Your

Finance Matters

Financial Magazine

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YOUR FINANCE *MATTERS*

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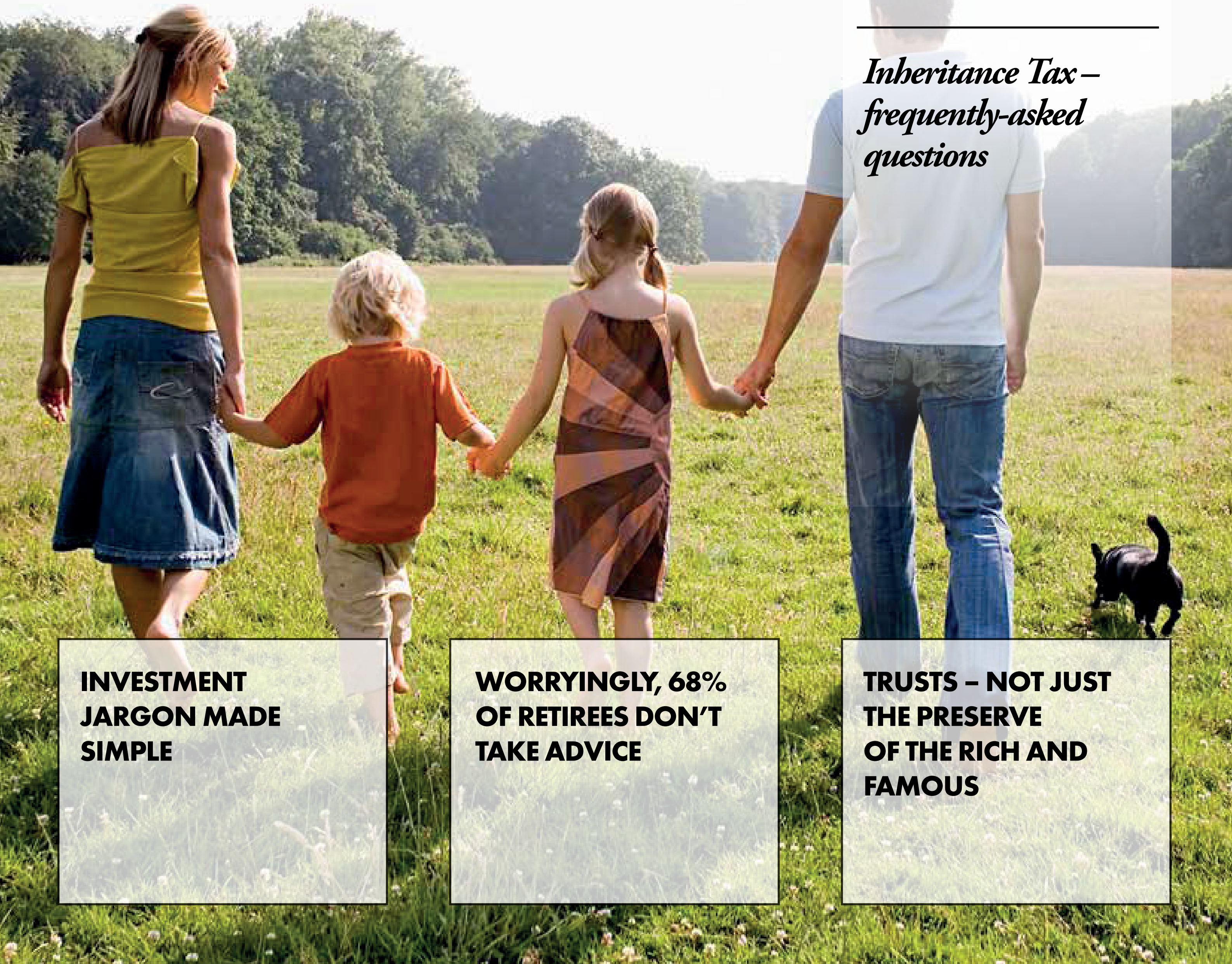

