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New State Pension

How much will I get under the new State Pension?

The State Pension changed on 6 April 2016. If you reach State Pension age on or after that date, you'll now receive the new State Pension under the new rules. The aim of the new State Pension is to make it simpler to understand, but there are some complicated changeover arrangements which you need to know about if you've already made contributions under the previous system.

KEY CHANGES

For many people, the State Pension forms the core of their retirement income, together with any workplace or personal pension provision that you have. The new State Pension is a regular payment from the Government that you can claim if you reach State Pension age on or after 6 April 2016. You will receive the new State Pension if you're eligible and a man born on or after 6 April 1951, or a woman born on or after 6 April 1953.

If you reached State Pension age before 6 April 2016, you'll receive the State Pension under the old rules. You can still get a State Pension if you have other income such as a personal pension or a workplace pension.

The basic and additional State Pensions have been replaced by a flat-rate, single-tier new State Pension with a full level of £155.65 per week in 2016/17, and depending on your personal circumstances this may be subject to tax. Your National Insurance record is used to calculate your new State Pension, and you'll usually need ten qualifying years to get any new State Pension.

For ten years, at least one or more of the following must have applied to you:

- You were working and paid National Insurance contributions
- You were receiving National Insurance credits, for example, due to unemployment, sickness or as a parent or carer
- You were paying voluntary National Insurance contributions

If you've lived or worked abroad, you may still be able to get some new State Pension. You may also qualify if you've paid married women's or widow's reduced rate contributions, but you'll need 35 qualifying years to get the full new State Pension.

HIGHER OR LOWER

The amount you receive can be higher or lower depending on your National Insurance record, and it will only be higher if you have over a certain amount of Additional State Pension. You don't have to stop working when you reach State Pension age, but you'll no longer have to pay National Insurance, and you can also request flexible working arrangements.

Deferring the new State Pension means that you may receive extra State Pension when you do claim it. The extra amount is paid with your State Pension (for example, every four weeks) and may be taxable. Deferring your State Pension could affect your other benefits and tax credits.

You'll need to defer for at least nine weeks – your State Pension will increase by 1% for every nine weeks you put off claiming. This works out at just under 5.8% for every full year you put off claiming. After you claim, the extra amount you get because you deferred will usually increase each year. The rules for deferring are the same if you live in the EU and EEA, Gibraltar or Switzerland, or a country that the UK has a social security agreement with.

DIFFERENT RULES

There are different rules if you live in another country. The extra amount you get for deferring is calculated by taking your State Pension rate at the time you reach State Pension age, or when you move abroad. The extra amount also won't increase after you claim.

You can claim your new State Pension even if you carry on working. However, you have the option to defer which can increase the amount you get. If you're eligible for a State Pension from the Isle of Man, you'll need to claim it separately from your new UK State Pension.

On 6 April 2016, these rules changed so that if you were contracted out you'll no longer be contracted out, and you'll pay more National Insurance (the standard amount).

CONTRACTED OUT

The new system sees the end of the Additional State Pension (the State Second Pension [S2P]) and the previous version, the State Earnings Related Pension Scheme (SERPS). You should check your previous payslips to see if you have been contracted out. You will have been contracted out if the National Insurance contributions line has the letter D or N next to it, and remain contracted in if it has a letter A. If there's a different letter, you should check this with your employer or pension provider. You will have paid National Insurance at a lower rate if you were contracted out. However, if you were contracted out through a personal pension plan, the full rate of National Insurance would have been paid, with a rebate being paid by the Government to the pension provider.

You're more likely to have been contracted out if you worked in the public sector, for example, the NHS, local councils, fire services, the civil service, teaching, police forces or the armed forces. Up to April 2012, it was possible for people to contract out through their own individual private pension plan if they weren't already a member of a contracted out occupational scheme.

You may also be able to inherit an extra payment on top of your new State Pension if you're widowed, but you will not be able to inherit anything if you remarry or form a new registered civil partnership before you reach State Pension age. ■

WILL THE NEW STATE PENSION IMPACT ON YOU?

