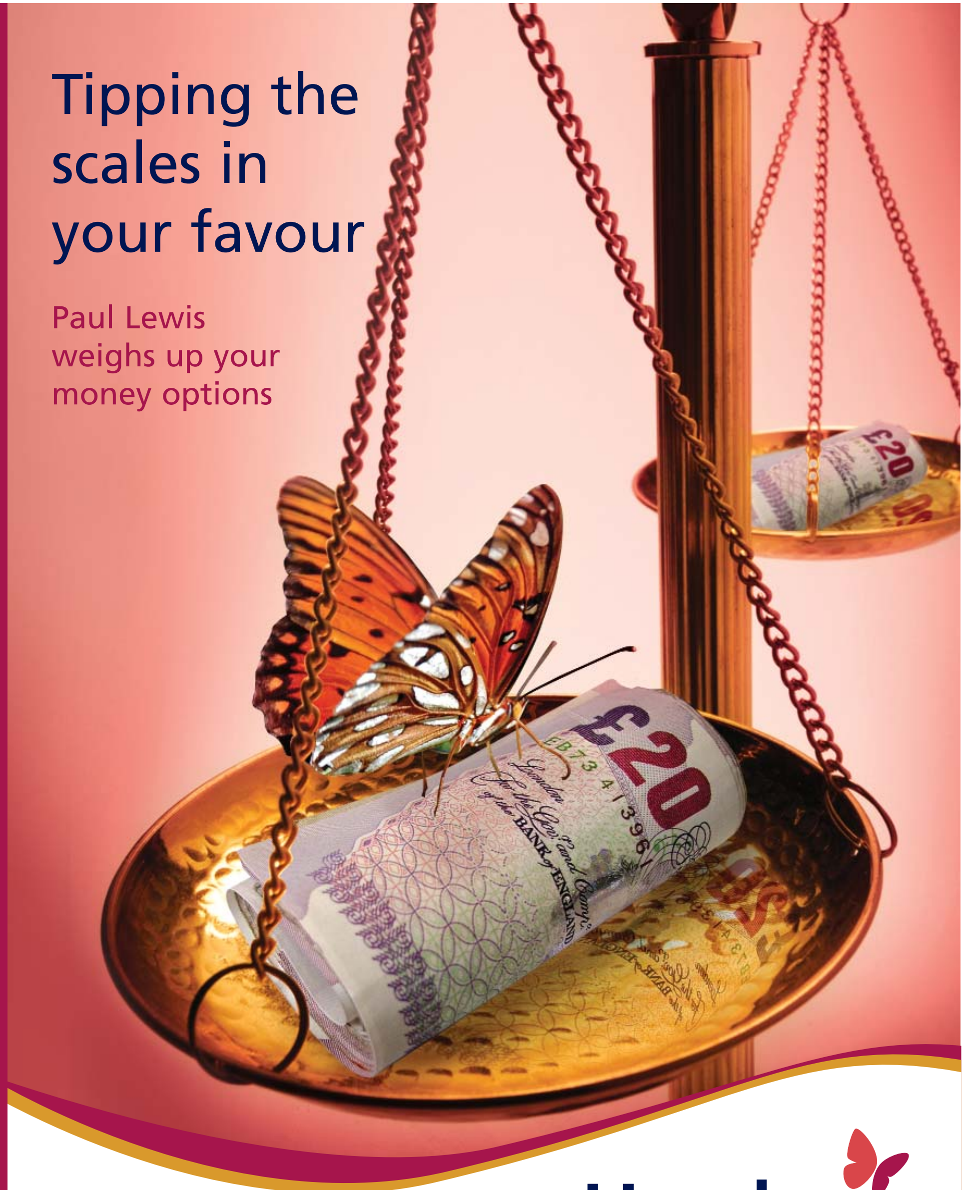
Tipping the scales in your favour

Paul Lewis
weighs up your money options



Heyday

It's you time

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Introduction

Tipping the scales in your favour

If you are thinking ahead to retirement, this booklet is for you: because you are at a crucial time in your life; a time of huge changes. But also one of great opportunity.

In your fifties, children leave, debts diminish, retirement comes closer. Some people are better off than they have ever been. But others may find they are out of work for the first time in their life.

Life changes can also hit you. A growing number of older people find their relationship in difficulties. Others find that no sooner have the children gone than they have to start caring for older relatives.

Whether your middle years are financially good or financially bad, the will certainly be different. You have important choices to make right now that will affect the rest of your life.

This booklet will make those decisions a bit less daunting. And deal with the good and the bad of approaching the biggest change in your life – retirement.

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Pensions

If you are in or around your fifties, you probably have about ten years to sort out your pension and/or retirement income. Most of us think we should have done more at 20, 30 or 40. But don't worry – it's not too late! Just don't reach 60 wishing you'd done more at 50.

At this point you might be thinking 'Why bother?' – not because you think income in retirement is unimportant, but because people have some strange beliefs. So let's start with three myths.

