

Teachers Financial Planning

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WEALTH KNOWLEDGE

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In this month's Wealth Knowledge... The government has admitted that the changes to the state pension system have been widely misunderstood. 34% of people who accessed their pensions in the third quarter of 2015 did so in the form of cash withdrawals. And, with family household debt rising, we look at how to start financial planning.

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Confusion over state pension changes

The new state pension which will replace basic and additional pensions from 6 April 2016 has been "widely misunderstood" according to a report by the Work and Pensions Committee.

The report found that a lack of information on current values, age eligibility and how much income you can receive.

Some women in particular, who had expected to receive their pension at the age of 60, might not be aware that their retirements have been postponed by up to 6 years.

The new state pension age for both men and women will reach 66 by April 2020.

Frank Field MP, chair of the committee, said:

"Retirement expectations have been smashed, as some women have only been told a couple of years before the date they expected to retire that no such retirement pension is now available."

State pension changes

Those qualifying for the state pension after 6 April 2016 will fall under the new system. Here are 6 key changes to be aware of:

1. Basic and additional state pensions will be replaced by a flat rate, single-tier state pension of up to £155.65 a week
2. The deferral rate is decreasing from 10.4% to 5.8%
3. People will receive a state pension statement from the Department for Work and Pensions to give an indication of their starting amount
4. Qualifying national insurance years will increase from 30 to 35 years
5. Those already receiving the state pension can top it up between now and April 2017
6. State pension age will increase for both men and women. It will be 65 by November 2018, 66 by April 2020 and 67 by 2026.

Get in touch to talk about retirement planning.

Cash withdrawals popular way to access pensions

Cash withdrawals are the most common way for customers to access their pensions, according to the Financial Conduct Authority (FCA).

Since April 2015, consumers have had greater freedom to withdraw cash from their pension pots.

Of the 178,990 pensions that were accessed between July and September 2015:

- 60,600 (34%) were cash withdrawals – either partial or the full pot
- 54,604 (30%) used income drawdown, including both partial and full withdrawals
- 23,385 (13%) were used to purchase an annuity
- 40,401 (23%) were full withdrawals of small pots.

Withdrawing your money

In most circumstances, if you are 55 or over, you can take up to 25% of your pension tax-free as a lump sum, with the remaining 75% taxed at your marginal rate of income tax.

With more people choosing to withdraw lump sums, it is important to understand the long-term implications of your decisions. Timing how you access your money can make a difference to the amount of tax you pay.

For example, a saver withdrawing a £50,000 pension pot as a lump sum would pay £5,380 in tax (assuming they had no other income).

However, withdrawing a lump sum of £12,500 a year over 4 years would be tax-free, provided the saver had no other income.

We can help plan how you access your pension.

Financial planning: getting started

Family household debt rose by 42% in the last 6 months of 2015 to the highest level in 2 and a half years.

According to Aviva, average family debt (excluding mortgage borrowing) is £13,520, up from £9,520 in summer 2015.

Research by Citizens Advice into people's finances found that 62% plan their finances and 31% plan more than a year ahead.

33% could be missing opportunities to make savings on their household bills.

Louise Colley, managing director of protection, Aviva said: "The alarming levels of rising household debt, along with a recent reduction in income and savings levels, paints an uncertain picture for the family purse in 2016."

Gillian Guy, chief executive of Citizens Advice, said: "Looking at how you spend your money and where you can trim back will help you plan a budget that meets your daily costs."

Financial planning checklist

Planning your budget is important to achieve a financially secure future. Here are some things you need to consider:

Know your budget

Work out your average money in and outgoings each month to build you budget.

Finding the best deal

Searching for the best deals that match your usage and needs such as energy deals.

Lower costs

Use tools that will reduce costs in the long-term such as water meters for homes which allow you to only pay for what you use.

Diarise your contracts

Keep records of any contracts or bills you're tied to.

Manage your debts

List your creditors, how much you owe and when you need to pay it back.

Maximise you income

Tax can have an impact on your net income so it's important that you're registered on the right tax code with HMRC.

Manage your pension

There are many pension schemes to help you support your income when you retire. Basic state pension, auto-enrolment and private pension are all viable options.

We can help you with financial planning.

Important Notice

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. Pension eligibility depends upon individual circumstances.

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