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WEALTH **KNOWLEDGE**

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In this month's Wealth Knowledge newsletter...

Most people over 65 haven't planned how they will pay for care should they need it. Temporary high bank balances could be protected from bank failure from July 2015. The rules surrounding tax charges on inherited pensions will change in April 2015. And the government is consulting on plans to allow people to hold peer-to-peer loans within ISA wrappers.

Care cost funding plans neglected

More than 9 out of 10 people aged over 65 have made no plans to pay for care should they need it, a survey by retirement solutions provider Partnership has shown.

The survey revealed that older people are putting off speaking to their families about future care needs, with 73% admitting that they have not discussed the subject.

Partnership also found that the over 65s are unaware of the financial products that can be used specifically to plan for care costs:

- 77% are unaware of care annuities
- 81% don't know about immediate needs annuities
- deferred payment schemes are unfamiliar to 68%
- 55% are uninformed about long-term care bonds.

Steve Groves, CEO of Partnership, said:

"The clear message is that while people are becoming more engaged with the process [...] there is still significant confusion. This appears to be rooted in the idea that needing care in later life is 'something that happens to other people' with 72% of people over the age of 45 saying that it is not likely that they will go into a care home.

"This fundamental myth is a significant barrier which we must overcome to further develop the care funding market and help empower people to make the right choices for themselves and their families."

We can help you plan for future care needs. Call today to speak to an adviser.

Tax on inherited pensions to be abolished

The 55% tax charge on inherited pensions will be abolished from April 2015, the Chancellor George Osborne has announced.

Inherited defined contribution (DC) pensions that have a drawdown arrangement or have not been accessed will face new tax treatment depending on the age of the owner on death.

New rules

Death after 75 - Funds can be accessed in any way, including lump sum payments, with any income or payments taxed at the recipient's marginal rate of income tax when the pension income is added on top of any other income they receive, e.g. 20%, 40% or 45%.

Death before 75 - DC pension pots can be passed on tax-free, whether it is in a drawdown account or untouched (provided it is taken as lump sums or taken via a flexible drawdown arrangement).

The new rules will not apply to annuities or defined benefit pensions.

Dr Yvonne Braun, of the Association of British Insurers, said:

"A 55% tax charge if someone dies before they have accessed their pension fund goes against the grain of the wider government policy of making pension saving more popular by giving people more options on how to use their retirement savings. This is a sensible move which deserves support."

Contact us to discuss your estate planning.

Protection for high bank balances

Individuals who have up to £1 million temporarily in their bank account will have their money protected from bank failure by the government.

Under the proposed rules, temporarily high bank balances as a result of one-off transactions - such as selling a home or getting divorced - will get increased protection.

At the moment, the Financial Services Compensation Scheme protects balances of up to £85,000.

Key changes proposed from July 2015:

- money from selling a home, redundancy, divorce, pension lump sums and insurance pay outs would be considered one-off transactions
- an individual could claim up to £1 million for each event
- the additional protection would last 6 months
- the £85,000 protection would remain the same.

The Bank of England estimates that the £1 million limit would cover 99% of house sales in England and Wales.

Richard Lloyd, executive director at Which?, said:

"Proper protection for temporary high balances is a welcome move that will give more people greater confidence in banking. We also want the scheme extended to cover individual brands, which people recognise, rather than banking license so that people are clearer as to when their savings are covered."

Peer to peer ISA lending proposed

The government is consulting on plans to allow savers to hold peer to peer loans (P2P) in ISAs.

P2P lending matches lenders with individuals or businesses looking for funding. The sector has grown by more than 100% per year and a total of £1.6 billion has been lent.

Under current rules, interest earned from P2P lending is taxable. Under the proposed rules, interest from a P2P loan held in an ISA would be tax-free.

The changes would give ISA investors more choice over how they save and help to create options for businesses and individuals seeking finance.

The consultation will address 3 main questions:

- should P2P loans be included in existing ISAs or do they need a new type of ISA?
- should P2P loans be subject to the same transfer rules as existing ISAs?
- are P2P loans suitable for Child Trust Funds and Junior ISAs?

David Gauke, Financial Secretary to the Treasury, said:

"P2P lending is an exciting, innovative new sector and it's right that investors who want to lend money via P2P platforms should be able to hold these loans in their ISA alongside more traditional investments."