UNISONMONEYTALK

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UNISON plus

Making the most of your tax-free allowances

A key consideration for anyone with money to invest is making use of the tax breaks available, and Friendly Societies have some options to consider.

With much uncertainty about interest rates and a possible interest rate rise early next year, is now the time to think about how to squeeze more value out of your savings pots? Are you making the most of your tax breaks?

Kingston Unity Friendly Society believes in fairness and opportunity. They understand that recent years have left savers wanting, on the back of a record low Bank of England base rate. They aim to provide a consistent return for savers who wish to invest longer term.

Why choose a Friendly Society?

Friendly Societies are mutuals, organisations owned by their members. Mutuals work for their members – this means that any profit is usually shared with their members not shareholders. Like many mutuals Kingston Friendly Society has been around for a long time, since 1840 in fact!

Kingston Unity's With Profits Investment ISA is a Stocks & Shares ISA that, by investing in a range of assets, aims to provide a less risky alternative to purely equity-based ISAs.

What is a With Profits Fund?

This is an investment fund where your money is combined with that of other customers and then invested in a range of different assets such as shares, property, bonds, gilts and cash.

Why consider an ISA?

When you put money in an ISA you don't pay any tax on income you take from it or on any growth when you cash it in.

There are a limited number of With Profits ISAs available, one being Kingston Unity's. Here are its main features:

- Available to adults and eligible children as a Junior With Profits Investment ISA.
- Lump sum and regular premiums accepted.
- Cash and Stocks & Shares ISA transfers accepted with no upper limit.
- 101% of the fund is paid out if the owner dies.
- Invests in Kingston Unity's With Profits Fund.
- Grows by the potential addition of bonuses.
- Bonus rate declared annually - based on the performance of the fund during the year.
- Consistent history of bonus rates paid.
- Bonus rates are not guaranteed and past performance is no guarantee of future returns
- Depending on investment conditions, you could get back less than you paid in, particularly if you close your ISA early.
- A Market Value Reduction (MVR) may be applied to withdrawals or closures during times of adverse conditions such as a stock market crash.
- Guaranteed Market Value Reduction (MVR) free dates on 10th anniversary and each fifth anniversary after that.

What is a Market Value Reduction (MVR)?

This is a charge that may be applied to withdrawals or closures during times of adverse conditions such as a stock market crash. It cannot be applied on guaranteed MVR-free dates.

Talk to a financial adviser to find out if a With Profits Investment ISA is a suitable home for your savings.

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Tax Exempt Savings Plans (TESPs), only available through Friendly Societies, offer a further tax break for long-term savings. Under current rules this could add a further £300 to your annual tax allowance. Make sure you're not missing out!

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Multi-asset investing: what it is and how it works

When you invest it is generally advisable to spread your money across a range of investments. Multi-asset funds are one of the most effective ways of doing this. The suite of multi-asset portfolios at Rathbones offer investors the benefit of access to investment opportunities for making money that would not necessarily otherwise be open to them.

Multi-asset funds are designed to spread your money across a number of asset classes, regions, types of investment structure and products — effectively a mixed portfolio within a single fund. Some such funds invest in a broad range of investments such as individual shares, government bonds or gold; others invest in some of the thousands of single-country, single-strategy funds on offer in the UK. The common theme is that you, the investor, don't have to decide which funds, investments and products to select at any given time, or in what proportions to make use of them: that is all done by your fund manager.

You are probably familiar with the idea that spreading your investment across a number of different asset classes, product types and structures, provides the best chance of reducing overall losses to your portfolio at any given point in time. The basic principle is that if one specific investment type falls, you stand a good chance that your other investments will counterbalance or cushion that loss. That is precisely what multi-assets funds can offer.

A broader range of investments
They invest in a mixture of funds and other types of investments, for example direct equities, bonds and property investments. The degree to which these latter are used depends on the resources and expertise of the multi-asset management company.

