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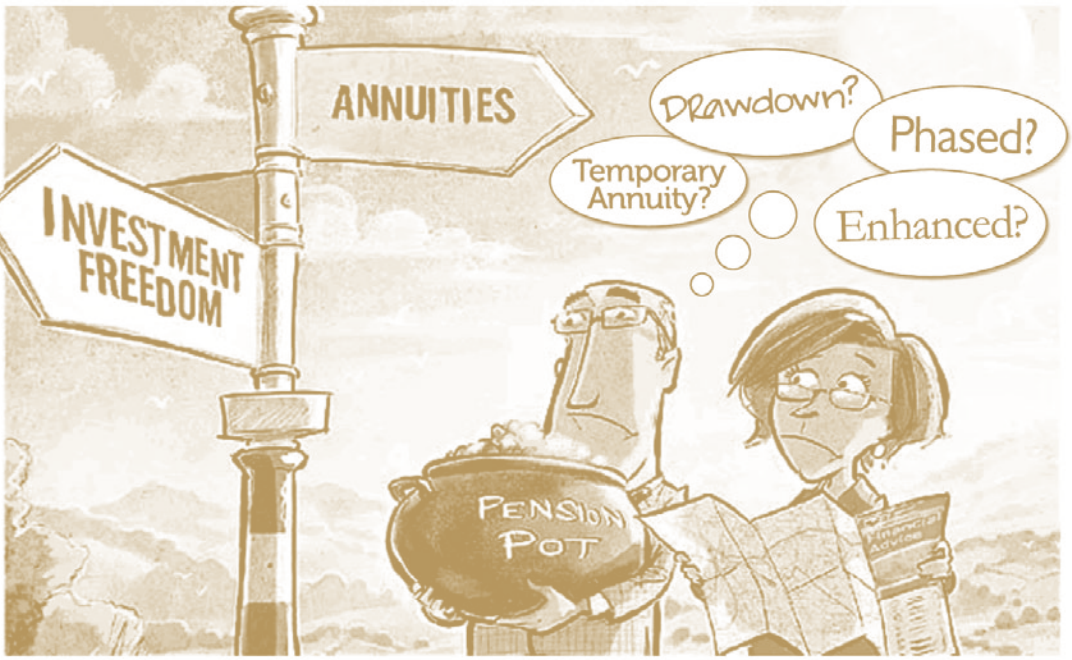
It is still early days but there is a surprising resilience in the property and financial markets following the BREXIT vote. Residential property prices have remained reasonably stable and mortgage rates remain at the lowest levels on record.

Pensions and taking the benefits from them, however, remain a complicated area. To help understand the options here follows: A New Retirement Menu for Personal Pensions. We know that the subject of pensions is confusing to most people, so do feel free to contact us with your questions. Do note that the "Retirement Menu" (overleaf) relates to Personal Pensions only. The regulations for Final Salary Pensions where the benefit is linked to years of service and salary are different.



Continued overleaf

Menu

RETIREMENT MENU

Minimum age 55

Cash please

Those who are 55 and older can now draw out all (!) of their pension fund as cash. So you can ask to have it all as cash (!) **BUT…**

Tax! The downside is that with each pension only 25% of the fund can be taken tax-free. Any amount that you take over and above this tax-free 25% will be taxed as if you had earned it in the Tax Year in which you draw it out. That amount is added to your other income and is taxed accordingly.

Example:
A person aged 55 is earning £20,000 per annum and paying about £1,800 in tax on those earnings. He has a pension fund worth £40,000 and he wants to take it all out. He would get the first £10,000 tax free. The remaining £30,000 would be added to his £20,000 other earnings and he would be taxed as if he had earned £50,000. This would result in him paying £9,200 in tax instead of £1,800. So he would lose £7,400 of his £30,000 pension to the taxman. A person already earning enough to put him in the higher rate tax bracket (40% tax where the total income exceeds £43,000) could lose 40% of the money he takes out over and above the tax-free amount. In our example of a £40,000 pension fund, he would still get the £10,000 tax-free but lose £12,000 of the remaining £30,000 in tax). Therefore it is important to take tax into account when working out when to take money out of the pension.

(Note: this article refers to personal pensions only; the rules are different for a Final Salary Scheme where the benefit is based on the salary and years of service and some other special types of pensions.)

Income Options

(Note: all these options assume that you take out the tax-free cash.)

Option 1: Leave the balance invested with the option to take out further funds in the future – either when your need is greater or when your tax position is more advantageous. This is called a Flexi-Drawdown arrangement as it provides the flexibility for you to draw out whatever sums you want at any time you want them. But remember that once you have drawn out the tax-free element, any other monies you take out will be taxed. Such an arrangement also involves investing your pension fund so you would need to consider both the risk that comes with such investments as well as the provider's charges for running the pension.

Option 2: Use the balance left over to set up a guaranteed income for life (an "annuity"). The amount of income received would depend on your age – the older you are, the more you would get. The amount of income you would get also depends on your state of health – the worse off you are health-wise, the greater the income you are likely to receive. You can set it up on just your life or so that it covers both you and your spouse/partner. The idea of guaranteed income is attractive but the current annuity rates are quite low so the amount of money you can obtain may be a bit disappointing.