You can currently obtain a State Pension forecast from the Department for Work and Pensions (DWP) which gives you an estimate of what you can expect in terms of your State Pension based on your National Insurance contributions. If you have any concerns about how the new State Pension changes could impact on your finances and would like to discuss your position, or to obtain further information, please contact us.

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Brexit

Impact on financial markets ahead of the EU referendum

With an increasing focus on 'Brexit', our investment clients will naturally be monitoring the impact on financial markets ahead of the referendum scheduled for Thursday 23 June.

The nature of investment is long term. Constantly making changes to take into account short-term events often proves to be counterproductive in the long term. Movements in currencies and shares are often fairly short-lived, as the result of the Scottish referendum showed.

ANALYSIS, PREDICTIONS AND ARGUMENTS

In the run up to 23 June, we are going to hear all sorts of analysis, predictions and arguments on the likely results of the UK's EU referendum and the potential implications of a Brexit for the economy. Whatever the individual commentator's pre-set beliefs, they will likely be able to find some sort of 'evidence' to support their view. But the reality is simply that no one can know either the result or how either scenario would play out.

Long term, both the costs and the potential benefits of Brexit to the UK economy are probably exaggerated by commentators and campaigners on either side of the argument.

REMEMBER THE REASONS FOR INVESTING

Stock markets can be unpredictable. They move frequently – and sometimes sharply – in both directions. It is important to take a long-term view (typically ten years or more), and it's important to remember the reasons for investing in the first place.

Investors need to be prepared to view the occasional downturns simply as part of a long-term investment strategy. Historically, the longer you stay invested, the greater the chance of smoothing out investment returns. Of course, it's worth remembering that past performance is not a guide to what might happen in the future, and the value of your investments can go down as well as up.

EMOTIONS OVERCOME SOUND INVESTMENT DECISIONS

Brexit is an emotive subject and one that you rarely hear analysed in a dispassionate way. There will inevitably be times of market volatility. Market falls are a natural feature of stock market investing. During these times, it is possible that emotions overcome sound investment decisions. The important thing is to resist the temptation to change your portfolio in response to short-term market movement. 'Timing' the markets seldom works in practice and can make it too easy to miss out on any gains.

The golden rule to investing is allowing your investments sufficient time to achieve their potential. Warren Buffett, the American investor and philanthropist, puts it very succinctly: 'Our favourite holding period is forever.'

DON'T PANIC AND SELL OUT OF THE MARKET

Over the long term, investors do experience market falls which happen periodically. Generally, the wrong thing to do when markets fall by a reasonable margin is to panic and sell out of the market – this just means you have taken the loss. It's important to remember why you're invested in the first place and make sure that rationale hasn't changed.

The market implications of a Brexit are difficult to gauge at this stage, and it's also important to note that a vote for the UK to leave the EU would not be the end of the process but the beginning of a new negotiation phase which is likely to take at least a couple of years. During this two-year period, existing EU laws and regulations would continue to apply to the UK.

AVOID BEING DISTRACTED BY 'NOISY' COMMENTARY

No one can predict the outcome of the referendum, and we must avoid being distracted by 'noisy' commentary. Even if there is Brexit, it is not clear that there would be significant, permanent investment implications, so it's important that investors maintain their current view on the UK based on current economic fundamentals.

Recently, the Bank of England (BoE) summarised four decades of research on the net economic benefit of EU membership: the answer was that it was in the range of -5% to +20% of GDP. The net benefit of Britain leaving the EU would be just as difficult to measure, even long after the fact. It is certainly impossible to predict in advance, but the analysis above does highlight some key takeaways for investors.

PAST EPISODES OF POLITICAL UNCERTAINTY

We can expect sterling to remain weak for the duration of the campaign. Britain's reasonably sound fiscal position suggests that gilts would be much less affected, and short-term money market rates are likely to be held down by the BoE's no-change stance on rates. But, in past episodes of political uncertainty – notably, the Scottish referendum in 2014 – we have seen the yield curve steepen slightly relative to the US, and we could see that happen again if the polls continue to be tight.

