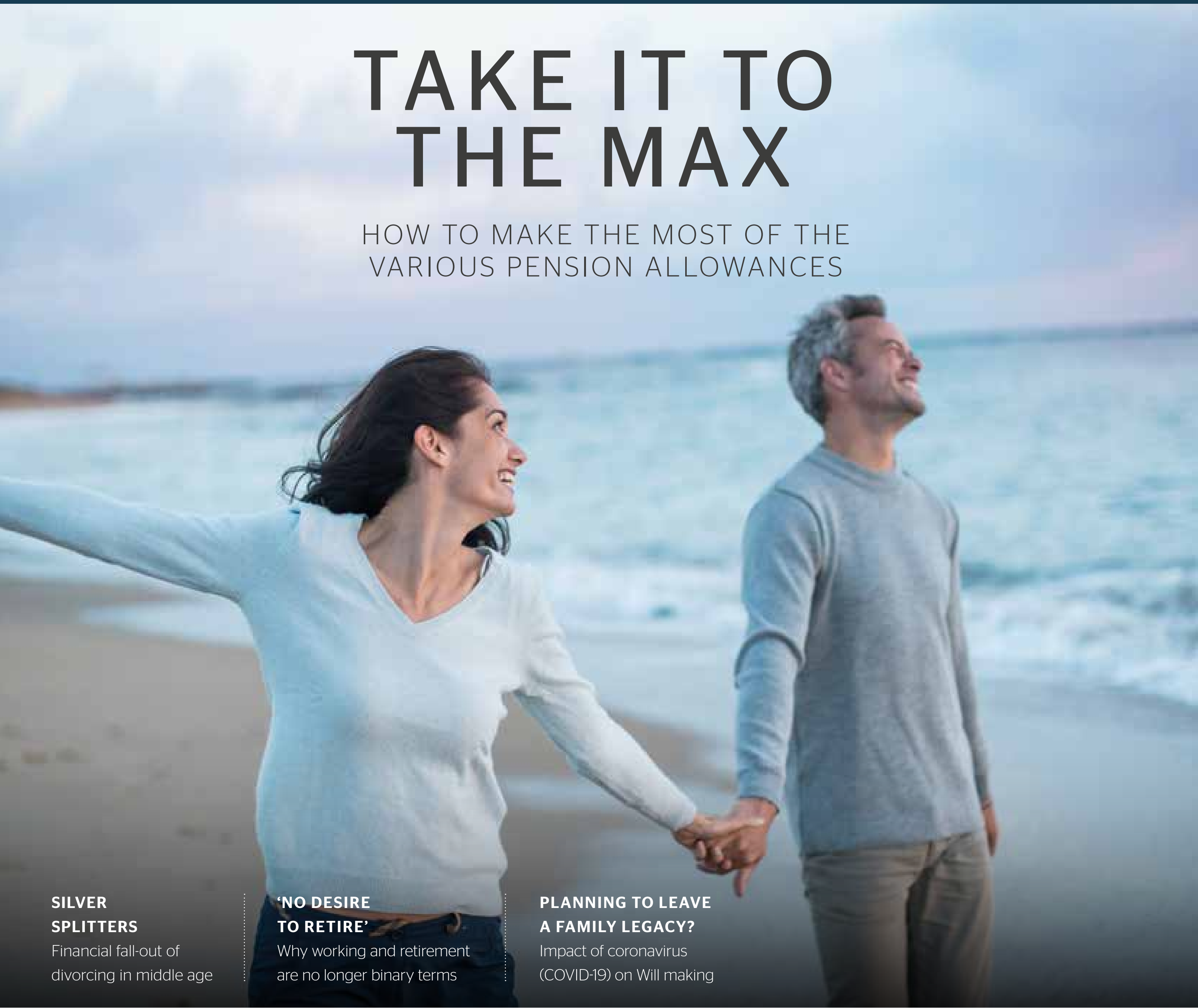
new vision

advising financial independence

moneyvision

SEPTEMBER/OCTOBER 2020



TAKE IT TO THE MAX

HOW TO MAKE THE MOST OF THE VARIOUS PENSION ALLOWANCES

SILVER SPLITTERS

Financial fall-out of divorcing in middle age

'NO DESIRE TO RETIRE'

Why working and retirement are no longer binary terms

PLANNING TO LEAVE A FAMILY LEGACY?

Impact of coronavirus (COVID-19) on Will making

New Vision - Independent Financial Advisers
Ravensmoor Court • Broad Lane • Sproston • Cheshire • CW4 7LT
Tel: 01477 537722 • Fax: 01477 533933
Email: admin@newvision-ifa.co.uk Web: www.newvision-ifa.co.uk
New Vision is a trading style of New Vision Wealth Strategies Ltd. which is authorised and regulated by the Financial Conduct Authority
Registered Office: Ravensmoor Farm, Broad Lane, Sproston, Cheshire, CW4 7LT. Registered in England & Wales. Company No. 6122685

INSIDE THIS ISSUE

Welcome to our latest issue. As the world continues to work out how to live with the coronavirus (COVID-19) pandemic, many will agree that the new normal needs new thinking.

The pandemic has unleashed changes that seemed unthinkable only six months ago. Along with the health, safety and well-being of family, friends and loved ones, the new normal has also highlighted the need for financial guidance and support during this turbulent period.