Myth 1

My house is my pension

Maybe you live in a house that is worth a small lottery win and you think you might live on that capital for the rest of your life. But the arithmetic is against you.

At 60 you can convert savings into a pension at the rate of about £6000 a year for each £100,000 you have saved. This pension will not go up each year with inflation. Now suppose your house is worth £280,000. You plan to sell it and buy to somewhere to live for around £140,000, releasing £140,000 to live on. But that selling one house, buying another, moving and paying Stamp Duty will set you back around £10,000. The remaining £130,000 will buy you a fixed pension for the rest of your life of less than £8,000 a year.

Even if you sold your £280,000 home and lived in your car, you would have a pension of around £17,000 a year. The arithmetic is also against you when you try to do what is called 'equity release'. You give up the value of your home, but do you get enough in return? (More on page 00.)

Myth 2

My partner will provide

Of course they might, but two things must be considered. First, is your partner's pension going to be as good as you imagine? Second, divorce is increasing among the over-50s.

Although there are legal rights for separated married couples and civil partners allowing them a share of each other's pensions, two cannot live apart as cheaply as two together. So whatever rights you might have, turning them into the money you need to live on can be tough. (More on page 00.)

Myth 3

It's just not worth saving now, it's too late

Over the next few years the Government will be introducing major changes to pensions, both State and private. They will be aimed at younger people, and are not likely to give much help to those approaching, or above, 50.

But the good news is that generous tax breaks – which were improved from April 2006 – can make it very worthwhile to save for a pension even if there aren't many years before you benefit from it.

So that's the myths out of the way. Now what can you do? A few simple steps can really make a difference to your future income.

Step 1

Check your State pension

Your State pension won't be worth a fortune, but it can be more than £200 a week if you get all the extras. Most of us, though, will get around £100 on average, with men usually receiving more than women.

The basic State pension is £84.25 a week. To qualify, you must have paid full National Insurance contributions for around 40 years. Any less and you'll get a smaller pension. Many married women paid reduced National Insurance contributions in the past. Some still do. These contributions are a waste of money and do not count towards the state pension.

You can pay any missing contributions back as far as April 1996. It will cost you between £310 and £360 a year to fill the gaps, and each year you buy will boost your pension by around £100 a year. But if you have no pension entitlement, paying extra contributions could give you a pension of £21 a week.

If you divorce or are widowed, you can count your ex- or late spouse's contributions for the years you were married. You lose this right if you remarry [civil partners deleted – that equality doesn't start until 2010] before pension age. So it's better not to!

Men aged 60 to 64 who do not work, get National Insurance contributions automatically credited to them if they need them to qualify for a full pensions.

Most people will also get some additional earnings-related pension (SERPS or State Second Pension). The maximum is more than £140 a week, but the average is actually more like £13. There may be another pound or two from the graduated retirement benefit which was paid for by contributions you made before 1975.

Women born before 6 April 1950 can draw their State pension at 60. Women born after 5 April 1955 will have to wait until they are 65. Women born between those dates will reach State pension age between 60 and 65. There's more information at **www.thepensionservice.gov.uk**.

It is likely that the way we qualify for the State pension will change in future, and that pension age may rise. Luckily for you, these changes probably won't have a significant affect on people already in their 50s.

Once you reach 60 you can claim the £200 winter fuel payment. It is paid to everyone of that age whether or not they work and regardless of any other income and assets.

For more information call **0845 3000 168** or go to **www.thepensionservice.co.uk** to get form BR19. This is the form you will need to find out what your pension will be.

Step 2

Track down old pensions

People change jobs, employers change names, we all forget things. So it is easy to lose track of pensions you have paid into. If you do not look for them, they certainly won't come looking for you.

The Pension Tracing Service holds details of more than 200,000 schemes and will put you in touch with that old pension, free of charge. The more information you give, the more chance there is of reuniting you with the pension you paid for.

Of course, when you left that old job you may have taken your contributions out or moved them to another scheme, so there may be nothing there. But it is always worth a search. The Service also has some details of personal and stakeholder pensions.

For more information call **0845 6002 537** or go to **www.thepensionservice.co.uk.**

Step 3

Check your private pension

Most jobs come with some kind of pension scheme. If you are in one, find out what your pension will be worth. If your employer has one that they pay into and you have not joined, then join now! Otherwise you are giving up not only a pay rise but a hefty subsidy from the Chancellor.

Salary-related schemes promise you a pension that is a percentage of your pay and is related to the number of years you have paid in. If you pay in for the full 40 years, you will generally get a pension of half your pay plus a lump sum of three times your annual pension. Some are less generous, a very few are better. The people who administer your scheme will tell you roughly what you can expect.

These schemes offer the best pensions, and if your employer goes bust there is a Pension Protection Fund that will pay most of the money you have been promised.

Money purchase schemes are not so good. They save up all the contributions you and your employer pay in, and invest them in a pension fund. When you retire you can take a quarter of the fund as a tax-free lump sum. The rest has to be used to buy you a pension for the rest of your life – an annuity.