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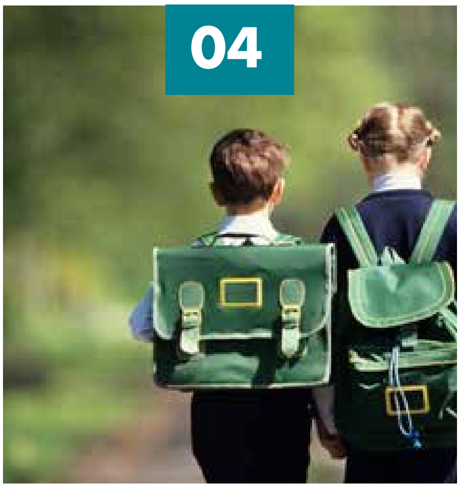
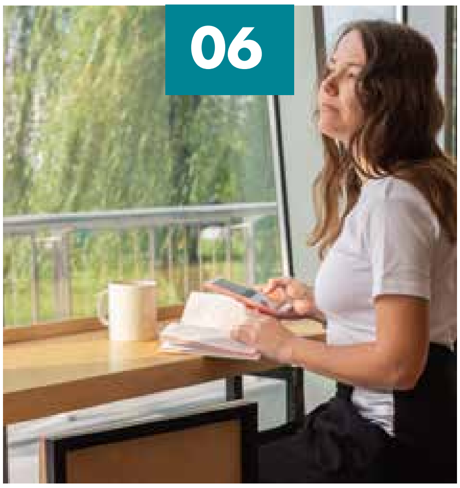
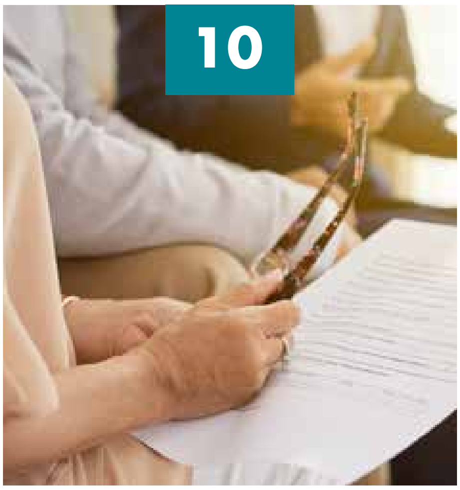
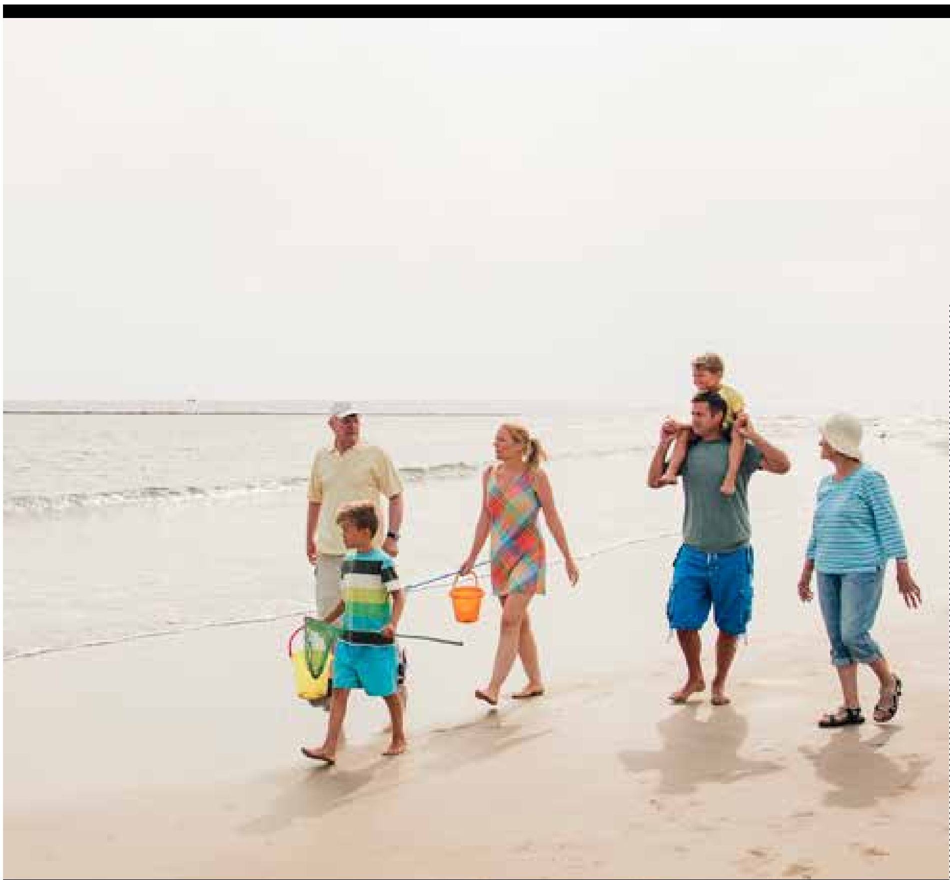








