BIRCH
FINANCIAL SOLUTIONS

SMART MONEY

JULY/AUGUST 2013

INVESTORS GET MORE TAX SAVVY WITH THEIR MONEY

Strategies to save tax and invest more tax-efficiently in 2013/14

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IN THIS ISSUE

Welcome to the latest issue. There is a plethora of different ways to save for your future, including pensions, investments and property, but if you want to be in total control of your retirement planning and have access to a wide choice of investment options, a SIPP (Self-Invested Personal Pension) could be the right solution for you. Read the full article on page 11.

Investors with longer-term investment objectives often have requirements for regular income and capital growth. The right mix of income and capital growth may depend on whether you need immediate access to your money or you prefer to draw an income and grow your investments over time. On page 09 we look at why income assets play an important role in investment portfolios.

On page 06 we examine new research that shows that over half (52 per cent) of the UK population with at least one wage earner in the household are reliant on a single income in order to make ends meet for their family. With 15 million UK adults currently failing to save, and a further one in five Britons who expect their financial priorities to change concerned about their job security, families could be risking their livelihood by failing to protect themselves financially.

We hope you enjoy reading the magazine. To discuss your financial planning requirements or to obtain further information, please contact us. Need more information? A full list of all the articles featured in this edition appears on page 03.

The content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. Articles should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

TO DISCUSS YOUR FINANCIAL PLANNING REQUIREMENTS OR TO OBTAIN FURTHER INFORMATION, PLEASE CONTACT US

Planning to enjoy your retirement years

Talk to us about the new pension opportunities

One way of looking at planning for retirement is to think about the number of paydays you have before you retire, and the number you hope to have afterwards. Imagine you start your pension planning when you're age 20, and you plan to retire when you're age 65. You have 540 paydays between starting your pension plan and retiring to achieve financial independence.

TAKE ACTION TO FUND FOR YOUR RETIREMENT

In the 2013/14 tax year the additional rate of tax on earnings over £150,000p.a. has been reduced from 50 per cent and replaced by a new lower rate of 45 per cent. While this means that the highest rate of tax relief available on pension contributions has reduced, it is still important to take action to fund for your retirement.

CARRY FORWARD OF UNUSED RELIEFS

You may be able to contribute in excess of the Annual Allowance of £50,000 for the 2013/14 tax year (this will reduce to £40,000 from April 2014) and receive tax relief at up to 45 per cent using Carry Forward if you have contributed less than £50,000 in any of the previous three tax years. As this is a potentially complex area, particularly where Defined Benefit schemes are concerned, professional advice should be sought.

ANNUAL AND LIFETIME ALLOWANCE REDUCING

As of 6 April 2014, the Annual Allowance for retirement funding is reducing to £40,000, while the Lifetime Allowance is reducing from its current £1.5m ceiling to £1.25m. The Annual Allowance reduction represents a significant opportunity to fund a higher level of pension contributions prior to this reduction. The reduction in the Lifetime Allowance means that professional advice is even more important to ensure that you are optimising your retirement planning and are benefiting from the latest Lifetime Allowance protection opportunities. ■

ARE YOU TAKING CONTROL OF YOUR RETIREMENT PLANNING?

Even if your retirement planning is up and running, that's not the end of the story. It's important that you review your contributions, particularly if you have a change of circumstances. If you don't know how your planning is doing, you can't know what your future will look like. We can work with you to develop strategies to accumulate further wealth in order for you to enjoy your retirement years. To discuss how we could help you take control of your retirement years, please contact us for further information.

The levels and bases of taxation and reliefs from taxation can change at any time. The value of any tax reliefs depends on individual circumstances. The value of a pension will be directly linked to the performance of the funds you select and the value can therefore go down as well as up. You may get back less than you invested.

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WANT TO MAKE MORE OF YOUR MONEY IN 2013?

FOR MORE INFORMATION PLEASE TICK THE APPROPRIATE BOX OR BOXES BELOW, INCLUDE YOUR PERSONAL DETAILS AND RETURN THIS INFORMATION DIRECTLY TO US.

