# INSIGHT

ISSUE 8 ■ SPRING 2018

A WEALTH OF ADVICE

# AVOIDING HIDDEN DANGERS IN RETIREMENT

*Make sure you don't run out of money or face a reduced standard of living*

**MARKET MATTERS**
Don't let current global uncertainties affect your financial planning

**FINANCIAL RESILIENCE**
How prepared are you for any financial shocks?

**WHY BEING OVER 40 IS THE NEW MID-20S**
Healthier lifestyles and feeling happier about financial planning for retirement

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# INSIDE THIS ISSUE




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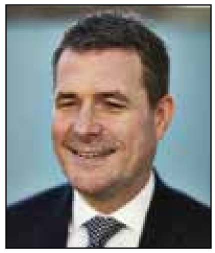
# WELCOME



Welcome to the latest issue of *Insight*. Over the last few months, the Financial Planning and Wealth Management Team have undertaken a project with clients in which we've asked them to tell us in their own words what value they have received from the advice that we have provided and filmed the footage. We are very proud of the results and David Squire, Financial Planning Director provides more detail on page 13.

Increasingly, more and more pensioners are keeping their pension invested after they retire. This means they're faced with two very different risks when deciding what to do with their savings in retirement – find out more on page 04.

It's important not to let global uncertainties affect your financial planning for the years ahead as you can often miss out on opportunities to invest. On page 06, we look at why it's important to stick to your strategy and keep moving ahead consistently by spreading risk and growing your wealth for the long term.

It may seem like some time ago when it was announced that married couples will have a £1 million nil rate band. In his article on page 12, Graham Poles, Tax Partner looks at why planning in advance ensures that all reliefs are maximised as we take a further step closer to the magical £1 million.

The full list of the articles featured in this issue appears opposite, and we hope you enjoy this Spring issue of our magazine. If you would prefer to download a digital copy or subscribe to new issues electronically, please visit www.armstrongwatsonfp.co.uk.

**Paul Dickson**
*Managing Partner*

# AVOIDING HIDDEN DANGERS IN RETIREMENT

*Make sure you don't run out of money or face a reduced standard of living*

**INCREASINGLY, MORE AND MORE PENSIONERS ARE KEEPING MUCH OF THEIR PENSION INVESTED AFTER THEY RETIRE.** THIS MEANS THEY'RE FACED WITH TWO VERY DIFFERENT RISKS WHEN DECIDING WHAT TO DO WITH THEIR SAVINGS IN RETIREMENT IN A WORLD OF 'PENSION FREEDOMS'. SINCE APRIL 2015, PEOPLE WHO REACH RETIREMENT HAVE HAD MUCH GREATER FLEXIBILITY OVER HOW THEY USE THEIR PENSION FUNDS TO PAY FOR THEIR LATER YEARS.

A recent report[1] identified that many savers in retirement are either taking 'too little' risk (the 'risk averse' retiree) or taking 'the wrong sort' of risk (the 'reckless' retiree). Each of these approaches increases the danger of a saver either running out of money during their retirement or having to face a reduced standard of living.

### THE RISK-AVERSE RETIREE – HOW CAN YOU TAKE TOO LITTLE RISK?

An example of taking 'too little' risk is the saver who takes their tax-free cash at retirement and invests the rest in an ultra-low-risk investment such as a Cash ISA, believing this to be the safe approach. The report points out that 'investing in retirement is still long-term investing' and shows that decades of low-return saving can seriously damage the living standards of retirees.

It highlights the case of someone who retired ten years ago with an illustrative pension pot of £100,000 which they invested in cash. Assuming they withdrew money at £7,500 per year (in line with annuity rates at the time), they would now be down to £27,000 and likely to run out in around four years' time, less than fifteen years into retirement. By contrast, if the same money had been invested in UK shares, there would still be around £48,000 left in the pot, despite the 2008 stock market crash.

### THE RECKLESS RETIREE – WHAT IS 'THE WRONG SORT' OF RISK?

In an era of low interest rates, some retired people may be tempted to seek out more unusual forms of investment with apparently high rates of return but accompanied by much greater risk to their capital. Examples could include peer-to-peer lending, investment in aircraft leasing or even crypto currencies such as bitcoin.