Growth and investment is expected to be modestly lower in the first half of 2016 due to the uncertainty created by the vote. But don't expect this to outweigh more important factors such as growth in Europe and the US and broader sentiment in global markets. Most of these effects should reverse themselves in the event of a Bremain vote. But do not be surprised if sterling ends the year materially weaker, on a trade-weighted basis, than at the end of 2015. And do not be surprised if there is talk of another referendum on EU membership if the June vote is reasonably close.

BROAD DIRECTION OF UK ASSET MARKETS

In the event of a vote for Brexit, expect these macroeconomic factors to intensify and UK growth to be materially slower than in the no-change scenario. The eurozone would also see a short-term downturn. But, even for the UK, the broader global outlook will be more important to medium-term growth and the broad direction of UK asset markets.

Leaving the EU would no doubt lead to uncertainty in the short term with a knock-on effect on market volatility. But this can be seen as an opportunity too – markets tend to overreact initially which can create opportunities to buy assets at much cheaper prices.

BOOSTING COMPETITIVENESS OF UK BUSINESSES AND EXPORTS

If the stock market, gilts and sterling do fall initially, they should all bounce back. There is even a view that gilts would perform well, as the BoE might reintroduce Quantitative Easing. If sterling does stay lower, this could be just what the UK economy needs right now, helping to boost competitiveness of UK businesses and exports. The stock market has also tended to rise on sterling weakness, and this pattern might be repeated post-Brexit after an initial bout of uncertainty-induced volatility.

It is also not impossible to see an influx of capital into the UK; global investors might consider a more liberal UK an attractive alternative to the sclerotic eurozone. This could lead to a stronger pound. ■

To arrange a review of your investments, or to discuss any other requirements you may have, please contact our team of Independent Financial Advisers on 01803 652030.

Stamp duty rule changes

What could the shake-up mean for you?

A shake-up of the stamp duty rules took effect on 1 April 2016 in relation to anyone owning more than one residential property – this will affect those buyers funding the purchase of a new home with the sale of an existing home: if their buyer pulls out but they still want to go ahead – perhaps by using a bridging loan – they will be liable for the stamp duty surcharge because they will technically own two residential properties at completion.

STAMP DUTY SURCHARGE

Although the cost of the stamp duty surcharge may be partially met by the buyer keeping the deposit paid under the failed sale contract, there could be a shortfall for the buyer to fund if they still want to proceed with the purchase of their new home.

Conveyancing lawyers must warn their clients at an early stage of the possibility of an increased tax charge. The extra tax will be repaid, but only if the previous home is sold within 36 months. For a £500,000 purchase, the stamp duty charge on a chain break will be double the amount that would be payable if a break hadn't occurred.

UNDER THE NEW RULES

The new stamp duty rules could affect the ability for many newly married couples and registered civil partners to purchase their first home together. The issue arises where one spouse already owns a property. This is because under the new rules, married couples and registered civil partners are treated as one buyer.

In essence, ownership of an existing home by one partner will affect the purchase of the couple's first home together. For a £500,000 purchase, the stamp duty charge in these circumstances will be double the amount that would be payable if the partner didn't retain their existing property.

MIXED-USE PROPERTIES

The new stamp duty rules bypass buyers of mixed-use properties in England, Wales and Northern Ireland. The stamp duty surcharge does not apply to the purchase of a property used for residential and non-residential purposes, for example, a country house with a stud farm or a residential property purchased at the same time as a non-residential property. Such transactions continue to be taxed as if they were commercial properties.

In Scotland, however, the rules are different (Land and Buildings Transaction Tax applies rather than Stamp Duty Land Tax), and the price payable for a mixed-use property is split: the part payable for the residential property is taxed under the residential rates, and the rest is taxed under the commercial rates.

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