uploads/attachment_data/file/675350/Pensions_Flexibility_Jan_ 2018.pdf

[3] http://obr.uk/overview-of-the-november-2017-economic-and-fiscal-outlook/

FINANCIAL SUPPORT

LOOKING AFTER YOUR LIFESTYLE DURING A TIME OF UNCERTAINTY

Nobody wants to worry about how they'll pay the bills if they become sick or injured and can't work. But illness or injury can strike at any time and can lead to serious financial trouble. The latest government figures[1] report the dramatic increase in the likelihood of long-term sickness absence when we age, leading to an employment absence of four weeks or more.

This highlights a worrying increase in the probability of experiencing long-term sickness absence as we age. 3% of workers under the age of 45 experienced a long-term absence from work as a result of sickness in 2018. This doubled to 6% among the 45-and-over population. In 2018, 773,000 workers aged 45 and over had to take time off due to poor health, of which 59,000 subsequently left work completely.

HELPING SUPPORT YOU FINANCIALLY

There are more than ten million people in work in the UK aged 50 and above. This is more than ever before, and it is the fastest-growing employee population in the country. It is estimated that by 2025, the over-50s will represent one-in-three workers.

If appropriate to your particular situation, Income Protection Insurance can help support you financially if you have time off work and suffer a loss of earnings because of injury or illness. This type of insurance covers most illnesses that leave you unable to work. For example, it may cover you if you're unable to work due to a stress-related illness or a mental or physical health condition.

UNABLE TO WORK DUE TO ILLNESS OR INJURY

Income Protection Insurance only covers you if you're unable to work due to illness or injury – it does not pay out if you are made redundant. There are different types of Income Protection Insurance, but most are either Individual Income Protection Insurance (often called 'IP') or Employer Provided Income Protection Insurance (known as 'Group Income Protection' or 'GIP').

Individual Income Protection is taken out if you want to independently protect your income in the event of being unable to work due to illness or injury. Employer Provided Income Protection Insurance is a policy taken out by your employer to protect your income if you are unable to work due to illness or injury.

KEEPING ON TOP OF MONTHLY EXPENSES

If you or your employer buy an income protection policy, you will be paid a monthly income if you find yourself unable to work. You or your employer will pay a monthly premium to your insurer for your chosen policy, which will pay out after a pre-agreed waiting period.

Most policies have a pre-agreed waiting period. This is also known as the 'deferred' period. The waiting period is the time between being unable to work and the time at which you will begin receiving payments. Most people rely on their salary to keep on top of monthly expenses. Without this salary, you can be left in a difficult situation when having to cover rent, mortgage repayments or bills.

BEING OFF WORK FOR A PROLONGED PERIOD

Our lives these days are racked with financial worries, so having the safety net of a policy that pays out a regular income in the event that you're unable to work due to illness or injury could be just what you need to provide that valuable peace of mind.

Having Income Protection Insurance will mean that you can continue to pay your bills, rent or mortgage if you are unable to work. This protection will ensure you receive a monthly income for as long as you need to recover, so even if you have to be off work for a prolonged period, you can protect your finances and lifestyle. ◄

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DON'T LET YOUR WORLD TURN UPSIDE DOWN

Can you put a value on peace of mind? Being unable to work can quickly turn your world upside down. The lifestyle you've worked so hard to achieve could be at risk. We can advise you how to protect your income, your family and your business – speak to us directly and we'll explain your options.

Source data:

[1] https://www.gov.uk/government/statistics/health-in-the-workplace-patterns-of-sickness-absence-employer-support-and-employment-retention

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