Other sorts of pensions – such as personal, stakeholder or additional voluntary contributions (AVCs) – are all money purchase schemes.

Normally, only you will have paid into them, so the fund will be smaller than in an employer's scheme.

The value of the pension from a money purchase scheme depends on investment returns, life expectancy, and interest rates when you retire. Reckon on a flat-rate pension of around £6,000 a year at 60 for each £100,000 saved up – more if you are older.

You will receive a statement each year saying what your pension might be – but that statement is only an illustration and will almost certainly be wrong. Some forecasts will also include information about your State pension.

Step 4

Boost your pension

Whatever scheme you are in, one thing is always guaranteed – you'll want more! You can boost your pension by taking out another. If you are in a salary-related scheme, then see if you can buy added years. They are the best deal, though they may be expensive. If not, or if you are in a money purchase scheme, then you can take out an additional stakeholder pension or put extra money into additional voluntary contributions (AVCs), which your company may offer.

Nowadays you can put just about as much as you like into a pension. The upper limit is what you earn in the year, or £215,000 if that is more. And in the year you draw your pension, it is unlimited. So even if you get a redundancy payment or inherit money, you can put it towards your pension if you want. And you get tax relief on the whole contribution – which is worth a lot, especially if you pay higher-rate tax as more than three million of us now do.

You can now take a quarter of your pension fund as tax-free cash. If your total pension funds are worth less than £15,000 you can take it all in cash – though income tax will be due on three-quarters of it.

Leaving work…

It can be subtle – early retirement with enhanced pension rights – or fairly brutal – redundancy with no consultation. Early retirement is a dream many people have – but some find it turns into a nightmare. There is more choice than ever about when to retire. Make sure you choose carefully.

Step 1

Redundancy

Generous redundancy packages used to be the way to get rid of older workers and allow younger people to climb the promotion ladder. It still happens, though less often now as firms realise how damaging it is to lose their collective memory. It can be the best thing that ever happened but it can also be very hard to cope with.

From 1 October 2006 you can get redundancy pay at any age – the upper limit of 65 has been scrapped. Though check your contract to see if any enhanced payments from your employer will still be made. If you feel it discriminates on grounds of age ask your employer to change it.

If you are offered redundancy – or it is being forced on you – think carefully:

- How will your pension be affected?
- How far will the redundancy payment stretch? Part of the payment has to be made by law ('statutory redundancy payment') but many employers also pay more – either because it is in your contract or because by volunteering for redundancy you help them save money.
- What are your chances of getting another job?
- Will you be happy not working?
- If you want to say 'yes', then negotiate for:

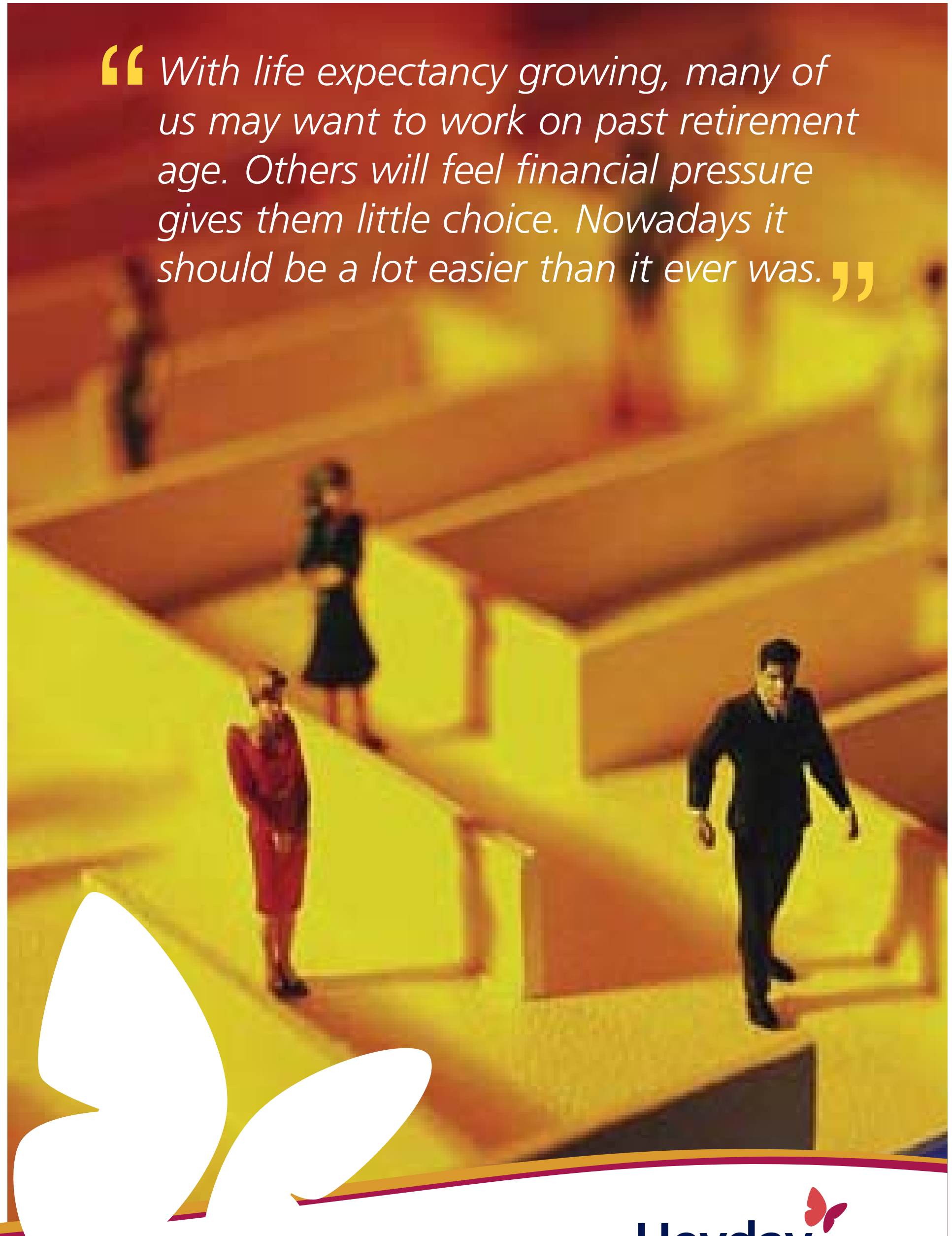
  - a big redundancy payment – most people get far less but if your employer is willing to pay, remember that up to £30,000 is tax-free;
  - the same pension at 60 or 65 as you would have been due if you had stayed in your job;
  - redundancy counselling – being out of work at 50 can be tough;
  - and of course a great party!
- If you are told you have no choice but you do not want to take redundancy, then talk to your union or a lawyer and ask:
  - Is your job really redundant?
  - Has the process of selection been fair?
  - Were you selected because of your age? From 1 October 2006 that will be unlawful.
  - Have you been offered other jobs in the company?