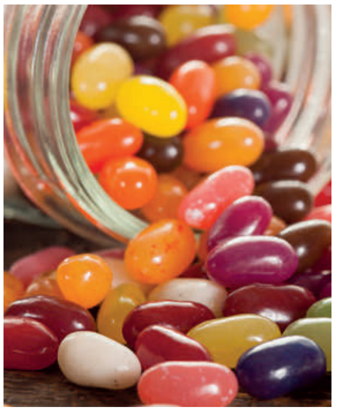
Different types of multi-asset funds
It is important to understand the different types of multi-manager/multi-asset products — the managers of some funds are restricted to investing only in the fund range of their own company. Other managers can invest right across the funds market, wherever they believe they have found the best opportunities. You may also hear mention of 'active' management (where the fund manager attempts to outperform the market, using various investing strategies) versus 'passive' management (where the fund's portfolio mirrors a market index and moves in line with it).

Some managers believe that there could be a place for both strategies in multi-asset investing, mainly because it's the way the assets are combined that drives the balance of risk and returns for these funds. Also, don't forget that by investing in a fund that contains other funds, you are benefiting from exposure to all the underlying investments within those funds — again, helping to spread risk.

Rathbones multi-asset portfolios
The Rathbone Multi-Asset Portfolios are a collection of funds catering for different risk profiles over different time frames – the Rathbone Total Return Portfolio; the Rathbone Strategic Growth Portfolio and the Rathbone Enhanced Growth Portfolio. The three funds are well-diversified which means that they aim to reduce risk by investing in a variety of different assets which do not behave in the same way at the same time. This could mean investing in traditional equity (i.e. shares) and fixed income (debt) funds as well as alternative investments including, but not limited to, commodities and private equity.

The funds are built to allow for flexibility in terms of the types of asset in which they can invest. They are designed to be core holdings for people seeking to generate a level of return within defined levels of risk. They could be suitable as core holdings for anyone saving for a pension or in an overall investment portfolio.

Your attitude to risk is important
Your financial adviser will help you make an assessment of your attitude to risk. This will depend not only on what outcome you wish to achieve but on the time horizon over which you would wish to achieve it. There may be sufficient time to experience short-term volatility of returns if it means the potential for a greater outcome over the longer-term. Once your time frame has been assessed against your risk tolerance, your adviser will recommend which fund or combination of funds, is most suitable for you.



Rathbone's multi-asset portfolios aim to reduce risk by investing in a variety of different assets.

The funds ... could be suitable as core holdings for anyone saving for a pension or in an overall investment portfolio.

Past performance should not be seen as an indication of future performance. The value of your investments and the income from them can go down as well as up, so you could get back less than you invested.

The NISA way to save

Saving into an ISA is a great way of making the most of your cash.

Whether you're looking to supplement your retirement income, build up funds for a property purchase or you simply want a "rainy day" nest egg, ISAs offer an array of savings options.

ISAs underwent a transformation in 2014 which led them to be dubbed "super ISAs", or NISAs (New ISAs). A series of reforms swept away old restrictions which had meant that you could only save up to half of your annual allowance in cash, with the remainder needing to be invested in stocks and shares.

Cash or stocks and shares – or both!

Now, you can save all your annual allowance in cash or in any combination of cash and stocks and shares. Taking professional financial advice will allow you to make the best choices for you and your family.

Your annual allowance

The annual ISA allowance has also become significantly more generous. The 2015/16 allowance is £15,240.

The ability to put your money in a place with attractive tax breaks is certainly appealing at a time when low interest rates mean the returns on offer in the savings market generally can be small. And you can take your money out at any time too.

The tax breaks

Tax breaks for ISA investors remain as attractive as ever:

- Any income from ISA savings and investments, whether interest, dividends or bonuses, is completely free of income tax.
- There is no Capital Gains Tax to pay on gains arising from ISA investments.
- You do not have to detail your ISA savings on your tax return, or even tell the taxman that you are an ISA investor.

New ISA perks

A further move by the Government made the benefits of saving into an ISA even more attractive. In December 2014, it was announced that spouses would be able to inherit their partner's ISA wrapper.