- ☐ Arranging a financial wealth check
- ☐ Building an investment portfolio
- ☐ Generating a bigger retirement income
- ☐ Off-shore investments
- ☐ Tax-efficient investments
- ☐ Family protection in the event of premature death
- ☐ Protection against the loss of regular income
- ☐ Providing a capital sum if I'm diagnosed with serious illness
- ☐ Provision for long-term health care
- ☐ School fees/further education funding
- ☐ Protecting my estate from inheritance tax
- ☐ Capital gains tax planning
- ☐ Corporation tax/income tax planning
- ☐ Director and employee benefit schemes
- ☐ Other (please specify)

Name ______________________

Address ______________________

____

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______________ Postcode ______________

Tel. (home) ______________________

Tel. (work) ______________________

Mobile ______________________

Email ______________________

You voluntarily choose to provide your personal details. Personal information will be treated as confidential by us and held in accordance with the Data Protection Act. You agree that such personal information may be used to provide you with details and products or services in writing or by telephone or email.

Financial pressures faced by the UK's three ages of retirement

Will you give a cash loan to family members instead of leaving an inheritance?

A quarter of over-75s and more than a fifth of over-55s in total (21 per cent) have given a cash loan to family members instead of leaving an inheritance, according to Aviva's latest Real Retirement Report. The findings also show nearly one in ten over-55s regularly give money to family to avoid Inheritance Tax (8 per cent), while a further 20 per cent would do the same.

The spring edition of the report examines the financial pressures faced by the UK's three ages of retirement – 55-64s (pre-retirees), 65-74s (the retiring) and over-75s (the long-term retired) – and focuses specifically on attitudes to inheritance. It shows just 7 per cent of over-55s rate this as their top financial priority in retirement, and while this predictably increases with age, just 18 per cent say the same by the age of 85.

INHERITANCE LOSES TRACTION AMONG PRE-RETIREES

Building up an inheritance pot in May 2013 comes a distant third as a financial priority for the over-55s, behind meeting living costs (77 per cent) and providing more immediate support to family (17 per cent). It is only after the age of 65 that it becomes their second priority after managing the cost of living (69 per cent vs. 19 per cent) and ahead of family support (12 per cent).

Instead of leaving an inheritance, the over-55s are open to various alternatives to pass on any available wealth. There is a clear generation gap in their attitudes, separating the pre-retirees – who are most willing to consider other approaches – from the long-term retired who are more traditionally minded.

ECONOMY CLOUDS INHERITANCE PLANS

Despite the attitude shift among those approaching retirement, more than half of over-55s still expect to leave more inheritance than their parents (53 per cent), with 37 per cent planning to leave significantly more.

This confidence is highest among the over-75s and falls away among the 55-64s and 65-74s, suggesting the economic situation has undermined people's financial security on the lead-up to retirement.

PROPERTY ASSETS PLAY AN INCREASINGLY IMPORTANT ROLE

With savings squeezed, property is becoming a bigger feature of people's inheritance plans. Nearly two thirds of over-55s plan to leave behind the family home (65 per cent), yet only a third received this from their parents (34 per cent). More than twice as many expect to leave other property or land (8 per cent) as received this from their parents (3 per cent).

FINANCIAL REALITIES CHANGE

It is not just the older generation who have seen their financial realities change, but also younger family members who often need support to access the property ladder or raise children of their own. For some over-55s the desire to leave an inheritance is secondary to more urgent financial priorities, and even those who are financially secure are often tempted to share their wealth during retirement rather than wait to leave an inheritance.

Many over-55s who bought their homes much earlier in life have benefited from growing house prices in the decades since and understandably hope their family will share the proceeds as part of their inheritance. Anyone who needs to call on their property wealth at an earlier point – either to support themselves or family members – can aim to downsize or take out inheritance protection with equity release plans to safeguard a fixed amount for their loved ones' future use. ■

ARE YOU CONSIDERING GIFTING AN INHERITANCE?

If you are considering gifting an inheritance during your retirement you should seek the appropriate professional financial advice regarding possible tax implications. To discuss your options or to find out how we could help, please contact us for further information.

01 More than one in four over-55s believe becoming a parent is the best time to begin planning to leave an inheritance (26 per cent); however just 17 per cent take action at this stage – no doubt influenced by the costs of raising a family.

02 Nearly one in four wait until the final years of work or the first years of retirement before planning their inheritance (23 per cent).

03 Up to 16 per cent of over-55s have seen their later life plans impacted by the housing market crash which has left them with less property wealth either to leave as an inheritance (12 per cent) or release equity in order to help their finances in retirement (4 per cent).