Option 3: Take a short-term guaranteed income (a "temporary annuity"). This pays out a guaranteed level of income for a fixed number of years and then pays out a guaranteed sum on maturity – which can then be used again in Option 1 and 2 above or to repeat this Option 3 for a further term of years.

MORTGAGE PRISONER? THE CHAINS GROW LOOSER!

Mortgage lenders are becoming more flexible in dealing with borrowers who are locked into their present mortgage arrangement for one reason or another. There are those who were self-employed and found that the self-certification of income enabled them to raise the level of the mortgage they needed. Others will have taken out a mortgage in the past where they paid only interest, and now are approaching the end of the agreed mortgage term and their strategy to repay the mortgage may not now be workable. Still others have reached an age where they can get only a very short-term mortgage or even no mortgage at all.

Problem: Age

Solution: Try your present lender to see if they can provide some flexibility or contact us as there are a number of small lenders who will take a more enlightened view about maximum mortgage ages.

Problem: Providing adequate income

Solution: Again, first try your present lender to see how they may be able to help.

Then try us to see what can be achieved on the income that you can prove. There is a wide variation in the way different lenders calculate the maximum lending they will permit. And if you and your spouse are both aged over 55, it is worth seeing if a Lifetime Mortgage would provide a solution. A Lifetime Mortgage is based on your age and property value and can run indefinitely. There are no maximum age restrictions and there are no income requirements. (But do remember that a Lifetime Mortgage is only going to work where the mortgage is relatively low in comparison to the property value.) Give us a ring and we can let you know what can be done.

Problem: An interest-only mortgage reaching the end of the mortgage term

Solution: The first thing to do is to work out what you want to do. It may be that you can deal with the problem by simply selling your property and downsizing. It is also possible to speak with your present lender and get them to extend the term of the mortgage if that is going to enable you to repay it in the reasonably near future – say, up to 5 years. There are also still lenders who will do interest-only mortgages and it may be worth talking with us about those options. And there is also the Lifetime Mortgage option mentioned above where the mortgage owed is relatively small when measured against the property value.

WHAT IS THE VALUE OF A PARENT?

Research has been done on the financial value of a parent based on what it would cost currently to replace the activities they do in raising a family. Taking into account cooking, cleaning, transport, childcare, etc., it works out as an average of £631 per week for the parent at home and £448 for the parent who is working. Over half of the parents contacted in the survey had no financial protection in place. The cost of taking out simple life assurance is not huge. A woman or man aged 30 can insure themselves for £200,000 for under £10 per month each, or under £15 per month for a joint policy (non-smokers and without major medical complications).

We can speedily provide you with quotes.

GETTING OLDER – WHAT ABOUT THE LIFETIME MORTGAGE?

The Lifetime Mortgage is not a completely new arrangement but over the last few years their flexibility and interest rates have improved. Borrowing is based on age and percentage of value of the property. There are no income requirements to be met. The youngest age allowed is 55 and in the case of a married couple or partners, the youngest of the two must be 55 or older. It must be your main residence. The level of borrowing starts at about 21% of property value at age 55 and goes up to about 46% at age 80. So on a property worth £200,000, that would be £42,000 borrowing at age 55 and £92,000 borrowing at age 80.

You can have the option of paying the interest so that the borrowing does not increase or allowing the interest to be added to the amount borrowed. In either case the mortgage and any interest owing is paid off on the eventual sale of the property. The Lifetime Mortgage can also be moved to a new property (subject to property value).

SOME TIPS FOR THOSE OF US GROWING OLDER (OR WITH FRIENDS OR RELATIVES GROWING OLDER!)

- If income is tight, consider the possibility of renting out a room or two. You can earn up to £7,500 a year from this free of any tax.
- As we reach a point where some help is needed with our affairs, we should consider taking out a Lasting Power of Attorney to ensure there is someone who will be able to assist when needed.
- Make sure you are not paying more tax than you need to. The new taxation of savings income and of dividends may work out in your favour.

USING OUR EXPERIENCE AND EXPERTISE

Our purpose is to help our clients to achieve their objectives and enjoy financial security. We can call on many years of experience and expertise and seek to deal with all matters in a speedy and efficient manner with the greatest degree of professionalism possible. Here are some recent client comments:

"Wanted someone with a track record of stability and we knew the owner. Absolutely met our expectations."
– Mr & Mrs R R of West Sussex

"Many thanks for all your patience, guidance and expertise in arranging this for us.Your help is very much appreciated."
– Mr & Mrs PL of Surrey

"I wanted to improve on the high interest rate I was paying. Sovereign Finance gave me sound advice on how to achieve this and I am thrilled with the outcome and results."
– Mrs AG of East Sussex

"I am impressed.Many thanks for the good work."
– Mrs KC of West Sussex

Best wishes, Tom Shuster *Partner Sovereign Finance*

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