Saving into a pension is one of the most tax-efficient ways to save for your retirement. Not only do pensions enable you to grow your retirement savings largely free of tax, but they also provide tax relief on the contributions you make. On page 10, we look at the various pension allowances that you need to be aware of and help you understand how to make the most of them.

While the number of couples divorcing has decreased in recent years, the cohort of couples deciding to split in later life is on the rise. Splitting with a spouse in your forties, fifties or even later can bring with it many complications. What's the reason for the boom in so-called 'silver splitters'? Turn to page 09 to find out.

Giving up the 9-to-5 doesn't necessarily mean stopping work. On page 03, we explain why many people are now considering staggered or flexible working. It can suit some individuals who have caring responsibilities or health issues, or those thinking about retiring in the next few years.

We are living in extraordinary times right now, in the grip of a global coronavirus (COVID-19) pandemic. Families are becoming more open about their finances, with the COVID-19 crisis highlighting the need to discuss Wills and inheritance. Read the article on page 06.

A full list of the articles featured in this issue appears opposite

IS YOUR FINANCIAL PLANNING STRATEGY READY FOR THE NEW NORMAL?
We hope you enjoy this issue, and if you require any further help or guidance, please do not hesitate to contact us – we're here to help and support you and your family.

CONTENTS

03
'NO DESIRE TO RETIRE'
Why working and retirement are no longer binary terms

04
INVESTING DURING RETIREMENT
Why it's important not to view your portfolio with an element of finality

06
PLANNING TO LEAVE A FAMILY LEGACY?
Impact of coronavirus (COVID-19) on Will making

07
DELAYING RETIREMENT
Pandemic forcing a widespread rethink of retirement plans

08
REWRITTEN RETIREMENT RULES
Looking to discover what you can do with your pension pot?

09
SILVER SPLITTERS
Financial fall-out of divorcing in middle age

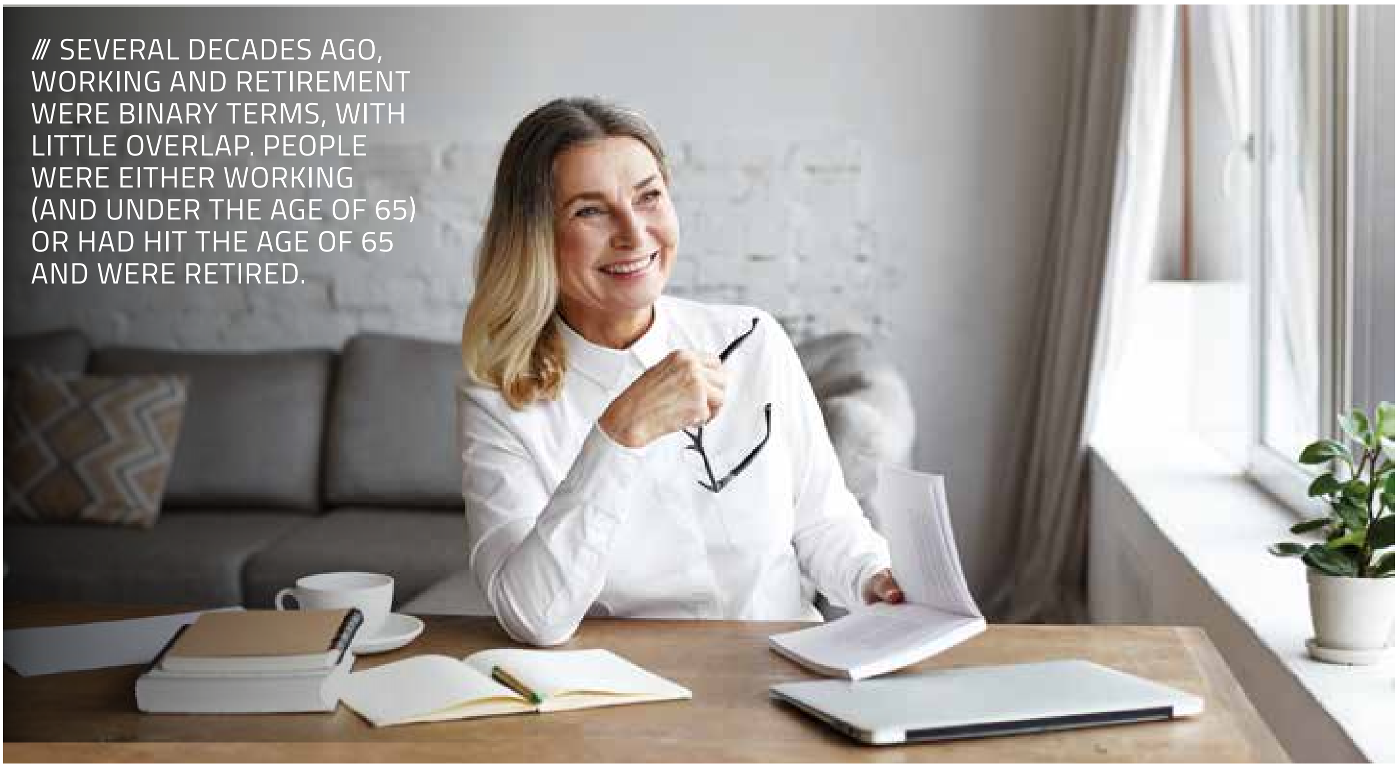
10
TAKE IT TO THE MAX
How to make the most of the various pension allowances

12
CARE IN LATER LIFE
Making the difficult choice between live-in care and a care home

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

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. Past performance is not a reliable indicator of future results.