The Real Retirement Report was designed and produced by Wriglesworth Research. As part of this, more than 16,686 UK consumers aged over 55 were interviewed between February 2010 and May 2013. This data was used to form the basis of the Aviva Real Retirement Report. Wherever possible, the same data parameters have been used for analysis but some additions or changes have been made as other tracking topics become apparent.

INVESTORS GET MORE TAX SAVVY WITH THEIR MONEY

Strategies to save tax and invest more tax-efficiently in 2013/14

Taxation can be a complicated area of personal finance and you can easily miss opportunities to reduce the amount of tax you pay, or save and invest tax-efficiently. Your job, your savings and your family's circumstances can all have an impact on the amount of income tax you pay each year.

As taxation rules change it's important to take professional advice to ensure you do not pay more than you have to, so that you can enjoy more money as a family.

INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

This 2013/14 tax year you can invest up to £11,520 in Cash and Stocks & Shares ISAs (the tax year runs from 6 April 2013 to 5 April 2014). You can invest the full amount (up to £11,520) in a Stocks & Shares ISA or up to £5,760 in a Cash ISA with the balance (within your overall limit) in a Stocks & Shares ISA.

There is no capital gains tax and no further income tax to pay within an ISA. If you are married (or in a registered civil partnership), ensure that you both consider using your ISA allowances. Even if one of you is a non-taxpayer it still often makes sense to make use of this spouse's ISA.

JUNIOR ISA

For eligible children, this tax year you can invest up to £3,720 in a Cash or Stocks & Shares Junior ISA (the tax year runs from 6 April 2013 to 5 April 2014). Those children with a Child Trust Fund (born 1 September 2002 to 2 January 2011) are not eligible for a Junior ISA and these accounts can also be topped up to £3,720 a year (a Child Trust Fund year runs from the child's birthday, not the tax year).

PENSIONS

There has been a considerable simplification of the contribution rules in recent years. The Annual Allowance, the upper cap on total contributions that can be made to your pensions in one year and benefit from tax relief, is £50,000 for 2013/14 and will reduce to £40,000 from April 2014.

Personal contributions also have to be within 100 per cent of your relevant UK earnings (broadly, earnings from employment or self-employment) to obtain tax relief. Non-earners can still contribute and benefit from tax relief up to a maximum limit of £3,600 gross per annum. Tax relief on personal contributions is available at the basic rate (20 per cent) for all investors and at the highest marginal rate for higher rate and additional rate taxpayers.

It's important to make the full use of your pension allowance. This is still one of the most tax-efficient ways to save for retirement and the new Annual Allowance and Carry Forward rules are potentially highly beneficial. The ability to Carry Forward the unused Annual Allowance from the last three years potentially enables a significant increase or substantial catch-up of contributions.

Even if you have no earnings or you don't pay tax, anyone under 75 can still invest £2,880 in a pension and the taxman will top up their contribution to £3,600. Contributions made on behalf of a child also benefit from tax relief. For married couples, building up income in both names may be one of the most tax-efficient ways of generating income in retirement. If you maximise the current personal allowance, the amount of taxable income you're allowed to receive each year tax free is £9,440.

This could mean that married couples can still receive income from pensions, savings and investments of £18,880 a year tax free. ■

Careful planning will ensure that you save or invest in a tax-efficient manner. We look at your overall position and can recommend the most appropriate solutions to minimise the impact of tax. If you'd like advice about tax-efficient wealth creation, please contact us.

Any tax reliefs referred to are those currently applying, but levels and the basis of, as well as reliefs from, taxation are subject to change. Their value depends on the individual circumstances of the investor. Within an ISA all gains will be free of capital gains tax and a tax credit will be reclaimed on income from fixed interest investments.

PLANNING FOR THE WORST-CASE SCENARIO

Families are under-protected and under-prepared

As one in five UK adults fears for job security, Scottish Widows warns of implications of single income reliance and leaving protection until the first rung of the property ladder. Research from Scottish Widows shows that over half (52 per cent) of the UK population with at least one wage earner in the household is reliant on a single income in order to make ends meet for their family.

With 15 million UK adults currently failing to save, and a further one in five Britons who expect their financial priorities to change concerned about their job security, families could be risking their livelihood by failing to protect themselves financially.

UNABLE TO WORK

The fifth Scottish Widows Protection Report, based on research among more than 5,000 UK adults, shows that despite three quarters of the population living in a one or two income household and 84 per cent being aware of income protection, only 5 per cent of the population have taken it out to protect their salary should they be unable to work. When asked about other types of protection, the report revealed that 89 per cent of adults do not have critical illness cover and 63 per cent do not have life insurance.