For more information visit **www.acas.org.uk or www.adviceguide.org.uk/index/life/employment/redundancy.htm.**

Step 2

Early retirement

- Redundancy's fairer cousin – leaving work early because you want to – has advantages and disadvantages.
- You will have no redundancy pay – but you can get a pension lump sum that may be larger and is all tax-free.
- You may get an earlier pension – but possibly a smaller one. Final-salary schemes can offer very good deals here. Money purchase schemes cannot: with them you will have a smaller pension pot and it will have to keep you for longer, dealing a double whammy to your pension. Try to negotiate a big payment into your pension fund if your employer is keen for you to retire early.
- If you have poor health, then retiring for that reason makes it easier to negotiate a better pension – particularly if your job is with central or local government.



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…And working on

Step 3

Flexible retirement

The Government is against what it calls 'cliff-edge retirement' – fit for work one day, fit for nothing the next. Flexible retirement means phasing yourself out of work slowly, working fewer hours a day or fewer days each week. But it can also mean doing less when you are there:

- **Downshifting** means taking less responsibility, moving down grades rather than up, easing the stress.
- **Secondment** involves transfer to another job altogether in the company, perhaps one you've always fancied.
- **Volunteering** can allow you to spend some time, perhaps on half pay, helping the community where you live or where the firm is located.

Since April 2006 the law lets you draw a pension from your company scheme and carry on working for the same employer. However, many pension scheme rules and employment contracts may not allow it. If they do, it gives new opportunities to phase yourself out of work and into the rest of your life! Remember too you can draw your state pension at pension age even if you carry on working.

Step 4

Working on

With life expectancy growing, many of us may want to work on past retirement age. Others will feel financial pressure gives them little choice. Nowadays it should be a lot easier than it ever was.

From 1 October 2006, discrimination on grounds of age in all employment matters will become illegal. That should make job adverts fairer, lead to application forms that ignore age, and outlaw getting rid of people or failing to hire them just because of when they were born.

However, companies will be able to retire people (and refuse to hire them) once they reach the company's standard retirement age – which cannot be less than 65. Even then an employee has the right to ask them to reconsider that decision and they must consider your request properly.

For more information Companies belonging to the Government's Age Positive campaign should have a good attitude to employing older people. You can find a list at **www.agepositive.gov.uk** – click on 'Champions'. The Employers' Forum on Age is committed to a workforce of people of all ages, and has 220 members employing more than three million people. Visit the website at **www.efa.org.uk** or call **020 8765 7597**.

> *"From 1 October 2006 you can get redundancy pay at any age – the upper limit of 65 has been scrapped. Though check your contract to see if any enhanced payments from your employer will still be made."*

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It's you time

Putting money to work

Your middle years can be the period when you have spare cash for the first time. It may be a redundancy payment, a pension lump sum or an inheritance, or that investment you started ten years ago may suddenly mature and give you a pleasant surprise. Perhaps for the first time your income is comfortably more than your spending. If you do find you have some new money, put it to work at once. Money is a lazy creature and will happily earn nothing if we let it.

