Your

Finance Matters

Financial Magazine

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YOUR FINANCE *MATTERS*

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ONE IN TEN BRITONS ADMIT THEY ARE BAD WITH MONEY – HOW TO BUCK THE TREND

A recent survey[1] has shown that for many, building up their savings is not top of their agenda.

Everyone should think about putting some money aside for emergencies, and for the bigger things in life like the deposit on a home, a child's education or a wedding. So, for most of us having some cash that we can access quickly to pay for unexpected things like an unforeseen bill, and some that steadily builds up over the years, makes good financial sense.

An ISA is a simple, tax-free way to save or invest for the future. The advantage of these types of account is that you don't pay tax on the interest or dividends you earn, or the increase in the value of your investments. There are now several different types of ISA available, designed by the government to encourage everyone to save or invest for their future. The basic types are:

- Cash ISAs and stocks and shares ISAs for savers and investors
- Junior ISAs for children
- Help to Buy ISAs for those saving for their first home
- Lifetime ISAs for those saving to buy their first home or who wish to save until age 60.

Take your first steps in investment

Investment means introducing your money to risk, but also offers the prospect of getting better returns than are available on savings accounts.

Fledgling investors often begin by drip-feeding smaller amounts of money into ISAs, collective investments such as unit trusts, managed funds or bonds, rather than risking a lump sum at what could turn out to be a bad time.

If you put your money into stock market investments you should be prepared to do so for at least five years and preferably longer. You'll also need to think about your attitude to risk, as this will have a bearing on the type of investments that will be right for you. If you invest in the stock market, your capital will rise and fall according to how the economy and markets here and globally are performing, meaning that you need to be able to cope with peaks and troughs.

Whether you're saving or investing to help your children, want to retire early, or simply build your lifetime wealth, good advice can ensure that you make the most of your money and avoid the pitfalls.

[1]PiggyBank, 2018

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YOUR ISA – LUMP SUM OR REGULAR SAVINGS?

The good news is that since 6th April you can use this year's ISA savings allowance to put your hard-earned cash to work in a tax-efficient way. The 2018–19 allowance is a generous £20,000, and it makes sense to take advantage of this savings opportunity as soon as possible in the year, rather than risk losing your entitlement if you forget and miss the tax year end deadline.

The longer your money is in your ISA, the more opportunity for interest and growth.

If you're planning to use your ISA allowance this tax year, it's worth remembering that the longer your money is saved or invested, the more time it has to produce tax-free returns.

If you're thinking of putting your ISA subscription into the stock market but are worried about volatility that stocks and shares experience, then you can always choose to make regular contributions. This approach is called 'pound-cost averaging' and means that you don't have to worry about getting the timing of purchases exactly right, and there's no need to constantly watch markets to invest at the right moment.

Pensions jargon – busted

No one should be deterred from planning for their retirement by the jargon used in the pension industry.

Happily, we are well versed in turning complex financial terms into plain English. Here we unravel a couple of terms that you may have come across and be unclear about.

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Annuities

When you retire, you can choose to take some or all of your pension pot as an annuity, an insurance product that provides a guaranteed income for life. One of the benefits that annuities provide is security. Unlike other retirement income products, and with the exception of investment-linked annuities, you aren't exposed to stock market risk which could erode your income. On the downside, should you die early, the residual value of the annuity dies with you; there is usually no return of capital to your estate.

Drawdown

With income drawdown, you take a retirement income direct from your pension pot while leaving the rest of the cash invested, providing an opportunity for future growth. There is no minimum amount for drawdown, so you could, for instance, take your 25% tax-free lump sum and choose to leave the remaining funds invested. You can also move funds into drawdown in stages, known as partial or phased drawdown. The 25% tax-free amount doesn't have to be taken at once on retirement – smaller amounts can be taken over time, each with 25% tax-free.

Once in drawdown you can access funds as you need them. You could, for example, vary the amount you take each year, taking less if you wish to remain in a lower tax band, or more if you have plans to spend. After taking your 25% tax-free cash, your withdrawals will be subject to income tax and your drawdown income is added to any other income you receive in that tax year. It's important to remember that taking large withdrawals may result in you paying tax at a higher rate.

WHY YOU SHOULD AVOID PROTECTION PROCRASTINATION

People put off buying life insurance for a variety of reasons, and they shouldn't.

Not only does life insurance give valuable peace of mind to families up and down the country, each year insurers pay out millions of pounds to families to help ease the financial strain caused by life's unexpected events. Here are a few reasons people often give for not taking this vital step.

