Smitton Wealth Solutions

Summer Newsletter 2020

Financial planning is for the long term

Staying afloat during volatile times

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Tips to keep your pension on track during difficult times

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Women are less likely to have a private pension

Women still lag behind men when it comes to pensions and those not paying into a private pension can find themselves under prepared for their retirement.

Reclaiming statutory sick pay

The Government has implemented legislation to allow small and medium-sized businesses and employers to reclaim Statutory Sick Pay (SSP) paid for sickness absence due to COVID-19.

Tapered Annual Allowance Changes

Did you miss the tapered annual allowance changes in the Budget?

The threshold income level increased in April from £110,000 to £200,000 and the adjusted income threshold increased from £150,000 to £240,000.

Welcome to the summer edition of our quarterly client newsletter, which provides topical financial articles.

Please let us know if you'd like to discuss your financial situation or would like to find out more about our services.

If you have any questions in relation to the articles contained within this newsletter please do not hesitate to contact us and we will be happy to provide any guidance required.

Whatever your financial need, we are always pleased to speak with you.

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Any information in this brochure does not constitute advice and should not be acted upon without taking professional guidance.

Tips for keeping your pension on track during volatile times

Brexit and the Coronavirus have added uncertainty to the financial market. It would only be natural to have concerns about the financial climate and your pension. It's worth remembering that pensions are a long-term investment and it's rarely a good idea to make changes during a volatile period.

Making decisions based on what is happening in the short term can be a risky thing to do. It might be tempting, for example, to move all your investments into cash or other lower-risk investments for a while – but in doing that, you might miss out when the value goes back up, meaning that you could lose out in the longer term.

So, what can you do to keep your pension on track?

1. Maintain or even increase contributions

It might be tempting to reduce pension contributions but any break however short could have a long-term impact. If you have spare income, putting it into a pension could be one of the most tax-efficient ways of investing it.

If you find you can't continue to make contributions, be sure that you understand the long-term impact and what that could mean for your retirement.

2. Don't make any quick decisions about your finances

Investments can fluctuate in value, and it is likely the investments in your pension will rise and fall at different rates.

You might be unhappy with your current investments and how they're currently balanced to meet your risk profile. If you are then, although it can feel difficult, sitting on your hands could be the best thing to do.

If you're older and closer to retirement, you may have seen your funds 'lifestyled'. Lifestyling is an investment option that you may be offered. It is designed to lock in investment growth as you near your retirement age. This means your pension will have been moved into predominantly less risky funds and invested in 'safer' places such as in cash, gilts or bonds, which are lower risk and usually offer a fixed rate of return.

While some providers offer specific 'lifestyle' funds, others will have a lifestyle option that uses their mainstream funds to achieve the same process.

Now, more than ever, it is important to think longer term, consider your options and seek advice and guidance before making any decisions.

3. Review the way your pension pot is invested

If you have a defined contribution personal or workplace pension, then you get to choose the way your pension pot is invested.

Typically, this involves choosing from a range of funds offered by your pension provider.

These funds will be weighted differently between various types of assets, which offer different levels of risk and potential return.

The longer your money will be invested for, the more scope you'll have to take any ups and downs in asset performance in your stride.

4. Consider reducing withdrawals

Falling markets could be damaging for those drawing from capital – which means selling investments to fund your income withdrawals. The issue is, if your investments don't then grow by at least as much as you withdraw (regardless of market conditions), your pension could run out sooner than you think.

5. Delay retirement

If you’re just about to retire or getting close to retirement, it might be worth considering delaying or phasing in your retirement. Many people choose to phase into retirement gradually, rather than stopping work completely.

Adding a few years to your retirement date can remove the immediate term worries about cashing in your investments to generate income during a dip in the market.

6. Top-up your pension

Adding more to your pension pot could help to restore your income sustainability to its previous level. Some people may decide to invest now when asset prices are depressed in the hope that the value will increase in time. But this will mean finding money to add to your retirement savings, which won’t be possible for everyone.

7. Speak to your financial adviser

If you would like to learn more about our pension services or any other aspect of your finances please contact us. We are here to offer both existing and new clients advice when it’s needed. Speaking to us about pension concerns you may have can help you understand the long-term impact of the current situation and create a solution where one is needed.

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Please note: A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits.

The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation which are subject to change in the future.

Women are less likely than men to have a private pension

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Women still lag behind men when it comes to pensions and those not paying into a private pension can find themselves under prepared for their retirement.

In the past, many workers missed out on valuable pension benefits, because their employer didn't offer them a pension or they didn't apply to join their company's pension scheme. Automatic enrolment helped by making it compulsory for employers to automatically enrol their eligible workers into a pension scheme. The employer must also pay money into the scheme. This included those (who ordinarily work in the UK) aged between 22 and State Pension age who earn at least £10,000 per year.

Women are still less likely than men to have a private pension, despite the new auto enrolment rules, perhaps missing out on workplace pension contributions when they are caring for children or elderly relatives or not earning enough to qualify because they have a low paid or part time job.

Benefits of having a pension

Pensions might seem complicated, but the basic idea is simple. It's worth understanding the benefits of saving into a pension scheme, because your State Pension, whilst providing a foundation, may not be enough to live on. Making the right pension choices can have a positive effect on your lifestyle when you are ready to retire.