THE INTERGENERATIONAL FAIRNESS DEBATE CONTINUES

The House of Lords Committee on Intergenerational Fairness and Provision has called on the government to take steps to make society fairer by supporting younger people, particularly in the employment market and the provision of housing.

A change of perspective needed

Peers believe that 'outdated' age-specific benefits for older people should be replaced with support for the young to 'deliver a fairer society'.

The Committee – made up of Labour, Conservative, Liberal Democrat and crossbench peers – issued a raft of recommendations, both to 'retain the supportive relationship between generations' and to plan for the '100-year life' that younger people can expect to become the norm.

The Committee said intergenerational unfairness was being 'exacerbated' by an ageing population, the 2008 global financial crisis and successive government policies that have failed to consider the issues. According to its report[1], many pensioner households are now better off than their working-age counterparts, both in terms of the income they have after deducting housing costs and overall household wealth.

Commenting on the proposals put forward by the Committee, its Chairman, Lord True, said that the connections between the generations could be undermined if the government didn't get to grips with the key issues of housing, secure employment and fairness in tax and benefits.

Tax and spending

The Committee's recommendations covered a range of topics, including tax and spending. Some of the proposals include:

- Remove the State Pension triple lock, and instead uprate the State Pension in line with average earnings
- Free bus passes and the Winter Fuel Payment should only be made available five years after the recipient becomes eligible for the State Pension
- Better-off workers over the State Pension age should pay National Insurance Contributions while they work.

[1]Select Committee on Intergenerational Fairness & Provision, April 2019

Are 'slashies' the future of work?

A study by the Association of Independent Professionals and the Self-Employed[2] reports that more than 320,000 self-employed people in the UK have two or more jobs. The term used to describe this is 'slashie', as in *"I'm a writer/dog-walker/gardener"*.

Auto-enrolment benefitting those in smaller firms

The government reports that auto-enrolment has been an *"extraordinary success"*. A study by the Institute for Fiscal Studies[3] shows that only 26% of small business employees would be saving in a workplace pension if auto-enrolment had not been introduced, whereas the actual figure is now 70%. Auto-enrolment has effectively increased the pension participation rate amongst employees of small firms by 44%.

Pensions – don't leave money to the wrong people

A pension nomination form allows pension plan holders to give instructions as to who should receive their pension on death. But if it isn't updated when circumstances change, there's a risk that the pension could pass to the wrong person, for example an ex-partner.

Unrated policy warning

People often buy unrated policies from comparison sites as they can seem a cheap option, but the Financial Conduct Authority warns that consumers buying unrated insurance policies could be at risk. Four unrated insurers have gone into administration in the last 18 months, leaving people with certain types of motor and buildings policies without cover.