The changes mean that if an ISA holder dies, they can pass on their existing ISA benefits to their spouse or civil partner via an additional ISA allowance.

The surviving spouse or civil partner will be allowed to invest as much into their own ISA as their spouse used to have, in addition to their normal annual ISA limit.

Around 150,000 people a year have previously been losing out on the tax advantages of their partner's ISA after their death, even if they were saving as a couple.

So how can you choose?

As an ISA investor, the array of potential options is vast. Firstly, you may be weighing up how much money to save in cash and how much to save in stocks and shares.

A cash ISA could give you more certainty over your returns, but investing in stocks and shares could offer higher returns.

Generally speaking, if you want to tie up your money for a while, and you are comfortable with the value of your investments possibly going up and down, it could be worth thinking about a stocks and shares ISA.

But if you want to invest in stocks and shares, what do you choose? The types of investment that can be held in an ISA include corporate and government bonds, unit trusts, investment trusts as well as individual shares.

Taking advice

As with many financial products, the golden rule if you don't understand something is to seek professional financial advice before taking the plunge. After all, this is your hard-earned cash.

The value of your investments can go down as well as up, so you could get back less than you invested.

The value of a guaranteed lifetime income

If you have additional pensions, you may be tempted to withdraw the entire amount. However, this needs to be balanced against the risks, including running out of income.

Do you have pension savings apart from your public sector pension? If you do, and they are in a defined contribution pension scheme, such as personal pensions, group personal pension (company schemes where the pension is not based on final salary), stakeholder pensions or you pay additional voluntary contributions, you now have the right to access these funds as soon as you turn 55.

You may be tempted to cash them in, for instance to pay off your mortgage, clear debts or for a one-off purchase. While this may make sense for some people, cashing it in is not always a good idea if you need to generate income for the rest of your life.

A decision: what would you choose?

Take Mary – at 65 years old, she is planning to retire on her basic state pension of £6,029 each year and her public sector pension of £11,200. She also has a pension pot of £40,000, from which she decides to take her tax-free cash of £10,000.

Mary has ruled out the option to take the rest of her pension pot as income drawdown because she doesn't want to take any investment risks, so she has a choice: she could withdraw all of the remaining £30,000 from her pension pot as a cash sum and pay tax on it, pushing her in to the higher rate tax bracket. After paying £6,968.80 tax, she should be left with £23,031.20 which she would then have to manage if she wanted to make sure it lasted for the rest of her retirement. However, most pension providers will be forced to apply emergency tax codes to the transaction resulting in an overpayment of tax which you then need to claim back from HMRC.

However, if Mary uses her £30,000 to secure a guaranteed income for life by buying an annuity, not only will she avoid paying the extra £6,968.80 in tax now (she will pay a small amount of income tax each year as her income is above the threshold), she will also get £1,700* each year, guaranteed for life, on top of her other pension income.

A 30 year retirement?

Using the Longevity Tool on justretirement.com Mary discovers that, as a 65 year old woman of average health, she could have a three in four chance of living to age 86, a one in two chance of living to 93 and a one in four chance of living to age 98. If she does live to 96, that will be 31 years after she originally retired - this would equate to an income of £52,700 provided by a conventional pension annuity.

Why take professional financial advice?

It's impossible to guarantee when you might die, or more critically, how long you might live for. How long will you need to make sure that you have an income? While you know roughly how much you will get each year from your public sector and state pension, you may want to use your additional pension savings to secure further regular income. That's why it is important to weigh up the benefits and risks of all of your options, and before making your decision, to seek advice from a professional financial adviser.

The government offers free guidance, but there's a world of difference between guidance and professional advice specific to you, which is what you get from a professional financial adviser.

*The illustration is based on the average standard rate of an individual aged 65 with a £30,000 pension fund, five-year guarantee period, monthly in advance, no escalation, no value protection, no dependant's pension, based on RH2 7RT postcode. A facilitated adviser charge of 2.0% has been assumed. Rates via The Exchange from Iress on 13.08.15.