Although the findings reveal that many Britons are not planning for the worst-case scenario, the report showed that 16 per cent of the population has experienced a critical illness, with nearly half of people who fell ill forced either to change their lifestyle dramatically or make a number of small changes in order to survive financially. Worryingly, only 5 per cent of those who fell ill had any kind of protection policy in place to help act as a buffer for this substantial shift in wellbeing.

FINANCIAL BEHAVIOUR

Despite a backdrop of continued economic and unemployment uncertainty, the report indicates that families are leaving themselves under-protected and under-prepared, with 56 per cent of people not in retirement saying that if they were to lose their main income they would only be financially secure in the short term (under six months) or 'not at all'.

The report showed that the main reason behind people taking out protection, such as life insurance, critical illness and income protection, is at the point of purchasing a property, yet with the number of private renters increasing by nearly a quarter since 2008[1], and 61 per cent of renters saying they do not ever expect to buy a home[2], this shift in home ownership trends has worrying implications for the financial security of future generations.

WORST-CASE SCENARIO

No one likes to think about the unexpected happening to them, and it is clear that this tendency to ignore the worst-case scenario is preventing families from preparing for the future and protecting their livelihoods. The value of protection is to provide peace of mind and to know that, should the worst happen, then you or your family have a financial safety net. ■

[1] ONS English Housing Survey, 2008-12
[2] Castle Trust Analysis of ONS English Housing Survey

The fifth annual Consumer Protection Report from financial provider Scottish Widows takes an in-depth look at the habits and attitudes of the UK adult population in order to analyse their protection provision.

The survey was carried out online by YouGov, who interviewed a total of 5,086 adults between 4-9 January 2013. The figures have been weighted and are representative of all UK adults (aged 18+).

REDUCING THE PROTECTION GAP

The good news is that medical advances mean that more people than ever are surviving conditions that might have killed earlier generations. Reducing the protection gap can help to allow you to pursue a less stressful lifestyle while you recover from an illness or accident. Don't leave it to chance – make sure you're fully covered. To assess your current requirements, please contact us.

MIND THE PENSION GAP

Laying the foundation to rebuild the UK's retirement savings system

In May this year, the Queen announced the Pensions Bill, a vital reform that lays the foundation to rebuild the UK's retirement savings system and simplify the State Pension for millions of today's workers, allowing them to plan their retirement with more certainty.

FLAT RATE STATE PENSION

The Pensions Bill introduced a flat rate State Pension of at least £144 a week, starting from April 2016. To put this in context, to build up an income of £144 a week (approximately £7,500 a year) a 65-year-old would need a pension pot worth around £185,000 today.

The maximum payout is £144 a week and is based on 35 years' service. The minimum will be between 7 and 10 years' service, providing between £29 and £41 per week. Anyone with less than this minimum will not get a State Pension; however, the Minimum Income Guarantee remains as a safety net.

CLOSING A LOOPHOLE

In addition, there will be no more inheritance of the State Pension for surviving spouses, divorcees, etc. who reach State Pension age after April 2016. Whether or not someone is entitled to a State Pension will depend entirely on their own years of National Insurance contributions.

INCREASES DUE TO COME INTO FORCE

There will be a review of the State Pension age in the next Parliament; however, there are already increases due to come into force. By 2018, the State Pension age for women will increase to 65; between 2018 and 2020 the State Pension age for both men and women will increase to 66 and is proposed to increase to 67 by 2028. A further rise to 68 is scheduled to start in 2044 but is likely to happen sooner.

HIGHER RATE OF NI CONTRIBUTIONS

There will no longer be an earnings-related element to the State Pension and the ability to contract out of the second tier pension will be abolished. Final salary pension schemes will end contracting out from April 2016. This ended for money purchase pensions in 2012.

Members will therefore pay a higher rate of employee National Insurance contributions from April 2016. Their employers will also pay a higher rate of employer National Insurance. An employee earning £40,000 a year in a final salary pension scheme will pay approximately £480 a year more.

WHO COULD BE AFFECTED?

How you may be affected depends on when you'll reach State Pension age. If it's before April 2016, you won't be affected – current rules will apply. If it's after April 2016, there will be a one-off recalculation of everyone's State Pension to ensure existing entitlements are protected. Whether you'll benefit or lose out depends on your circumstances.

