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Financial Viewpoint

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Are Cash ISAs worth the investment?

After the Bank of England (BoE) cut interest rates to reassure the market following the Brexit vote, cash ISA returns plummeted.

For advice on ISAs and other types of investment planning, please get in touch.

According to Telegraph Money cash ISA returns fell by as much as 35% in the six months after the BoE's decision. A quick google shows the best rates on offer currently are just over 1% for an easy access cash ISA (meaning you can withdraw your money at any time) and 1.4% if you're prepared to lock your savings away for three years.

So are cash ISAs still worth the investment?
Before you decide, there are a couple of other factors to consider.

The weaker pound – a by-product of Brexit – is driving up inflation. According to The Office for National Statistics: inflation has been steadily increasing since 2015 and hit 2.3% in March 2017. The BoE has predicted it could reach 2.8% by the middle of 2018.

With interest rates at record lows, this is bad news for savers; inflation eats into the value of your savings, so unless you're earning a higher rate of return, you effectively lose money.

The Personal Savings Allowance (PSA) which was introduced in April 2016. It lets you earn up to £1,000 in interest tax-free on your savings if you're a basic rate taxpayer and £500 if you're an higher rate taxpayer (additional rate taxpayers don't receive a PSA). This cancels out some of the benefits offered by a cash ISA – earning tax-free interest on your savings – especially since the annual limit is only £20,000 (in the 2017-18 tax year).

Of course, there may be cases when a cash ISA makes sense. If you switch to a higher tax bracket in the future, you might lose out on some or all of your PSA. And if you're already an additional rate taxpayer, then it's the only way you can earn interest on your savings tax-free. Another benefit that may not be available with other types of savings products is that your spouse or civil partner can inherit the money you hold in a cash ISA tax-free.

You need to decide whether or not a cash ISA is right for you based on your personal financial situation, but while interest rates remain low, it might be worth considering investing in a stocks and shares ISA instead. These bring with them an element of risk of course, but there's also the potential for greater return. Stocks and shares ISAs are considered medium to long-term investments and you should be prepared to invest for at least five years.

The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on the individual circumstances. The value of your stocks and shares ISA and any income from it may fall as well as rise. You may not get back the amount you originally invested.

Is your pension tax efficient?

Since April 2015, pensioners have had greater freedom over how they manage their retirement savings. No longer forced to buy an annuity, they can now leave their money invested and draw an income from it (known as flexi-access drawdown).

Whether you've already stopped working, or you're planning to retire soon, you should be familiar with the various allowances and tax-efficient accounts which may reduce your tax liability. Here's a brief summary:

Tax-free lump sum

You can take a tax-free lump sum of 25% of your total pension pot. With the rest, you can either buy an annuity or reinvest it and draw an income.

Alternatively, you can withdraw the full pot as cash and pay tax on the other 75%, or delay taking it so it remains invested.

Another option is to take smaller amounts on a more regular basis and leave the rest untouched. Each time the first 25% is tax-free, but you pay tax on the balance. In this case, your pot isn't reinvested.

Personal allowance

For anyone earning up to £100,000, you don't pay tax on any form of income up to the personal allowance of £11,500 (in the 2017-18 tax year). This allowance is reduced by £1 for every £2 earned above the threshold. So when you stop working and start drawing pension income, you won't pay tax on it until the payments exceed your personal allowance. However, as long as you're still employed, even in a part- time job, your earnings eat into your allowance.

The tax-free lump sums discussed earlier don't count towards your personal allowance.

Individual Savings Accounts (ISA)

If you decide to withdraw a lump sum, one option is to put it in a cash or stocks and shares ISA. ISAs are tax-efficient accounts which protect returns (interest earned in a cash ISA, and gains and income generated by a stocks and shares ISA) from income tax and capital gains tax. The annual ISA allowance of £20,000 in the 2017-18 tax year may come in handy if your pot is big enough.

Dividend allowance

You can earn dividends tax-free on investments you hold outside your ISA thanks to the annual dividend allowance. This is £5,000 for the 2017-18 tax year, although it falls to £2,000 from April 2018.

Personal Savings Allowance (PSA)

You can also take advantage of the PSA for any savings you have outside a cash ISA. Basic rate taxpayers can earn £1,000 in interest tax-free and higher rate taxpayers can earn £500. Additional rate taxpayers don't get a PSA.

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

The value of your investments and any income from them may fall as well as rise and is not guaranteed. You may get back less than you invest.Stocks and shares ISAs are considered medium to long-term investments and you should be prepared to invest for at least five years.

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If you'd like advice on your retirement options or pension income, please get in touch.

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Lasting Power of Attorney

A will deals with matters in the event of your death, but what if you became unable to handle your affairs while still alive?

If you would like any assistance in deciding whether an LPA would be suitable for you, or any help setting up an LPA, please get in touch.

As you get older, a physical or mental illness could affect your ability to manage personal affairs. If the prospect of this worries you, you should consider setting up a Lasting Power of Attorney (LPA). This is a legal document which allows you to appoint one or more people to either help you make legal decisions, or make them entirely on your behalf.