Step 1

Cash in

Banks are falling over themselves to get our money. Competition is so fierce they will make us mad offers to tempt us to become customers. So if you do come into some spare cash:

- Don't panic.
- Don't spend it.
- Don't risk it.

Put it to work somewhere safe and think about it for a few weeks. Money in the bank or building society remains yours and is safe, and you can get it back whenever you want it. And nowadays you can earn reasonable interest on it.

The best accounts are not on the High Street. They are operated by telephone or over the Internet. The overheads are lower and the banks want your custom, so you can easily earn well over 4%.

For more information look in the monthly magazine MoneyFacts at your library or online at **www.moneyfacts.co.uk**.

Step 2

Save tax

Whatever your money earns, the Chancellor will want his share. There are two ways to stop him.

- Put your cash into what is called an ISA or Individual Savings Account. All the interest it earns is tax-free. You can put up to £3,000 a year into a cash ISA and there are no restrictions on taking it out. The only rule is that you cannot put in more than £3,000 during the year. You can get up to 5% or more in a cash ISA. The rules may be changed in 2008.
- If you have a spouse or civil partner who has a lower income and pays tax at a lower rate than you do, move the money into their name so that it is paid tax-free. If you tell the bank or building society, they will pay it gross. Remember that the money becomes legally theirs!

For more information call the TaxBack helpline on **0845 980 0645** or visit **www.hmrc.gov.uk**.

Step 3

Pay off debts

If you have debts, paying them off is the best way to use your funds. It boosts your income and it can relieve stress. The arithmetic is simple.

If you owe £2,000 on a credit card and pay 15.9% on it, the debt costs you £318 a year in interest. So by paying it off you save £318 a year.

If you invest £2,000 and it earns 4.5%, you will make just £90 a year and probably pay tax on it, leaving just £72.

Therefore, paying off your credit card makes you £246 a year better off. The same principle applies to bank loans, but there will usually be a penalty – perhaps two months' interest – for paying these off early.

So pay off debts first. You won't get a return as big as that anywhere else.

The one exception might be your mortgage. Some mortgages are very inflexible so that neither the debt nor the interest you pay are reduced until the end of the year. And if you find you need to borrow more money later on, you will not be able to raise the mortgage amount again without renegotiating from scratch. So you might have to borrow that money more expensively elsewhere.

If you have not changed your mortgage lender for a few years, you should think about a remortgage. Many people can save substantial sums like £1,000 a year by changing lenders. The new deal may only last a few years, but it will cut the repayments and leave you free to use the money you save to pay down the debt. You can remortgage more than once – so never take on a mortgage that has penalties for leaving it that last longer than the gains you make from the deal. (More on page 00.)

Step 4

Consider investment

You have saved your cash for a few months, paid off your debts, looked into the future and know what you want. Should you invest your money?

Investment is different from saving. Someone else owns your money – all you have is a piece of paper. You may be able to sell the paper to someone else, or it may be a promise to give you your money back in the future with a bit extra for your trouble. If there is a demand for your bit of paper, then you may sell it for a handsome profit. Or the company making the promise may fulfil the bargain. Or they may not. So investment is more risky than saving.

There are different sorts of investment:

- **Ultra-safe** Government stock – also known as gilts. These can be tricky to get your head round, but the Government will keep its promises. There are modest buying and selling costs but no annual charges. They can produce a guaranteed regular annual income.
- **Safe-ish** Corporate bonds issued by companies. These offer you a fixed return and your money back at the end. If the company folds, you lose your money. Corporate bonds are normally bought through a fund, and annual charges are taken from your money.
- **Riskier** Funds invested in shares. You get your money from annual dividends and a rise in the value of the shares. Neither is guaranteed. In the long term, share funds have performed better than other investments. But this may not be the case when you need your money back. Purchase is usually through a fund, and annual charges are taken off your money.
- **Highest risk** Anything that offers you very high returns and no risk. If you are lucky, you will only lose most of your money.

Use a good, independent financial adviser. Make sure your adviser is independent – financial advisers tied to one company or to a range of financial providers are not worth considering. Pay them a fee for their advice, with all commission paid back to you or reinvested.

For more information contact IFA Promotions on **0800 085 3250** or visit **www.unbiased.co.uk** or **www.thepfs.org**.

> *"If you have not changed your mortgage lender for a few years, you should think about a remortgage. Many people can save substantial sums like £1,000 a year by changing lenders."*

Boosting income

There are billions of pounds lying around waiting to be picked up. If you fear things may be a little tight financially, your share of that money could come in very handy.

Step 1

Missing money

The first place to look for missing money is not down the sofa but with the banks and the insurance companies. An estimated £15 billion is lying there forgotten. They do not bother too much to find its owners – after all, they earn interest on it. There are four places where there might be money waiting for you.

