INTRINSIC

FINANCE MATTERS

ISSUE 10

UK STATE PENSIONS AMONGST THE LEAST GENEROUS IN EUROPE

A recent report from the Organisation for Economic Co-operation and Development (OECD)[1] has highlighted where the UK state pension ranks against other world economies.

Their findings show that UK workers are set to receive the worst state pension of any major economy. The typical British worker can look forward to a pension worth only 38% of their salary, a figure which includes state and mandatory but not voluntary private pensions, and is after tax. Only Mexico and Chile offer worse state pension deals.

When it comes to retirement age, workers in the UK have to labour longer before they qualify for the state pension too. With the UK state pension age set to gradually move up to 68, we in the UK could well be in employment long after those in other countries are enjoying their retirement.

It comes as no surprise that more and more people are thinking about their pension, joining auto-enrolment schemes or making their own private provision. However, there is one group in particular who have yet to heed this message - the self-employed.

Self-employed need to save more

According to research from a major insurer2, the proportion of self-employed workers making personal pension contributions fell from one in three in 2001/2002 to one in ten in 2013/2014.

A record 4.6 million people registered as self-employed during the 2013/2014 tax year, but data from HMRC and the Office for National Statistics shows that only 420,000 of them made contributions to a personal pension during that time.

Reasons given for not taking out a pension ranged from affordability, to the belief that stopping work would not be an option.

2015-16 ISAs COUNTDOWN TO THE END OF THE YEAR

As we approach the end of the 2015-2016 financial year, you still have time to make contributions up to the maximum allowable limit.

ISA type	Maximum contribution per person per year
CASH and/or STOCKS & SHARES ISA	£15,240
JUNIOR ISA	£4,080
HELP TO BUY ISA	£2,400* +£1,000 one-off contribution when the account is opened

*If you have contributed to a Cash ISA within the 2015-2016 tax year, you won't be able to open a Help to Buy ISA until April 2016 as you can only pay into one Cash ISA per tax year.

Getting the pension habit

If you're self-employed, saving into a pension can be a more difficult habit to acquire than it is for those in regular employment. Irregular income patterns can make regular saving hard. But there are pension plans that can give you the flexibility you need.

You can save as much as you like towards your pension each year, but the maximum amount on which you will receive tax relief (for basic rate payers, the figure is 25%), referred to as the annual allowance, is £40,000 for tax year 2015/6. Provided that you had a pension in place at the time, you can usually carry forward unused annual allowances from the previous three years.

Irrespective of your employment status, the same general rules apply. If you are hoping for a comfortable retirement income, you need to save as much as you can as early as possible in your working life and take professional financial advice. If you haven't looked at your pension plan for some time, this might be a good time for a review.

[1] OECD Pensions at a Glance 2015 – OECD and G20 indicators, Dec 2015

[2] Prudential research, analysis of pension contribution figures taken from HMRC, Sep 2015 and Self-employed workers in the UK taken from ONS, economic activity 1975-2014

HELP TO BUY – A WELCOME ADDITION TO THE ISA RANGE

Help to Buy Individual Saving Accounts (ISAs) have been described by TV finance presenter, Martin Lewis, as a 'no brainer', providing savers with both interest on their savings and government-backed bonuses designed to help first-time buyers save for a mortgage deposit.

With house prices continuing to rise year on year, many find saving for a deposit a real challenge. No wonder then, that the launch of the Help to Buy ISA was greeted with such enthusiasm when it joined the ISA range on 1 December 2015.

Vital statistics

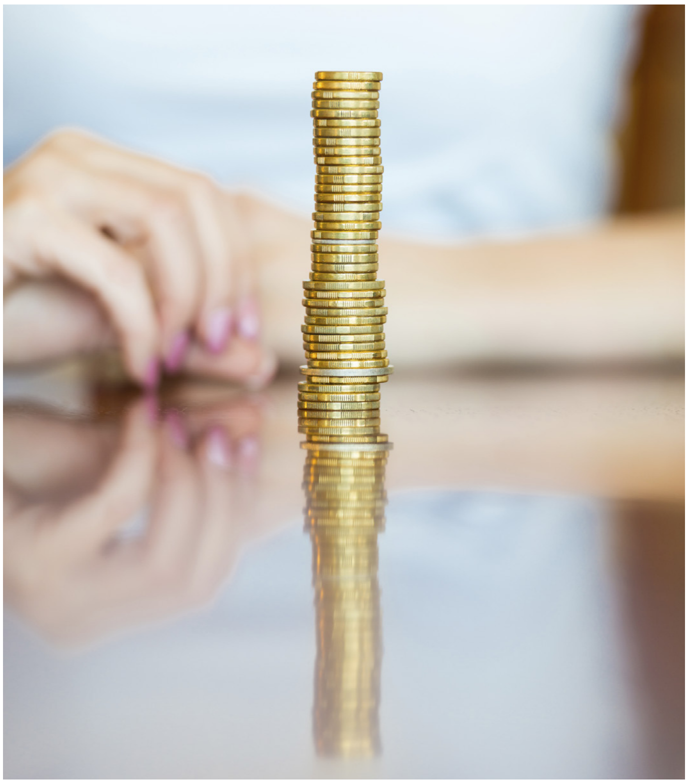
A Help to Buy ISA is available to those aged 16 and over, resident in the UK with a valid National Insurance number, who are prospective first-time buyers. Savers can make an initial deposit of up to £1,000 when the account is first opened. As an extra incentive to save, the government will boost your savings by 25%; representing a bonus of £50 for every £200 you save.