/// SEVERAL DECADES AGO, WORKING AND RETIREMENT WERE BINARY TERMS, WITH LITTLE OVERLAP. PEOPLE WERE EITHER WORKING (AND UNDER THE AGE OF 65) OR HAD HIT THE AGE OF 65 AND WERE RETIRED.

‘NO DESIRE TO RETIRE’

WHY WORKING AND RETIREMENT ARE NO LONGER BINARY TERMS

Giving up the 9-to-5 doesn’t necessarily mean stopping work. Many people are now considering staggered or flexible working. It can suit some individuals who have caring responsibilities or health issues, or those thinking about retiring in the next few years.

When you picture yourself in your golden years, are you sitting on a beach, hitting the golf course or working behind a desk? For many people of retirement age, continuing to work makes perfect sense.

UNSETTLING PERIOD

Several decades ago, working and retirement were binary terms, with little overlap. People were either working (and under the age of 65) or had reached the age of 65 and were retired. That’s no longer true, however, as staggered retirement is becoming more popular and more common.

Few people benefit from the sudden transition from working five days a week to suddenly not working at all. Retirement can often be an unsettling period, and it’s not surprising given that the most common path into retirement is to go ‘cold turkey’ and simply stop working.

PENSION POT

New research has highlighted the fact that fewer people are deciding against completely stopping working and are opting for a staggered and more flexible retirement and working part-time[1]. Nearly one on three (32%) pensioners in their 60s and 16% of over-70s have left their pensions untouched.

Of those who haven’t accessed their pension pot, nearly half (48%) of those in their 60s, and 24% of over-70s, say it is because they are still working. With people living longer, and the added prospect of health care costs in later life, retirees increasingly understand the benefits of having a larger pension pot in later life.

Of course, retirees who haven’t accessed their pension pot must have alternative sources of income. When asked about their income, nearly half (47%) said they take an income from cash savings, others rely on their spouse or partner’s income (35%) or the State Pension (22%), while 12% rely on income from property investments.

GOOD HEALTH

This trend for staggered retirements offers many financial and health benefits. It is often taken for granted, but continued good health is one of the best financial assets people can have. The benefits of working – such as remaining physically active and continued social interaction – can make a big difference to people’s mental well-being and overall health in retirement.

People are increasingly making alternative choices about retirement to ensure that they do not run out of money, but it’s also really important to make pension savings work past retirement age so as not to miss out on the ability to generate growth above inflation for when there is the requirement to start drawing a pension. ■

LOOKING FOR INTERCONNECTED RETIREMENT PLANNING?

The retirement journey opens the door to interconnected retirement planning rather than product-based solutions. Put simply, in order to get the best outcomes, it is necessary to have a retirement strategy to give you choices and greater flexibility. If you would like to discuss your retirement plans, we’re here to help.

Source data:

[1] Research from LV survey of more than 1,000 adults aged over 50 with defined contributions

INVESTING DURING RETIREMENT

WHY IT'S IMPORTANT NOT TO VIEW YOUR PORTFOLIO WITH AN ELEMENT OF FINALITY

Retirement is a major accomplishment for most people. You've worked hard all of your working life to save and prepare for your retirement, and now you've finally retired. So how should you approach investing now that you're no longer earning a salary? When it comes to investing during retirement, with the right strategy, you can help make sure your retirement savings last.

It is not unusual for people to live more than 30 years in retirement, due to increased incentives to quit work early and rising life expectancy, which in itself can present a major risk that retirees may outlive their savings. The longer the time spent in retirement, the harder it becomes to be certain about the adequacy of your assets.

RETIREMENT INCOME BOOST

You've been investing for decades to earn enough money to retire, and the day has finally come that you can stop working. At this point, your investment risk profile and strategy will almost certainly need to adjust in order to look at ways of making your money work as hard as possible, but with a view to generating income to boost your retirement income.

This is a time to look at how balanced your investments are and whether you are exposed to more risk than you are comfortable with in certain areas. It's time to conduct a review of all of your investments and decide how much you can afford to withdraw each year and whether this balances with your needs.

TOO RISK-AVERSE

An elementary mistake that some retirees make is to view their portfolio with an element of finality – and this makes them too risk-averse and unwilling to look beyond their current financial position. Of course, retirement means different things to different people.

For some, it's about never working again, and instead spending their days doing the things they enjoy most, such as travelling, pursuing hobbies, and spending more time with family and friends. For others, retirement means working part-time to stay busy and engaged in a profession, but without the need to earn a regular income.

TIME OF YOUR LIFE

Regardless of what retirement looks like to you, the key is to enjoy this time of your life, while making sure you don't outlive your retirement savings. For many retirees, that means developing an investing strategy that will allow them to withdraw money from their portfolio, while still enabling it to grow over the longer term.

There are a lot of ways to invest even after you have retired and your working days are done. It goes without saying that once you have retired, you'll want your retirement nest egg to last as long as possible. And with people living longer than ever, your nest egg may need to stretch further than you'd thought when you first started saving for retirement.

POTENTIAL INVESTMENT OPTIONS

For most retirees, that means developing an investing strategy that will allow them to withdraw money from their portfolio, while still enabling it to grow over the longer term. Given the potential investment options available to post-retirement retirees, at the point of investing, it's really important to consider the effects of future financial market volatility and inflation.