- **Banks and building societies** operate a scheme to reunite people with their forgotten cash. Get a form, or fill one in online. You can track down that old bank – who does own the British Linen Bank or the Andover Mutual where your grandfather had an account? Call **020 7216 8909** (website **www.bba.org.uk**) or **020 7437 0655** (website **www.bsa.org.uk**). The Government plans to use money that has been dormant for more than 15 years. But even when that happens, you will always be able to get your own money back.
- **National Savings & Investment** has £1.8 billion in unclaimed money, including £23 million in Premium Bond prizes. Call **0845 964 5000** or visit **www.nsandi.com**.
- If you have completely forgotten where money is – or have a vague feeling that old uncle Charlie had a life insurance policy – try the **Unclaimed Assets Register**. For £18 it will search its database for a name and address. Call **0870 241 1713** or visit **www.uar.co.uk**.
- **National Lottery** prizes worth more than £600 million have gone to good causes because no-one has claimed them in time. You have just 180 days from the draw to claim your money. Early in 2006 one person lost £9 million. Don't let it be you! Call 0845 278 8000 or visit **www.national-lottery.co.uk**.

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Step 2

Benefits

Losing your job or being too frail to work can be a new and frightening experience in midlife. Don't be afraid to find out and ask for whatever is available from the State.

Jobseeker's Allowance is paid if you are unemployed but available for work and actively seeking it. It is currently £57.45 a week and lasts for six months. You can get more – and it will last longer – if you have a limited income, you have no savings above £6,000, and your partner does not work either. You should contact your JobCentre Plus. There is more information at **www.dwp.gov.uk**.

Once you reach 60 you may be entitled to Pension Credit, which will boost your income to £114.05 a week – more for a couple. If your savings are more than £6,000 you may get less.

Tax credits can help:

- people with children, in or out of work;
- people in low-paid work, with or without children – there's more money if you are over 50 and have been out of work for at least six months.

Check what you can get at **www.entitledto.co.uk** or **www.hmrc.gov.uk**.

Council Tax can be cut:

- If you live alone (or are the only adult), it is cut by 25%.
- If you have a disability adaptation to your home, it is cut by 17%.
- If you have a lowish income, it is cut by up to 100%. This reduction is much more generous once you reach 60, and more generous still at 65. For example, if your full council tax is £1,200 a year you can get some help with a weekly income up to £140 (single) under 60, up to £200 once you reach 60 and up to £218 at 65.

Ask your local council, or check out what you can get at **www.entitledto.co.uk**.

Disability creeps up slowly as we get less supple and energetic. When these changes stop you working or functioning independently, you become disabled. Do not be afraid to claim benefits if you have an illness or disability. Here is what you may be eligible for:

- **If you cannot work:** Statutory Sick Pay or Incapacity Benefit – up to £78.50 a week. Changes in Incapacity Benefit are planned in the next couple of years.
- **If your disability has been caused by your work:** Industrial Injuries Benefit – up to £127.10 a week.
- **If you need help with personal care:** Disability Living Allowance (DLA) care component – up to £62.25 a week.
- **If you need help getting around:** DLA mobility component – up to £43.45 a week.
- **If you have been disabled in the Armed Forces:** War Disablement Pension – up to £134.80 a week.
- **If you look after someone who gets these benefits:** Carer's Allowance – £46.95 a week.
- **You may also be eligible for Income Support** – depending on your savings and income – on top of any of these benefits.

For more information visit **www.disabilityalliance.org** or call **020 7247 8776**.

Step 3

Your home

Your home is worth as much as a pools win, but your income is too low for comfort. At 75 the problem can be solved by taking out what is called a lifetime mortgage or exchanging part of the ownership for a lump sum – known as a home reversion. Both are available in your 60s, but at these younger ages they are terrible value and should be avoided. Home reversions are not currently regulated, so are best avoided until that changes.

The cheapest way to release money from your home is to sell it and buy a cheaper one. However, there are expenses: the biggest of these will probably be Stamp Duty Land Tax. That kicks in when the price exceeds £125,000 at 1% of the total price; and on a property worth more than £250,000 and up to £500,000, you pay 3% of the price straight to the taxman. One way to save Stamp Duty on homes worth up to £150,000 is to check the postcode, as some areas have special exemptions up to this limit. You can find more information at **www.hmrc.gov.uk/so**.

Other costs of moving include lawyers' bills (buying and selling), estate agents' fees (just selling), survey costs (buying only) and removal. You can save on all of these if you are prepared to do them yourself. If you aren't, you should anticipate spending 5% to 10% of the purchase price on them.

> *"Losing your job or being too frail to work can be a new and frightening experience in midlife. Don't be afraid to find out and ask for whatever is available from the State."*

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Spending less

Step 1

Save those treats

When you are in work and the money is flowing, you can get into bad habits. Retirement or redundancy, or maybe just a determination to save to boost your pension, all mean that those habits have to stop. The ideas below may sound a little corny, but try them anyway. You may be surprised.