Concentrated exposure to a single, potentially volatile investment can produce very poor outcomes, particularly if bad returns come early in retirement. The pension pot in the previous example would still have £88,000 in it if the bad year for UK shares had happened at the end of the ten-year period we looked at and not at the start.

### THE RATIONAL RETIREE – WHAT IS THE BEST WAY TO HANDLE RISK IN RETIREMENT?

Rather than invest in an ultra-low-risk way or chase individual high-risk investments, the report identifies a 'third way' of spreading risk across a range of assets, including company shares, bonds and property, both at home and abroad. This multi-asset approach can be expected to provide better returns over retirement than cautious investing in cash but also helps to smooth the ups and downs of individual investments.

Pension freedoms open up new possibilities for people in retirement, but they create new dangers as well. There is the danger of being too cautious and not making your money work hard enough – investing in retirement is still long-term investing. There is also the danger of taking the wrong sort of risk, seeking high returns but putting your capital at risk. Spreading money across a range of asset classes and in different markets at home and abroad is likely to deliver better returns in retirement – and a more sustainable income – than remaining in cash, without exposing you to the capital risks that can come from chasing after more exotic or risky types of investment.

These investments do not include the same security of capital which is afforded with a deposit account. You may get back less than the amount invested. ■

### HELP TO ENSURE YOUR EXPECTATIONS ARE FULFILLED

By understanding your retirement plans, our Financial Planning Consultants are able to help ensure your expectations are fulfilled by establishing tailored plans to preserve your capital, produce income and pass on wealth securely and efficiently. If you'd like to review your current planning provision, please contact us for independent financial planning and wealth management advice.

**Source data:**
*[1] Research report published 13 January 2018 by mutual insurer Royal London*

THESE INVESTMENTS DO NOT INCLUDE THE SAME SECURITY OF CAPITAL WHICH IS AFFORDED WITH A DEPOSIT ACCOUNT. YOU MAY GET BACK LESS THAN THE AMOUNT INVESTED.

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

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

# MARKET MATTERS

*Don't let current global uncertainties affect your financial planning*

**IT'S IMPORTANT NOT TO LET CURRENT GLOBAL UNCERTAINTIES AFFECT YOUR FINANCIAL PLANNING FOR THE YEARS AHEAD.** PEOPLE WHO STOP THEIR INVESTMENT PLANNING, PARTICULARLY DURING MARKET DOWNTURNS, OFTEN MISS OUT ON OPPORTUNITIES TO INVEST AT LOWER PRICES.

It's important to stick to your strategy and keep moving ahead consistently by spreading risk and growing your wealth for the long term.

### HIGHER INFLATION AND FASTER INTEREST RATE RISES

At the time of writing this article, markets had reacted to the signs of faster wage growth and a strengthening US economy that may lead to higher inflation and faster interest rate rises. The global sell-off began following a solid US jobs report that fuelled expectations that the Federal Reserve would need to raise interest rates faster than expected because of the strength of the economy. That concern prompted the pullback from stocks.

The Bank of England seemed to offer support for the view that rates in general are on an upward path with a strengthening UK economy, meaning interest rates are likely to rise sooner than the markets were expecting.

### MORE ATTRACTIVE INVESTMENT ALTERNATIVES

A government budget proposal announced by US lawmakers to raise spending caps could also fan inflationary pressures. Rising US bond yields are another possible signal of higher rates to come, which could impact on corporate profits and curb economic activity. But at the same time, higher interest rates can make investment alternatives to stocks, such as bonds, more attractive.

In practice, everyone's investment goals are different. By deciding on your long-term financial priorities – whether it's funding your children's education or saving enough to be able to retire early – you can avoid being blown off course by short-term events.

### INVESTORS SHOULD FOCUS ON LONG-TERM HORIZONS

Trying to second-guess the impact of events such as Brexit or the recent stock market correction – or even attempting to make a bet on them – rarely pays off. Instead, investors who focus on long-term horizons – at least five to ten years – have historically fared much better.