It's too expensive

Many people are surprised to learn that cover is far less expensive than they'd first thought. Plus, it's a small price to pay when you consider that having no insurance would cost your family considerably more and could result in them struggling for money.

I'm fit and well

No one is immortal and buying protection policies when you're in good health means you'll find it easier to get a cost-efficient policy that meets your needs. If you leave it until you're older and have health problems, your premiums will be higher.

I don't have kids

If you don't have kids but do have loved ones that depend on you financially - your spouse, partner, parent or sibling – then a payout from a policy would help to alleviate their financial burden at a difficult time.

I'm not working, I don't need cover

If you're a stay-at-home parent, just think of all the tasks you do on behalf of your family. Everything from cleaning, cooking and childcare might have to be paid for if you weren't there to provide it.

I get cover through my job

While you may get insurance as part of your employment package, it may not be enough for your needs, and the policy won't move with you if you change jobs.

I don't have time to find the right plan

It can be hard to assess how much life insurance you need on your own, but that's where we can help you. Don't let procrastination hold you back, get in touch.

ARE MILLENNIALS SAVING ENOUGH FOR RETIREMENT?

Rising house prices, burdensome student debt and a low-wage economy have all contributed to millennials feeling under financial pressure.

However, the good news is that many more people in the 18 to 35 age range are regularly saving into a pension than ever before. According to data from the Intergenerational Commission[1], a decent pension ranks as the second biggest area of concern for young people's prospects, second only to housing.

Pension saving is becoming the norm

Auto-enrolment has been a great success in improving the proportion of pension savers, particularly among the younger age group, where participation levels have increased significantly. However, it is crucial that those being auto-enrolled into pension schemes for the first time do not consider it 'job done' and disengage from their savings.

April saw the minimum auto-enrolment contribution increased to 3% of qualifying earnings for employees and 2% for employers, and although staff can opt out of their workplace pension scheme, figures to date show that fewer than expected have chosen to do so. Whether more will opt out as the minimum contribution increases to 5% for employees and 3% for employers in April 2019 remains to be seen. It's to be hoped that having embraced the pension saving habit and got used to receiving regular statements showing how their money is growing, they will be sufficiently incentivised to stay the course.

More is needed to secure a comfortable retirement

The problem remains that to retire with pensions that are comparable to those of their parent's generation, millennials will need to think about contributing far more than auto-enrolment. This could prove difficult if they simply don't have the spare cash available to top up their pension savings.

Employers will have an important role to play in ensuring that employees receive every encouragement to keep saving during their working lives; they could help by allowing workers to sacrifice part of their salary or bonus to make pension contributions.

[1]Intergenerational Commission, 2017

IS IT TIME TO LET THE 'DOGS' OUT?

From time to time the finance pages publish lists of what are called 'dog' funds. You may have wondered what the term means and be concerned about what you should do if you find you're invested in one of these funds.

Put simply, a 'dog' fund is one that is deemed to be performing poorly. All investment funds fall into sectors – for example, UK technology or global emerging markets. Classifying them under these headings means that it's easier to make meaningful comparisons. They can be compared both against each other and against the average performance for all the funds in that sector. If a fund is consistently showing as being 10% below the sector average, then it can earn the 'dog' tag. However, it's important to remember that companies producing these lists aren't giving specific advice or recommendations and results are compiled using past performance.

Regular reviews

Regular reviews can be the key to ensuring your investments are still right for you. Keeping a close eye on the performance of your assets will mean that under-performing funds can be identified and, if necessary, changes made to your portfolio.

Revisiting your attitude to risk is an important part of any review process. Remember that the right funds for you to be invested in could change at different stages of your life. When you're younger, you may want to invest in assets with a higher potential for growth but greater risk, because you have plenty of time to benefit from their long-term growth possibilities. As you get closer to retirement, your appetite for risk may alter and you may prefer more conservative investments that produce a steadier return and are less risky.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

Inheritance Tax – where are we now?

If ever there is a UK tax that needed a major overhaul, then Inheritance Tax (IHT) must be a prime candidate. Many families will therefore be delighted to hear that the Chancellor, Philip Hammond, has written to the Office of Tax Simplification (OTS) asking them to put forward proposals for the reform of IHT *"to ensure that the system is fit for purpose and makes the experience of those who interact with it as smooth as possible."*

His letter asked the OTS to look at the technical and administrative issues associated with IHT, the process of submitting returns and paying the tax. Mr Hammond also called for a review of the issues surrounding estate planning, and whether the current framework causes 'distortions' to taxpayers' decisions regarding investments and transfers.