Once you've decided to start saving for retirement, you need to choose how you're going to do it.

Pensions have a number of important advantages that will make your savings grow more rapidly than might otherwise be the case.

A pension is basically a long-term savings plan with tax relief. Tax relief on pensions means some of your money that would have gone to the government as tax goes into your pension instead.

If you save through a scheme known as a defined contribution pension scheme your regular contributions are invested so that they grow throughout your career and then provide you with an income in retirement.

Generally, you can access the money in your pension pot from the age of 55.

How tax relief can help top up your pension pot

Once your income is over a certain level, the government takes tax from your earnings.

You can see this on your payslip. If you put money into a pension scheme, it qualifies for tax relief.

This means that as well as the money you're putting in, some of your money that would have gone to the government as tax now goes into your pension pot instead.

Reclaiming Statutory Sick Pay

Coronavirus Support for businesses who are paying sick pay to employees

The Government has implemented legislation to allow small and medium-sized businesses and employers to reclaim Statutory Sick Pay (SSP) paid for sickness absence due to COVID-19. It will repay employers the Statutory Sick Pay paid to current or former employees.

If you're claiming for wage costs through the Coronavirus Job Retention Scheme

You can claim back from both the Coronavirus Job Retention Scheme and the Coronavirus Statutory Sick Pay Rebate Scheme for the same employee but not for the same period of time.

The eligibility criteria for the scheme will be as follows:

This refund will cover up to two weeks' SSP per eligible employee who has been off work because of COVID-19.

Employers with fewer than 250 employees will be eligible – the size of an employer will be determined by the number of people they employed as of 28 February 2020.

Employers will be able to reclaim expenditure for any employee who has claimed SSP (according to the new eligibility criteria) as a result of COVID-19.

Employers should keep records of staff absences and payments of SSP, but employees will not need to provide a GP fit note. If evidence is required by an employer, those with symptoms of Coronavirus can get an isolation note from NHS 111 online, and those who live with someone who has symptoms can get a note from the NHS website.

Eligibility

You can use the scheme as an employer if:

- you're claiming for an employee who's eligible for sick pay due to Coronavirus
- you have a PAYE payroll scheme that was created and started on or before 28 February 2020
- you had fewer than 250 employees on 28 February 2020 across all your PAYE payroll schemes
- Your business is UK based

What you can claim

The repayment will cover up to 2 weeks Statutory Sick Pay starting from the first day of sickness, if an employee is unable to work because they:

- have Coronavirus symptoms
- cannot work because they are self-isolating because someone they live with has symptoms
- are shielding and have a letter from the NHS or a GP telling them to stay at home for at least 12 weeks

You can claim for periods of sickness starting on or after:

- 13 March 2020 - if your employee had Coronavirus or the symptoms or is self-isolating because someone they live with has symptoms
- 16 April 2020 - if your employee was shielding because of Coronavirus

The weekly rate was £94.25 before 6 April 2020 and is now £95.85. If you're an employer who pays more than the weekly rate of Statutory Sick Pay you can only claim up to the weekly rate paid.

Tapered Annual Allowance Changes

If you have a high income your annual allowance could be tapered (reduced)

You'll only have a 'tapered' annual allowance in the current tax year 2020/2021 if both:

- your 'threshold income' is over £200,000 (previously £110,000 in 2019/2020)
- your 'adjusted income' is over £240,000 (previously £150,000 in 2019/2020)

From April 2020:

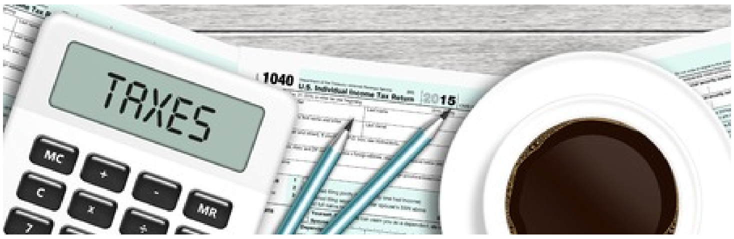
- the threshold income level increased from £110,000 to £200,000.
- the adjusted income level increased from £150,000 to £240,000.
- the minimum annual allowance reduced from £10,000 to £4,000.

Your annual allowance is the most you can save in your pension pot(s) in a tax year (6 April to 5 April) before you have to pay tax on the contributions. You'll only pay tax if you go above the annual allowance. This is £40,000 this tax year (2020/2021).

How do you know if you have a tapered annual allowance?

To work out if you have a reduced (tapered) annual allowance for a tax year, you'll need to work out your:

- gross income in that tax year
- pension savings in that tax year
- threshold income in that tax year
- adjusted income in that tax year



If your adjusted income is over £240,000 your annual allowance in the current tax year will be reduced. It will not be reduced if your threshold income for the current tax year is £200,000 or less, no matter what your adjusted income is.

For every £2 your adjusted income goes over £240,000, your annual allowance for the current tax year reduces by £1. The minimum reduced annual allowance you can have in the current tax year is £4,000. Those subject to a Tapered Annual Allowance will still be able to carry forward unused allowance from previous tax years.

Please contact us if you would like any advice with your annual allowance or any other financial matters.

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Smitton Wealth Solutions Limited is an Appointed Representative of Vision Independent Financial Planning Ltd.

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