Sensible diversification – owning a mix of assets, including shares, bonds and alternative investment such as property – can help protect investors over the long term. When one area of a portfolio underperforms, another part should provide important protection – and it's never too early or too late to start taking this considered and strategic approach.

### MEDIA FRENZY

Volatility, risk and market declines are a normal part of the investing cycle, but the media likes drama. Reports will use words that make these market fluctuations sound alarming, so be cautious about reacting to the unnerving 24/7 news cycle.

### STAY STRATEGIC

If you have a well-diversified portfolio, then it's more important than ever to stay the course. You have a strategy in place that reflects your risk tolerance and timeline, so stay committed. However, if you reacted and sold in a previous market decline or have not implemented a strategic asset allocation, then now is the time to have a discussion about your investment options.

### STAY CALM

Be aware of the psychological affect this type of volatility has on you as an investor and resist the urge to be reactive. The recent decline was expected and is coming after financial markets as a whole have experienced a historic bull phase for close to ten years now.

### STAY FOCUSED

No one knows how severe any market turbulence will be or what the market will do next. It could be over quickly or linger for a while. But no matter what lies ahead, proper diversification and perseverance over the long term are what's most important. ■

### IT'S ABOUT ACHIEVING A GOOD BALANCE

There are many ways that you can invest, and while we all want our money to grow, it's important to think about the level of risk you might be willing to take with your hard-earned money. It's about achieving a good balance. To discuss your future investment objectives or review your current portfolio, please contact our Financial Planning Consultants at an office near you.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

# FINANCIAL RESILIENCE

*How prepared are you for any financial shocks?*

**OVER THREE MILLION WORKING COUPLES ARE CLASSED AS 'DOUBLE INCOME, NO OPTION' (DINOS),** WHICH MEANS THEY ARE POTENTIALLY FINANCIALLY VULNERABLE IF ONE OF THE TWO LOSES THEIR EARNINGS.

The typical household today looks very different from the traditional image of a working family made up of one primary breadwinner and one homemaker. Instead, nowadays many households rely on two incomes to maintain their lifestyle, or even just to get by. Of the two thirds of Britons who are living as part of a couple, half (51%) are both currently working. Yet, without adequate savings or protection insurance, millions could be at risk financially if one of the main earners was unable to work for a period of time.

## DEPENDENT ON TWO INCOMES

Research by LV= has found that there are 3.2 million working couples in Britain that would be classed as DINOs. This means they are dependent on two incomes to make ends meet, and would struggle to cope if they lost one of their incomes. The Money Advice Service (MAS) recommends the provision of 90 days' worth of outgoings in savings to protect against a financial shock.

The lack of savings may be down to people simply not being able to afford to put money aside. A quarter (27%) of working couples surveyed say their double wage isn't stretching as far as it did this time last year. However, not having a back-up source of money leaves many couples at a high risk of financial difficulty if one person couldn't work for a period of time.

## LEVEL OF FINANCIAL PRESSURE

The level of financial pressure is also clear in the numbers who anticipate they'll be working for many years to come. Of couples who both work, three in five (58%) wouldn't choose to work if they didn't have to, while over half (54%) say the same of their partner. Three in ten (30%) people in a working couple expect that both they and their partner will have to work until retirement to make ends meet, while one in five (21%) think both of them will actually need to work throughout retirement.

Millions of couples need both incomes to pay the bills, with a significant proportion saying they'd have to make major changes if they had to rely on one income. And the impact of losing an income is not just financial. Two in five (42%) people in a couple say that if one of them couldn't work, it would strain their relationship.

## FEW HAVE INCOME PROTECTION

Despite the reliance so many households have on both incomes, worryingly few have income protection, leaving them vulnerable if one member of the household was unable to work for a period of time. Three in five (59%) say that neither they nor their partner has any form of income protection.

If your household is reliant on two incomes to make ends meet, it's important to consider how you would survive financially and emotionally if you were forced to live off one income. With so many households now relying on two salaries to get by, it has never been more important for couples to protect their joint incomes.