While the risk of portfolio declines can't be overlooked, retirees also face another type of risk: inflation. Even though we currently have historically low inflation, it's critical for retirees' investments to keep up with inflation throughout their retirement years. Cutting exposure to equities too aggressively could hinder the growth of a nest egg, potentially leaving retirees with less than they need.

KEEPING UP WITH INFLATION

While many retirees should stay invested, they must make sure a good portion of their investments is in safer assets. Today's low interest rate environment means your money may not grow quickly, or even keep up with inflation, but those assets will likely be better protected than equities in a market downturn.

If appropriate, retirees should typically have a healthy mix of equities, bonds and other investments, such as property. The right mix will depend on an individual's personal risk tolerance. Retirees should also set up their portfolios in a way that better protects the funds they may need in the next five years, in the event of future stock market corrections.

TONING DOWN RISK APPETITE

It can be hard for some retirees to tone down their risk appetite when investing during their retirement years, following decades of investing for growth. But diversification is just as important for investors at any age, and may be most critical when investing in retirement.

This is a time of your life to ensure that you spread your investments across and within asset classes to make sure you are well diversified. You can spread your money across the three major asset classes (equities, bonds and cash equivalents). This is known as 'asset allocation'. To balance the risks and returns of the asset classes – and the investment within the asset class itself – you can also spread your money across various investment options within a particular asset class.

INCREASING FINANCIAL SECURITY

The most careful plans and preparation for retirement can fall apart due to any number of post-retirement risks. However, making the right investment decisions can help you increase your financial security and provide income that you can use to live comfortably after you stop working.

It is a good idea to try and set aside up to two years of living expenses in cash. Having some money that you can access quickly in an emergency situation will protect you from the need to sell some of your riskier investments at a loss and cover you for a period of time if you are falling slightly short of your income generation target. ■

ON THE PATH TO OR CURRENTLY IN RETIREMENT?

Regardless of what retirement looks like to you, the key is to enjoy this time of your life, while making sure you don't outlive your retirement savings. If you're on the path to or currently in retirement, you will want to make your money go the distance. To find out how we can help you explore your options, please contact us to discuss your requirements.

THE VALUE OF YOUR PENSION CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN HAS BEEN PAID IN.

EQUITY INVESTMENTS DO NOT AFFORD THE SAME CAPITAL SECURITY AS DEPOSIT ACCOUNTS.

PLANNING TO LEAVE A FAMILY LEGACY?

IMPACT OF CORONAVIRUS (COVID-19) ON WILL MAKING

We are living in extraordinary times right now, in the grip of a global coronavirus (COVID-19) pandemic. Many people are concerned to ensure that their affairs are in order and that they have made a Will, which is one of the most important legal documents you can create in life.

It is always sensible to have a valid Will in place to ensure that your estate is divided among the people (or charities) you want to receive it. The coronavirus outbreak has given further impetus to many people to put their affairs in order, and having a valid Will in place is particularly important if you suffer from any underlying health issues or are elderly.

NEED TO DISCUSS WILLS AND INHERITANCE

Families are becoming more open about their finances, with the COVID-19 crisis highlighting the need to discuss Wills and inheritance. A study conducted at the height of the pandemic shows the pandemic has encouraged more people to make a Will[1].

A third (33%) of people in the UK have either drafted a new Will or have amended an existing one as a result of the global health and humanitarian crisis we're facing. The research highlights that this is also having a broader effect and is making families more open about their finances. Nearly four out of five (78%) believe the pandemic will lead to more conversations about inheritance planning within their families.

COMPLEX FAMILY SET-UPS THE NEW NORMAL

The pandemic has not spurred everyone to act: more than a fifth (22%) of people surveyed say they do not have a Will, and do not plan to draw one up. Worryingly, around one in ten say they believe doing so would be tempting fate.

Families can face major problems if there is not a Will in place, particularly as complex family set-ups are increasingly becoming the new normal. Nearly one in seven (13%) families in the UK now have a stepson, stepdaughter and/or adopted son or daughter as part of their family. And a fifth (21%) of parents have been involved in two or more romantic relationships that have led to them being legally responsible for children to whom they have no biological link.

SIGNIFICANT IMPACT ON ESTATE PLANNING

An outdated Will can be challenged, which could be a drain on a family's estate. This is especially pertinent as only 27% of adults are confident that their current Wills are unlikely to offend relatives. Nearly half (49%) of those with a Will have never rewritten or amended it. Just 24% have amended their Will once, 16% have amended it twice, and only 5% have amended it three times.

Rising concerns over marital health is also having a significant impact on estate planning. The study also found that over two thirds (67%) of parents have decided to delay family inheritance planning for fear that their children's marriages will end in divorce, with the likelihood of wealth and assets leaving the family estate.

MITIGATE SUBSTANTIAL WEALTH LEAVING THE FAMILY

In fact, a quarter (27%) of parents have little or no confidence about the prospects of their children's marriages lasting a lifetime, and one in six (16%) have doubts about their in-laws' financial competence. The findings show that these worries are not unsubstantiated, with more than one in four parents (27%) having children who are separated or divorced.