CONTRACTING INTO THE SECOND TIER PENSION

If you have a combined entitlement of State and second tier pension worth less than £144 per week (under today's system), you'll receive £144 per week if you've paid 35 years' National Insurance contributions.

CONTRACTING OUT OF THE SECOND TIER PENSION

If you've contracted out of S2P or SERPS, you will have a deduction from the £144 per week. Such deduction will reflect the time spent contracted out and is unlikely to result in an income less than the current basic State Pension of £110.15 a week; however, from 2016 until you reach your State Pension age, you can build additional entitlement, up to a maximum of £144 a week.

CONTRACTED IN AND CONTRACTED OUT PERIODS

If you've been both contracted in and contracted out of S2P or SERPS between 1987 and 2016, you'll have a one-off deduction based on the length of time you were contracted out; however, you could increase this amount up to a maximum of £144 based on the number of years you pay National Insurance contributions between 2016 and your State Pension age.

SELF-EMPLOYED

The self-employed currently only receive a maximum State Pension of £110.15 per week. This will increase from 2016 to £144 per week for those who have 35 or more qualifying years.

LOW EARNER

If you have combined basic and second tier pensions of less than £144, you'll benefit from an increase to £144 a week.

HIGH EARNER

Under the present system you might have accrued a State Pension in theory of up to £250 a week. This will now be reduced to £144 per week (although benefits accrued until 2016 are retained). ■

The reform makes it easier to understand what income you could receive from the State when you retire. You need to add any income you'll receive from any pension you have and any savings or investments you've earmarked for your retirement. To help you make an informed decision and to discuss your requirements, please contact us for further information.

WHO COULD BE THE SINGLE LARGEST BENEFICIARY OF YOUR ESTATE?

We can help you identify the source of a wealth leak. Contact us to implement a robust protection strategy

Providing all is going to plan, it can be immensely satisfying building up assets and increasing your personal wealth but, as you know, life can throw you a problem when you're least expecting it. That's why we believe that the implementation of a robust wealth protection strategy is as important as a wealth creation strategy.

SAFEGUARDING YOUR FAMILY'S FUTURE

Bad news can impact on any one of us at any time, so it's important to have the correct wealth protection strategy in place that will enable you to safeguard your family's future. There are many things to consider when looking to protect your family and your home. Without the right professional advice and careful financial planning, HM Revenue & Customs could become the single largest beneficiary of your estate following your death.

PREVENTING UNNECESSARY TAX PAYMENTS

The easiest way to prevent unnecessary tax payments such as Inheritance Tax (IHT) is to organise your tax affairs by obtaining professional advice and having a valid Will in place to ensure that your legacy does not involve leaving a large IHT bill for your loved ones.

EFFECTIVE IHT PLANNING

Implementing an effective IHT plan could save your beneficiaries thousands of pounds, maybe even hundreds of thousands, depending on the size of your estate. At its simplest, IHT is the tax payable on your estate when you die if the value of your estate exceeds a certain amount. It's also sometimes payable on assets you may have given away during your lifetime, including property, possessions, money and investments.

At present, the first £325,000 (2013/14) of an individual's estate is not liable to Inheritance Tax (IHT). For married couples and registered civil partners it is currently £650,000, if the full allowance is passed to the surviving spouse. Anything in excess of this amount is taxed at 40 per cent on death.

MITIGATING INHERITANCE TAX

We can help you to mitigate Inheritance Tax. Here are just a few areas to discuss with us:

Implementing an effective IHT plan could save your beneficiaries thousands of pounds, maybe even hundreds of thousands.

- Consider transferring assets through the use of lifetime gifts
- Have your Will written and planned correctly to save the maximum amount of tax
- Consider creating a tax-efficient fund to enable the beneficiaries of your estate to meet the tax liability without disturbing your family wealth. Under current IHT legislation, pensions can play a considerable role in estate planning

Although pension death benefits are broadly exempt from IHT, if they are passed to your survivor they will form part of their estate. ■

Ensuring that your assets and the people who matter to you are suitably protected is something that needs to be addressed sooner rather than later. To discuss how we can help you make an informed choice, please contact us for further information.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

INVESTING FOR INCOME

Bright ideas to help you develop your portfolios and light up your wealth strategy

Investors with longer-term investment objectives often have requirements for regular income and capital growth. The right mix of income and capital growth may depend on whether you need immediate access to your money or you prefer to draw an income and grow your investments over time.