## HELP TO SUPPORT YOU FINANCIALLY

Income Protection (also known as 'IP insurance') is a form of insurance that helps support you financially if you have time off work and suffer a loss of earnings because of injury or illness. However, it is important to remember that Income Protection only covers you if you're unable to work due to illness or injury – it does not pay out if you are made redundant.

This type of insurance covers most illnesses that leave you unable to work. What that means, exactly, depends on your individual policy. For example, it may cover you if you are unable to work due to a stress-related illness or a serious heart condition. ■

## MUCH-NEEDED BOOST TO YOUR FINANCIAL RESILIENCE

Income Protection is one way for people to equip themselves should they find themselves unable to work for a period of time. It can be an affordable and valuable safety net that can provide a much- needed boost to their financial resilience. If you have any concerns or would like to review your options, please contact our Financial Planning Consultants for independent financial planning advice.

**Source data:**
*Research conducted by LV= published 17/1/2018*

MOST INCOME PROTECTION PLANS HAVE NO CASH VALUE UNLESS A VALID CLAIM IS MADE.

# WHY BEING OVER 40 IS THE NEW MID-20S

*Healthier lifestyles and feeling happier about financial planning for retirement*

**AN INCREASING NUMBER OF MIDDLE-AGED BRITONS ARE GETTING HEALTHIER AS THEY EXERCISE MORE AND EAT BETTER THAN THEY DID WHEN THEY WERE YOUNGER.** OVER-40S ARE TURNING TO HEALTHIER LIFESTYLES, WITH MORE THAN HALF RATING THEMSELVES AS MORE HEALTH-CONSCIOUS THAN THEY WERE IN THEIR MID-20S, ACCORDING TO NEW RESEARCH[1].

Nearly one in five (17%) of working over-40s say they are physically fitter than they were in their mid-20s, the nationwide study shows. And the fitness bug even applies to older age groups, with 11% of over-65s reckoning they are physically fitter than in their mid 20s.

### CAREER, FINANCES AND RELATIONSHIPS

The study asked over-40s to rate themselves now compared with their mid-20s and found 53% believe they have a healthier general lifestyle now. However, being happier with their lifestyle than in their mid-20s does not necessarily translate into all aspects of their lives according to the research which asked about career, finances and relationships.

Just 45% of over-40s feel happier about their financial planning for retirement than in their mid-20s, while a worried 36% admit to feeling less positive about retirement planning than in their mid-20s. Over-40s are most positive about financial security and relationships now compared with in their mid-20s.

But being happier at work now than in their 20s and being generally happier is not always the case as findings show.

### LESS POSITIVE ABOUT RETIREMENT PLANNING

Growing older means changing attitudes, and it is striking that more than half of over-40s believe that they are healthier now than in their mid-20s, with nearly one in five claiming to be fitter. As people earn more and save more, it is good to see they feel more financially secure. However, it's worrying that so many are less positive about retirement planning, especially as many will be fast approaching retirement.

| OVER-40s VIEWS OF | BETTER OVER-40 | BETTER MID-20s |
|---|---|---|
| Financial security | 62% | 31% |
| Relationship | 60% | 24% |
| Healthier lifestyle | 53% | 37% |
| Happier | 51% | 35% |
| Retirement planning | 45% | 36% |
| Job | 41% | 36% |
| Fitter | 17% | 74% |

The commitment to healthier lifestyles does not always translate into taking exercise – around 30% admit they either rarely (if ever) exercise for 20 minutes or only do it once a month. However, a committed 22% say they exercise for 20 minutes every day. ■

**MAKING THE MOST OF YOUR PENSION SAVINGS**

Taking control of our finances is not as daunting as it seems if we plan and focus on a range of small steps, such as saving and investing as much as possible based on your future needs. To find out more, please contact us to see which options could work for you.

