Issue 18 Winter 2017

Viewpoint

Your latest newsletter from Maple Leaf Financial Services Ltd

Pension death benefits

With the introduction of pension freedoms in 2015, we now have a range of options when deciding how to fund our retirement. But few of us stop to consider what might happen on our death: retirement itself seems far enough away!

Under the previous regulations, only one dependant of the pension plan holder could inherit a drawdown pension on the plan holder's death. Commonly known as a "widow's pension", widowers, civil partners and a single named child could also inherit, putting the plan holder in a difficult position if they had more than one child.

Many still believe that this is the only way their pension savings can be passed on in the event of their death. However, alongside the more familiar changes to the retirement regime, the reforms heralded significant changes in how pension death benefits are taxed, bringing with them new inheritance planning opportunities.

Passing on your wealth

Since April 2015 it has been possible for the plan holder to pass their pension on to any nominee – or a number of nominees – through something called Nominee Flexi-Access Drawdown. Further, when the nominee dies, a successor – or successors – can also inherit a drawdown pension through a Successor Flexi-Access Drawdown. In turn, each nominee or successor can pass the assets on to other nominees or successors, retaining the tax efficiency of the plan through multiple generations.

The key benefit lies in retaining the assets within a pension wrapper: in this way they fall outside of the plan holder's assets for Inheritance Tax (IHT) purposes. And as long as they remain within the wrapper they retain their full tax advantages until they are needed by the nominee or successor.

If the plan holder – or a nominee or a successor – dies before the age of 75, not only are the assets passed on free of IHT, but the drawdowns are paid out free of income tax. If they die after the age of 75, the assets are still excluded from the estate for IHT purposes, but any lump sums or income drawdowns are treated as income and subject to the beneficiaries' personal tax position (ie. taking into account other sources of income).

How might your dependants benefit?

The example given opposite is a simplified illustration and only a guide to what might be achieved with careful financial planning.

However, it is important to note that most of the existing pension plans were set up before the new regulations came into force and may not have the flexibility to establish Nominee or Successor Flexi-Access Drawdown accounts. Instead, the pension provider will pay out the full value of the fund in cash on the death of the plan holder. In that situation, the assets count towards the total estate for IHT purposes and the tax benefits are lost.

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 pension family tree

A family comprises a husband and wife, their two children who in turn have two children each (four grandchildren in total). The husband dies aged 76 with £500,000 remaining in his pension fund.

£500,000

The wife inherits a Nominee Flexi-Access Drawdown plan. As her husband died after reaching the age of 75, any withdrawals are taxable as income. The wife dies aged 74 with £450,000 remaining in the plan.

£225,000

The two children each inherit half of this (£225,000) through Successor Flexi-Access Drawdown. Withdrawals are tax free as the mother died before age 75. However, both children die in their 60s without accessing their plans. As they also died before reaching 75, each residual pension fund passes tax free to the grandchildren.

£112,500

Each grandchild inherits a Successor Flexi-Access Drawdown pot of £112,500 and enjoys tax-free withdrawals.

Please contact me if you would like to discuss the pension death benefit rules and explore whether and how you and your loved ones could benefit from them. We can review your current arrangements to see if they offer the flexibility required and explore alternative arrangements if necessary.

OW0447 Exp. 19/06/17

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Are your contents underinsured?

When it comes to insuring your home and contents, many people take out far less cover than they need, risking potential upset if it comes to making a claim.

The average UK home contains around £55,000 worth of possessions, but an average insurance policy covers just £35,000, leaving a huge £20,000 worth of uninsured valuables per household.

Why are people undervaluing their possessions?

One reason could simply be a lack of awareness – both in terms of the real value of possessions and the items we should be thinking about insuring. When you're reviewing your contents insurance, don't just think about your jewellery and electronic equipment or other high-value items. Make sure you consider things like clothing, shoes, books, furniture – and contents in your garage, garden shed or other outbuildings.

