

Hawsons Wealth Management
Latest News

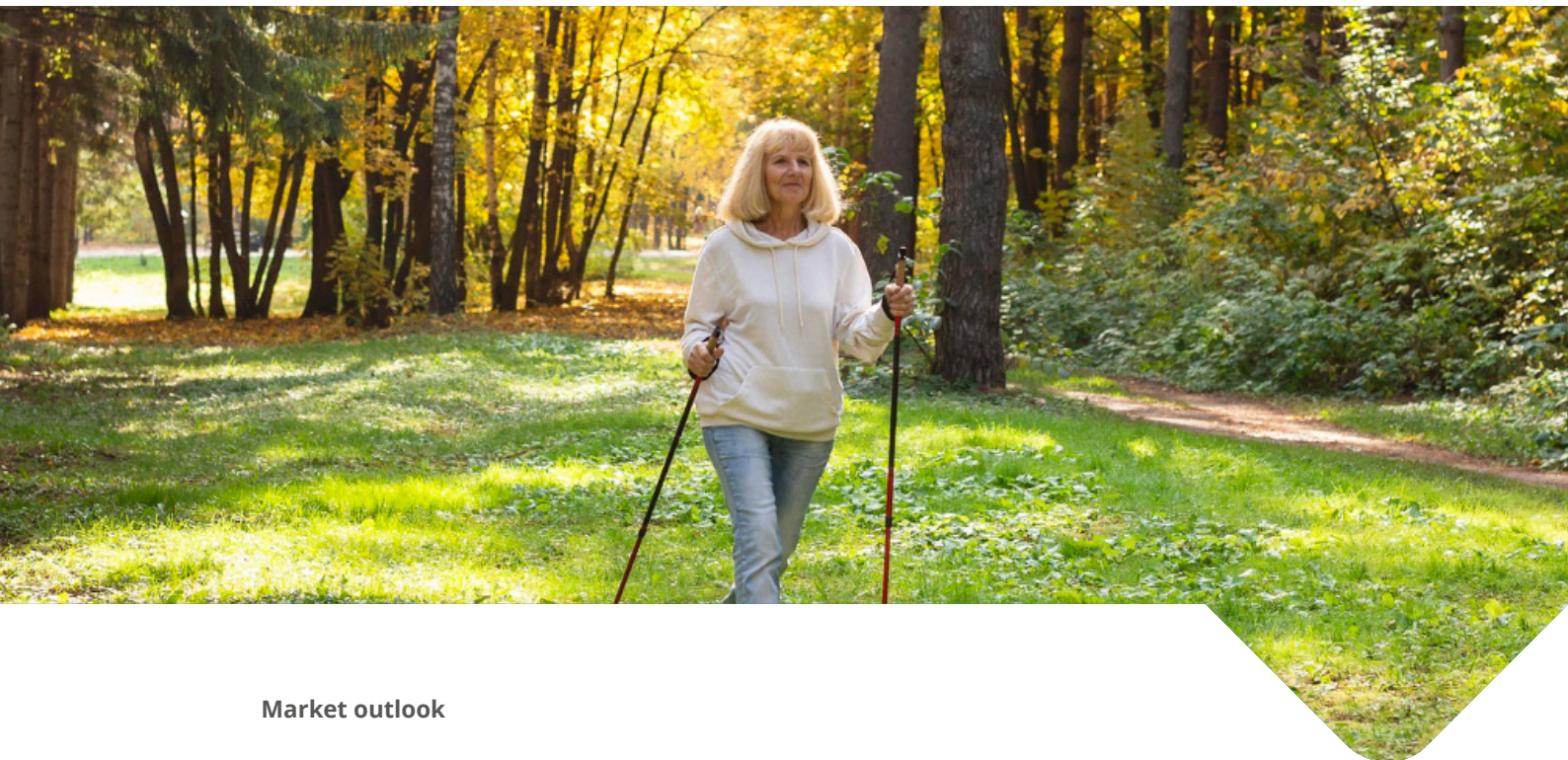
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Hawsons Wealth Management Newsletter





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Market outlook

The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 2.1% in the 12 months to July 2021, down from 2.4% in the 12 months to June.

Bank of England Official Base Rate 0.1%

FTSE 100 last 3 months performance 3%

FTSE All Share last 3 months performance 3.7%

Money supermarket best online access instate savings account 0.55% / 1 year fixed online ISA 0.85%.



Navigating the Pensions Landscape

When the rules on accessing pensions changed it was great news for anyone who is, or was a member of a pension scheme. Historically, you had to use your pension to generate an income for life and had little flexibility regarding how you could take your pension benefits. However, following the introduction of “Pensions Flexibility” we now have numerous choices to make when considering what to do with our hard-earned funds.

Of course, everyone’s situation is different and their objectives for their pensions can change over time. Making the wrong decisions can be costly, which is why it is crucial to speak with an adviser, who can help you explore all the different options available and put in place a strategy that is tailored specifically for you.