**Source data:**

*[1] Research conducted by Consumer Intelligence for Prudential amongst 1,057 adults aged between 40 and 65 across the UK from 6 to 11 July 2017.*

# WHAT HAPPENS TO MY PENSION IF I MOVE ABROAD?

*Covering the basic principles*

**IN RECENT ARTICLES**, WE HAVE COVERED PENSIONS IN SOME DEPTH, AND SPECIFICALLY THE FLEXIBILITY THAT THE 'PENSIONS FREEDOMS' INTRODUCED IN APRIL 2015. THIS NEW FLEXIBILITY HAS MADE PENSIONS A MUCH MORE ATTRACTIVE PROPOSITION WITH MANY TAX ADVANTAGES, INCLUDING SHELTERING FUNDS FROM INHERITANCE TAX (IHT). HOWEVER, A QUESTION I HAVE BEEN ASKED SEVERAL TIMES RECENTLY IS: 'WHAT HAPPENS TO MY PENSION IF I MOVE ABROAD?'

Under UK pension legislation, an individual can access their personal pension benefits from age 55, with 25% of the fund usually being tax-free, and the remainder taxed as earned income. State Pension, when it commences, is also subject to Income Tax. For those who decide to leave the UK when they retire, the rules for personal and State Pensions differ, and I have covered the basic principles here.

**PERSONAL PENSION BENEFITS**

You can receive your personal pension benefits if you live outside of the UK, and the rules outlined above will still apply, but there are additional considerations:

- Your pension provider may not make payment to an overseas bank account, meaning that you may still need to retain a UK-based account
- Tax in your country of residence will usually apply, so if tax has been paid in the UK, you won't be taxed again if a double taxation agreement exists with the UK, but it is advisable to seek independent tax advice to be certain of the position
- Currency risk will apply, as payments made in sterling will need to be converted to local currency

A further option to consider is a transfer to a Qualifying Recognised Overseas Pension Scheme (QROPS). Over recent years, HMRC have tightened the rules surrounding QROPS, and professional advice is essential before considering this option.

**STATE PENSION**

You can still receive your State Pension if you leave the UK, but you will only benefit from any increases to it if you meet the following conditions:

- You live in the UK for six months or more each year
- You live in the European Economic Area (EEA). EEA countries are those in the EU plus Iceland, Liechtenstein and Norway, as well as Switzerland
- You live in a country that has an agreement with the UK to allow increases

As with personal pension benefits, you should seek advice regarding the tax treatment of UK State Pension benefits in your country of residence.

It may also be possible for you to continue to pay into a UK pension from outside the UK, but professional advice is again essential to make sure that the rules are correctly followed.

UK pensions have many tax advantages and continue to be an excellent way to provide for a financially secure retirement, which may extend to permanent residence abroad, perhaps in a warmer climate.

Whatever your plans are, quality financial advice should be sought to ensure that your retirement benefits are structured in a way that meets your needs and fits the rules of the country in which you live.

Armstrong Watson's team of independent financial advisers and tax consultants are well placed to help you plan for the future, whatever your retirement goals may be. ■

**Derek Baty, Financial Planning Director**

# GETTING THERE...

*Planning in advance ensures that all reliefs are maximised*

**IT SEEMS LIKE A LONG TIME AGO** SINCE THE CHANCELLOR ANNOUNCED THAT MARRIED COUPLES WILL HAVE A £1 MILLION NIL-RATE BAND (NRB) FOR INHERITANCE TAX PURPOSES. THIS WILL MEAN THAT THEY CAN HAVE ASSETS OF UP TO THIS AMOUNT, AND THEIR FAMILIES WILL NOT PAY 40% INHERITANCE TAX ON THE ESTATE. HOWEVER, WE ARE STILL NOT THERE YET, ALTHOUGH FROM 6 APRIL WE WILL BE TAKING ANOTHER STEP TOWARDS THIS MAGICAL FIGURE.

For those who have been following changes to Inheritance Tax, the Chancellor announced the introduction of an additional residence nil-rate band (RNRB) of £175,000 for each individual, which would be phased in from April 2017. This RNRB, which can be offset against an individual's main residence, started at £100,000 in April 2017 and will increase by £25,000 each April until 2020, by which time the relief will be £175,000. During this time, the original NRB is fixed at £325,000.