Another reason why people underinsure could be a desire to keep insurance premiums down – but this really misses the point of taking out cover in the first place. If you're in the unfortunate situation where you need to claim and you haven't included certain items in your policy, you won't be covered and this could leave you even more out of pocket.

Ask us to review your cover

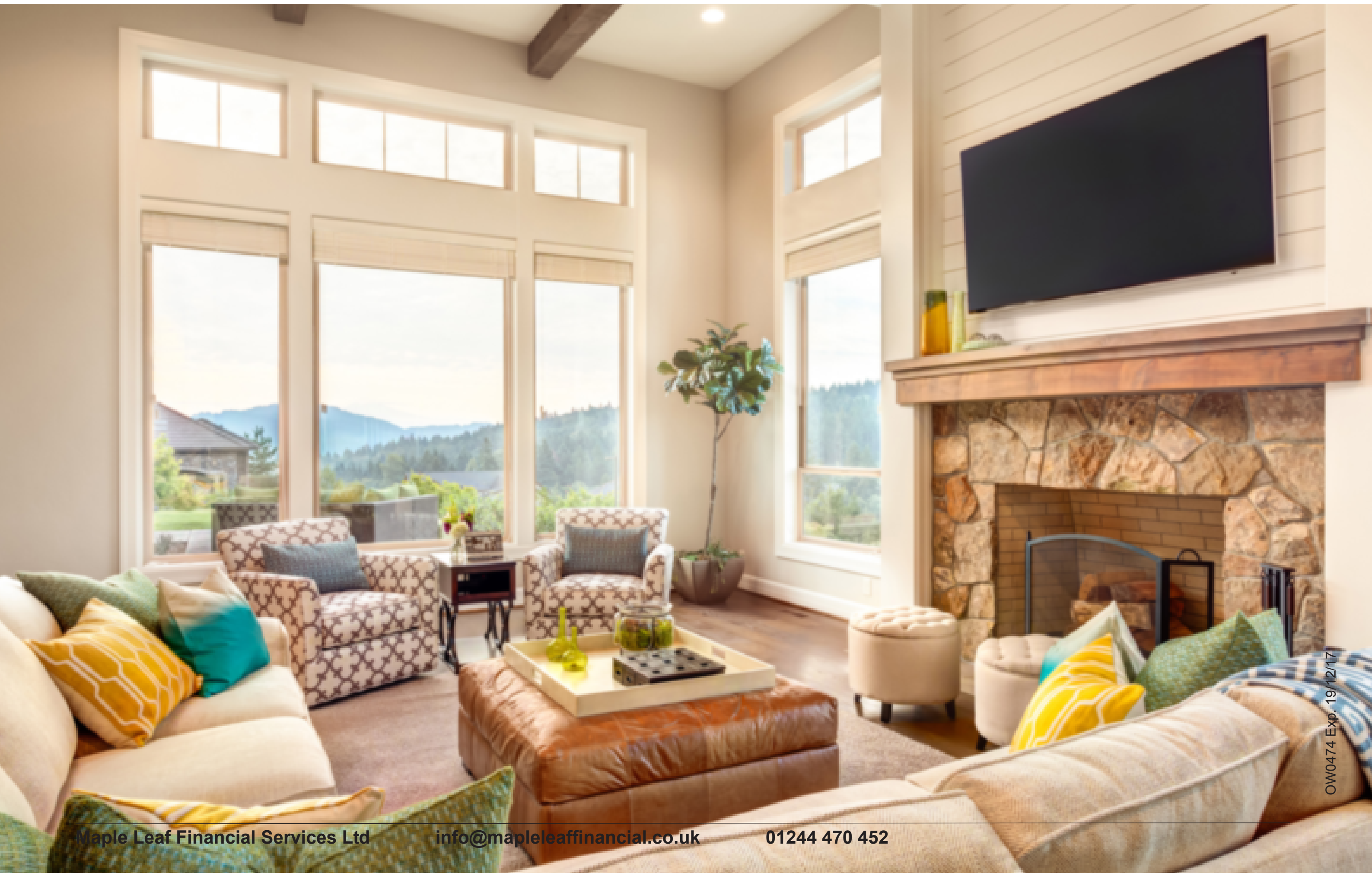
By seeking our professional guidance, you may find you're able to reduce your outgoings, identify instances where your protection could be improved or uncover gaps in your insurance.