There are so many questions to be answered. Do you want a fixed income, would you prefer more flexibility, should you take the maximum amount of tax-free cash available, should you use your pension pot to fund your retirement, or should you use it to mitigate inheritance tax liabilities? In this month’s newsletter we will highlight some key areas to consider and be your guide as we help you explore the pensions landscape.





Pensions Vs ISAs

Both Pensions and ISAs are tax efficient ways of making savings and investments.

Depending on your objectives it may be prudent to consider a combination of Pension and ISA savings. However, when saving specifically for retirement a pension is by far the most efficient method of investing.

The main reason for this is the tax relief attributed to pension contributions.

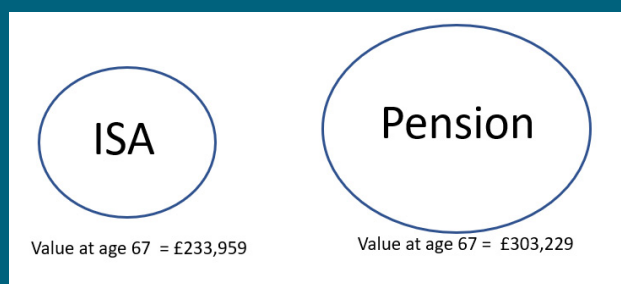
When comparing an ISA and a pension; if a forty five year old began to invest £500 personally each month until the age of 67, the examples below demonstrate the different outcomes based on a 5% annual return.

The reason the pension valuation is so much higher, is due to the government adding to your own contribution by 20%. Although this is known as tax relief, it is effectively an additional payment in to your pension for every contribution you make.

Using our example of £500 per month from you, the pension receives £625 in total.

In the ISA it is just £500 from you with no additional relief.

It is worth noting that if you are employed, then your employer will contribute towards your pension too. This will give you an even higher amount in your savings for use in retirement.



Keep up to date
with our latest news and updates



Can I afford to retire?

We often get asked the question “is my pension value enough for my retirement?”

In answer to this, there is no set figure, nor right answer.

Everyone’s circumstances are different and income requirements can vary depending on the lifestyle that people wish to live. To help bring this to life for our clients we have used a useful study called Retirement Living Standards which is research produced by Loughborough University. It helps to picture the kind of lifestyle a single person or couple, could lead, containing a range of common goods and services.

The table below shows the outcome of their Loughborough University’s research;

	Minimum Standards	Moderate Standards	Comfortable Standards
House	DIY/decorating 1 room a year	Some help with maintenance and decorating each year	New kitchen/bathroom every 10/15 years
Food & Drink	£67 per week food shop	£74 weekly food shop	£91 weekly food shop
Transport	No car	3-year-old car replaced every 10 years	2 cars, replaced every 5 years
Holidays & Leisure	1 week and a long weekend in the UK annually	2 weeks in Europe & long weekend in the UK annually	3 weeks in Europe every year
Clothing & Personal	£460 per person for clothing/footwear each year	£750 per person for clothing/footwear each year	Up to £1,500 per person for clothing/footwear each year
Helping others	£10 per birthday present	£30 per birthday present	£50 per birthday present
SINGLE	£10,200 per year	£20,200 per year	£33,000 per year
COUPLE	£15,700 per year	£29,100 per year	£47,500 per year
STANDARD OF LIVING	Covers all your needs, with some left over for fun	More financial security and flexibility	More financial freedom and some luxurious

You can read more about this here - <https://www.retirementlivingstandards.org.uk/>

Can I afford to retire? (continued)

Whilst the above serves as a starting point, our job as advisers is to make this relevant to each client using a holistic planning approach. Our advisers can produce cash flow forecasts which are tailored specifically to each client situation. This will show if your existing arrangements will give you the retirement lifestyle you desire and if not, what you can do in order to reach that goal.

It is also very important to factor in what you may receive at state pension age.

The New State Pension is based on your National Insurance contribution history, to qualify for any State Pension you must have at least a 10 year contribution record. To receive the current full amount of £179.60 per week, you will have to have a full 35 years contribution record.

You can use the link below to check the amount of state pension you currently qualify for:

<http://www.gov.uk/check-state-pension>

Currently as of April 2021, the state pension age is 66 for men and women.

From 6 May 2026, State Pension age will start increasing again and will reach 67 by 6 March 2028 (and so affecting anyone born between 6 April 1960 and 5 April 1977).

You can check when you will receive your state pension on the link below:

<http://www.gov.uk/calculate-state-pension>

Whilst the state pension is a good foundation it is important not to solely rely on it.

With careful planning of your overall finances, you can build on it and shape your retirement in a way you desire leading to outcomes such as;

- Retiring early
- Having more time with your loved ones
- A greater surplus income for you to enjoy
- Paying off debts earlier
- Reducing your working hours or responsibilities, leading up to retirement
- More leisure time to enjoy



Lifetime allowance (LTA) spotlight



The following relates to the impact of the lifetime allowance on Defined Contribution pensions. The lifetime allowance is still applicable to defined benefit pension schemes (final salary) but effects them in a different way. Advice should always be sought.

