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NLP financial management

NLPFM news

News and views from NLP Financial Management

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Pension lifetime allowance: Taxes you need to know about

A pension pot is a gleaming promise that "should" facilitate the retirement of our dreams, something waiting to endow our latter years and allow us to enjoy what we have truly earned.

Or so of course we hope!

It is important then to know should a pension "pot" exceed £1,055,000 (having risen slightly from £1,030,000 from April 2019) that once you take a withdrawal from any of your pensions, in excess of the pension lifetime allowance, you will immediately suffer a 55% tax charge if taken as a lump sum or a 25% tax charge if taken as a regular retirement income (before suffering the usual tax on that income). Unless you have in place some form of protection, such as Enhanced Protection on your lifetime allowance (which was available between 6 April 2006 and 5 April 2009), this tax may be unavoidable, unless you plan in advance to make appropriate manoeuvres.

To clarify, the pension lifetime allowance is essentially the total amount of money you are allowed to hold in pensions (excluding the state pension) before additional tax charges can arise on withdrawals.

While at initial glance, depending on your age and circumstances, £1,055,000 may appear to be a figure too distant for concern, there are factors that you need to consider to determine how the pension lifetime allowance may really impact upon you.

Courtesy of auto-enrolment, career moves, promotions with their stepped up contributions, private pensions and even death-in-service schemes (many people have several pensions), it's possible to have numerous pots of money consistently and significantly accruing into the pension reserve, only to immediately be forced to relinquish up to 55% on any excess - when it may have been avoidable.

You can try and calculate the pension lifetime allowance for yourself, however the method will differ depending on whether you have defined contribution or defined benefit (final salary) pension schemes. The scheme providers will also carry out benefit crystallization event calculations (BCE) each time benefits are drawn from a registered pension scheme to ensure that any tax charges due are applied and this complicates matters further - you could be faced with a surprise tax bill.

To reflect, and bring a little perspective, according to the latest Treasury data, the British public paid £20 million of lifetime allowance tax charges in 2011/12 but a colossal £110 million in 2016/17. Future tax grabs could increase at a similar rate.

Clearly the revelation is more and more people believe their investments to be safe, structured and protected, yet as each penny is confidently and consistently dropped into the piggy bank, along comes the ruthless hammer beyond our control, and smashes down hard.

Whether the £1,055,000 threshold is potentially out of sight, in sight, or even confidently and comfortably exceeded, consulting with a financial planner can truly aid you in tackling the complex myriad of options and schemes so that you can take timely action and truly gain from the wisdom of saving significant sums over your working life.

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This newsletter is for general information only and should not be construed as a personal recommendation of any investment or service. We suggest that you contact us for independent financial advice so that we can determine the suitability of investments and services on an individual basis. We are not responsible for any action or inaction based purely on this document.

Don’t Procrastinate – Nominate

So, you are building up or have already accumulated a pension pot, to provide for you and possibly a surviving dependant during your lifetime. All good. But what if the worst happens and you don’t get to fully enjoy the fruits of your prudence and you have not purchased an annuity?

In the majority of cases, the trustees of a money purchase pension scheme can pay out death benefits (typically the fund value on death) in the form of a lump sum or a pension. But whilst lump sums can be paid to anyone, whether nominated or not, only certain categories of beneficiary can receive a pension fund within a tax-efficient wrapper; these being ‘dependants’, ‘successors’ and ‘nominees’.

A Dependant is your spouse, civil partner, child under age 23, or someone financially dependent or interdependent on you – the member.

A Successor is an individual nominated in due course, by a beneficiary. The scheme administrator can also select a Successor but only where no nomination was made by the beneficiary.

As the names suggest, a Nominee is a beneficiary who has been nominated by the scheme member to receive benefits, usually via a previously submitted Expression of Wish form. The scheme administrator can also select nominees, but only where there is no dependant or nomination by the member.

It is important therefore to ensure that your Nomination is up to date and provides the flexibility for other beneficiaries to be included, (other than those who are dependent on you), to be able to receive pension benefits should the trustees so decide. Of course, your pension contract also needs to be capable of taking advantage of these flexibilities – many older contracts, such as Retirement Annuities and Executive Pensions may not.

Take note, that whilst the majority of modern pensions hold your benefits outside of your Estate and thus are not ordinarily assessed to Inheritance Tax, the Trustees will usually, under duty of care provisions, ask to see the last Will of the deceased. This helps to inform their decisions as to whom they should pay out plan benefits and therefore it is often helpful if some guidance is mentioned in a side letter to the Will, outlining your preferences in regard to your pension funds.

Getting this right can preserve your residual pension benefits for generations to come in a tax-efficient wrapper as well as potentially protecting them from creditors – getting it wrong could be costly for your beneficiaries. Whilst death is assured as part of life’s journey, it can take its toll on those left behind - the last things your loved ones should have to deal with are challenges relating to your finances.