Increasing property prices give rise to higher IHT

In the 2016–17 tax year, HMRC raised a hefty £4.84bn in IHT, brought about largely by rising property prices that are seeing more and more families drawn inexorably into the tax net, despite doing nothing more than owning their own home.

IHT has certainly made several aspects of financial planning more complex. With the Bank of Mum and Dad currently a major source of funding for house purchases for first-time buyers, the operation of the seven-year rule is becoming a key issue that needs careful consideration in effective tax planning. The annual tax-exempt gift allowance of just £3,000 arguably needs a major overhaul, as does the out of date amount of £5,000 that can be given away to offspring on their marriage.

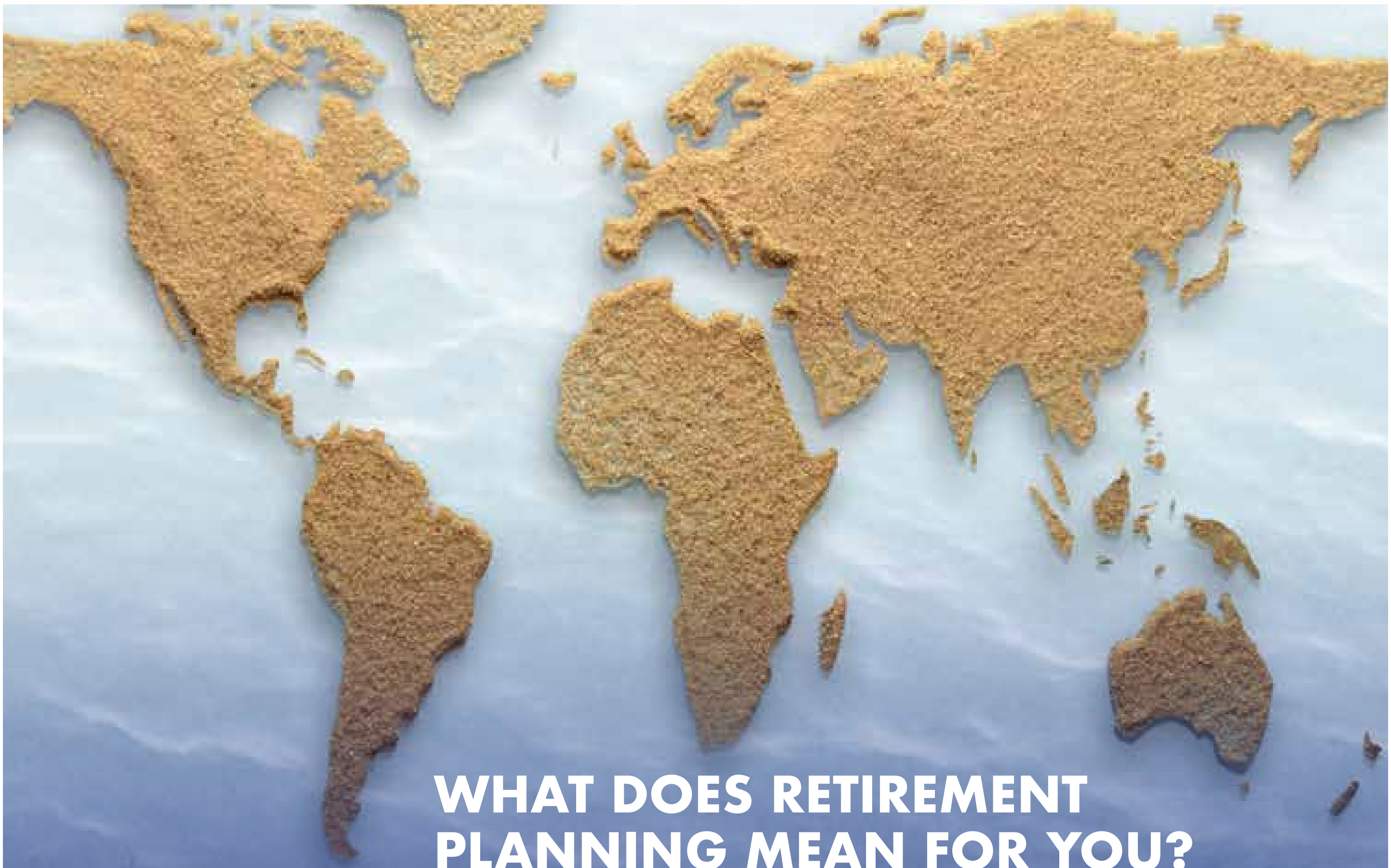
Since the advent of pension freedoms in 2015, it has become more tax-efficient to pass on a pension than an ISA, meaning that some people have found themselves viewing their retirement savings in a whole new light.

