LGBTI Retirement Guide

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STRAIGHT TO THE SPECIALISTS!

LGBTI Retirement Guide

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Foreword: Paul Thompson, Chairman Equality Wealth.

We recently participated in Digital Pride to highlight the issues facing LGBTIs in planning for retirement. Prior to this event, we conducted various surveys (*), events and focus groups (including a UK focused survey through Gay Star News), to understand better how prepared for retirement people in our Community really are, as well as where LGBTIs in the UK would like to retire.

We believe the results from such surveys are important in understanding the issues LGBTIs face and this prompted us to focus on certain key areas in this guide. Only around 20% of LGBTIs felt they had adequate plans in place for retirement and around 40% had done nothing to plan for retirement. This overall lack of planning was further compounded by the fact that based on where LGBTIs would like to retire to, we estimate a cost of living premium of more than 20% (**).

Of course, every individual or couple is different and people need to get specific advice based on their particular circumstances and retirement aspirations. However, many people have asked us following the event what they should be considering when planning for retirement. This guide will as such focus on the practical steps that people can take and those issues particular to LGBTIs and same-sex couples.

(*) In total, feedback was received from over 1000 LGBTIs including the Gay Star News survey and other surveys, events and focus groups.

(**) The cost of living premium was calculated by taking the cities said to be preferred for retirement by LGBTI's and calculating the cost of living in these Cities compared to the average UK cost (source: LGBT Capital –Q1 2017).

Of course, every individual or couple is different and people need to….
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We asked a panel of experienced Pensions Professionals who have experience of both Pension planning and advising LGBT clients to come up with a comprehensive list of issues faced by LGBTIs planning for retirement, as well as the practical steps people can consider to save for retirement in the most efficient ways. These steps are predominantly focused on LGBTIs in the UK, though many issues will apply wherever you live.

We hope this guide will be useful in helping to think about LGBTI retirement issues and planning but it is very important to highlight that with the complexity of these issues and the choices available, it is extremely important to get Professional Advice based on your own individual circumstances.

One of the interesting issues that has come up in our research and discussions within the LGBT Community is the variation in the issues faced by LGBTIs coming from different generations. LGBTIs who came of age when they were unable to be open about their sexuality or even when being LGBTI was illegal faced very different issues from those coming of age today and this impacted the way they thought (or didn't think) about retirement. For many, an open LGBTI retirement was the unthinkable. The guide had been broken down into four main sections, in part to reflect the generational differences. The first section covers issues for people with relatively less time to go before retirement, the second covering those planning retirement with a partner, the third focusing on LGBTIs with a relatively longer time to retirement, and the fourth on tax aspects. We have also included a 'top tips' list.

Paul Thompson, Chairman Equality Wealth

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1. LGBTIs closer to retirement and the 'closet' generation

LGBTIs are not alone in not planning adequately for retirement – it's something that much of the population prefer to 'think about later'. LGBTIs do however have some additional issues to consider. Many of us grew up in a time when we could not have imagined the open lifestyle that's possible today. Indeed, many of the LGBTIs who will retire over the next couple of decades will probably have spent a number of years 'in the closet' and will not have thought about a 'gay retirement'. Many will also have lived through an era where HIV/AIDS had a big impact on how we thought about the future. As such, for many, retirement planning may be starting later in life and require much more attention. Additionally, now that we have achieved a lifestyle we like, the last thing we want to do is go back to living in a location where we don't have access to a vibrant LGBT community, with the implication that we likely wish to spend our retirement in a location with a relatively higher cost of living. We asked a Pensions expert what actions LGBTIs can consider when they are closer to retirement.

The first thing to consider is what you would like your retirement to be for you, so that you can work out what this is likely to cost and what you are likely to need to fund. A professional adviser will be able to help you with this review.

1. It's important to think about where you want to retire to. Many LGBTI people would like to retire to a location that has a vibrant LGBTI Community and it is important not to feel isolated in retirement. These locations can potentially be more expensive and its worth researching the cost. For those thinking of retiring overseas, it's worth checking the legal status for LGBTIs in the location you'd like to live in.

2. When would you like to retire? Without children, many LGBTIs may be able to consider retiring earlier, though starting planning later in life will make this less achievable. In the UK, the earliest you can now take money out of your pension is 55, although there may be penalties in doing so. Taking advice on this would be prudent.

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1. LGBTIs closer to retirement and the 'closet generation'

3. What do you want to do when you retire?

4. How much will it cost you to retire to where you want and have enough money to do what you want to do? Remember to take income tax and inflation into account.