The maximum monthly contribution is £200, there is no minimum monthly saving amount, however there is a minimum bonus of £400, so you would need to have at least £1,600 in the account to qualify for the bonus.

The maximum contribution from the government will be £3,000 per ISA account. Couples purchasing a property together can each take out a Help to Buy ISA and they will each be able to secure a total of £6,000 in bonuses. Together, their maximum savings of £24,000 will be boosted to £30,000. Interest is paid on savings, and, as with other types of cash ISA, is tax-free.

The 25% bonus from the government is payable when savers put a deposit on their first home. At that point, the Help to Buy ISA is closed and the bonus can be claimed from the government by the solicitor or conveyancer acting for your house purchase. When you take out your mortgage, it doesn't have to be with the bank or building society where the Help to Buy ISA was held.

The maximum price of a property eligible under the scheme is £450,000 in inner and outer London boroughs and £250,000 outside London.



ISAs and Help to Buy ISAs

With a Help to Buy ISA, after the initial deposit, the maximum monthly contribution is £200, which is considerably less than ordinary ISAs, where for tax year 2015-16 the allowance is £15,240.

You are unable to hold both a cash ISA and a Help to Buy ISA in the same tax year. However there are ways of transferring money between ISA accounts so that you can take advantage of the government's Help to Buy ISA bonus. Your financial adviser will be able to recommend the best choice of account for your savings.

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PROTECTING THE RIGHTS OF COHABITEES

Many people think that if they share financial commitments with a partner; own a property together, bring up children and conduct their finances in the same way as a married couple or those in a civil partnership do – they have the same rights if the relationship ends. This isn't the case. No matter how long you have been living together, you won't acquire the same legal status. If the relationship breaks down, the division of assets is very different.

'Common law spouse' status doesn't exist

Many people believe that there is a 'common-law spouse' status in UK law, but there isn't. If a cohabiting couple split up, each party leaves with what they owned at the outset. So, if a couple lived in a house owned by one of them, their partner will have no claim on it, even if they have paid bills, helped to renovate it or contributed in other ways. (However, in Scotland cohabitants can claim for financial provision through the courts when the relationship ends through termination or death.)

Cohabiting couples in England and Wales (but not in Scotland) do not have any financial responsibility for children outside of what is ordered under the government's child maintenance scheme, the Child Support Agency.

Couples in the UK can protect themselves by writing a 'cohabitation agreement' or a 'declaration of trust'. Both these contracts are legally binding and set out exactly what each party would receive on separation, and can include any spousal or child payments that will be made. It is also important to have valid Wills in place.

Property matters

If one partner dies, the surviving partner does not have the same status in law as a widow or widower. It can come as devastating news to cohabitees that there is no automatic right to inherit homes, pensions or other assets.

If a partner in a cohabiting relationship dies without a Will, the surviving partner will not, as a matter of course, inherit their assets unless the couple owned property jointly. In addition, money or property inherited from an unmarried partner is not exempt from Inheritance Tax.

When it comes to pensions, although a spouse will be eligible for a widow's or widower's pension, this isn't generally the case if the couple are not married. There are conditions that apply; they need to be living together, financially dependent on each other and living as if married. They must be free to marry, so this would exclude anyone who was not divorced from a previous spouse.

Safeguarding your rights

With more and more couples choosing not to marry or enter into a civil partnership, proper financial and legal advice is needed to ensure that everyone's interests are protected.

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WHAT EVERY CHILD SHOULD LEARN ABOUT MONEY

From September 2014, financial education officially became part of the national curriculum. Parents and grandparents can play a major role in ensuring that as children grow up, they learn good money habits that will stand them in good stead for the future.

What should children be taught from an early age?

Financial independence

Many experts recommend opening a bank account for a child so that they can manage their own cash. If they get their pocket money paid into a bank account and know how to run it, the chances are they will learn how to take financial decisions responsibly. With appropriate guidance, they will quickly learn why balancing saving with spending matters in adult life.

Saving even small sums is worthwhile

Junior Individual Savings Accounts (JISAs) show children how their savings can grow, and can be opened for any child under 18. Those children with a Child Trust Fund now have the option of transferring this into a JISA.

They work in a similar way to adult ISAs in that interest on cash is paid tax-free, and there's no Capital Gains Tax to pay on stocks and shares on encashment, and no further tax to pay on income.

One significant advantage of a JISA is that once it has been opened by the parent or guardian, anyone can make contributions within the child's annual JISA limit, including grandparents, friends and family. Children gain control of their JISA at age 16, but cannot withdraw the money until they turn 18. At that point, the account is automatically rolled over into an adult ISA, a valuable facility for those who, having acquired the savings habit, want to continue saving or investing tax-efficiently.

Show them how money can grow

Another good lesson to teach children is how compound interest works. If they can see how they can gain interest on their savings and on past interest from their savings too, they will appreciate how valuable regular amounts saved over a lifetime can become. If children grasp this concept, they will have a better understanding of how wealth is created.

Explain how credit cards and loans work

Older children may not realise how credit cards work, or how interest and charges are calculated, but need to be aware before they take out a credit card for the first time. When it comes to borrowing money, they need to know that all loans are not created equal, and that there is a big difference between a payday loan and, say, a car loan. It is also worth explaining to older children the value of having a good credit score and how this can improve their financial chances when the time comes to enter into big financial transactions like taking out their first mortgage.

Children gain control of their JISA at age 16, but cannot withdraw the money until they turn 18.

The value of the investment can go down as well as up and you may not get back as much as you put in.