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New Online Client Portal Coming Soon

We’re delighted to announce that a new service is set to be launched later this year to all of our clients allowing you to access your portfolio online through a new platform powered by moneyinfo. (www.moneyinfo.com) called myNLPFM Client Portal.

Not only will you be able to track your investments but you can also add all of your financial information by linking your bank accounts, savings, pensions, insurances, credit cards, mortgages, loans and property details for a clear, uncomplicated view of your finances – all in one place and available 24 hours a day.

Accessible via your PC or an app for your tablet or smart phone (Apple or Android), one single login will allow you to safely store all of your documents, get reminders on payments and renewals as well as help you manage your income and outgoings.

Storing your documents is secure using bank level security and encryption, in addition to further protection on your app with a six-digit pin number.

We are in the process of starting a pilot test scheme and we will contact you once we are ready to roll this out later this year.

Registration is simple, once we know you would like to go ahead, we will get you signed up and you’ll receive instructions on how to log-in to the portal and links to download the app whether you are on iOS or Android.

We hope this new service will help you keep all your financial records together in your pocket and prove to be an invaluable financial assistant.

Is the Foundation Secure?

Those familiar with my approach in meetings may have seen me describe the financial planning process through a pyramid-based approach. I will save the full details on how this operates for another time but the illustrated pyramid details this approach in very simple terms. The pyramid helps to identify what stage we are at in terms of our long-term financial planning and whether anything needs to be addressed to ensure any plan is robust.

Many of our clients are in the “wealth accumulation” phase and need advice on saving, investment and retirement planning. However, after review, it is sometimes apparent that we fail to consider the risks to one’s financial position.

For example, how will our finances respond if we suffer a critical illness, are unable to work due to accident/illness and how do we protect loved ones in the event of an untimely death. Failure to plan here can effectively collapse the foundation of our pyramid.

Most of us will have some financial protection arrangements covering our mortgage or perhaps we have a life policy to protect loved ones but in many instances such policies do not really provide adequate coverage in terms of what may be required.

Furthermore, after investigation, we often conclude that existing arrangements such as Wills, nominations for life policies and pension benefits may not be appropriate if your circumstances or needs have changed since they were last reviewed.

In order to bridge this gap, we ask key questions in order to identify what risks exist so we can then advise on a suitable strategy.

Quite often, planning may not entail extra outlay in terms of cost but a simple reconfiguration so risks are mitigated and the foundation of your financial planning pyramid remains solid.

Sometimes, opportunities for cost savings can also be identified such as participating in an employer’s protection plan, rewriting nominations or enhancing coverage through existing policies.

We carry out such reviews as part of our financial planning process and if it’s time for you to think about this area, please contact us.

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The Benefits of a Regular Savings Plan

Establishing a regular savings plan out of surplus income could be an extremely effective way to help build your wealth and achieve your financial goals over the medium to long term. There are a number of benefits to "drip-feeding" even small sums of money into an investment portfolio each month via direct debit.

Firstly, it can help to achieve smoother returns and balance out the risk. Part and parcel of investing is the fact that investments go up and down in value. Investing after prices have fallen means buying into your portfolio at a lower price and bringing down the average price you have paid since the start of the investment. This is known as "pound-cost averaging" and through regular investing, the peaks and troughs will be ironed out or smoothed over the longer term.

Furthermore, market timing is extremely difficult and even investment professionals do not have a crystal ball and cannot predict with any certainty which direction markets will move in the short term. Therefore, regular investing helps take the "guess work" out of when to invest, as investments will be made automatically on a given date each month. In fact, the average investor tends to follow the herd and invest more when the market is rising and less when it is falling, which will lead to worse returns over the long term.

Investing smaller sums on a regular basis could enable you to start investing sooner than if you were to wait for a lump sum to build up. This gives you more time to take advantage of the growth potential of compounding investment returns.

You also do not have to commit to a fixed amount each month, and can change the amount invested if required to suit your circumstances. Even investing a relatively small amount each month can lead to a significant pot over the long term, as shown in the table below, which assumes net investment returns of 4% per annum.

Another benefit is the fact that you will not forget to invest as the investments are made automatically and you should view the investments as part of your regular monthly spending.

Finally, when investing a larger lump sum, you may be committing all of your money to the markets in one go. By "drip feeding" money into the market every month, if the stock market does fall, you have only invested some of your savings and therefore future payments benefit from the cheaper share prices.

When it comes to investing, we highly recommend that you seek financial advice and we are happy to discuss your requirements with you.

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Monthly Investment	10 Years	20 Years	30 Years
£50	£7,387	£18,400	£34,818
£100	£14,774	£36,800	£69,636
£250	£36,935	£91,999	£174,091

Please remember that past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and investors may not get back the amount they originally invested. Changes in rates of exchange may also cause the value of investments to go up or down. Tax treatment depends on the individual circumstances and may be subject to change in the future. The Financial Conduct Authority does not regulate advice on taxation or trusts.

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If you do not wish to continue to be on our database or receive any further correspondence from us, please write to Adam Katten at the address below.

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