



# Sovereign

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## COMING OF AGE!

It is time to look at the advantages that come with reaching the larger numbers of years of age!

### Age 55 – A Magic Age of Pension Freedom

Reaching age 55 is a milestone and with that milestone comes access to your private pension benefits. Here some key points for the 55er's amongst us to be aware of:

- You don't have to retire to take your pension benefits. You can continue to work and even continue to pay into a pension.
- You don't have to take all of the benefits at one go – you can take the tax-free cash and leave the rest to build up. You can then draw out additional amounts whenever you wish (note: whatever you draw out over and above your tax-free amount is taxable).
- You can take all of the benefits immediately if you want to (but there can be significant taxes to pay!).
- At any time from age 55 onwards you can take the benefits.
- Previously you had to take out a lifetime annuity with all of your pension except

### Age 55

*A Magic Age of Pension Freedom*



the tax-free cash element. That is no longer true although you still have the option to use some or all of your pension fund to buy a lifetime annuity (which will give you a guaranteed income for life) – see section on annuities in this newsletter.

- If you do not need the pension benefits, you can create a very tax-effective life assurance arrangement by just leaving it invested and nominating who you would want to receive it. You can change your mind about the beneficiary at any time.
- For those lucky few who have what are called "final salary" pensions, the options above generally will not apply but the income you will enjoy will probably more than make up for it.
- Warning – this access to the magic circle of your pension funds will not always be pegged at age 55. As the Government increases the State Pension age in the future, they are committed to also increasing this minimum pension age.

*Continued overleaf*

**Assisting our clients to successfully achieve their objectives and enjoy financial security**

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### More Magic!

#### **A Mortgage Which Requires No Payments; With No Income Requirements; For Any Purpose! Another Financial Tool Starting at Age 55**

I am talking about the Lifetime Mortgage where the borrowing is based only on age and property value. These have become more and more flexible so you can either opt to make no payments with the mortgage repaid on sale of the property, or you can choose to make interest payments so the amount you owe stays the same. With Lifetime Mortgages the older you are the more you can borrow! As there is no fixed term to the mortgage, you do not have to worry about having to move out or come up with a large lump sum in your future years.

Here are some examples of what the maximum borrowing might be on a property with a value of £300,000:

<b>Age 55</b>	£76,000 (25% of value)
<b>Age 60</b>	£97,000 (32% of value)
<b>Age 65</b>	£112,000 (37% of value)
<b>Age 70</b>	£127,500 (42% of value)
<b>Age 75</b>	£144,000 (48% of value)
<b>Age 80</b>	£156,000 (52% of value)

(Note: these are only approximate levels of borrowing. In some cases it may be possible to borrow somewhat more than what is shown above and in other cases, the borrowing that is possible may be less. Interest rates vary depending on the lenders and the level of borrowing. Usually they are fixed for the term of the mortgage and vary from 3.9% upwards. In the case of a couple the borrowing will be calculated on the age of the younger. The Lifetime Mortgage has to be the only mortgage on the property.)

### **Lifetime Mortgages Becoming More and More Flexible**

Some of the additional features of the Lifetime Mortgages are as follows:

- 1) You can borrow an initial sum and arrange a facility so that you can take further funds later.
- 2) While normally a Lifetime Mortgage can only be done on an owner-occupied residential property, there are now some lifetime mortgage lenders who will consider lending on a let property. This can be a very useful option for landlords who do not then have to sell the property to raise funds for care or for other purposes. In principle the landlord could even pass the property down to their beneficiary.

# UNDERSTANDING ANNUITIES

(Another benefit of being older!)

## The older you are, the higher the lifetime income you can buy with your pension fund!

In the past when you reached "pension age" – usually 60 for women and 65 for men, you could take your tax-free cash but then the only option you had for the rest of the money was to purchase an "annuity". An annuity is an income guaranteed for life.

The annuity rates have generally gone down in the past decade or two and the new pension freedoms have led many people to taking other options. However, it is still worth knowing what your options are as regards annuities as they can provide a guaranteed level of income for as long as you live.

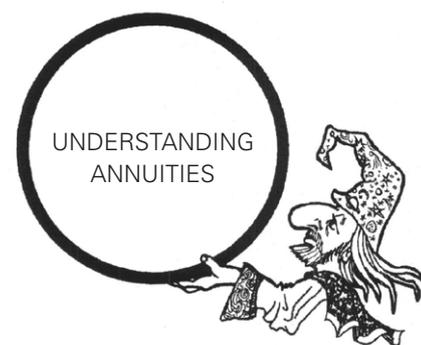
Annuity providers work out what they can offer based on how long a person can be expected to live. Detailed records are kept as regards how long people live and what they die of. This allows the providers to work out pretty precisely a person's life expectancy. Generally people are living longer due to better diets and the medical treatments available. While that is good for us, it is not good news for the annuity providers as that means they will have to pay out the income they have undertaken to provide for a longer time. Do remember that annuity providers are businesses so there needs to be an element of profit for them.

If you have a sum of money in your private pension, you can find out what sort of return you are likely to get by just asking for quotes. Quite a bit of information is needed for precise annuity quotes including:

- 1) your date of birth
- 2) details of any medical conditions and treatment you have (or have had in the past)
- 3) information about serious medical conditions your immediate family may have suffered or died from before age 60
- 4) whether you are a smoker or have been in the past, and the level of smoking

In asking for an annuity quote you will also need to specify whether you want the income that is paid to remain the same, or increase over the years; to continue to be paid to a spouse if you die before them; and how frequently you want the income paid, e.g. monthly, quarterly or annually. The more "bells and whistles" you want, the lower the starting level of the income will be. While normally an annuity stops on the death of the person concerned, it is possible to arrange an option whereby it will be paid out for a specified number of years whether or not the person concerned is alive or not.

As a rough guideline, for someone in good health here are some approximate levels of income that can be bought with money from your pension (shown per £10,000 of purchase price for a male and with no spouse's income). You can compare the return on your annuity investment against other investment options. Do remember that annuity income is taxed in the same way as earned income.



Age	Level Annuity	Annuity Increasing by 3% p.a. (Starting Level)
55	£434 per annum (4.3%)	£259 per annum (2.5%)
60	£473 per annum (4.7%)	£300 per annum (3.0%)
65	£534 per annum (5.3%)	£358 per annum (3.5%)
70	£610 per annum (6.1%)	£430 per annum (4.3%)



## MORTGAGE MARKETPLACE

**The Bank of England still intends to start raising interest rates at some point in the near future** although the recent reduction in UK economic growth may cause some delays. Generally residential rates are gradually increasing but still remain very competitive. If you are in a position to take advantage of the low rates, we would recommend you do so now rather than later.

And even those mature in years are being wooed by lenders offering extended terms and competitive rates. So do make enquiries if you are in this worthwhile category! We would be happy to assist in providing quotes. With the Lifetime Mortgages available as well there are fewer and fewer who are Mortgage Prisoners!

### ASSISTING OUR CLIENTS ACHIEVE THEIR OBJECTIVES

**Achieving objectives and enjoying financial security are not always possible to combine, but we do our best.**

Here are some comments from clients we have helped recently:

"Once again thank you for your excellent service."

*Mr RJ of Burgess Hill*

"Once again thank you for all of your assistance with the mortgage, we can't thank you enough."

*Mr JF of London*

"Everything has been actioned quickly and efficiently."

*Mr DB of Copthorne, West Sussex*

"Amazing service from Arie. His friendliness and advice has been fantastic."

*Mrs M of Swanley, Kent*

Best wishes,

**Tom Shuster**

Managing Partner

