Issue 17 Autumn 2016

Viewpoint

Your latest newsletter from Prosperity Financial Services Ltd

Pension freedom – the headlines

Today's pension savers can enjoy far greater freedom over how they access their pension savings, but it could lead to some making wrong decisions and paying unnecessary tax.

That's why it's important to understand what the changes mean to you and take professional financial advice so that you can make the right decisions with your pension.

Power to the people

Since April 2015, people over the age of 55 have had greater power over how they take their retirement savings and more choice in terms of the options available. It's now possible to:

- take your pension fund as cash in one go
- take smaller lump sums as and when needed, leaving the rest invested
- take a regular income

The latter could be via income drawdown, where you draw directly from the pension fund which remains invested, or via an annuity, where you receive a secure income for life. However, any withdrawals in excess of the tax-free amount will be taxed as income at your marginal rate.

So, if you are a basic-rate (20%) taxpayer, any income you draw from your pension will be added to any other income you receive, which could push you into the higher (40%) or even top-rate (45%) income tax bracket.

Choosing to take your pension out in stages, rather than in one go, could help you manage your tax liability.

Combining smaller pots

If you have multiple pension pots you may want to think about transferring them so that they are all in one place. This would make your pension savings easier to manage and you may benefit from more investment choice than the current provider offers. However, there could also be disadvantages like exit penalties or a loss of benefits.

If you're thinking of transferring an old pension plan please talk to us first so that we can help you make a fully informed decision.

Think about the long term

Although it might be tempting to take your whole pension pot at age 55, remember that the money has to last as long as you do.

Calculating the right level of income to last you through retirement could be tricky; you don't want to use up your money too quickly, or live more frugally than you actually need to. So how long do you think your retirement income needs to last?

According to Just Retirement's longevity calculator, a 60 year old man of average health has a 50% chance of living to the age of 90, compared to a 60 year old woman with a 50% chance of living to 93.

Pension death benefits

Another important change (that perhaps hasn't been as well publicised) relates to pension death benefits. Before April 2015 you could only pass on your pension savings to one of your dependants and keep them invested within the tax-efficient pension wrapper.

Under the new rules, you can now pass on the wealth built up through your pension savings to anyone you choose, with the funds still remaining within their tax-efficient pension wrapper until they are needed. The rules around how this works in practice can be complex, but in principle it means your beneficiaries will receive more of the wealth you've created because it won't be eroded by taxation.

HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and charges which cannot be foreseen.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

If you're looking to access your pension, or you'd like to understand what death benefits are available from your current pension provider, please get in touch.

OW0281 Exp. 31/03/17

Is your home winter-proof?

With the year coming to an end and winter just around the corner we can start to expect colder, wetter, stormier weather conditions instead of the brighter, warmer days of summer.

This makes it a good time of year to assess how well protected your home and possessions are against the potential damage winter may cause. Take action now and ensure you have the relevant home insurance, check your property over and make a plan to protect it against bad weather.

The following preventative measures can go a long way towards avoiding the misery and inconvenience that damage to your home can bring:

- To protect your pipes and water tank
  – Check the lagging, including in the loft
  – Leave your central heating running at a constant temperature (the coldest time is between 1am and 3am). If possible, leave it running in all rooms.
- Use draft excluders and seal around window and door frames to block out cold air and keep hot air in, helping to maintain the temperature through the coldest periods.
- Tie down or safely store any outdoor furniture to avoid damage from high winds. You can also check roof tiles and any dead or broken branches on nearby trees which could cause damage.

Check your current insurance

Dig out those certificates of cover and policy documents and check your cover levels. You should review your cover at least once a year, to check it still meets your needs.

We can help you understand what you're covered for – and what you aren't. While buying home insurance may feel like an expensive chore, it's critical to ensure it meets your needs and expectations. If you don't fully understand your policy exclusions (such as accidental damage), you may find that you are not fully covered.

If you'd like to review your existing buildings and contents insurance, please get in touch.

OW0230 Exp. 31/12/16

The search for a reliable retirement income

The April 2015 pensions changes scrapped compulsory annuities, giving pensioners greater choice over how to take their retirement income.

