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WEALTH KNOWLEDGE

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In this month's Wealth Knowledge...just under half of 25-34 year olds plan to utilise shared parental leave when they start a family. The yield on UK 10-year bonds has fallen to a record low, as the Bank of England missed its bond purchase target. There were 8.3 million people aged 50-64 in employment in 2015. And, 159,000 people took advantage of pension freedoms in Q2 2016.

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Future parents plan to use shared parental leave

47% of 25-34 year olds plan to take advantage of shared parental leave (SPL) compared to the 1% of parents that have used it to date.

The research by Scottish Widows' Centre for the Modern Family reveals that 31% of fathers and 16% of mothers are the sole payers of childcare.

44% of prospective parents believe this is a shared responsibility, as compared to 23% of current parents.

The research also shows that many people do not yet have a full understanding of SPL.

Of those that do not plan to utilise it:

- 14% say they don't understand how it works
- 13% believe it will harm their careers
- 7% don't think their employer would accept it.

Implementing SPL

Employees are eligible for SPL if they:

- share responsibility for the child in question
- have worked for their employer for 26 weeks or more by the end of the 15th week before the due date
- have given the correct notice
- are still employed when they take the leave.

It's not possible to share leave if 1 parent is not eligible.

Shared parental pay is £139.58 a week or 90% of the employee's weekly earnings, whichever is lower.

SPL can be split into 3 separate blocks instead of taking it all at once. Parents can take their leave at the same time as each other or at different times.

Talk to us about shared parental leave today.

Gilt yields at record low

The yield on UK 10-year bonds fell to a record low, as the Bank of England (BoE) failed to reach its expanded bond-buying programme target.

The BoE announced 9 August 2016, that it had fallen short of its target to purchase £1.17 billion in longer-dated government debt.

The yield on 10-year bonds fell 3 basis points to 0.53%.

Analysts have pointed towards institutions like insurance providers and pension funds wanting to hold onto their long-dated bonds to continue to generate income to meet longer-term liabilities.

Darren Bustin, head of derivatives at Royal London Asset Management, said:

"With plummeting government bond yields and pensions schemes desperate not to increase deficits further, we could well see more bond purchase failures, with low coverage ratios a likelihood for some time."

Effect on pensions

The record low yield on UK 10-year bonds could have a number of effects on pensions.

Former pensions minister Ros Altmann has highlighted the following areas:

Lower rates mean more expensive pensions

As gilt yields fall so do annuity rates and pensions become more expensive to pay.

Rise in asset prices don't offset liabilities

As gilt yields fall, pension deficits will increase and any subsequent rise in asset prices are likely to be less than the rise in liabilities or annuity costs.

Employers

Rising pension deficits may create pressure for employers to put in more money in order to support schemes, which takes away resources they could be using on their operations.

Contact us about your pension today.

Older workers stay in employment

There are more people aged 50-74 in work than ever before, according to figures from the Department for Work and Pensions.

There were 8.3 million people aged 50-64 in employment in 2015 and 1.1 million over the age of 65. The unemployment rate for those aged 50 and over is 3.3%, the lowest level since 2009.

The proportion of 70-74 year olds in work has doubled over the last decade to 9.9%.

Employment minister Damian Hinds said:

"It is clear that people over 50 aren't slowing down or getting ready for retirement. I want to see businesses supporting this momentum while also reaping the benefits of the skills and expertise these older people can bring to the workplace."

Options for older workers

Continue working

The default retirement age (formerly set at 65) has been abolished, meaning that individuals can now work for as long as they want or are able to.

In fact, working past your retirement age can be beneficial, as you will not pay national insurance once over state pension age. Deferring your state pension could also increase your payments when you do start claiming it.

Flexible working

Gradually scaling down the amount of hours worked. Every worker has the right to request flexible working from their employer.

Sole trading

Sole traders have fewer reporting obligations compared to limited companies.

We can advise you on your retirement strategy.

Pension freedom usage doubles

The number of people taking flexible payments from their pension more than doubled in Q2 2016.

In the 3 months to June 2016, 159,000 people used pensions freedoms, compared to 74,000 in Q1.

Since April 2015 people aged 55 or over in defined contribution schemes have had greater flexibility over how they access their savings.

So far there have been 772,000 payments totalling more than £6 billion.

There are numerous ways to take pension savings:

Lump sum payments

People can withdraw pension funds in multiple cash lump sums. The first 25% remains tax-free and the rest is taxed at your marginal rate. No tax will be charged if you withdraw less than the annual personal allowance.

Annuities

Using your savings to buy an annuity can guarantee you an income for the rest of your life. You can combine this with the 25% lump sum if you wish.

You don't have to take the annuity rate offered by your pension scheme. It is worth investigating other providers to see if you can get a better deal.

Drawdown

The drawdown system has been simplified and renamed flexi-access drawdown. There are no longer any limits on how much you can take from your pension pot each year using drawdown.

You can withdraw up to 25% tax-free and keep the remainder of the pot invested. You choose where to invest and when to take income from it.

Capped drawdown and flexi-access drawdown funds are no longer available to new retirees.

You can use the government's free and impartial guidance service, Pension Wise, to help you with your pension options. Visit the website at www.pensionwise.gov.uk or call on 0800 138 3944.