



Changes to the State Pension

The State Pension is still a fundamental part of peoples' retirement plans. Over the last two years a number of changes to the basic State Pension have been announced. These include:

Increasing the basic State Pension in line with earnings, rather than prices, which means it should rise more quickly each year than it does currently. This change will happen from 2012 at the earliest and 2015 at the latest and will also apply to people currently getting their State Pension or who reach State Pension age before 6 April 2010.

Both paid and credited National Insurance Contributions (NIC) will count towards the basic State Pension in the same way

Reducing the number of qualifying years needed for a full basic State Pension to 30 for people who will reach State retirement on or after 6 April 2010

Replacing the system of Home Responsibilities Protection with a weekly NI credit for people caring for children or severely disabled people and converting past years of HRP into years of credits.

Changing the way the State Second Pension (S2P) builds up, so that it will provide a simple, flat-rate weekly top-up to the State Pension

Increasing the State Pension age for both men and women from 65 to 68 in stages between 2024 and 2046

Maintaining your lifestyle

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

The study highlights important changes in 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, restricted mobility reduces this amount spent. Income then ticks back up again at 85 as health-related spending begins to climb before it dips once more at 90. Most importantly, however, the study shows that our current 'one-size-fits-all' approach to pension planning is inadequate. New retirement products, offering greater flexibility and choice, are becoming available that address this need, however, even simple things like considering inflation-protection can help ensure retirement income retains some of its real value.

If you are saving for a pension, you might also consider supplementing your plans with other tax-efficient products such as ISAs, rather than relying just on pension plans. Although the tax advantages differ, depending on your circumstances, the ability to take income and capital is not tied to dates or age so might help provide some flexibility to your wider plans

Contact us:

Concept Financial Planning Ltd, Capital Business Centre, 22 Carlton Road, South Croydon, Surrey, CR2 0BS
Tel: 020 8916 2288 | Email: advice@conceptfp.com | Web: www.conceptfp.com

Change in intestacy rules in England and Wales

Where a person dies intestate (ie without having left a Will) the law prescribes how the estate of the deceased is to be divided. The rules are different around the UK with England and Wales, Scotland and Northern Ireland all having different provisions.

For deaths on or after 1 February 2009 the limits to be used in England and Wales have changed. Under the new limits where the deceased leaves a spouse (or registered civil partner) and children, the surviving spouse will receive everything up to £250,000 plus all personal possessions. Anything remaining is divided equally with one half going to any children of the deceased and the other half being left so that the surviving spouse received the income and on their death the capital passes to the children.

Where the deceased leaves a spouse but no children, the spouse will now receive the first £450,000 plus personal possessions. Anything about that will be split equally with one half to the spouse and the other half to the parents. If there are no parents there is a specified order of relatives to consider. If there are no relatives still alive the surviving spouse will take the whole estate.

If there is no surviving spouse (or registered Civil Partner) but a surviving unmarried (unregistered) partner, they are entitled to absolutely nothing under the intestacy rules. Where the deceased has children they would take the whole estate. If there are no children the estate would pass to the parents etc of the deceased.

If it vital that if you want to direct where your estate will go that you make a valid Will to achieve this.

Stamping on the green shoots

The Bank of England (BoE) has poured cold water on hopes of rapid recovery for the UK economy, publishing a bleak outlook for the UK's economic prospects in its latest Quarterly Inflation Report. Many investors had begun to hope the recession had bottomed following better-than-expected economic and corporate data. However, the BoE has warned that, although there are signs the rate of decline has moderated, the economy remains "vulnerable to further shocks." It has reminded market watchers that, despite widely publicised signs of "green shoots", the path to recovery is unlikely to be trouble-free.

King also warned inflation is unlikely to meet its 2% target before 2012, and that the rate of inflation could fall as low as 0.4% during 2009. Amid waning hopes of a swift recovery for the UK economy, interest rates are likely to remain low for the time being, which could prompt the BoE to accelerate its programme of quantitative easing in order to boost economic growth.

Crucially, the report stated that, "The prospects for economic growth remain unusually uncertain." Investors probably hate uncertainty even more than they hate actual bad news and, looking ahead, this lack of certainty does not bode well for investor sentiment or market volatility.

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