- Put your loose change in a jar at the end of each day. Then see how much you have when you start your Christmas shopping. Beware the change converters in supermarkets – they charge 8%.
- Don't buy coffee or tea from a nice café – take a flask or use the kettle at work. Saving £3 every working day is like a pay rise of £1,000. In other words, you can put £1,000 into a pension and be no worse off! Better still, take sandwiches too and save the price of lunch: £5 a working day is like earning £1,679 a year!
- Get a bike and save the cost of public transport or driving.
- Join a library to save the cost of books, magazines and CDs.
- Cut back on alcohol. Stop smoking.
- Stop wasting food. If you are in the habit of throwing out of date food away, buy less in the first place!

Keep a spending diary each day and balance it every night. Just doing that will stop you spending so much. And it will help you see where those bad habits lie.

Step 2

Moving debt

Probably the worst habit we get into when income is regular is debt. Casual debt, thoughtless debt, borrowing in expensive ways for silly things. Sorting that out can save money. In future, never borrow over a longer period than the item lasts – a year for an annual holiday, a few months for clothes that are soon out of fashion.

Play your cards right

- **Store cards:** Pay them off and cut them up. They can cost you 30% a year.
- **Credit cards:** If you already have a debt, there are two ways to deal with it:
- A **life of balance** card will offer you a very good rate on your debt, perhaps 4% or less, for as long as it takes to pay it off. Once you have the card, cut it up and do not spend on it. Just pay off the debt as soon as you can.
- A **0% balance** transfer card will last for up to twelve months. If your debt is manageable, then transfer it and pay it off over that period. Cut this one up too. Avoid cards that offer 0% but then charge you for each card balance you transfer!
- If you want to **borrow for a few months** – perhaps for Christmas or a holiday – take out a 0% spending card and use that. But always pay off the debt before interest is charged after six to twelve months.

For more information visit **www.moneysavingexpert.com.**

Move your mortgage

A mortgage is no longer for life. Think rather in terms of two to five years. If you have not re-mortgaged recently, you could be wasting £1,000 a year in extra interest charges. If you are paying the Standard Variable Rate, you are wasting money. Go for a discounted rate – up to 2.5% off the standard rate for a fixed period of two or more years. Or go for a fixed rate for up to five years so that you know what your outgoings will be. Some lenders will pay for your survey and legal fees too, though beware the growing number that charge a large 'arrangement fee' for the honour of becoming their customer – and a fat fee for leaving them at the end. You also need to be aware that loan deals supported by work will normally end when you are 65 or 70.

Compare mortgages at **www.moneyfacts.co.uk** or ask a national broker that does not charge fees. Call **0800 953 0304** or visit **www.lcplc.co.uk**.

For more information if debt worries you, call the Consumer Credit Counselling Service on **0800 138 1111** (website **www.cccs.co.uk**) or National Debtline on **0808 808 4000** (website **www.nationaldebtline.co.uk**).

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Step 3

Cutting tax

Check how much tax you are paying. It is often wrong.

Tax codes If you work or have a company pension, your tax will be deducted before you see the money. The tax deduction is worked out using a tax code from HM Revenue & Customs. The Revenue admits that up to one in eight of these codes could be wrong. So at the end of the year check the tax you have paid.

Taxable expenses Even employees can claim some of their expenses against their tax:

- uniforms and tools;
- subscriptions to professional bodies;
- car travel in the working day – up to 40p a mile.

Your savings

- If you have savings, then a fifth of your interest will be deducted and passed to the taxman. If your income is low, that may be more than you should pay.
- If your income is £5,035 a year or less, you should pay no tax on your savings. Tell the bank or building society and fill in form R85 to get them to stop taking tax off your interest. You can claim the extra tax back for up to six years.
- If your annual income is above £5,035 but no more than £7,185 you should pay only 10% tax on your interest. But the bank or building society will still deduct 20%. Claim back the excess at the end of the tax year on form R40. You can claim it back for the past six years as well.
- Once you reach 65 these amounts rise by £2,245.

Change

Tax codes get tax wrong when your circumstances change. Moving jobs, taking or giving up a company car, reaching 65, doing more than one job or having investments that are paid gross are some common reasons why your tax code may be wrong.

For more information ring the TaxBack helpline on **0845 980 0645** or visit **www.hmrc.gov.uk/taxback**.

Step 4

Scrap insurance

Lots of insurance is a waste of money. Some is worth having. Save money by sorting the bad from the good and scrapping it.

Life insurance This can be useful, but only if you have dependants who will be left with debts – such as a mortgage on joint property – or too little income if you die. If your children are independent and your spouse is provided for, what else do you need?

Extended warranties If you have bought one, you cannot get rid of it. But never buy one again. Retail laws protect you for at least a year. Modern products are reliable in use and cheap to replace, and these warranties often fail to pay out.

Payment protection cover This can easily double the cost of a loan. If you are retired, self-employed or not working, the chances are it will not pay out anyway.

Private health insurance This can become very expensive once you reach your middle years. It is much better to save money in a separate high-interest account against the time when you might need a cataract operation or hip replacement and pay for it yourself at the time. For everything else, trust the NHS.