To mitigate substantial wealth leaving the family in the event of divorce, a fifth of parents (21%) are gifting small amounts to their children to help with day-to-day living, while 19% are gifting directly to their grandchildren. Parents have other reasons for restricting levels of financial support: 13% of parents say it will reduce their children's incentive to work, and 12% think there would be little left for their grandchildren. ■

PROTECTING YOUR WEALTH FOR FUTURE GENERATIONS

The majority (83%) of respondents questioned as part of the research commented that the experience of the coronavirus pandemic will encourage people to sort out their financial affairs and trigger them into drawing up new Wills. A Will is one of the most important legal documents you can create in life, as it serves to protect your financial assets after you have passed away. To discuss your estate planning requirements, contact us for further information.

Source data:

[1] Research conducted by Consumer Intelligence for Handelsbanken in April 2020 with over 1,000 respondents

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

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

THE RULES AROUND WILLS ARE COMPLICATED, SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

DELAYING RETIREMENT

PANDEMIC FORCING A WIDESPREAD RETHINK OF RETIREMENT PLANS

The coronavirus (COVID-19) pandemic crisis has thrown some of the nation's retirement plans up in the air. As a result, a number of people over 50 and in work are set to delay their retirement (15%) by an average of three years, or keep working indefinitely (26%) as a direct result of COVID-19, according to new research[1].

The pandemic is forcing a widespread rethink of retirement plans. Currently, 1.5 million workers aged over 50 are planning to delay their retirement as a direct result of the pandemic. The most recent data from the Office for National Statistics highlights the number of workers aged above 65 years is at a record high of 1.42 million[2]. However, if people change their retirement plans in response to the pandemic, this could increase considerably.

DELAYING RETIREMENT BY FIVE YEARS OR MORE

One in six people aged over 50 and in work (15%) believe that they will delay, while 26% anticipate having to keep working on a full or part-time basis indefinitely due to the impact of the virus. On average, those who plan to delay their retirement expect to spend an additional three years in work. However, 10% admit they could delay their plans by five years or more.

These figures are significantly higher for the 26% of over-50s workers who have been furloughed or seen a pay decrease as a result of the pandemic. One in five of these workers will delay (19%), and 38% expect to work indefinitely.

FORCED TO RETHINK RETIREMENT PLANS

The financial impact of the COVID-19 pandemic seems to be particularly pronounced for people aged over 50 who are still in work. While some people will choose to work for longer, or indefinitely, the key consideration when it comes to this research is that it seems this decision has been driven by the financial impact of the pandemic, rather than personal choice.

One in five (18%)[3] plan a change to their target retirement age, and 20% of over-55s who hadn't accessed their pension prior to the crisis have since taken out money from their pension (12%) or are considering doing so (8%) because of the pandemic. The self-employed have been particularly affected, with two in five (40%) forced to rethink retirement plans, and 22% now expecting to delay their retirement.

IMPACT ON PEOPLE'S ABILITY TO RETIRE

This is a key stage in people's retirement planning, so seeing a material impact on household income will naturally lead to pessimism about achieving retirement goals. While it would be naive to say that these financial issues will not have an impact on people's ability to retire, it's important for people to have a strong understanding of the options available to them before concluding that their retirement needs to be delayed or forgotten indefinitely.

/// SHOULD YOU POSTPONE YOUR RETIREMENT DUE TO THE CORONAVIRUS? IS POSTPONING RETIREMENT THE RIGHT STRATEGY? OR DOES STAYING WITH YOUR ORIGINAL RETIREMENT STRATEGY MAKE MORE SENSE?

That employment uncertainty, in combination with volatility in the financial markets, is understandably concerning to some people approaching retirement age. Those who have been furloughed or seen a pay decrease could benefit from a financial review to assess their options before changing their plans. ■

Source data:

[1] Opinium Research ran a series of online interviews for Legal & General Retail Retirement among a nationally representative panel of 2,004 over-50s from 15–18 May 2020.
[2] Office for National Statistics, Labour market overview, UK: May 2020
[3] https://www.cofunds.aegon.co.uk/content/ukcpw/customer/news/covid-19_has_widereachingimpactonretirementplans.html

MAKING MORE SENSE OF YOUR RETIREMENT OPTIONS

Should you postpone your retirement due to the coronavirus? Is postponing retirement the right strategy? Or does staying with your original retirement strategy make more sense? Whatever your long-term plans might be, a crisis as sudden and pervasive as the coronavirus pandemic is bound to raise such questions. To make more sense of your retirement options, please contact us – we're here to help you.

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

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

TAX RULES ARE COMPLICATED, SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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

REWRITTEN RETIREMENT RULES

LOOKING TO DISCOVER WHAT YOU CAN DO WITH YOUR PENSION POT?

In 2015, the retirement rules were rewritten. The rules, which came into effect from 6 April 2015, have changed the way people take money out of their pensions, with new freedoms and options available to anyone over the age of 55.

Pension freedom tax rules allow members of defined contribution pension schemes to access their pension savings early, provided they have reached the required minimum pension age (currently 55).

FLEXIBLE WITHDRAWALS

Scheme members can now take their pension benefits in a number of ways. This could be as one or more payments a year for a number of years, several payments a year over a shorter time frame, or the full value of the fund could be taken in one payment subject to Income Tax.

Through the second quarter of 2020 (between April and June), £2.3 billion was withdrawn from pensions flexibly – a 17% decrease year-on-year from £2.8 billion (second quarter 2019). However, the total value of flexible withdrawals from pensions since flexibility changes in 2015 has exceeded £37 billion.

SEASONAL PATTERNS

The second quarter of 2020 saw 340,000 individuals withdraw from pensions – a 1% increase from 336,000 in the same quarter of the previous year. However, there has been a decrease in the number of individuals withdrawing compared to the first quarter of 2020 (348,000), which is contrary to normal seasonal patterns.