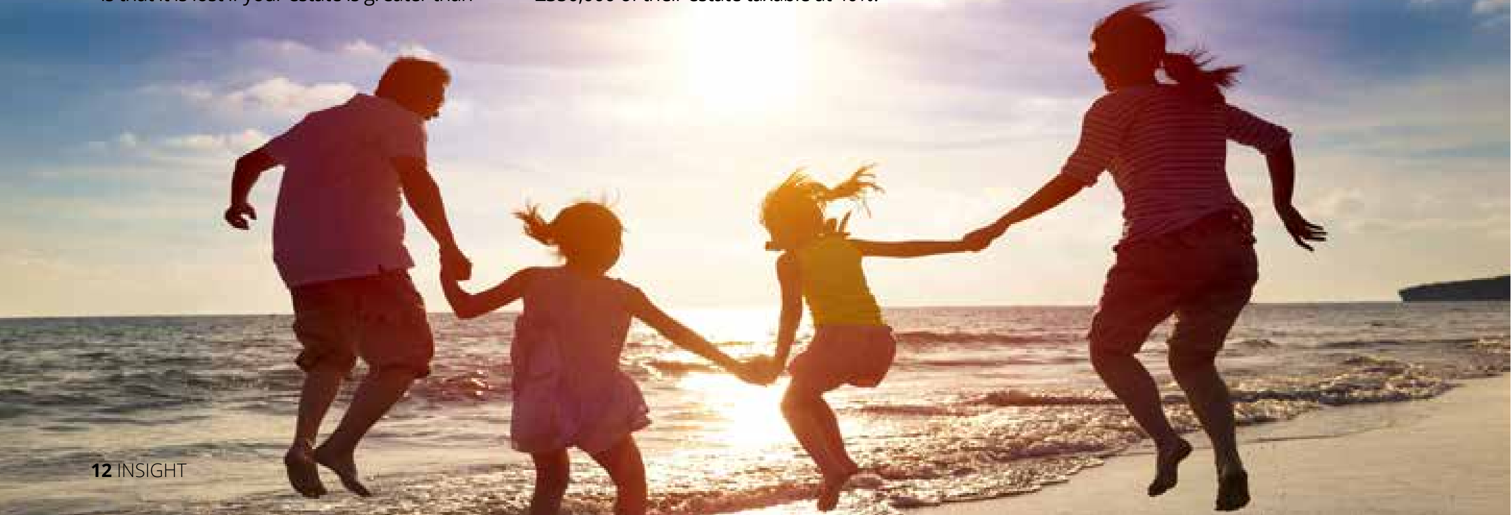
The combination of the two allowances will, by 2020, mean that a married couple could have an estate of £1 million, and Inheritance Tax would not be payable. However, as with most tax allowances, it is not quite as straightforward as it first appears.

One of the major issues with this relief is that it is lost if your estate is greater than £2 million, reducing by £1 for every £2 over this limit. The point that may have been missed is that this £2 million limit is in respect of all assets before reliefs, and therefore may include assets upon which there is no Inheritance Tax due because of reliefs such as Business Property Relief (BPR). This can mean that a married couple can have an estate that comprises £1 million of assets, such as the family home and savings, together with shares in the family trading company which are worth, say, £2 million, and Inheritance Tax of £140,000 is still due. This is because, even though the shares in the family trading company attract no Inheritance Tax, because of BPR the combination of these together with the other assets gives a gross estate of £3 million, and therefore the couple will not qualify for the residence NRB, leaving £350,000 of their estate taxable at 40%.

It may be that this issue can be solved simply by giving away half of the shares in the family company to the children or into a family trust during life, thus reducing the value of the couple's gross estate – for the purposes of the RNRB – to £2 million. Unlike much Inheritance Tax planning, there is no requirement to survive the gift by seven years for it to be effective for the purpose of the residence NRB; indeed, the gift would still be effective even if done the day before dying. This type of planning requires careful thought, not least because we don't know when we are going to die, and because succession should never be driven solely by the tax consequences but also by the commercial needs of the business. In this simple example, you can see how planning ahead can have a significant effect on the tax bill the family will face.