More controversial still was the recent introduction of the Residence Nil Rate Band (RNRB) which is both complex in its application and divisive in its outcomes. Former MP and now TV personality, Ann Widdecombe, was particularly incensed that under RNRB rules she wouldn't be able to benefit by leaving her home to her niece, as the regulation only covered direct descendants, which she doesn't have.

Raising the threshold across the board

Given the individual threshold for IHT has remained at £325,000 since 2009, many would argue that, rather than adding another layer of complication such as the RNRB, the simplest and fairest thing to have done would have been to increase the Nil Rate Band to a limit that bore some correlation with the rise in house prices. Hopefully, that's one of many thoughts currently crossing the minds of the team at the OTS.

The Financial Conduct Authority does not regulate some forms of Taxation advice.



WHAT DOES RETIREMENT PLANNING MEAN FOR YOU?

> ...like all big projects in life, the more time you can invest in thinking it through, the better the outcome will be.

Retirement is often seen as the end of one chapter and the beginning of the next. Planning for it isn't just about getting your money organised, although that's obviously very important.

Depending on your circumstances, you may want to take the opportunity to completely change your lifestyle, move home, start a new business, travel the world, learn a new skill or simply put your feet up. And like all big projects in life, the more time you can invest in thinking it through, the better the outcome will be.

Managing your money

Getting financial planning advice before accessing your pension pot can go a long way to help alleviate financial worries later on in life. With longevity increasing, more people than ever will spend longer in retirement than previous generations.

The changes in legislation have given those about to retire far greater freedom when it comes to using their pension pot, but freedom brings with it greater individual responsibility. Low interest rates and periods of market volatility can make income planning for the future a difficult task without professional advice.

It is generally agreed that spending in retirement tends to follow a u-shaped curve. People often spend more money in the early, more active years of their retirement, with spending decreasing in the middle years and increasing again later in life when additional care and medical expenses are more likely to be required.

Budgeting for your lifestyle

It makes sense to begin drawing up a budget for your retirement that covers your likely income needs. There are various factors to consider. You may have income from employment, equally you could choose to give up work altogether and tick off the items on your bucket list. You may decide to downsize from a family home to a smaller retirement apartment that is cheaper to run and means you can extract some equity to bolster your income.

You may want to help children or grandchildren financially by paying for school fees or helping them with a deposit for a home of their own. You will also have to plan for a time when you might need to pay for help around the house, and for the likelihood of needing medical and nursing care in your later years. Taking professional advice can help by creating a roadmap for your financial future.

DRAWDOWN – A POPULAR CHOICE, BUT ADVICE IS ESSENTIAL

Income drawdown is where you leave your pension pot invested and take an income directly from it, instead of using the money in your pot to buy an annuity from an insurance company. As the rest of your pension pot remains invested, it will continue to benefit from any investment growth.

Since pension reforms were introduced in April 2015, more and more retirees have opted to take flexible withdrawals from their pension funds, and the Financial Conduct Authority has reported that drawdown has become much more popular, with twice as many pots moving into drawdown than into annuities.

Understanding the risks

Whilst drawdown offers great flexibility, there are risks that you need to be aware of. Unlike an annuity, the amount you could draw as income isn't guaranteed. Your pension fund remains invested which means that you are exposed to share price movements as markets rise and fall. This makes it even more important to take good independent professional advice. Without it you could find your income level falls and you might even risk running out of money at some point.

In drawdown, there are risks involved both in taking out too little and too much. If you draw too little you might not have sufficient to cover your living expenses, taking out too much could have tax implications and also restrict your remaining pension pot's ability to provide an income throughout your retirement. This is where your financial adviser can provide valuable input, helping you plan your drawdown strategy and ensuring that it's kept under regular review.

Although it's no longer obligatory to take an annuity at retirement, they still have benefits to offer. It is possible to put a portion of your pension pot into an annuity to provide a regular guaranteed amount for the rest of your life. Some people choose to do this to ensure they cover their core living costs.