The average amount withdrawn per individual in the second quarter of this year was £6,700, falling by 18% from £8,200 in the same quarter last year.

If you're 55 or over and have a defined contribution (money purchase) pension plan, you can:

- Leave your pension pot invested
- Buy a guaranteed income for life (a lifetime annuity)
- Take a flexible income from your pension pot (typically known as 'flexi-access drawdown')
- Take a cash lump sum from your pension pot (up to 25% tax-free)
- Combine one or more of the options above. You can take cash and/or income at different times to suit your needs

MAKE INFORMED DECISIONS ABOUT YOUR RETIREMENT

Making sure you manage your money well in retirement is important. It can affect how long your pot lasts and the kind of lifestyle you can afford. We can help you make informed decisions about your retirement. Talk to us for more information.

Source data:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/904548/Pension_Flexibility_Statistics_July_2020.pdf

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

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

TAX RULES ARE COMPLICATED, SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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

SILVER SPLITTERS

FINANCIAL FALL-OUT OF DIVORCING IN MIDDLE AGE

While the number of couples divorcing has decreased in recent years[1], with 91,299 cases in 2018 compared to 102,007 in 2017, the cohort of couples deciding to split in later life is on the rise. Also, pre-pandemic divorce valuations could have changed by as much as 30%, which may lead to some people receiving unfair settlements if valuations are not updated[2].

What's the reason for the boom in so-called 'silver splitters'? Some suggest that as lifestyles have improved ('fifty is the new forty' after all), many mid-lifers are feeling they're entering their prime and want to make the most of it, potentially with a new partner.

FINANCIAL RAMIFICATIONS

Splitting with a spouse in your forties, fifties or even later can bring with it many complications. For couples aged between 46 and 50, men were more likely to have had sole responsibility for looking after household finances, with 43% of women in this age group saying that they looked after all the bills, according to research[3].

As a result, some mid-life women may have a tougher time dealing with the financial ramifications of a relationship breakdown, both in terms of understanding the value of assets which were held together and managing finances on a day-to-day basis once they set up home on their own.

REDISTRIBUTIVE POWERS

Then, of course, there's the thorny issue of the marital home. There's a long-held misconception that those living together over a certain length of time have the same rights around property as married couples. However, this isn't the case. The Court has wide redistributive powers to transfer assets from one of the spouses or registered civil partners to the other.

This can take the form of transferring capital assets, ordering ongoing maintenance payments, or making orders about pensions. The Court will take several matters into account, including the assets, resources and needs of each party, the length of the marriage, and the standard of living enjoyed.

COHABITING PARTIES

There's no such thing as 'common law marriage'. However, the position is markedly different where the two parties have been cohabiting. Where cohabiting parties break up, they have no automatic rights to make financial claims against each other.

Co-habitees who purchased a property jointly – or perhaps where one party previously held the property in their name and to which the other contributed in some way – have the same rights as any other co-buyers would have. The fact that they may have been in a relationship and have lived together for however long makes little, if any, difference.

FUTURE INHERITANCE

There are many instances of people – often women – who've been in long-term relationships with a partner and have raised children who have grown up. When the relationship breaks down, they find themselves with no financial security and no claims against their former partner. Although claims can be made where any children are still minors, any such claims are limited to providing for the children rather than the other party to the relationship.

Those in a new relationship deciding to move in together must consider a different set of factors. You'll likely both have assets you're bringing to the new partnership and perhaps children from previous relationships. If that's the case, it's not just your assets that need to be protected, but your children's future inheritance as well. If you decide to buy somewhere together with your new partner, it's important to agree upfront on who is putting what into the transaction.

This should include:

- The deposit and contribution towards any mortgage
- Who will be responsible for that mortgage if one or other of you move out
- How that would be reflected in any final division of the sale proceeds if the relationship breaks down

FORMAL DEED

If you're purchasing a home together without a mortgage, then it's even more crucial to document everything with your new partner, detailing what each party is paying, and that you intend to divide the property in the same proportions as you both contributed to it. In either case, it's possible to have a solicitor draw up a formal deed, which contains all the important points and protects both parties in the 'what if' scenario.

Should you contemplate a trip down the aisle at a later date, it's worth seriously considering a prenup. Those intending to remarry or enter into a registered civil partnership with a new partner should consider a pre-nuptial agreement, setting out what assets each of you has, and how you each intend for these to be dealt with on any future divorce or dissolution.

PRE-NUPTIAL AGREEMENTS

Although pre-nuptial agreements may not be binding, a document clearly setting out that the intention was that certain assets were to remain yours, and ultimately benefit your children, can be very persuasive for a court considering any future divorce proceedings.

Ultimately, no one can predict the future and, to slightly paraphrase Oscar Wilde, marriage or co-habitation after divorce can be a triumph of hope over experience. However, with the right legal advice and a pragmatic conversation with your new partner, you're building your new relationship on a solid foundation, based on honesty and good communication. ■

RETIREMENT SAVINGS ARE OFTEN DESTROYED BY DIVORCE

Sometimes life doesn't go according to plan. Divorce can be a testing time, and negotiating a fair financial settlement can often add to the stress. When it comes to pensions, what can be divided depends on where in the UK you are divorcing. To start understanding where your retirement savings may stand after a divorce, please contact us to for further information.