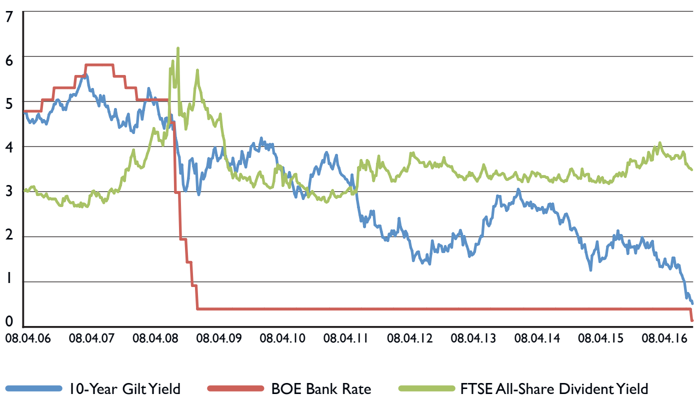
In principle, this historic change to UK pension legislation opened up a range of investment opportunities. With increased control of their pension, investors can seek to position their portfolios to deliver the income required, while retaining – and perhaps even growing – their invested capital.

Generating income in a low interest-rate environment

While these pension changes offer many opportunities, generating investment income remains difficult – particularly in view of the historically low interest rates.

As the chart below shows, the Bank of England's target interest rate had been stuck at 0.5% for more than seven years, and it was cut to 0.25% in August 2016 and held in September 2016. Meanwhile, the income that can be earned through holding UK government bonds – a traditional staple instrument of low risk, income-focused investment portfolios – has shrunk from over 5% before the 2008 financial crisis, to less than 2% now.

UK interest rates, gilt yields and dividend yields (%)



Source: Bloomberg Finance L.P

Equity markets risk income stability

The chart also shows that the dividend income available on UK equities has risen somewhat, making them an attractive proposition for many investors.

However, income-seekers should be wary of rushing headlong into equities in search of the returns that have been eroded in other asset classes. Investing in equities entails a degree of risk, particularly for those relying on their investment portfolio for their means of living.

Should equity markets suffer a setback, retirees may find their pension fund much reduced in size, and incapable of generating the necessary income.

Taking a diversified approach

A robust income strategy should not be overly reliant on a single asset class. But making a decision on which asset class to hold is tricky – the top performer changes regularly and the returns are very volatile.

Investors who are over-committed to one asset class run the risk of disproportionate losses should that asset class underperform.

An alternative approach is to take a much wider view and consider other potential sources of income from a broader range of asset classes and capital structures, across many different countries and regions.

Taking a more diversified approach means that a drop in the value of one asset may then be offset by increases in other asset classes, leading to smoother overall performance – and a potentially more stable source of retirement income.

You should not use past performance as a reliable indicator of future performance. It should not be the main or sole reason for making an investment decision. The value of investments and any income from them can fall as well as rise. You may not get back the amount you originally invested.

To find out more about the investment and income solutions we can offer, please get in touch.

OW0235 Exp. 31/03/17

Financial advice during a divorce

Going through a divorce, dissolution or separation is one of life's most stressful events, so it's important to have people around you to help with the practicalities. This is particularly true when it comes to financial matters, which can be complex and emotionally straining in these situations.

Achieving a fair financial settlement

As well as identifying any potential problem areas, a financial adviser can advise on how best to split any assets between you and your partner without attracting an unnecessary tax bill, and help value your pension benefits.

An adviser will also assist you and your partner to complete the paperwork – such as the financial review known as a form E. This can speed up the process of your divorce or separation, keeping stress levels down as low as possible and helping to reduce any legal fees.

Extra protection

As well as splitting the finances, there are also new arrangements that come into play when people with children divorce. You may need to review your life insurance, critical illness protection and income protection insurance so you don't leave yourself exposed.

Mistakes you can avoid by getting advice

1. **Who keeps the family home?** It's easy for couples to fight for the home without considering the costs of maintaining the upkeep (mortgage, utilities and council tax bills etc). If you decide to take on the family home, make sure you have the financial capabilities to keep it running.

2. **Sharing the pension pot** – When deciding on how to split the funds within a pension, you need to consider the level of income you will receive in retirement compared to your partner. This will depend on age, health and lifestyle.

3. **Asset valuations** – It is a legal requirement to declare the true value of your assets (this can be a business, pension or any belongings etc), but it's difficult to value an asset like a pension.

4. **Identifying all debts** – Any debts in your partner's name means you're also accountable. Make sure you know the full extent of any debts and try to close off any joint accounts and split the money evenly.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

If you're going through a divorce or separation, let the experts take the strain. Talk to us for professional financial advice.

COPEN1305 Exp. 31/03/17

Buy to Let tax revamp

Tax changes in the Buy to Let market announced in the 2015 Budget will impact on a landlord's tax bill and potentially hit profits.

- From April 2016 Stamp Duty Land Tax for Buy to Let property purchase increased by 3%.
- From April 2017 landlords will only be able to claim relief back on their mortgage finance costs at the basic rate of 20%, although the withdrawal of the higher rate reliefs will be phased in over four years.
- The 10% 'wear and tear' tax relief was replaced in April 2016. Landlords can now only claim tax relief when they replace furnishings.