PROTECTING THE ELDERLY FROM FINANCIAL ABUSE

Scammers are increasingly targeting older people, with many of the crimes they commit involving bank account fraud or the selling of bogus or unsuitable investments. Although cold calling is to be banned, the elderly can still be contacted in other ways, so it's important that their interests are protected.

According to the Alzheimer's Society[1], 850,000 people in the UK are living with dementia, with numbers expected to rise to over one million by 2025. The advice from charities caring for the elderly is that everyone should plan for a time when they might not be able to make important decisions about their finances or welfare.

How Lasting Powers of Attorney (LPAs) can help

LPAs have become much more common in the last decade, not least because TV finance guru Martin Lewis has said that although he's only in his 40s, he has taken this step, and believes everyone should think about using LPAs to safeguard themselves and their families.

LPAs are designed to protect you if you lose the ability to make financial or care decisions on your own behalf. Making an LPA allows you to choose someone you know and trust, called your 'attorney', to make important decisions should you be unable to do so.

A simple process that protects your interests

With a Property and Financial Affairs LPA, your attorney has the power to make decisions about money matters on your behalf if you are unable to do so. This includes financial transactions like running bank accounts, accessing and managing pensions and funds in drawdown, paying bills and selling property.

Your attorney(s) can be relatives or friends, your husband or partner, or a professional adviser. Without an LPA in place, if you were to lose mental capacity, your friends and family wouldn't have the automatic legal right to step in and take decisions on your behalf. Instead, they would need to apply for Deputyship to the Court of Protection, an expensive and time-consuming process. A little forethought could prove hugely beneficial.

If you're looking to set up an LPA for someone living in Scotland, aspects of the agreement and document differ to the one for England and Wales.

[1]Alzheimer's Society, Facts for the media, 2018

Average private school fees rise above £17,000 – how to save for your child

According to the annual census of leading independent schools, the average fee for attending a private school is now over £17,000[1] a year.

Despite the rising cost of fees, private education continues to remain popular, with the number of pupils reaching 529,000, the highest figure since the Independent Schools Council began collecting data in 1974.

It pays to plan early

After buying a home, school fees could be a family's largest expense, especially if you have several children to put through school and college. Starting to save from the day the children are born and encouraging other family members to contribute to accounts like Junior ISAs, can all help in building up the amount needed in fees. If you have more than ten years to go before schooling starts, then it's worth considering stock market investments. Whilst your money will be exposed to risk, it also has the potential, although not the guarantee, to outstrip the returns you would get in an average savings account.

Parents can make use of their annual ISA allowance (£20,000 for 2018–19). Money invested in an ISA grows in a tax-free fund and can be withdrawn to meet fees without incurring tax. Increasingly, grandparents are looking at passing money on to their grandchildren during their lifetime as a way of reducing the value of their estate for inheritance tax purposes, either by giving a lump sum or setting up a trust for the benefit of the child.

Loans, remortgages and pension lump sums

Using offset mortgages or remortgaging their property are also common ways of raising the cash for fees. In some instances, older parents are taking their 25% tax-free pension lump sum and using the money to educate their offspring, although care needs to be taken to ensure the parents leave themselves enough money for their retirement.

If you're considering paying for your child's education, taking professional advice can help you plan effectively for the years that lie ahead.

[1]Independent Schools Council, 2018

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EARLY RETIREMENT COULD DISAPPEAR BY 2035, SO IT'S TIME TO PLAN

As the state pension age rises, life expectancy increases, and final salary pension schemes become a thing of the past, it looks likely that more workers will remain in employment for longer in order to be able to build up sufficient funds for their retirement years.

According to analysis by Aviva[1], the number of people retiring before they reach age 65 is decreasing rapidly. The insurer calculates that if the present rate of change continues, by 2035 almost no one will be able to retire early. Figures from the Office for National Statistics show a record 10.1 million over-50s remain in work, with 1.2m of these workers aged over 65. Ten years ago, less than 700,000 over-65s were in work. In 1998 the figure was 434,000.

How to plan for retirement

Increased life expectancy means that people retiring at 65 today can reasonably expect to live on into their 80s if not longer, and some can expect to live to 100. However, when it comes to planning for retirement, people can underestimate the odds of reaching a great age and may not be adequately prepared financially for the years ahead.

That's why it makes good sense at all stages of your working life to keep an eye on your pension arrangements, especially if you intend to retire earlier rather than later.

You need to think about the following key questions:

- When do I want to retire?
- How much will I need in income and savings to fund my lifestyle in retirement?
- Are my plans on track? Am I currently saving enough?