Once you have worked this out, you can review your current situation and in particular: PENSIONS

5. Review your pensions to see what they might generate, both in terms of tax free cash and income. Review your pensions performance or better still get expert advice on your pensions.

6. Remember to look not just at employer, occupational and private pensions but also the state pension.

Consider obtaining a state pension forecast from this address: www.gov.uk/check/state/pension

If you're lucky, you'll get the new full state pension, which is currently £159.55 per week (2017/18 Tax Year).

You need 35 qualifying years on your national insurance record to obtain the full new state pension.

You may wish to consider paying additional national insurance contributions to ensure that you get the full state pension.

7. If it looks like you have a shortfall in your occupational, employer and/or private pension, you could then consider topping it up, especially if you are a higher-rate tax-payer. A professional adviser will be able to help with this.

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Debt and Mortgages

In the lead up to your retirement and if you're in a position to do so, you may wish to consider paying off in full any debt or mortgages before or on your retirement. It's often advisable not to carry debt into retirement because you won't necessarily have the means to pay it off.

Your home or other property may be repossessed if you do not keep up repayments.

Other Investments

In the run up to retirement, and as well as reviewing your pensions, also consider other investment vehicles which may provide additional income in retirement:

A. **ISAs**
ISAs can be used to provide tax free income to boost your pension income.
In 2017/18, the ISA allowance is £20,000 per annum per individual.

B. **Buy-to-Let Property**
Can be useful to generate income but be mindful of Income Tax, Capital Gains Tax (if you sell the property), and Inheritance Tax implications.

The value of an ISA will be directly linked to the performance of the funds selected and may fall as well as ride. You may get back less than you invested. The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

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2. Retiring with your partner

Whilst many of us have partners and wish to plan a joint retirement, in our experience, we find that many LGBTIs do not have adequate partner protection in place and in many cases same-sex couples do not plan together. As we get older and approach retirement, it becomes very important to review our plans as a couple and to ensure we have protections in place. We asked a Pensions expert what specific actions LGBTIs should consider when planning with a partner.

If you have a partner whether or not married or in a civil partnership, then consider the following:

- What would happen to your accrued pensions if you should die, whether before or after retirement. Many LGBTIs have not made adequate (or up-to-date) provision for their partner, e.g. as such provisioning may not have been available in the past.

- Will your accrued pension benefits go to your loved ones or perhaps to an ex-partner because you haven't updated your expression of wishes form held by the pension administrator?
  CHECK YOUR PENSION DEATH BENEFITS

- If it's a final salary scheme, whether deferred or active, then check with the scheme administrator as to what would happen if you died before or after retirement. It's worth checking that your partner will have access to the spouse benefits.

- If your partner is younger or less wealthy than yourself, then consider making pension contributions into the state, employer or private pension scheme on your partner's behalf.
  OR
  Making contributions to an ISA in your partner's name.

- Make sure you sit down with your partner and go through planning you may each have done separately and check that it makes sense for you as a couple, and that you each know 'what the other is doing'.

- Think about how you hold properties, whether individually, as joint tenants or tenants in common.

Joint Tenants
In the event of the death of one of the joint tenants, your interest passes to the other.

Tenants in Common
Regarded as having separate shares which on death passes to the beneficiary in the deceased's Last Will.

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3. Planning for retirement – Younger LGBTIs

When we're younger and starting out in jobs and life, it's easier to neglect planning for retirement. As many LGBTIs do not have children, there may be an opportunity to plan to retire early or in tropical climes! We asked a Pensions expert what younger LGBTIs should be considering when planning for retirement.

When we're relatively further away from retirement and think we have longer to plan and save for retirement, we may not have such a clear idea as to when and how we'd like to retire. For LGBTIs this can be more of an issue when there may not be a clear lifecycle. This can be a reason for many LGBTIs to put off planning for retirement as it's either not on the horizon or there's no clear goal.

Whilst many of us will not have a clear idea of what retirement might mean to us, retiring earlier and with a better lifestyle can be achievable by many of us, especially if we don't have children.

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3. Planning for retirement – Younger LGBTIs …continued

1. For younger LGBTIs, we suggest considering setting out a lifecycle plan to help with a financial plan and goals. This can include things like property purchase and even a holiday home, and in any case, the process should help in setting plans which can then support planning for retirement. Once you've worked this out, then you need to work out the best way of making your dreams come true! A professional adviser should be able to help you with this.