How to reduce tax on your pension and other assets

Beware when accessing pension savings you may have in addition to your public sector pension – you could end up with an expected tax bill, depending on how and when you access your money.

The pension freedoms are one of the biggest shake-ups to private pensions in a generation. In a nutshell, they mean that you can withdraw as much of non-civil service pension funds that are based on contributions rather than your salary as you like at any point from your 55th birthday onwards.

It's important to note that although normally only 25% of such pension funds is tax-free; the remaining 75% will be potentially liable to income tax if you withdraw it. This can land you with a hefty tax bill. There are, however, several ways to reduce the tax liability on your additional pension, as well as on your other assets.

What pension freedoms mean in practice

Imagine, for example, that you have an additional pension fund of £50,000 and choose to withdraw the entire amount. This is how you would be taxed:

- 25% of it would be tax-free, so you would get £12,500 without paying any tax.
- The remaining 75%, or £37,500, would be taxable.
- If you also have an income of £20,000 from your civil service pension, you'd have a total taxable income of £57,500.
- As a higher rate tax payer, your tax liability on this amount would be £12,403. (40% tax of £6,046 and 20% tax of £6,357).
- £10,523 of that bill would be as a result of taking your pension fund as a lump sum, meaning you would lose over 20% of your pension fund to tax.
- In addition, most pension providers will be forced to apply emergency tax codes to the transaction resulting in an overpayment of tax which then needs to be claimed back from HMRC.

Here are a couple of options for reducing that tax bill.

Flexi-access drawdown

You could use a flexi-access drawdown product. This is where you invest your additional pension into funds from which you'll be able to draw an income. From a tax perspective, the main advantage is that you can draw that income whenever you like. You can reduce your tax liability by adjusting the level of those withdrawals around any other sources of income you may have in order to stay in a lower tax bracket.

In this example, your flexi-access drawdown is not providing a fixed income; it is allowing you to take money out of your pension fund. The amount you can take will vary depending on the combined performance of your chosen investment funds.

Guaranteed-income drawdown

Alternatively, you could choose to invest some or all of your additional pension into a guaranteed-income product. However, the income you'll receive will have a guaranteed minimum amount rather than varying because of investment performance, so you know how much you're going to get.

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The other advantage is that you can still withdraw lump sums (if your product allows you to). The cost of that flexibility is a lower income than you'd usually get from an annuity, but more certainty over your income than with a flexi-access drawdown product.

Inheritance tax thresholds

It's also worth remembering that you can reduce your inheritance tax liability on your assets. You already have a personal threshold of £325,000 (£650,000 for married couples and civil partners). If your estate is worth less than the threshold, then there is no inheritance tax to pay. Anything above the threshold is taxed at 40%.

Making gifts

If you leave your entire estate to your spouse or civil partner (who must live permanently in the UK) then they won't pay any inheritance tax. In addition, each year you can give cash gifts of up to £3,000 in total tax-free to your children, grandchildren, or indeed to anyone of your choosing. You can carry forward any unused part of this allowance to the next year, but not beyond that. You can also make any number of small gifts of up to £250 each, but not to anyone benefiting from your £3,000 gift allowance mentioned above. Larger sums can usually be given away tax-free, as long as they're given seven years before you die.

Charitable donations

Finally, you can also reduce your inheritance tax liability through charitable donations. Any money you leave to a charity is exempt from IHT and if you leave more than 10% the rate of inheritance tax applicable to the remainder of your estate falls from 40% to 36%.

Other ways of reducing inheritance tax

There are a number of other ways you may be able to reduce the amount of inheritance tax likely to be payable when someone dies. You may also be able to do so without necessarily reducing the income you receive from your investments.

Take professional financial advice

Arranging your finances tax-efficiently, whether when drawing your pension, investing, or to reduce potential inheritance tax, requires expert knowledge. You should therefore talk to a professional financial adviser who can recommend solutions specifically for you.

The value of your investments can go down as well as up, so you could get back less than you invested.

Tax advice which contains no investment element is not regulated by the Financial Conduct Authority.

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