Although it has recently been increased, the state pension is still only a basic safety net for most people, and not enough on its own to guarantee a comfortable retirement.

Personal pensions offer generous tax breaks to encourage us all to provide adequately for retirement. If you are a basic-rate taxpayer making a pension contribution, every £100 you pay in will in effect only cost you £80 once income tax relief has been applied. If you are a higher-rate taxpayer, every £100 contributed within the HMRC annual allowance would cost just £60.

As part of the government's drive to ensure we all make adequate provision for retirement, employers are now legally obliged, subject to age and earnings thresholds, to automatically enrol their employees into a qualifying pension scheme, where employees and employers make monthly contributions.

Taking advice can help you meet your goals

The need for professional advice tailored to your individual circumstances has never been more important. If you're concerned about your pension arrangements, we're happy to review your plans and help you keep on track for a financially-comfortable retirement.

[1]Aviva, 2017

...when it comes to planning for retirement, people can underestimate the odds of reaching a great age and may not be adequately prepared financially for the years ahead.

Paying for life when you reach 100

Currently, anyone in England with assets over £23,250 must pay the full cost of their care.

The good news is that more of us are reaching our 100th birthday, but two million elderly people in the UK have a care-related need and it is estimated that four million will need daily help by 2029.

If you find yourself needing care, your local authority must calculate the cost of your care and assess how much you have to contribute from your own resources. Currently, anyone in England with assets over £23,250 must pay the full cost of their care. Different figures and eligibility rules apply in other parts of the UK.

Many people simply use their savings and investments to pay their fees, and we can advise you on the best way to do this. There are also property-related options such as equity release that can help you access the money tied up in your home, or a deferred payment agreement where your local authority helps with the cost of care and recoups the money when your property is sold. There are also specialist long-term immediate care plans that are purchased with a lump sum and in return pay a guaranteed income for the rest of your life.

Think carefully before securing other debts against your home. Equity released from your home will be secured against it.

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

THE RISE OF THE PART-TIME PENSIONER

There was a time, not so long ago, when many people's lives fell neatly into three distinct stages – they were educated, embarked upon a career and then retired. The date at which people chose to retire was generally in line with their state retirement age, meaning 60 for women and 65 for men.

Today, retirement no longer means clearing your desk on your 60th or 65th birthday and facing a future without work and the benefits that go with it.

Increasingly, people are adopting a more gradual approach to retirement and choosing to work beyond their state pension age, slowly cutting back the amount of time they spend at work, with some even choosing completely new career paths.

'Pretirement', the process of gradually reducing the number of hours worked, is now a widely-accepted concept which generally begins in people's 50s and can run into their 70s. Figures from the Office for National Statistics for December 2017 to February 2018 show that just under 1.2m people over the age of 65 were in work, and for the first time, there were more than 10m people aged over 50 in employment out of a total workforce of 32.2m.

Why people continue to work

The key reasons people adopt this approach include doing so because they enjoy the work they do, they're fit and healthy and far too young to stop, they feel they still have something to offer their workplace, or because they need to do so to boost their retirement income.

As the nature of retirement continues to change, it's important to have the right retirement plans in place so that you can choose the path to full retirement that suits you best. Taking financial advice in the years leading up to retirement will ensure that when the time comes, you can make the best use of your savings and pension funds and select the best retirement income solution for your circumstances.

DIVIDENDS RISE FOR SHAREHOLDERS

At the start of the year, UK shareholders saw a sharp increase in dividends as global pay outs hit a record high. Global dividend pay outs soared 10.2% to $244.7bn, making it a record-breaking Q1 for shareholders across the globe.

According to investment firm Janus Henderson, dividend payments to shareholders in the UK in the first quarter of the year grew by over 21% to $18.7bn (£16.4bn) from $15.4bn (£13.5bn) in Q1 last year. The report outlined that this figure was lifted by a variety of factors, including; a special dividend from Sky, the addition of new companies to the index and British American Tobacco's first quarterly dividend. Adjusted underlying growth, taking these factors into account, was a more modest 4.2%.

Continental Europe registered dividend growth of 3.9%, whilst an 8% increase in pay outs was experienced in the US, boosted by President Trump's corporate tax cuts. In the first three months of the year, US companies increased dividend payments by 5.2% to a record $113bn, with financial, healthcare and tech stocks recording the highest growth. Shareholders have benefited as corporate profitability rises.