Regardless of your particular needs, income assets play an important role in investment portfolios by providing a stabilising effect during periods of stock market volatility.

SO WHAT DO YOU NEED TO CONSIDER?

Identify how much income you need - if your income requirements are too high then you might end up with a portfolio which pays a high income, but at the expense of capital growth. An income in excess of 5 per cent is probably unsustainable in the long run. If your primary need is for regular income and you need quick access to your money, you may find that shorter-term income assets, such as fixed interest and cash, are better suited than growth assets. Interestingly, income and capital growth don't need to be mutually exclusive. Some shares and listed property trusts can provide a tax-efficient income in the form of dividends. The good thing about these assets is that they can also provide growth over time, so your savings can keep ahead of inflation.

Investment time frame you need – usually, the longer your investment time frame, the more aggressive you can be with your investments – although this depends on your appetite for risk. If your time frame is less than five years, investing in shares may not be the best option as shares can be volatile over shorter time periods. It's important to be aware of the impact inflation can have on the buying power of your capital and income payments. Including growth assets in your portfolio can help your savings to keep up with inflation.

Look after your capital - many income-seeking investors look to maximise income without protecting their capital. A high yield can be a result of recent falls in the share price. This can signal there is something wrong with the business and the dividend might be cut in future. If appropriate, equity income investors should consider looking for companies that can pay a sustainable and growing dividend. This approach is likely to be supportive of the share price.

Diversify your income stream - if you are dependent on income from your investments, it is essential to have a mixture of investments from which the income is derived. Diversification should help to mitigate the impact of events affecting individual companies. Investing in a number of asset classes may help to provide a more stable income - income generated from corporate bonds is generally less volatile than that from equities. Likewise, investing overseas provides a further opportunity for diversification.

Understand your tax position - consider your tax position when investing. Investment income for each asset class is treated differently. We can help ensure that you understand the tax implications of your investments before you invest. ■

CAN WE HELP?

No matter what your investment goals, we can work with you to develop excellent portfolios for you. It's important to know about the potential risks of your investments as well as the rewards. To talk to us about the different investment opportunities that could be right for you, please contact us for further information.

Past performance is not necessarily a guide to the future. The value of investments and the income from them can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

'FREE' MONEY

Are you switched on to the tax benefits of pensions?

Research by Standard Life reveals that more people are now aware of the tax-efficiency of pensions than a year ago. Almost 2 in 5 people (39 per cent) are aware that the Government automatically adds £1 for every £4 you invest in a pension if you are a basic rate taxpayer[1] (subject to annual limits[2]). In 2012, only 3 in 10 (29 per cent) UK adults said they knew the Government added this level of 'free' money to pension contributions.

TAX-EFFICIENCY OF PENSION SAVING

The increase in awareness has almost doubled among 18 to 24-year-olds – 20 per cent said they knew about the tax-efficiency of saving into a pension, compared to just 11 per cent a year ago; overall, 45-54 year olds were the most likely to be aware (46 per cent).

There continues to be a gender bias - almost half (48 per cent) of men said they were aware of the incentives for investing in a pension, while 7 out of 10 women (70 per cent) said they were unaware.

There are several ways people can be tax-efficient with their pension provision and it can depend on the type of pension plan you have, so it is important to obtain professional financial advice to assess the most appropriate options for your particular situation.

WHAT YOU NEED TO KNOW

Consider increasing your pension contributions when you can – for example, if you receive a pay increase or finish paying off a loan – or perhaps pay in a lump sum if you inherit some money. Remember, with pension plans, the Government contributes whenever you do, by rebating the income tax on your contributions. So if you are a basic rate taxpayer, in most cases for every £4 you save in a pension, the Government adds another £1; if you're in a workplace scheme, your employer is likely to be topping up your contributions too. Also remember there are limits to how much you can invest each year[2].

If you are a higher rate or additional rate taxpayer and investing in a personal pension, remember to claim back your tax rebate through your tax return or by contacting your tax office.

If you're younger, don't think that because you can't save very much, there's no point bothering. Even if you can start to save a small amount from a young age it can make a difference when you think about the tax benefits too.