2. As part of setting out a lifecycle plan pertinent to you as an LGBTI and to your specific circumstances, this may help to consider when and how you would like to retire. In particular if without children, many LGBTIs may be able to consider retiring earlier. In the UK, the earliest you can now take money out of your pension is 55, although there may be penalties in doing so. You'll need to take advice on this.

3. With a lifecycle plan in place, it should be easier to start to set financial goals and objectives, which should also support your retirement goals. As with those retiring relatively sooner, it is still worth estimating how much you'll need in retirement and setting a goal to support planning.

4. Pension investments come in many forms, including Company Pensions which often offer the option of making Additional Voluntary Contributions or Personal Pensions. Your employer might also offer membership of a Final Salary scheme, although these are increasingly rare in the private sector. It can be quite complex and generally requires professional advice but here are some options for consideration:

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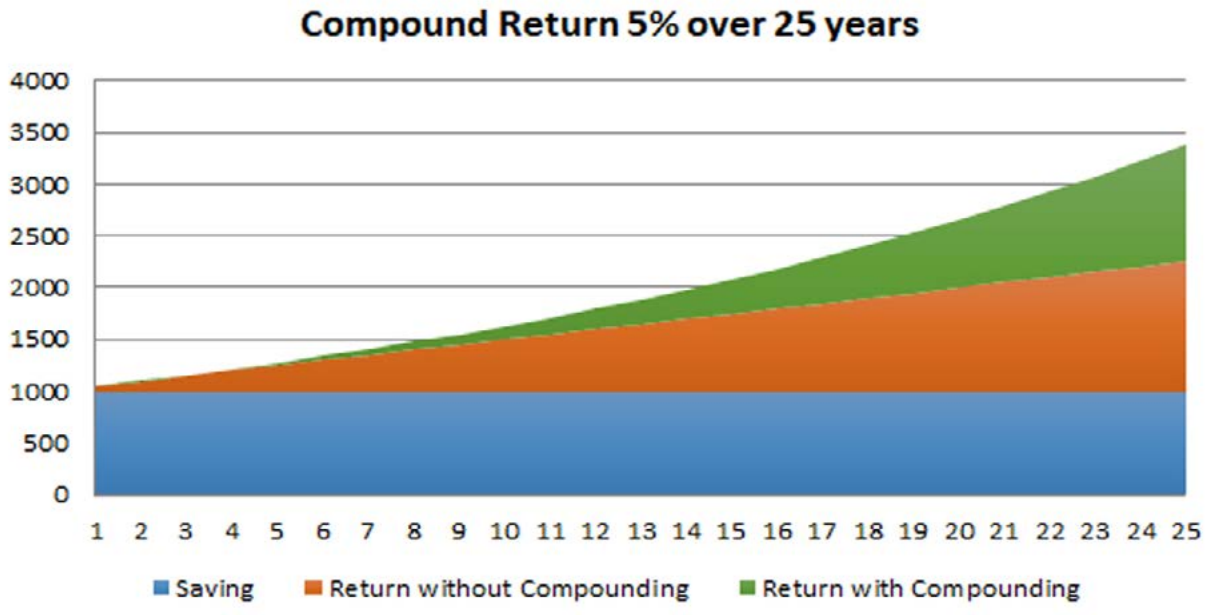
3. Planning for retirement – Younger LGBTIs …continued

A. Contributing to a pension 'little and often' and starting at the first possible opportunity is generally accepted as being a sound principle. What is called compounding is a key component of what could give you enough income in thirty or forty years to retire on. Compounding is where you get growth on top of growth on top of growth. If you consider giving up your everyday Flat White coffee which might cost you £2.50 for each cup (7 x £2.50 = £17.50 per week x 52 weeks = £910 with 20% basic rate tax relief comes to £1,157.50 per annum). If you start with small amounts like this then gradually increase when you can afford to, this could add up to something genuinely significant by the time you retire.



B. All employers will very soon have to offer auto-enrolment schemes to their employees (by 1st February 2018). You aren't obliged to accept the employer's offer and it is often tempting to avoid pension contributions costing you money 'here and now', especially when you have so many other demands on your hard-earned cash. The point is that these are matching schemes, the employer will contribute if you contribute.

If you decide not to accept the offer, then you are effectively giving up a deferred pay increase. For LGBTIs and in particular those with higher disposable income, this can really add up in the long term.