Source data:

[1] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/divorce/datasets/divorcesinenglandandwales

[2] https://www.brewin.co.uk/group/media/news-and-comments/2020-06/can-i-afford-get-divorced

[3] https://www.aviva.co.uk/adviser/documents/view/family_finances_mini_report_2018.pdf

TAKE IT TO THE MAX

HOW TO MAKE THE MOST OF THE VARIOUS PENSION ALLOWANCES

Saving into a pension is one of the most tax-efficient ways to save for your retirement. Not only do pensions enable you to grow your retirement savings largely free of tax, but they also provide tax relief on the contributions you make.

There are various pension allowances that you need to be aware of and understand how to make the most of. These limit the amount of money you can contribute to a pension in a year, as well as the total amount of money you can build up in your pension accounts while still enjoying the full tax benefits.

LIFETIME ALLOWANCE

All your pensions, including workplace pensions, count towards the Lifetime Allowance, with the exception of the State Pension and overseas pensions. The standard Lifetime Allowance is £1,073,100 since 6 April 2020 and increases with inflation each year.

You don't pay a tax charge until you take your pension savings over and above your Lifetime Allowance (or reach age 75, if earlier). The charge is only on the excess money saved in your pension that is above your Lifetime Allowance.

NON-TAXPAYER OR EARNING LESS THAN £3,600

If you have no earnings or earn less than £3,600 a year, you can still pay into a pension scheme and qualify to receive tax relief added to your contributions up to a certain amount. The maximum you can contribute is £2,880 a year. Tax relief is added to your contributions, so if you pay £2,880, a total of £3,600 a year will be paid into your pension scheme, even if you earn less than this or have no income at all.

This applies if you pay into a personal or stakeholder pension yourself (so not through an employer's scheme) and with some workplace pension schemes – but not all. The way some workplace pension schemes give tax relief means that people earning less than the personal allowance (£12,500 in the 2020/21 tax year) won't receive tax relief.

MONEY PURCHASE ANNUAL ALLOWANCE

The Money Purchase Annual Allowance (MPAA) rules were introduced as an anti-avoidance measure to prevent widespread abuse of the pension freedoms which commenced from 6 April 2015. It's intended to discourage individuals from diverting their salary into their pension with tax relief and then immediately withdrawing 25% tax-free.

The MPAA applies only to money purchase contributions and has remained at £4,000 since 6 April 2017. If you have taken flexible benefits that include income, such as an 'Uncrystallised Funds Pension Lump Sum (UFPLS)' or flexi-access drawdown with income – and you want to continue making contributions to a defined contribution pension scheme – you will have a reduced annual allowance of £4,000 annually towards your defined contribution benefits.

ANNUAL ALLOWANCE

The pension Annual Allowance is the maximum amount of money you can contribute towards a defined contribution pension scheme in a single tax year and receive tax relief on. All contributions made to your pension by you, your employer or any third party, as well as any tax relief received, count towards your Annual Allowance.

The standard pension Annual Allowance is currently £40,000, or 100% of your income if you earn less than £40,000. A lower Annual Allowance may apply, however, if you are a high earner, or you have already started accessing your pension. High earners may potentially be subject to the Tapered Annual Allowance, while those who have already started accessing their pension potentially face the Money Purchase Annual Allowance (MPAA).

CARRY FORWARD

Carry forward is a way of increasing your pension Annual Allowance in the current tax year. It is used when your total pension contribution amounts for a tax year exceed your annual pension Annual Allowance limit for that year.

You can do this by carrying forward unused allowances from the three previous tax years to make contributions this year. This may enable you to absorb or reduce any pension Annual Allowance excess paid in the current tax year which, in turn, would reduce any potential Annual Allowance charge amount. The 2020/21 tax year allows use of unused allowances from 2017/18, 2018/19 and 2019/20.

TAPERED ANNUAL ALLOWANCE

The Tapered Annual Allowance calculations will now not affect anyone with a Threshold Income level below £200,000. The taper starts in this tax year at £240,000 and extends to a minimum of £4,000 Annual Allowance. This reduces the level of pension funding high earners and their employers can make into pension schemes.

If high earners exceed the threshold and adjusted income amounts, their Annual Allowance may be reduced by £1 for every £2 of adjusted income over this level until the minimum annual allowance level of £4,000 is reached. The maximum Tapered Annual Allowance reduction is £36,000.

PENSION CONTRIBUTIONS TAX RELIEF

Everyone, whether working or not, is entitled to receive basic-rate tax relief at 20% from the Government when making contributions to their pension. Depending on the type of pension, tax relief can either be a reimbursement of the tax already paid on a pension contribution or it can be the ability to put away for your pension straight out of your wage, before paying any tax.

Basic-rate taxpayers, and those who don't pay tax, will earn 20% tax relief. Higher-rate taxpayers earn 40%. For additional-rate income taxpayers, who earn over £150,000 a year, tax relief is 45%. There are other rules that apply for additional-rate payers depending on specific circumstances. ■

ARE YOU GETTING CLOSE TO YOUR ANNUAL PENSION LIMITS?

It's a good idea to keep track of your pension contributions so that you know if you're getting close to your annual pension limits. Whatever challenges and opportunities retirement presents, our strategies evolve as your plans do. To discuss your unique situation, or to talk to us, please contact us for more information.

