RCNMONEYTALK

The personal finance newsletter for members of RCN published by Lighthouse Financial Advice

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Royal College of Nursing
Shaping nursing since 1916

Financial peace of mind – make it happen!

As the RCN's preferred partner for personal financial advice, our job is to help you secure your financial future, whatever your stage in life and financial situation.

Dealing with financial issues can be daunting. Do you know how you would pay your bills if you fell ill? Or if you could save thousands of pounds on your mortgage? Or if your pension will give you enough income when you retire? Or your options for accessing any additional pensions? Or how you could help your family financially?

Financial advice specifically for nurses

RCN appointed us on account of our specialist knowledge of, and expertise in, the NHS pension scheme and financial issues affecting members. We provide practical, affordable, professional financial advice tailored to your individual needs.

Complimentary financial check-up

We are offering all RCN members a no obligation, complimentary consultation with one of our professional advisers. They can meet you at home, at work, or elsewhere. They will explain how you could benefit from advice and how much it will cost. You can then decide whether to go ahead. We have over 150 advisers all over the UK, so there's bound to be one near you.

Your adviser can explain how you may be able to:

- protect your family's income, so they have enough money if the worst happens
- build up a nest-egg tax-efficiently, for yourself or for your children or grandchildren
- boost your pension provision, so you will be able to enjoy a comfortable retirement
- take your pension tax-efficiently and get the income you need
- pay for long-term care
- pass on your wealth tax-efficiently.

Book your complimentary appointment

Call 08000 85 85 90 or email appointments@lighthousefa.co.uk to arrange a complimentary, no obligation, appointment with one of our professional financial advisers.

Also in this issue

Seminars in the workplace on topical personal finance issues

We organise seminars in hospitals and other workplaces on a wide range of financial planning topics. The seminars, which are free of charge, have a relaxed, informal atmosphere. Topics can include the consequences of changes to the NHS pension scheme, the financial impact of being made redundant, or other relevant issues.

Alternatively, we can run a surgery, where members book 30-minute, individual, confidential consultations with one of our experienced financial advisers. To discuss holding a seminar or surgery in your hospital or place of work please contact one of our regional representatives:

London, the Home Counties, the South West & South Wales:
Helen Andrews
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Options for accessing additional pensions

Deciding how to take your additional pension is an important decision and getting it wrong could have costly and far-reaching consequences. We look at some of your options.

If you are 55 or and have a defined contribution (money purchase) pension (ie one that is not based either on your final salary or career average earnings, commonly known as a defined benefit scheme), you may be wondering whether you should take advantage of the pension freedoms.

You can still take 25% of your pension pot as tax-free cash. You can still convert your pension pot into an annuity – and there is now more flexibility in the way in which income from annuities can be paid. In addition, you now have the option of taking some or all of the rest of your pension pot in cash, subject to paying income tax at your marginal rate(s).

Alternatively you can draw down your pension pot either as a single lump sum or as a series of lump sums at times to suit you. On this and the next page we look at two of these options: flexi-access drawdown and full cash withdrawal.

Flexi-access drawdown

This new option replaces what was previously known as flexible drawdown. When you ask your pension provider to move you to flexi-access drawdown your money is treated as being moved into a new pot. You can withdraw as much or as little of your money from this pot as you wish, when you wish, subject to any restrictions your pension provider or scheme imposes. The first 25% you withdraw is paid tax-free. Thereafter you will have to pay income tax at your marginal rate on payments you take.

One important point to understand is that if you only take the 25% tax-free cash and don't take any further income from your pot you can still pay in up to the full annual contribution allowance (currently £40,000 for adjusted earnings of up to £150,000). However, once you take out money over the 25%, your annual contribution allowance will fall to £10,000.

Your options at a glance

- **All in cash; 25% tax free, 75% taxable (full cash withdrawal).**
- **Gradual withdrawal of funds; partly tax-free, partly taxable (flexi-access drawdown) or uncrystallised funds pension lump sum (UFPLS).**
- **Buying an annuity.**

The value of your investments can go down as well as up, so you could get back less than you invested. A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

Why Gina, aged 60, decides to move her additional pension pot to flexi-access drawdown and take the tax-free cash

Gina has done well. A highly qualified and experienced nurse, she has been working for a large hospital in central London for decades. As a result she has accumulated enough in her NHS pension scheme for her and her husband, Simon, not to have to worry about money when she retires. She has also accumulated £60,000 in her private pension pot.

Gina has just turned 60 and she and Simon want to celebrate by visiting South America – a long-time dream. Simon is already retired, with enough income from his pension to cover a proportion of their everyday needs. She thinks she may be able to use her private pension to pay for the trip but is unsure of the implications of accessing it now. She decides to talk to a financial adviser.

The adviser first of all found out about all Gina and Simon's financial circumstances, their savings and other assets, and their outgoings and borrowings. He talked to them about what they want to do when Gina retires and how this would affect how much they spend.

The adviser explained that Gina is entitled to take 25% of her private pension as a tax-free lump sum. That would give her and Simon the £15,000 they need for the trip to South America.

The adviser also recommended designating the remaining £45,000 to what is known as flexi-access drawdown with her current pension provider.

He recommended not taking any income from it for the time being, as Gina is still working and therefore doesn't need any additional income. She can also continue contributing up to the full annual contribution allowance of £40,000. The adviser explained that if Gina did take income from the remaining amount her annual contribution allowance would fall to £10,000.

Tempted to cash in additional pension pots?

There is nothing to stop you taking all the money out of your defined contribution pension pot and spending it as you wish. For many people this would be a foolish decision, but for some could be a sensible one.