Tax relief to be slashed over four years

While the extra 3% stamp duty on Buy to Let properties wouldn't have gone down well with landlords, perhaps the biggest change affecting people with property portfolios relates to the relief restriction on loan interest.

At the moment, landlords can deduct mortgage interest from their profits, which can significantly reduce their tax bill. From April 2017, however, this tax relief will reduce, until April 2021 when it will be restricted to the basic rate of income tax (currently 20%). This means those on higher incomes will find themselves losing much more in mortgage interest payments.

According to the estimates from Nationwide building society, an investor with a £150,000 Buy to Let mortgage on a property worth £200,000 attracting a monthly rental income of £800, is likely to see his or her net annual profit drop from £2,160 a year to just £960.

The changes in income tax relief are being phased in from 2017 to 2021, which allows a period of time to adjust to the impact. That said, it will make a fundamental difference in the economics of property investment; rather than lock into a five year fixed rate today, landlords may be tempted by shorter-term fixed rate deals to get lower rates of interest.

A level playing field

While the major players in the Buy to Let market will see their profits shrink, it might mean less competition for landlords on a lower income, or those new to the market.

If you're considering a first time Buy to Let purchase it's important to plan carefully. Make sure you:

- know what you want from your investment and plan thoroughly
- research the market, the area and the property before you buy
- identify the type of tenant you'd want living in your property
- ask us about the right Buy to Let mortgage deal for your circumstances

Buy to Let mortgages are not regulated by the Financial Conduct Authority.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

If you're a Buy to Let landlord or you'd like help investing in your first Buy to Let property please get in touch.

Your home may be repossessed if you do not keep up repayments on your mortgage

Prosperity Financial Services Ltd **enquiries@prosperityfs.co.uk** **0800 389 9129**

Don’t be a victim of online fraud

With cyber crime hitting the headlines more and more these days it's not just big businesses like TalkTalk and Ashley Madison that are in the fraudsters’ sights.

What’s the worst that can happen?

You may be thinking an email hack could lead to nothing more than someone reading the endless emails you’ve received from Groupon, but with fraudsters becoming more sophisticated it could be far more serious.

In a recent case a financial adviser received an email, seemingly from one of his clients, asking him to arrange a large withdrawal from one of their investments:

“My client, a lady in her 60s, emailed me asking me to arrange a withdrawal from one of her investments. The email came from her personal account and I had no cause to suspect it was anything other than genuine. My client said she was abroad and unable to speak on the phone (which was also plausible as I knew she’d been planning a trip to Spain), but she was keen to get the funds. However, she also asked for the money to be paid into a bank account that differed from the one held on record.

“I called the platform provider to process the withdrawal and they suggested I obtain verification of the new account details. It was only when I received her copy bank statements for the account that I became suspicious.

“There was no named account holder, plus there was evidence of online betting and debits for purchases in London, which I didn’t associate with my client. I then picked up the phone and called my client. Surprise surprise, not only was she at home, but she knew nothing about the withdrawal request."

Thanks to the adviser’s professionalism and care for his client, the crime was averted and the matter handed over to Action Fraud.

Password protection

While it’s not always possible to protect your personal data, especially if it’s stolen from a large company such as TalkTalk, you should take the following measures to make your personal accounts more secure:

- choose a strong password, the longer the better, with a mixture of numbers, lowercase and uppercase letters and special characters
- never use the same password on different accounts
- keep your antivirus software and security patches up to date to protect against malicious software or URLs, spam or phishing attacks and key loggers

If you have been hacked

If you feel your email or other accounts such as online banking or social media have been accessed it is possible to take back control.

Access your account, if the password has been changed click the ‘forgotten password link’. Once you are in your accounts change the password. If your email has been accessed check your junk, deleted and sent items for emails not sent by you. If your bank account has been accessed, check for any transaction you don’t recognise and report any suspicious activity to the relevant sources.

Ask us about the procedures we have in place when it comes to protecting your financial affairs.

COPEN1297 Exp. 16/06/17

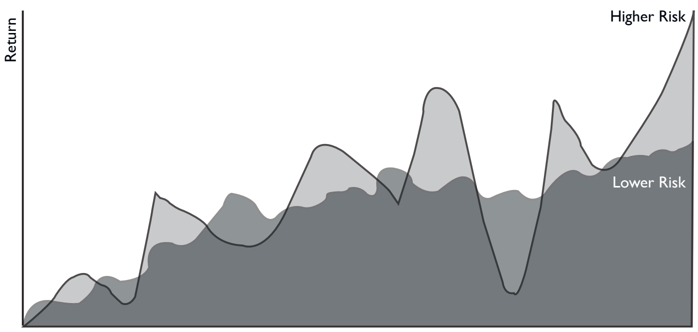
Risk vs reward

While homeowners can still benefit from low mortgage rates, savers will be struggling to enjoy any kind of growth on money they have on deposit, leading some to consider a riskier investment.