Knowing that your financial affairs will be looked after by people you trust can give you valuable peace of mind.

Types of cover

There are a number of different types of LPA available depending on the requirement:

1. Ordinary POA
2. Lasting POA
3. Enduring POA (replaced by LPAs on 1 October 2007, but still valid if you signed one before this date)

Ordinary Power of Attorney can be used while you still have the mental capacity to make your own decisions, but need temporary assistance. For example, if you are hospitalised or on holiday and you want to empower someone to make financial transactions on your behalf.

Lasting Power of Attorney is required if you want to give someone the legal authority to make decisions on your behalf in the event you lose mental capacity. There are two types of LPA:

1. Health and Welfare LPA - your appointed 'attorneys' will be able to act on your behalf if you become completely unable to make decisions regarding your own wellbeing. For example, if your circumstances mean you require full time care, or a particular medical treatment they will step in and act in your interests.

2. Property and Financial Affairs LPA - your attorneys can make decisions concerning your bank accounts, paying bills or even selling your home if required. Unlike the Health and Welfare LPA, this version can be used as soon as it is registered, but only with your permission – ie. you are still fit to make other decisions on your affairs.

Choosing your attorneys

When deciding who you would like as your attorneys, there are a few things to consider:

- How well do you know them?
- How well do they look after their own affairs?
- Do you trust them to make decisions that are best for you?
- Will they be comfortable making these decisions?

If you choose more than one attorney, you'll also need to decide whether they will make decisions separately or together.

When you set up your LPA you can nominate replacement attorneys in case your chosen attorneys become unable to carry out the role for whatever reason.

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Lasting Power of Attorney is not regulated by the Financial Conduct Authority.

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What's the cost of a comfortable retirement?

Have you ever stopped to think about the monthly income you'd need to provide for a comfortable retirement?

Whether you're in your 20s or 60s, on track with your savings or worried you're behind where you should be, please get in touch and we'll help you explore your retirement income options.

If you're thinking it would be the equivalent of your current salary you've probably overestimated.

Remember, by the time you retire, you will hopefully have paid off your mortgage, your kids (if you had them) will have flown the nest and you won't have to cover the cost of commuting to work. In fact, research by Which? suggests you'll probably need between half and two thirds of your final salary, after tax, to achieve a comfortable lifestyle in retirement.

According to Which? retirees will need £18,000 a year to cover household essentials such as food £3,967, utilities £2,040, transport £2,407 and housing costs £1,444.

Average annual spending for retired couples	Comfortable lifestyle £26,000	Luxurious lifestyle £39,000
Long-haul holidays	£ -	£7,415.00
European travel/holidays	£4,414.00	£4,414.00
New car cost	£ -	£4,376.00
Groceries	£3,967.00	£3,967.00
Housing payments	£2,969.00	£2,969.00
Insurance	£2,457.00	£2,457.00
Transport	£2,407.00	£2,407.00
Utilities	£2,040.00	£2,040.00
Recreation and leisure	£1,591.00	£1,591.00
Household goods	£1,444.00	£1,444.00
Leisure membership	£ -	£1,338.00
Health	£1,287.00	£1,287.00
Buying new clothes	£1,092.00	£1,092.00
Tobacco/Alcohol	£933.00	£933.00

Saving sufficiently

Now you know the sort of income you'd like in retirement; how much will you have to save each month to achieve it?

Which? suggests, alongside the State pension, to generate an annual combined income of £26,000 couples will need a defined contribution pension pot of £210,000.

For a luxurious retirement, this more than doubles to £550,000 invested in income drawdown with 3% investment growth. The table below shows the money you'll need to be saving each month to achieve this – obviously, the amount increases as you get older:

Age	Comfortable	Luxurious
20	£131	£342
30	£198	£424
40	£338	£731
50	£633	£1,657

The numbers may look scary but when it comes to saving for the lifestyle you want in your retirement the earlier you start and the more you can contribute the better.

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.

Thinking of fixing your mortgage?

If you think an increase in your mortgage repayments could have a negative impact on your lifestyle or financial wellbeing, you may want to consider fixing your mortgage.

Don't be drawn into trying to second guess what will happen with interest rates over the coming years. We can help you come to the most appropriate decision for your next mortgage.

With a fixed rate mortgage, your payments are set at a certain level for an agreed period, regardless of whether your lender changes its Standard Variable Rate (SVR). Such an increase typically occurs when the Bank of England Base Rate starts to climb.

Fixed rate mortgages can offer protection from rate rises for an agreed period, but there are several considerations you'll need to think about before making your decision.

Predictable repayments – but you won't benefit from rate cuts

With a **tracker** mortgage, your monthly payment fluctuates in line with a rate that's equal to, higher, or lower than a chosen Base Rate (usually the Bank of England Base Rate). The rate charged on the mortgage 'tracks' that rate, usually for a set period of two to three years.

Tracker rates might be more appealing if you don't have a fixed budget and can tolerate higher mortgage payments if rates rise, whilst being able to benefit from reduced monthly mortgage payments if rates go down.