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3. Planning for retirement – Younger LGBTIs …continued

C. Consider contributing as much as you can afford of your gross income (income before tax). Many LGBTIs have relatively higher disposable incomes, offering an opportunity to consider saving more.

D. When you join your pension scheme, make sure that you complete the Expression of Wishes form or Nomination form so that it goes to the person or persons you love. It is important that you keep this updated and is particularly important for LGBTIs who don't always have the protections offered by marriage/ civil partnership.

Risk is a key consideration for any investment. Commonly referred to as the risk reward spectrum, everyone has a limit to the amount of risk they are prepared to take.

Generally, the longer the investment period, the more it is worth considering taking greater investment risk - this because the potential reward may be greater. So, if you're a young LGBTI, then think carefully on what risk level would be sensible for you to take over your relatively longer pension accumulation period.

The value of a pension will be directly linked to the performance of the funds you select and the value can therefore go down as well as up. You may get back less than you invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.

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4. In setting long term financial goals and in planning for retirement, other forms of investment can be considered. These can include:

ISAs

ISAs can be used to provide tax free income to boost your pension income. In 2017/18, the ISA allowance is £20,000 per annum per individual but you can contribute much smaller amounts (as little as £25 in some plans) on a monthly basis. Again, the compounding rule applies and encourages you to start as soon as you can and to make small but regular contributions and increasing these when you can afford it.

You can invest in cash or equity investments. For longer term investments, think carefully about taking more risk than you would perhaps be comfortable with for a shorter-term investment.

Buy-to-Let Property

Many young people think that property is a one-way bet and that borrowing from the Bank of Mum & Dad to get on to the property escalator is the solution, not just to where to live but also as the answer to their retirement plans.

The old adage that all investments can go down as well as up applies to property as well as every other investment!
Buy-to-Let Properties can be useful to generate income but watch out for Income Tax (on profits), Capital Gains Tax (if you sell the property), and Inheritance Tax implications.

The value of an ISA will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than you invested. An investment in a Stocks and Shares ISA will not provide the same security of capital associated with a Cash ISA.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances

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5. Taxing Times

Many of us paying tax, may have an opportunity to have tax breaks on our Pensions savings. We asked our LGBTI Pensions expert what LGBTIs can consider to take advantage of tax breaks.

A. Pension Contributions – Pension contributions will usually attract tax relief of at least 20%. That means that the government is giving you (or rather your pension) £20 for every £80 you put in. Pension tax relief is currently given at your marginal (highest) tax rate, which means that if your income is high enough it might attract a government contribution of 40% or 45% (so if you are a higher rate tax payer the government is giving your pension £40 for every £60 you put in*). In reality, it's much more complicated than that and you will need to get advice on how much you can contribute to your plan and how much tax relief it will secure.

*This is on the basis that any tax relief over the basic rate of 20% is claimed via your annual tax return.

B. ISAs – ISAs are attractive because they may pay out in retirement a tax-free income which can be used to boost your pension. Within the ISA, you can invest either in cash deposits or in stocks and shares. Either have the same tax advantages.

The value of an ISA will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than you invested. An investment in a Stocks and Shares ISA will not provide the same security of capital associated with a Cash ISA.
The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

Finally, we wanted to give you an LGBTI Retirement 'must think about' list and below are the 10 things our experts recommend you think about.

TOP TEN!

1. Work out how much money you need in retirement, establish how much you are projected to receive in retirement and where there is a shortfall get advice on how to help make up the difference.

2. If you're with a significant other or have financial dependants check your expression of wishes/ nomination form.

3. Check your state pension and request a forecast from this site: https://www.gov.uk/check-state-pension

4. If your employer is prepared to pay into your pension, then carefully consider whether you turn down this offer.

5. Start making small and regular contributions at the earliest possible opportunity.

6. If you're a higher rate tax payer, then make a contribution so you maximise the tax benefit.

7. As a rule of thumb, contribute as much as you can afford of your gross annual salary.

8. Consider alternative tax efficient vehicles especially ISAs which may pay a tax-free income in retirement.

9. Don't rely on property income alone for retirement income.

10. GET ADVICE

To access understanding advice from an LGBT Accredited Adviser, we would be happy to connect you with an Accredited Adviser or provide a choice of accredited advisers.

Equality Wealth Website: http://www.equality-wealth.com/
Email: info@Equality-Wealth.com

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For those wishing to have understanding advice from an accredited LGBT Adviser, Equality Wealth has a panel of accredited advisers and we will be happy to connect you with an adviser or provide a choice of accredited advisers for you.

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