# e-Update

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## Time to get started

Higher-rate tax relief for top earners on pension contributions was one of the biggest stories from the 2009 Budget, but the news has wider impact. It should in fact prompt everyone to look at their pension arrangements as there are some knock on effects which could eventually affect everyone.

The level of tax relief to date has made it very attractive for top executives to support expensive defined benefit schemes. The removal of these reliefs at the highest level, however, is bound to change the balance. Defined benefit schemes have already been under serious threat as companies have found them increasingly expensive to run. Removing more of the tax relief available on higher earners contributions certainly will not help.

However, it is not just the loss of defined benefits which needs to be considered. In removing full tax relief for high earners on their pension contributions, the Chancellor has demonstrated that tax benefits on pensions are not something any of us can rely on. Equally, just as pension income is becoming less certain, the cost of living for pensioners is rising. This leads to one inescapable conclusion – to ensure yourself a healthy, wealthy retirement, you need to start planning. Starting early is always a good idea because the longer the period over which you make contributions, the more you benefit from the compounding of interest. However, as an added bonus, if you start now, you also ensure you make the most of the current tax reliefs available just in case they do, infact, disappear.

Welcome to the latest edition of our newsletter, our update on developments in the world of financial services.

If you have any questions, or would like to discuss any of the points raised in this issue, please contact us.

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## Gifting your house

If your estate is above the inheritance tax threshold, it can sometimes seem a good idea to try giving away your house to your children while you are still alive. As long as you survive seven years from the date you give it, it's theirs, right? Well no, not exactly. There are a few things you need to bear in mind. First, you will have to pay them a full market rent to live there or it stays in your estate as a 'gift with reservation' – and your children will pay tax on that rent. As it becomes their property, if they become bankrupt, or divorce, it may be sold from under you. And, as a second home, they will be subject to capital gains tax on the price rise when they do finally sell anyway. Take advice to find a better way.



## Maintaining your lifestyle

A recent report from The Pension Policy Institute (pensionspolicyinstitute.org.uk) suggests few retired people are able to replicate the living standards they enjoyed at work through their pension savings alone. Part of a wider study, the report looked at income needs during retirement and how they change over time. It found that not only are pensions seldom sufficient, but also that pensioners suffer later in retirement as their income fails to hold its value in real terms.

The study also highlighted changes in people's spending patterns over the course of retirement. For example, pensioners tend to spend most in the early years as they make the most of their new-found leisure. Between 75 and 85, however, mobility issues can reduce this amount. Income then ticks back up at 85 as health-related spending begins to climb before it dips once more around 90. Most importantly, however, the study shows that our current 'one-size-fits-all' approach to pension planning is inadequate. New retirement products, with greater flexibility and choice, are becoming available to address this, but even simple things like considering inflation-protection can help ensure retirement income retains some of its real value.

If you are saving for retirement, you might also consider supplementing your plans with other tax-efficient products, rather than relying just on a pension plan. Although the tax advantages differ, depending on your circumstances, the different rules about how you can take income and capital might provide more flexibility within your wider plans.

## Long term care

Over a quarter of us are likely to need long-term care in our old age but care homes cost a lot of money and those costs continue to rise ahead of inflation. There is very little Government funding available and only people with assets less than around £20-22,000 can get help. Pre-funded care plans are now relatively rare due to the unpredictable nature of an ageing population and our individual needs. Immediate care plans are more common and generally act like an annuity, ie: you pay a lump sum and the plan returns an agreed income. If you need more flexibility, however, there are many income-generating investment options available for your to consider.