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

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

TAX RULES ARE COMPLICATED, SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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

THE PENSION FACT FILE 2020/21

Lifetime allowance The maximum tax-efficient pension savings in your lifetime, including all contributions and capital gains	£1,073,100
Non-taxpayer or earnings less than £3,600 The maximum pension contributions that a non-taxpayer or low earner can make in one tax year and attract tax relief	£2,880 net contribution + £720 tax relief = £3,600 gross
Money Purchase Annual Allowance If you start to take an income from your defined contribution pension, this can trigger a lower annual allowance	£4,000
Annual Allowance The maximum tax-efficient contribution to your pension savings in one tax year	£40,000 or 100% of UK relevant earnings
Carry forward The three-year rule that allows you to carry forward your unused tax-efficient annual pensions allowance.	You are able to 'carry forward' any 'unused' allowance from the three previous tax years. However, even when carrying forward unused allowance, the amount you can pay into your pension is limited to 100% of your earnings in the tax year the payment is being made.
Tapered Annual Allowance Those with higher incomes will see the annual pensions allowance reduce to £4,000	
Threshold income limit	£200,000 – the Annual Allowance is reduced by £1 for every £2 of income above £240,000 down to a minimum allowance of £4,000
Adjusted income limit	£240,000 – the Annual Allowance is reduced by £1 for every £2 of income above £240,000 down to a minimum allowance of £4,000
Adjusted income limit	£300,000+ – £10,000 decreasing to £4,000
Pension contributions tax relief No earnings, or less than £3,600 a year	20%
Marginal tax rate applies	20%, 40% or 45%

CARE IN LATER LIFE

MAKING THE DIFFICULT CHOICE BETWEEN LIVE-IN CARE AND A CARE HOME

One of the biggest challenges of the 21st century is Britain's ageing population. As later-life care becomes more prevalent, whether you are considering this for yourself or a relative, covering the costs involved can be significant.

As we get older, the care and support we eventually need is also likely to change. Perhaps we'll need some extra help to stay independent in our home, or we may consider moving to a smaller property or a care home, or we may have already started caring for someone else.

INCREASING CONCERNS FROM FAMILY MEMBERS

Understandably, there are increasing concerns from family members surrounding the coronavirus (COVID-19) pandemic, which is leading to some over-60s reconsidering options beyond care homes, such as downsizing or moving into assisted living.

Research highlights that more than one million over-60s who were originally planning on going into care homes are now rethinking their care plans in later life as a result of the coronavirus pandemic[1]. This shift could be driven by growing concerns from their children.

ASSISTED LIVING OR MORE MANAGEABLE PROPERTIES

Nearly a fifth (19%) of Britons, who would have previously been open to care homes as an option for their family members before the crisis hit, now wouldn't consider it. Instead of moving into care homes, the research found that over-60s are primarily looking to move either into assisted living (19%) or smaller and more manageable properties (19%).

Moving in with family members was also a popular option, with nearly one in ten (9%) looking to move into a spare room, and 6% looking to move into a granny annexe. For those looking to move into an annexe or pay for home improvements, more than two thirds (67%) think they would need to alter their home or their child's home in some way.

The most popular home improvements include:

- Making modifications to the bathroom, such as adding grab bars and a shower seat (34%)
- Installing an emergency alarm (27%)
- Installing a chair lift (22%)
- Buying new furniture, such as a bed with rails (22%)
- Installing mobility features such as ramps (19%)

FAMILY'S ASSETS BUILT UP OVER GENERATIONS CAN DISAPPEAR

Making plans for your later years – or an elderly parent's - is a sensitive and emotional process. There is the uncertainty of not knowing whether you will need some form of care in the future and, if so, to what extent.

Within a matter of only a few years, a family's assets built up over generations can disappear in the payment of later-life care fees. With the average cost estimated at between £600 to £800 per week[2], more than half (55%) of over-60-year-olds still haven't considered or don't know how they will fund it.

THE WAY WE'RE THINKING ABOUT OUR FUTURES HAS CHANGED

For those who have considered it, a fifth (21%) expect to use their current (full new single-tier) State Pension of just £175.20 per week, 15% expect the Government to pay for it, and a further 15% expect to use their cash savings.

The coronavirus crisis has changed the way we're thinking about our future and how we can reach it. Not only has it made us think about how we want to spend the rest of our days, but also who we want to be with and where we want to be.

HOW TO FUND THE COST OF CARE PROVISION IN LATER LIFE

It isn't surprising that people aged over 60 are starting to rethink their later-life care plans, whether that be their own choice or influence from family members. However, it's worrying to see there's still a significant number who haven't considered how they will fund care in later life.

We are all likely to live longer and healthier lives than past generations, but with the added challenge of how to ensure we have adequate resources to allow us to live the life that we would like in those later years. Understandably, the problem this subject poses is how to fund the cost of care provision in later life. ■

HOW WILL YOU PAY FOR LATER-LIFE CARE?

With people living longer lives and retirement now lasting up to several decades, the reality is that the majority of us will have to pay for later-life care at some stage – whether that be for ourselves or loved ones. To talk to us about your requirements or concerns, please contact us.

Source data:

[1] Research from Canada Life among 2,000 UK adults, fieldwork 12–15 June 2020, conducted by Opinium Research.

[2] Age UK – https://www.ageuk.org.uk/information-advice/care/paying-for-care/paying-for-a-care-home/

Published by **Goldmine Media Limited**
Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL

Articles are copyright protected by Goldmine Media Limited 2020. Unauthorised duplication or distribution is strictly forbidden.