Whilst the increase in this relief is welcomed, it needs to form part of an overall picture where planning in advance ensures that all the reliefs are maximised, but not to the detriment of the wider circumstances of the family. ■

**Graham Poles, Tax Planner**




# CLIENT VIDEO TESTIMONIALS

*Demonstrating our value to individuals and businesses*

**WE HAVE BEEN PROVIDING INDEPENDENT FINANCIAL PLANNING ADVICE TO CLIENTS ACROSS THE NORTH OF ENGLAND AND SCOTLAND FOR MANY YEARS,** AND OUR AIM IS TO ALWAYS ENSURE THAT WE PROVIDE REAL VALUE TO THE INDIVIDUALS AND BUSINESSES WE WORK WITH.

In truth, value is very personal and difficult to define. Advice itself is somewhat intangible – it's not something you can touch or see, and yet what you receive and, more importantly, how you benefit from the advice can be very powerful and at times life-changing.

The challenge, then, is: how do we demonstrate the value that we add? We didn't feel that our words would be enough, and so over the last few months we have been undertaking a project with some of our clients, and we are grateful that they've agreed to be involved.

Over the course of the next few issues, we will be featuring these clients, and we are very proud of the results!

## AN INTERVIEW WITH...BEN PETERS, MANAGING DIRECTOR, HARROGATE

Ben founded his company, which is based in Harrogate back in 1995.

## BACKGROUND

Ben was a long-standing business client of David Richmond in our Skipton office but had never undertaken any financial planning with an adviser. Following his introduction to David Porter, Armstrong Watson Financial Planning Consultant, Ben was able to review the arrangements and products he had in place, consolidated multiple pension arrangements, and was able to identify the gaps in financial protection.

## WHY DID YOU CHOOSE ARMSTRONG WATSON FINANCIAL PLANNING & WEALTH MANAGEMENT?

It was long overdue that I had a review, and I really needed an adviser who would look at my arrangements on the whole, taking everything into account and come up with the right financial plan for my family and I.

It was particularly important for me to ensure I'd have enough income when I came closer to retirement age to enjoy the lifestyle that I'd envisaged, and that required the experience of someone like David Porter. I needed an adviser who could help me identify what those sums might be, to allow me to work backwards and ensure that the policies in place would be correct. One of the things I liked was that David didn't look for wholesale changes, and I am now in a far better and more secure situation than before.

## HOW HAS THE ADVICE PROVIDED HELPED YOU AND YOUR FAMILY?

The main benefit I've seen personally and for my family is being secure in the knowledge that my arrangements are fit for purpose, and I can future-proof as much as I can, ensuring my finances continue to be in good shape as I look towards retirement age and beyond.

Without this advice, my arrangements would have been much more sporadic and haphazard and left much more to chance, and with uncertainty as to whether I would have the income I wanted for my retirement – and that's no place to be.

## WHAT ARE YOUR EXPECTATIONS AS TO HOW THE RELATIONSHIP WILL DEVELOP?

Whilst I have hopes and high expectations that everything will continue to grow, I'm fully aware that that this might not be the case in this changing world. But, it's the continued support and ongoing connection that I have with David Porter that really makes me comfortable. I've received good advice, and I've now got great plans in place – I'm happy.

You can watch the full interview with Ben Peters at www.armstrongwatsonfp.co.uk/ben-peters-harrogate. If you'd like to get in touch or find out more about our financial planning and wealth management service, you can visit our website: www.armstrongwatsonfp.co.uk. ■

**David Squire –** *Financial Planning Director*

# NICS AND THE STATE PENSION

*Schemes in place to help build up extra years*

**YOUR ENTITLEMENT TO THE STATE PENSION IS BASED UPON YOUR NATIONAL INSURANCE (NI) RECORD,** AND SINCE 6 APRIL 2016 YOU NEED 35 YEARS OF NATIONAL INSURANCE CONTRIBUTIONS (NIC) TO QUALIFY FOR THE FULL AMOUNT. ENTITLEMENT IS MADE UP BY COMBINING EARNINGS, NI CREDITS, SELF-EMPLOYMENT AND VOLUNTARY CONTRIBUTIONS.

The State Pension currently pays around £165 per week to those who've accrued the full 35 years' NICs, but anyone with less than this will receive £4.70 per week less for each year they're below the maximum entitlement.