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 excesses (the contribution you are required to pay towards a claim) and policy exclusions (such as accidental damage), your insurance could end up letting you down when you need it most.

Alternatively you may not even realise you actually require specialist insurance. If your home is classed as a 'non-standard construction', or you have high-value contents in the home, it may be appropriate to call in a specialist insurance provider that can meet your needs.

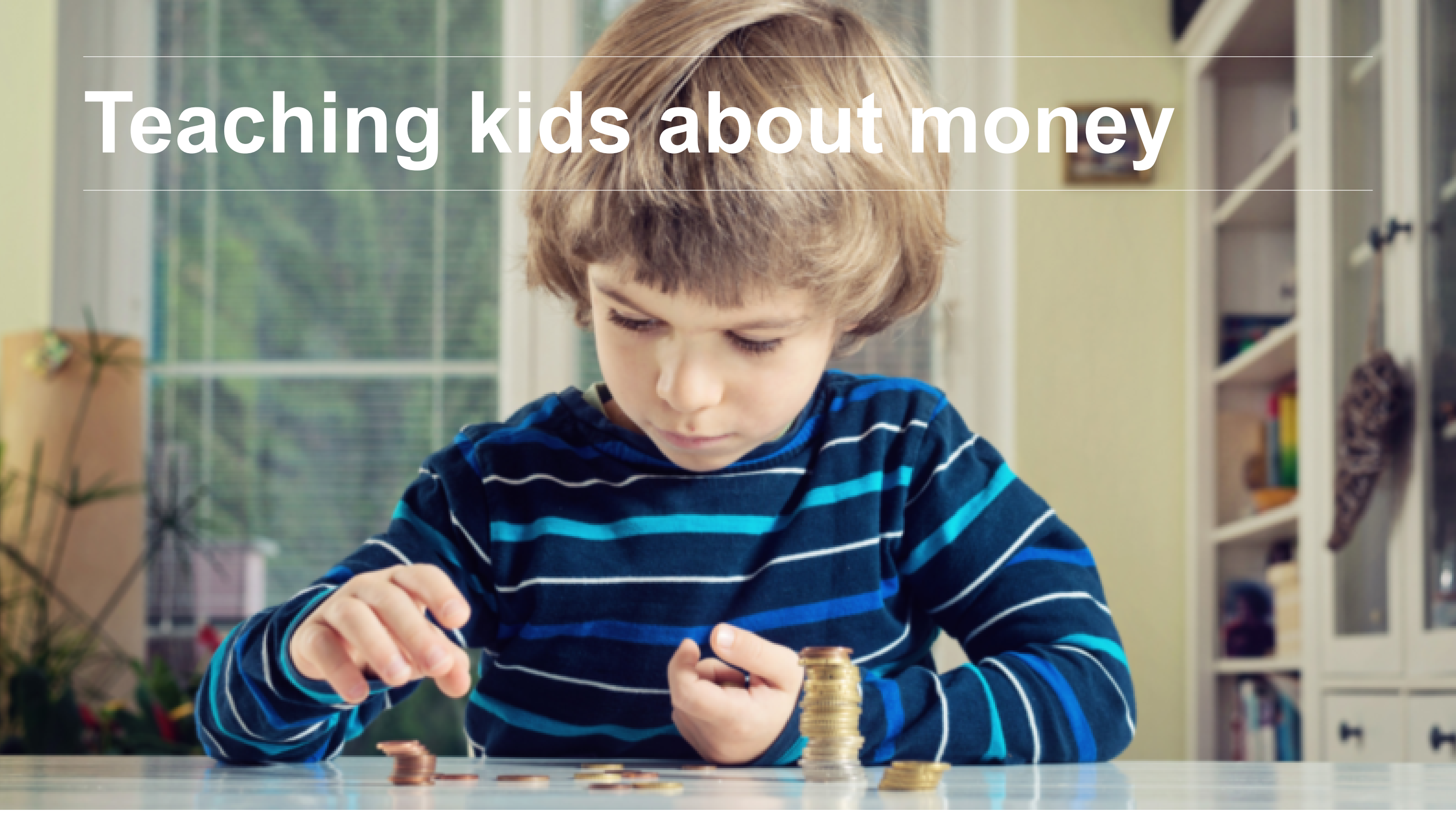
It can be easy to question the value of insurance – until the day you need it most. If you've ever been unfortunate to make an insurance claim, you'll know just how valuable it can be.