If you don't feel you can lock your money away in a pension just now, but still want exposure to the potential gains of the stock market, then you might want to consider investing in a tax-efficient Stocks & Shares Individual Savings Account (ISA) instead. This means you can still access your investment, while you also have the potential to help your money grow and you won't be taxed on your investment returns. Always remember that the value of an investment can fall as well as rise, and may be worth less than you invested. ■

[1] For all basic rate taxpayers (2013/14 tax year). Higher rate and additional rate taxpayers who make pension contributions would receive a greater amount from the Government. Laws and tax rules may change in the future. The information here is based on our understanding in April 2013. Personal circumstances also have an impact on tax treatment. All figures relate to the 2013/14 tax year, unless otherwise stated

[2] The maximum amount you can invest in a pension and receive tax relief on in any one tax year is equal to your qualifying earnings in the tax year concerned; tax relief could be withdrawn by a tax charge on any contributions above £50,000, although it may be possible to invest more if you have unused allowance from earlier years, but this is something you should seek advice about based upon your personal circumstances.

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,059 adults. Fieldwork was undertaken between 25-28 January 2013. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+). Total sample size for the 2012 YouGov Plc survey was 2,054 adults. Fieldwork was undertaken between 9-12 March 2012. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

LOOKING FOR ADVICE?

With life expectancy increasing, many of us can expect to stay fit and active for a considerable number of years after retiring. We could spend over thirty years in retirement, more than any other stage of our life. That's why it's important to make the right decisions about your retirement planning. To discuss how we could help you plan to enjoy your retirement, please contact us.

SIPP into summer

Talk to us about one of the most tax-efficient ways of saving for your retirement

Retirement may be a long way off for you at the moment, but that doesn't mean you should forget about it. The sooner you start to plan for the future, the easier it is to build up the kind of money you need to enjoy the life you want.

There is a plethora of different ways to save for your future, including pensions, investments and property, but if you want to be in total control of your retirement planning and have access to a wide choice of investment options, a SIPP (Self-Invested Personal Pension) could be the right solution for you. SIPPs provide sophisticated investors with a tax-efficient way to save for retirement and you receive tax relief on your personal savings into your SIPP at the highest rate of tax you pay. The investments within the SIPP will grow free of capital gains tax and any income tax.

TAX FACTS

For dividend income on UK equities, if you're a basic rate taxpayer you're deemed to have paid tax at 10 per cent on the dividend income whether inside or outside the SIPP. This 'tax credit' cannot be refunded for SIPP investments. If you're a higher rate taxpayer you'd normally pay tax on dividend income at 32.5 per cent or 37.5 per cent. Inside a SIPP you won't get back the 10 per cent dividend tax credit, but you won't have to pay any additional tax.

LIMIT ON CONTRIBUTIONS

You can receive tax relief on your personal contributions up to 100 per cent of your earnings. There is a limit on the contributions you can pay and receive tax relief on – this is called the Annual Allowance, which is currently £50,000 per year (but is reducing to £40,000 from 6 April 2014), although you can Carry Forward any unused allowance from the previous three tax years.

Valuable tax benefits that can help you make the most of your retirement savings:

- **Automatically receive basic rate tax relief on your contributions -** if you want to pay £10,000 you only need to write a cheque for £8,000. The Pension Provider will claim £2,000 from the taxman on your behalf and add that to your pension.
- **Claim back more tax relief if you are a higher rate or additional rate taxpayer -** a 40 per cent taxpayer can claim an additional £2,000 back on a £10,000 contribution from HM Revenue & Customs through Self Assessment.
- **Receive tax relief even if you don't pay tax -** even if you are a non-taxpayer, you can claim full basic rate tax relief on your personal contributions, up to £3,600 gross per tax year. This also applies to Junior SIPP accounts where the child receives 20 per cent basic rate tax relief.
- **Tax breaks when you reach retirement -** take up to 25 per cent of your pension fund as a tax-free lump sum, which you can invest or spend as you choose (this option is only available from the age of 55). Your dependants can have your total pension account free of any tax as a lump sum if you were to die before taking any benefits.

INVESTMENT MIX

In addition to the tax benefits, you have more flexibility and control over your savings and where your money is invested. You can choose investments that suit your personal needs and vary your investment mix as your circumstances change.