If you're considering investing in the stock market, one crucial and very personal issue is how you feel about the prospect of putting money at risk and your ability to accommodate any loss in value.

What's your appetite for risk?

It's a fact that risk and the potential for reward go hand in hand: Investments that are low in risk are low in potential reward, whereas the more risk you're willing to take with your money the greater the potential for reward.



Purely for illustration purposes

Factors in determining risk

As investment advisers, we will consider a range of factors when assessing your attitude to investment risk:

- *Age* – how old you are may affect how you would like to invest, particularly the closer you get to retirement.
- *The need for emergency cash* – you should always keep a certain amount readily accessible (for example, in a deposit account) in the event of an emergency or as a foundation for your longer-term savings and investment.
- *Can you afford to take a risk?* – if your investments dropped in the short term, do you have the time to wait for them to recover?
- *Can you afford not to take a risk?* – leaving all your money on deposit may carry minimal risk, but you may miss out on higher potential returns and possibly see the spending power of that money fall due to inflation.
- *Are there tax-efficient opportunities available* – such as pensions or ISAs?

Devising an appropriate investment strategy

Once you are clear about the risk you need to take to reach your goals you'll need an investment strategy that is finely calibrated to deliver the results you're looking for.

This is where a number of other key aspects of investment come into play:

1. Avoiding the 'eggs-in-basket' principle. We can make sure your portfolio is invested across a range of assets in order that the positive performance of some, neutralises the negative performance of others.
2. Making sure your money is in the hands of some of the best and most consistent investment managers in the business.
3. Making sure you can give your investments time – the longer you can leave your investments in place, the more likely you are to cope with any short-term changes in market value.

Talk to us

As members of Openwork, one of the UK's largest networks of financial advice businesses, we follow a clear and thorough process designed to clarify exactly what you need from your investments. We also have access to a meticulously researched and managed range of investments specifically designed to meet clients' different needs.

Taken together, you will know not only that your money is in good hands, but also, that given time, there is an increased level of probability that it will perform in line with your expectations.

Need advice?

Good investment advice involves building a clear picture of the results you're looking for, taking into account your current financial position, your future goals and your personal attitude towards the subject of investment risk.

The value of investments and any income from them can fall as well as rise. You may not get back the amount originally invested.

Talk to us for expert advice.

New State Pension: what's your entitlement?

Between December 2015 and May 2016 around 400,000 people accessed their State Pension statements, a 40% increase on 2015 when there were 400,000 requests in total for the entire year.

This significant increase is down to the launch of a new online system which calculates your likely State Pension entitlement based on your National Insurance records. Previously, only people aged 50 and over could get a forecast by applying over the phone or by post to the Department for Work and Pensions (DWP).

Calculate your entitlement

To access the new online system, go to www.gov.uk/check-state-pension and follow the prompts. You'll need to confirm your identity using the Government Gateway.

The service gives you a personalised statement showing an estimate of what you might receive once you reach State Pension age, based on your National Insurance Contributions (NICs). It's a quick and easy way of highlighting what you're eligible for and it can help show you how much you need to save elsewhere, as part of your retirement planning.

It is particularly helpful given the launch of the new State Pension in April 2016, which introduced a new flat rate of £155.65 (2016/17 tax year), sparking confusion amongst workers over whether they would be better or worse off under the new regime.

The new State Pension

If you're male, born after 6 April 1951, or a woman born after 6 April 1953, you are eligible for the new State Pension, however, you must have a minimum 10 years' of NICs.

You need 35 years' NI record to qualify for the full £155.65 (an increase of five years on the old entitlement) and if you've built up entitlement to additional State Pension under the old system, you may get more or less if you were 'contracted out'.

The value of advice

Whatever your entitlement to the State Pension, your retirement planning is too important to ignore. We can help you assess what you might be eligible for and what you need to do to achieve a level of income in retirement that you'd be happy with.

To discuss your pension planning in more detail please get in touch.

Prosperity Financial Services Ltd
2 Jupiter House
Calleva Park
Aldermaston
Reading
RG7 8NN

0800 389 9129
enquiries@prosperityfs.co.uk
www.prosperityfs.co.uk

Prosperity Financial Services Ltd

OW0232 Exp. 31/05/17