What is it?

The lifetime allowance or LTA, is the maximum amount an individual can hold in pensions during their lifetime without paying additional tax.

Any excess pension benefits over the LTA, are either taxed at 25% or 55% dependent upon how they are taken.

How much is it?

£1,073,100 for the 2021/22 tax year. The LTA was expected to increase with inflation but this was amended in the last budget and instead frozen until at least 2025/26.

The longer allowances are fixed and don't increase, the more people will face tax charges. We are seeing this with inheritance tax, due to the allowances for this being frozen since 2009.

Lifetime allowance (LTA) spotlight continued

Common Misconceptions.

Q. If I reach the LTA at any age, do I receive an automatic tax charge?

A. No.

Q. Do I have one LTA per pension

A. No. You must take all pension arrangements into consideration, regardless of the nature of these arrangements.

Q. If I never touch my pension, I won't face a tax charge

A. Incorrect. Even if you leave your pension alone, there will still be an LTA test at some point. Broadly, age 75 or earlier death.

Planning

It is only natural to want to limit the amount of any potential tax charges, but it is also important to get the balance right. 'Don't let the tax tail wag the investment dog' is a frequently used phrase when discussing the lifetime allowance.

Common queries we receive are usually in the form of three main questions;

'Should I stop funding my pension if I have reached the lifetime allowance?'

'Should I access (crystallise) my pension if I have reached the lifetime allowance?'

'I have used up all my lifetime allowance, should I just keep my pension in low growth assets or switch to cash, to limit further tax charges?'

Most importantly, there is no right or wrong answer. Ultimately it is all down to individual circumstances, future plans, and generational planning considerations. Seeking bespoke advice regarding your individual circumstances is imperative.

A unique feature of pensions is that generally, on death they are also inheritance tax free. Other savings wrappers such as ISA's and Bonds do not offer this favourable tax treatment and are considered to be inside an individual's estate, resulting in a potential inheritance tax liability, which will currently be charged at 40%.

A point to note here is that "Pension Freedoms" is 'recent' legislation. You may need to review your pensions in order to ensure they provide the flexibility you require, particularly regarding the distribution of any death benefits to future generations. You should never sign any paperwork without seeking advice.

To BCE or not?

The term BCE or Benefit Crystallisation Event is used when an individual accesses benefits within a pension. There are 13 benefit crystallisation events in total and each is designed to trigger the relevant calculation to arrive at any subsequent LTA tax charge.

Lifetime allowance (LTA) spotlight continued

Here is an example;

Scenario 1;

- Individual age 62
- £1,200,000 in a SIPP
- No form of LTA protection

Fully crystallising will result in a tax charge of either £31,725 or £69,795 dependent upon how the benefits are taken. The tax-free cash taken will then fall within the individual's estate which subsequently could potentially be liable to inheritance tax (c.£268,275). Leaving the remainder of the pension invested in a flexi-access drawdown facility, resulting in a lower initial LTA tax charge and assuming growth at 7% annually would result in the pension growing to £1,719,000 by age 75.

At which point, there is another test on the difference between the original amount crystallised and the current value. Further LTA tax due at £204,750.

Assuming the same growth rates, if the tax-free cash has also not been spent (or gifted) this would rise to £512,402 by age 75, resulting in c. £204,960 in potential inheritance tax, if applicable.

What if this individual doesn't crystallise?

Assuming the same growth rates and the lifetime allowance remains at £1,073,100 the outcome would look like this:

Scenario 2;

- £1,200,000 pension value at age 62
- £2,292,000 pension value at age 75.
- No form of LTA protection

Tax charge if converted to a drawdown pension = c.£304,725

Tax free cash released £268,275

Residual pension fund £1,719,000

Comparison

	Scenario 1	Scenario 2
Total pension fund at age 75	£1,719,000	£2,292,000
Total Lifetime allowance charges by age 75 (assuming funds paid to flexi access drawdown)	£236,025	£304,725
Total potential inheritance tax due on any pension funds taken including PCLS	£204,960	£107,318
Total pension fund held outside estate at age 75	£1,514,280	£1,719,000

Get in touch



How we can help?

Hawsons Wealth Management Limited provides a complete range of financial services for individuals and businesses, including private pension scheme advice, inheritance tax planning, investments advice, help with workplace pensions and auto enrollment and independent financial advice in Sheffield, Doncaster and Northampton.

As fully independent, highly experienced professional advisers we are in the best position to be able to provide a tailored solution for corporate and personal financial services and investment advice, linked with specialist tax planning advice from the experts at Hawsons Chartered Accountants.



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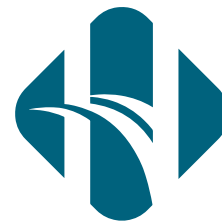
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