But with a **fixed rate** mortgage, the rate (and therefore your repayments) will stay the same for an agreed period. A fixed rate mortgage makes budgeting much easier because your payments will not change – even if interest rates go up. However, it also means you won't benefit if rates go down.

Longer fixed terms will be more expensive

If you choose a fixed rate mortgage, you'll need to decide how long you want your fixed rate to last. Two-year fixed rate mortgages typically offer the lowest initial interest rate. If you want to fix your interest rate for longer, you will probably pay more for that longer-term security. This may be worthwhile in return for predictable repayments, or you might choose to take the lower rate for a shorter timeframe if you expect that your financial position will improve by the time the deal ends.

A change in circumstances could cost you

Do you have any *known* changes on the horizon that will have an impact on your mortgage?

With a fixed rate mortgage, you could face an early repayment charge if you repay all or a certain percentage of the mortgage during the fixed rate period.

If you have no known changes and want to benefit from a longer period of security, then a longer term fixed rate of five years may appeal. It might cost more initially, but you'll benefit from knowing that your budget is fixed for that period.

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

The matter of trusts

Taking out a life insurance policy gives you valuable peace of mind: you know you've protected your family against financial hardship, should the worst happen.

But how can you make sure your policy will pay out quickly, to those who'll need it most, if you died unexpectedly? The answer might be to write your policy in trust.

What is a 'trust'?

A trust is a legal document that allows you to specify what will happen to your money after your death. If your life insurance policy is written in trust, any payout will go to the trustees you've chosen, who will then ensure the funds are distributed to the people you'd like to benefit from the policy (the beneficiaries).

Why is a trust important?

Putting your life insurance policy in trust gives you control over who will benefit and helps them avoid Inheritance Tax (IHT). It also helps to ensure they receive the money quickly.

Control

According to reports, only 6% of life insurance policies in the UK are set up in trust. As a consequence, the payouts become subject to the delays caused by the processing of a Will and, where there is no Will, the complex laws of intestacy come into play. This could mean the benefits of the policy will form part of your estate, which may not go to the people of your choosing.

With your life insurance in trust, you can specify who you want the beneficiaries to be. This is especially important if you are unmarried or in a civil partnership.

Inheritance Tax

A life insurance policy that has been written in trust does not form part of your legal estate and is not subject to IHT. This allows the entire policy payout to pass to the people you intended to benefit from it. Even if your partner is the named beneficiary of your policy (and therefore the claims payout would be exempt from IHT under the current rules), it can still be worthwhile putting your cover in trust to speed up the policy payout.

Faster payment

Using a trust should help ensure that the money paid out from your life insurance can be paid to the people of your choice more quickly, rather than waiting for lengthy legal processes, such as probate. This can be a welcome relief for those left behind during what is likely to be a very stressful and emotional time.

Setting up a trust

Trusts are usually easy to set up, but it's important to select the right type of trust and complete the documentation carefully.

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

The Financial Conduct Authority does not regulate Trust Advice.

If you're thinking of putting a life policy in trust, please talk to us first. We can tell you if it's the right choice for you, which type of trust is most appropriate for your circumstance – and help you put the trust in place.

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The State Pension – all you need to know

Changes to the State Pension which took effect on 6 April 2016 were designed to simplify the system. With the earnings-related part applying to employed people removed, what you could qualify for depends on your National Insurance (NI) record.

For the current tax year 2017/2018, the new State Pension is £159.55 per week. To be eligible to receive the state pension you'll need to have made NI contributions for a minimum of 10 years and 35 years to be eligible for the full amount. However, you might get more than this if you've built up entitlement to additional state pension under the old system, or less if you were contracted out.

Contracting out

Under the old State Pension rules and up to 5 April 2016, you could 'contract out' of the additional State Pension, which meant you and your employer could pay lower NI contributions into the state system.

You could not contract out of the basic State Pension, but you could pay lower NI contributions if you were part of a private pension, such as a workplace or personal pension scheme, that could build up to replace the element of Additional State Pension you were opting out of.

If you were contracted out, your starting amount for the new State Pension might be lower than it is for people with similar circumstances who remained contracted in. You might get the equivalent amount from your workplace or personal pension scheme unless:

- your scheme got into financial trouble and wound up underfunded
- your rights were transferred to a scheme that was not linked to your earnings and investments in that scheme did not perform well

You should know if this applies to you, but if you're in any doubt and think you may be affected you can contact your scheme.

'Topping up'

In some cases you may be able to have your State Pension worked out using different rules that could give you a higher rate if you chose to pay married women and widow's reduced-rate NI contributions.

The rules on how you can increase your State Pension and what you can inherit will be different depending on when you and your spouse or civil partner reach State Pension age. You can find out more at gov.uk/state-pension-through-partner

If you've not yet reached State Pension Age and worry you might not have enough NI contributions to get the maximum amount to qualify at all, you can make Class 3 National Insurance contributions. You will need to contact HM Revenue and Customs who will let you know if you can make the voluntary contributions and, if so, how much to pay.

If you would like to discuss your pension requirements please get in touch.

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