If you are aged 55 or over with a defined contribution (money purchase) pension (ie one that is not based either on your final salary or career average earnings, commonly known as a defined benefit scheme) you can cash in all or some of your pension pot at any time – assuming your pension provider or scheme permits you to do so. Cashing in your pension is a big step and not a decision to be taken lightly.

Do you have other pension income?

However, it is something you could consider if you have other pension income, for instance from your NHS pension or other defined benefit (such as career-average or final salary) schemes, that will provide you with the income you need. Cashing in your pension allows you to use your pension savings in a variety of ways. You could choose to pay off debt, such as your mortgage or credit cards, buy a new car, pay for a holiday or perhaps use the money to buy assets that aren't available via your current pension.

It is very important to understand and take into account the income tax you will have to pay on these withdrawals. The first 25% is payable tax-free. However, you need to realise that it is easy to trigger income tax of 40% or even higher on such withdrawals given the current tax threshold limits.

Expert advice

It is not advisable to cash in your pension without taking professional financial advice. Why not book an appointment now with one of our professional financial advisers? Call

08000 85 85 90 or email appointments@lighthousefa.co.uk.

Meet LISA

- **LISA stands for the new Lifetime ISA.**
- **They will be available from April 2017.**
- **They are being created to help people buy their first home and to save for retirement.**
- **UK residents aged between 18 and 40 will be able to open one and pay in to it until they turn 50.**
- **They will be able to pay in up to £4,000 a year (tax year 2017/18), and the government will top up their contributions by 25%.**
- **Whether a LISA is more suitable than a traditional pension or ISA will depend on your circumstance. We will be covering LISAs in more detail in the spring 2017 issue.**

Why John, aged 64, decides to cash in his additional pension pot

John, a widower aged 64, is ready to start enjoying life again. He has just agreed to retire early at the end of May 2016 and is fortunate to have built up a reasonable amount in his NHS pension scheme. He also has a small private pension currently worth £30,000.

His main concern is to have enough money to live comfortably for what will hopefully be a long retirement. Unsure of his options and the tax implications of his decision, he decides to consult a financial adviser specialising in pensions.

The adviser asks John about his lifestyle and how he envisages his retirement. He also asks him for full details of all aspects of his finances – including how much he spends, his savings and his borrowings, such as his mortgage.

Having gained a full picture of John's financial circumstances, the adviser recommends he take advantage of pension freedom by cashing in his private pension. He will receive 25% (£7,500) tax-free and pay income tax at 20% on the balance of £22,500, as he will have no other income in tax year 2016/17.

This will give him a total income of £25,500, which John and his adviser have agreed is enough for him to live on comfortably until he starts to receive his NHS and state pensions on 1 May 2017 when he will reach the age of 65.

Tax-free savings for everyone!

While the super-rich may move money offshore to try to save tax, you don't have to. The government actively encourages us to take advantage of legitimate tax-efficient savings accounts to build long-term savings.

Tax-exempt savings plans are affordable, long-term regular savings plans for adults and children that offer tax-free savings.

1. Payments don't cost the earth
They are an affordable way to save for the future – you can save from as little as £10 a month, up to a maximum of £25 a month.

2. Your choice of savings term
You can choose how long you want to save for, with the minimum commitment being 10 years. It's even possible to select the exact date that you receive your tax-free sum – for example, if you're saving for a specific birthday or an anniversary.

3. High street banks can't offer these plans
Only friendly societies can give you the additional tax advantages of tax-exempt savings plans, which provide you or your child with a cash sum payout at the end of your chosen term, free of capital gains tax and income tax. A tax-exempt savings plan can be held alongside an ISA, Junior ISA, Child Trust Fund or other children's savings plans.

4. You won't lose any money
With tax-exempt savings plans your cash lump sum payment is guaranteed to be at least what you've paid in, which means there's less risk taken with your money – provided you continue to keep putting the agreed amount aside each month. There is also the possibility of bonuses being added to your plan to increase its value. However, the addition of bonuses is not guaranteed.

Tax-exempt savings plans are longer term saving plans, so if you are unable to continue saving for the full duration of the plan, the amount you get back will be affected and in the early years could be very little, if anything.

Find out more

If you would like to find out about tax-exempt savings plans **and other tax-efficient accounts call us now on 08000 85 85 90 or email appointments@lighthousefa.co.uk and book an appointment with one of our professional financial advisers.**

Other tax-efficient ways of saving

ISAs
You don't pay income tax on any income you get from an ISA or any capital gains tax on any growth. Think of ISAs as your very own tax haven. The annual ISA allowance is a generous £15,240 (tax year 16/17), that's £30,480 for a couple. Junior ISAs are available for the under 16s – the maximum you can pay in is £4,080 a year (tax year 16/17).

Lifetime ISAs (LISAs) will be available from April 2017 to help young people save for their first property or for retirement. See article on page 3.

Pension contributions
Contributing to a pension is one of the most tax-efficient ways of saving, as you receive tax relief on your contributions at the highest rate of income tax you pay. You may need to claim some of this yourself if you are a higher rate taxpayer.

NS&I
National Savings and Investments (NS&I) offer 100% secure tax-free children's bonds and ISAs. They also operate Premium Bonds – prizes are tax-free.

Low earners can now pay less tax

The introduction of the personal savings allowance means that most people with an income from earnings and interest of less than £17,000 don't have to pay any tax on the interest paid on their savings. To find out more call 08000 85 85 90 or email appointments@lighthousefa.co.uk and book an appointment with one of our professional financial advisers.