Credit card protection If your cards are lost or stolen, you do not have to pay for the fraud, so why insure against it?

ID theft insurance Perhaps the biggest waste of money of all. If your ID is stolen, you do not have to pay for any money stolen from you.

Life changes

Whatever you expect to happen probably won't, and something else probably will. And that is likely to be something you hadn't even thought of. You can't prepare for everything, but expect the unexpected.

Step 1

Work for yourself

Although laws against age discrimination start in October, grey hair can feel a disadvantage at work. But on a consultant it means experience, gravitas and wisdom. No wonder many people looking for a change of direction in their 50s and 60s choose to go self-employed. But nowadays there is red tape to deal with.

- **Tell the Inland Revenue** You have three months from when you start self-employment to register, or face a £100 fine. Do it by ringing the helpline for the newly self-employed on 08459 15 45 15.
- **Pay National Insurance contributions** Class 2 contributions are £2.10 a week. Class 4 are 8% of your profits above £5,035 a year and 1% of profits above £33,540. You get nothing for these Class 4 contributions. Class 2 count towards a State pension. Class 2 do not have to paid once you reach pension age. Class 4 do not have to be paid after the tax year in which you reach pension age.
- **Pay tax** Self-assessment is obligatory for self-employed people. Make sure you get the 'Self-employed' pages with your form. And get it in by 31 January. If you get your form in by 30 September, the Inland Revenue will calculate your tax for you. Alternatively, do it online – it's easy and efficient.

Save receipts and add up everything you can count as a business expense. Include a share of the costs of car, telephone and running your home – including mortgage interest and council tax. Becoming a company might save money despite recent changes, but do get advice. It can be a lot of paperwork for little reward.

For more information contact Prime Initiative **0800 783 1904** or visit **www.priminitiative.org.uk**

Step 2

Divorce and separation

Midlife often brings with it changes to relationships. Each year around 45,000 men and women in their 50s divorce – and 12,500 over 60 – and the number is growing. Apart from the emotional upheaval, it can be an expensive time. Two might live together as cheaply as one; but when they part, things get twice as expensive.

How you split your property is important.

- **Your home** may have to be sold. If this is not inevitable, it may be best to let the financially weaker partner keep it. Mortgage providers are willing to lend to older people; there is even a 'divorce mortgage' offered by at least one broker.
- **Your pension** can be split to make sure that the financially weaker partner benefits from it as well. Get specialist help from a lawyer.

Since December 2005, same-sex couples – two men or two women – have been able to form civil partnerships. Legally, that is like marriage in every way and gives the same rights as divorce if the partnership is dissolved by the courts.

In Scotland unmarried couples who separate are getting new rights, and that might happen in England and Wales in the future.

For more information call Resolution on **01689 850227**, or visit **www.sfla.org.uk**.

Step 3

Move abroad

Retiring abroad can seem attractive. Abroad is warmer, friendlier, cheaper, healthier, prettier – at least it is on holiday. But maybe not to live.

- **Health** The NHS is a marvellous asset as we get older. It may not be perfect, but it is free for all those ailments and illnesses that can plague our later years. Make sure there is something comparable – and affordable – where you retire. In some countries you will have to pay for adequate health insurance as a condition of living there.
- **Pensions and benefits** The State retirement and widow's pensions can be paid if you live abroad. But in many parts of the world they are frozen at the rate at which they are first paid abroad. Company pensions can be paid anywhere, but you will have to meet the cost of converting sterling to the local currency. No other UK benefits apart from war pensions can be paid if you live abroad.
- **Tax** This can be either higher or lower than you were expecting. Some countries have a wealth tax, all have property taxes, and some have higher income tax than the UK. Check carefully before you go.
- **Inheritance rules and taxes** will be different from the UK. Always make a local will and check what tax will be due on your estate.
- **Property** Get the very best advice before you buy a home abroad. It can be marvellous, or it can be hell. Laws are different, officials may be obstructive, and the language will usually be foreign.

If you have money saved in a country where you do not live, tough new laws will probably mean that the tax authorities will find out.

Step 4

Becoming a carer

It is the job no one anticipates. Becoming a carer can creep up on you in later life. Six million people give regular personal care to a relative or friend. At some point in our lives, three out of five of us will be carers. Help is pitifully limited, though the Government is now committed to improving things in the next couple of years.

- **Carer s allowance** This can give at least some financial help. But at £46.95 a week it is not enough to live on. If you earn more than £84 a week, carer's allowance stops. You may also be expected to attend what are called 'work-focused interviews' to see if you can combine work with caring.
- **Practical help** Some help, but never enough, can be obtained from your local council. The council has a duty to give you an assessment (and to tell you that you can have one) to find out what help you need; but it is much harder to make it give you the help you need.

For more information contact Carers UK on **020 7490 8818** or visit **www.carersuk.org**. See also Age Concern's Carers' Handbook Series.

> *“Six million people give regular personal care to a relative or friend. At some point in our lives, three out of five of us will be carers.”*

Heyday
It's you time