OPTIONS AT RETIREMENT

When you retire, you can use the money you've built up in your SIPP to buy an annuity, which will provide you with an income for life. Alternatively, you can take 'income drawdown', which gives you the flexibility of taking an income from your SIPP while retaining control over your investments. You also have the peace of mind that, if the worst happens, your dependants could still receive benefits from your SIPP savings, but this may be taxed on death at a current rate of 55 per cent. Charges for income drawdown are higher than for an annuity. The investment funds may be depleted either through poor performance or withdrawals. Also, high levels of income may not be sustainable and annuity rates may be worse in the future.

Currently you may only accumulate £1.5 million within all your registered pension schemes in your lifetime without incurring an additional tax charge. This is called the Lifetime Allowance. Any excess will be taxed and the tax rate will depend on whether you take this excess as a lump sum or as income. You may be able to accumulate more than this amount if you have successfully applied for transitional protection. ■

Investments available can vary in their level of risk. As with any investment the value of your investment can go down as well as up and may be worth less than was paid in. Investors may lose some or all of their capital. Some investments (such as property) may take longer to sell. The valuation of property is generally a matter of the valuer's opinion rather than fact. Changes in exchange rates and interest rates could affect the value of your investment.

SIPPABLE INVESTMENTS	NON-SIPPABLE INVESTMENTS
Cash deposits	Residential property
Fixed interest stocks	Loans to members or their families
Quoted shares (both UK and overseas)	Loans to members' businesses
Unit trusts	Plant and machinery
Commercial property	Works of art
UK real estate investment trusts (REITs)	Fine wine
Unquoted shares	Classic cars
Open-ended investment companies (OEICs)	

TAKE THE TIME TO TALK TO US

Find out why it's important to think about setting up a pension sooner rather than later and get advice on the best way to get started. We offer expert and personalised advice to help make saving for your retirement as easy and practical as possible. To discuss your requirements, please contact us.

Flexible retirement planning

Isn't it time to tailor your pension to suit your own personal requirements?

More investors are now able to take their entire pension as cash. Flexible drawdown allows you to take up to a quarter of your pension tax free as a lump sum, and then unlimited taxable withdrawals if set criteria are met.

There are two reasons more people have become eligible for flexible drawdown:

FIRSTLY, YOU HAVE £20,000 SECURE PENSION INCOME

The main requirement is having at least £20,000 a year of secure pension income. You must have received, or be due to receive, the full £20,000 in the tax year you enter flexible drawdown.

The tax year runs from 6 April one year to 5 April the next. If your qualifying income started part way through a tax year but did not reach the £20,000 threshold then you would not be eligible to enter flexible drawdown until the start of the following tax year. Conversely, if your qualifying income would reach the threshold if projected forward to the end of the tax year in which it began, you would be eligible for flexible drawdown immediately. For example, if your qualifying income in the 2013/14 was £24,000 per annum but begins on 27 September 2013 you would only receive £14,000 in the current tax year and therefore only become eligible on 6 April 2014 when the next tax year commences. If your qualifying income in the 2013/14 tax year was £24,000 per annum but began on 27 June 2013, you would receive £20,000 in the current tax year and therefore be eligible straight away.

SECONDLY, YOU HAVE FINISHED MAKING PENSION CONTRIBUTIONS

You will only be eligible for flexible drawdown if you haven't accrued any benefits under a final salary scheme or contributed to a money purchase pension (or had contributions made on your behalf) during the current tax year. If you have been an active member of a pension scheme as described, you will not be able to enter a flexible drawdown arrangement until 6 April 2014. ■

In the past, the most common way to provide income for retirement was to buy an annuity. But as taking retirement has become more fluid, with people choosing to work past 65 or retire gradually, other options may be more appropriate. Flexible drawdown is a complex product, so it is not suitable for everyone. If you are at all uncertain about its suitability or wish to discuss and review your current requirements, please contact us.

Flexible drawdown is a complex product. If you are at all uncertain about its suitability for your circumstances, you should seek professional financial advice. Your income is not secure. Flexible drawdown can only be taken once you have finished saving into pensions. You control and must review where your pension is invested, and how much income you draw. Poor investment performance and excessive income withdrawals can deplete the fund.

WHAT IS CONSIDERED SECURE PENSION INCOME?

Yes	No
Secure private pension income such as an annuity	Some variable annuity income
Income from an occupational pension	Income from an occupational pension income, or income from a dependant's drawdown plan
Income from a deceased spouse's pension if it is already in payment	Income from investments
State pension and some other social security benefits	Income from property
Some overseas pensions, or income from the pension, the pension protection fund or Financial Assistance scheme	Income from purchased life annuities

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