For more information about protecting your home and contents, please get in touch.



OW0474 Exp. 19/12/17

Teaching kids about money



As parents we teach our children a lot: to count, read, say please and thank you and, hopefully, be an example to others.

Research shows that parents also pass on their approach to finances. So exactly how are we teaching our children to be financially astute from a young age?

Pocket money

Compared to some of their European counterparts, British parents with children under 10 are more generous when it comes to paying pocket money. That changes from 10 upwards when they end up paying well below the European average.

Teaching the value of money

Your child’s financial education can begin as soon as they learn to count and a great time to start talking about spending and saving is birthdays or Christmas (if they‘re likely to receive a cash gift).

If your child asks for something expensive: an iPhone 7 for £599, or an Xbox One for £199, try to explain to them the time it would take to earn that amount of money. The minimum wage for a person under 18 is £4 per hour, which means it would take 150 hours or nearly three weeks working full-time, to save for that new iPhone.

How to budget

An important lesson to instil from a young age is not to spend more than you have. Dividing money into different pots is a great way to demonstrate this as it really helps your child to visualise where their money is going. They can also see that when it’s gone, it’s gone.

Try using two jam jars. Label one ‘Spend now’ and one ‘Save for later’. Talk to your child about how they would like to divide their pocket money or any cash gifts they receive between the two jars. If they keep their savings jar topped up, they can see that they have rainy day money if they need it when their ‘spend now’ jar is empty.

You could also add in a third jar ‘Donate to others’ to show your child that they can afford to help children who may not be lucky enough to receive pocket money for their own jars.

Talk to us about investing for yourself or your children.

Age	UK pocket money per week	France and Italy pocket money per week
Under 5	£2	£1.60 France / £4 Italy
5-10	£5	£4
10-15	£5	£8
15+	£9.50	£24

OW0441 Exp. 31/03/17

Reasons to be cheerful

23 June 2016 will go down in history as a seismic day for British politics.

The public dealt Prime Minister David Cameron a bitter blow as the referendum to leave the European Union (EU) unexpectedly ended in a 'yes' vote, following a heated and divisive campaign on both sides. But what effect has Brexit had on the mortgage market?

Most analysts were certain the UK wouldn't vote to leave, but voters were left trying to cut through the propaganda and make a balanced decision. Vote Leave's "Take control" edict was heeded as they secured a narrow, unexpected victory in the referendum. Tales of post-referendum apocalypse were common in the days that followed, but has this been reflected in the data?

A stable economy

The economy as a whole seems to have been largely stable following the vote, as recent figures showed 0.5% growth in the three months post-Brexit. On the flip side, the number of mortgage approvals fell in August to the lowest level since November 2014 and some experts have predicted big banks will look to relocate away from the UK in 2017. This could create funding issues for consumers and diminish the amount of choice in the market.

With the Government's long-term plan to negotiate the UK's exit from the EU unclear at the moment, the Buy to Let market has been particularly robust, with a quarter of sales between July and September 2016 either investments or second homes. This strength in the market was in spite of fears over the economy following Brexit and a stamp duty increase for second homes in April 2016.

It's important that we take a pragmatic, business-as-usual approach. Opportunities exist no matter what the circumstances, and there's a danger that talking prospects down could cause a lack of confidence in the market. A proactive and positive manner can help you, whether you're a first-time buyer, looking to move home, or enter the world of Buy to Let.

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

Contact us today to review your mortgage options.

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

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