To put things in perspective, if your retirement lasted 25 years, just one year's NICs short of the 35 required for the full State Pension could leave you around £6,000 out of pocket over your retirement time frame, so if you have substantial gaps in your NI record this could make a big difference.

There are schemes in place to help build up extra years, but they aren't available to everyone.

## MARRIAGE ALLOWANCE

Married couples (and civil partners) are entitled to this credit, but it must be claimed, so many are missing out.

If one partner is a non-taxpayer and the other a taxpayer, the non-taxpayer can transfer 10% of their Personal Allowance to their higher earning spouse. It's worth over £200 a year and can still be backdated to the 2015/16 tax year.

## HIGH INCOME CHILD BENEFIT TAX CHARGE

This is a subject we covered in an article on our website last year and affects couples with a child under the age of 12 where at least one partner earns £50,000 a year or more. It is a tax charge which effectively wipes out some or all of the Child Benefit.

This charge has meant that many new parents are simply not claiming Child Benefit. Unfortunately, this also means that they are missing out on the valuable NI credit which counts towards their State Pension entitlement and creates gaps in their NI record.

It's important to still to claim Child Benefit even if you don't actually want it to be physically paid. Simply tick the box to say that you don't want to receive the payment and you'll protect your NI and State Pension record.

## GRANDPARENTS

If you or your parents stopped working before State Pension age so that parent(s) could go back to work following the birth of a child, the Government introduced 'grandparents credit' or 'specified adult childcare credit' which protects their State Pension record.

As the parent of the child is working, they do not require the NI credit associated with receiving Child Benefit (as covered above), so the working parent can transfer it over to the grandparent who is looking after their grandchild whilst they work, so the payment counts towards the grandparent's NI record and counting toward their State Pension entitlement.

## MILITARY SPOUSES

This is a specialist area, but military spouses who have been stationed outside the UK can claim NI credits for the years spent outside the country, as far back as 1975.

Under the new State Pension system (unlike the older basic state version), women cannot claim a State Pension based on their husband's NIC record, but if they've been stationed outside the UK it will mean they have gaps in their own NI records which this credit helps to fill.

## CARERS

Anyone doing 35 hours or more care per week can claim a benefit called Carers Allowance, which provides an automatic credit towards the State Pension entitlement. Those doing between 20 and 35 hours of caring a week, have a special carer's credit to help them fill their NI gap. More can be found here including how to claim: https://www.gov.uk/carers-credit.

## CONTRACTING OUT

Prior to 6 April 2016, it was possible to contract out of the Additional State Pension whilst you were working, as your employer could have offered a contracted-out pension scheme. In such circumstances, you would have paid a reduced amount of NIC instead of accruing into the State Pension scheme. It was anticipated that the amount you received from the employer's contracted-out scheme would be the same or more than you would have been entitled to under the Additional State Pension.

If you're not sure if you were contracted out, you can ask your employer or check with your pension provider, or if you have some old payslips check the National Insurance Contributions line – if it shows the letter D or N, then you were contracted out. If there is a letter A, then you weren't contracted out.

When you contracted out, you paid a lower amount of NI because you weren't paying into the State Pension scheme, and therefore your entitlement will be affected if you had contracted out at all during your working life. Remember, though, that you'll get a pension payment from your employer instead. Contracting out ceased on 6 April 2016, so your NIC will now be at the standard rate.

It's easy to obtain a State Pension forecast online and to check if you have any gaps to fill. You can also check what your State Pension age is, obtain an estimate of how much State Pension you may receive and view your NIC history. Simply visit: https://www.gov.uk/check-state-pension. Once you've registered, it is simple and quick to do.

You can make voluntary payments if you have gaps, but it's worth seeking financial advice to see if this is the best route for you to take. If you're a man born after 5 April 1951 or a woman born after 5 April 1953, you have until 5 April 2023 to pay voluntary contributions to make up gaps in your record between April 2006 and April 2016. ■

Contact one of our Financial Planning Consultants at any of our offices in Cumbria, Northumberland, Yorkshire and Scotland.

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