[2]IPSE, 2019
[3]IFS, Mar 2019

CELEBRATING 20 YEARS OF THE ISA

The Individual Savings Account (ISA) was launched on 6th April 1999 and it hasn't looked back. Today it's estimated that 42% of adults hold one, which is hardly surprising considering how simple and tax-efficient they are.

When the ISA was launched, the annual allowance was £7,000 and it has risen steadily over the years. In this tax year, you can contribute up to £20,000 to an ISA or ISAs. Those who have made use of their stocks and shares annual allowances over the years, could by now have put just over £206,000 into their ISA accounts.

A range of tax-free options

At the beginning there were a limited amount of accounts on offer, including the cash ISA and the stocks and shares ISA. Since then, the range has increased to include the Junior ISA for children, the Help to Buy ISA for first-time buyers, and the Lifetime ISA for those looking to save for a deposit on a property or for retirement.

If you're planning to save this tax year, it's a good idea to put plans in place as early as possible. The longer your money is saved or invested, the more time it has to produce tax-efficient returns.

Goal-based investing explained

Although it might be tempting to think that investing is just about getting the best possible return on one pot of money, goal-based investing, structuring your investment around your specific financial aims, has become a widely-used way of helping people plan their financial futures.

Thinking things through

One of the most significant benefits to a goal-based approach is that it encourages us to think about what we want our money to achieve in a tangible way, across a range of time horizons. No two investors have the same financial aims, and meeting different goals means using a variety of investment strategies.

This approach starts with the investor defining their objectives, such as saving for school fees, a child's wedding, a deposit on a home, or a comfortable retirement. These goals then become the building blocks of an investment plan. The information gathered is used to define the right level of savings and the most appropriate mix of funds to meet the investor's goals and will also take account of all available annual allowances and employ taxation-saving strategies too.

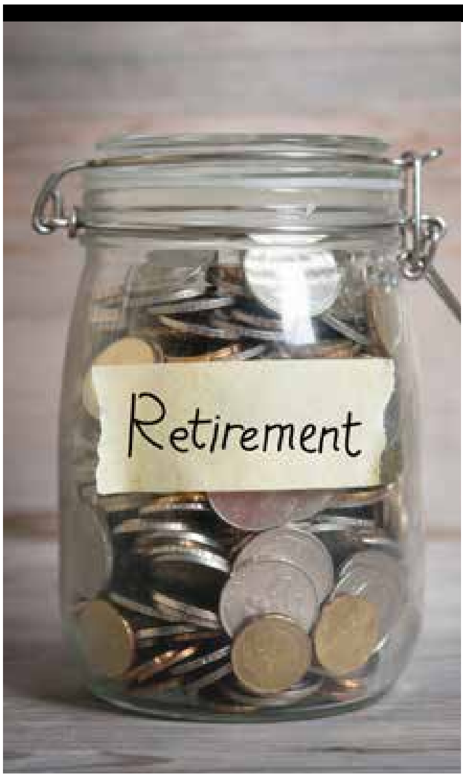
For instance, a retired couple might typically want an income stream now to boost their pension, but also want to invest some of their capital to fund the likelihood of care costs later in life. In this instance, a portfolio can be tailored to meet each specific goal.

A younger investor may want to structure their investments to cover school fees from nursery to graduation for their children, whilst at the same time building up a substantial pension pot for retirement.

Gauging your attitude to risk

Being clear about your goals will make it easier for us to tailor your risk profile to different investments. Each goal may have its own risk tolerance and time horizon. Naturally, over time, your goals may change as your life and circumstances change, and your attitude to risk may alter too, that's why we always recommend regular reviews.

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.



NEW PENSIONERS AREN'T SPLASHING THE CASH

When the new pension rules came into force in April 2015, fears were expressed that pensioners might raid their pension pots to go on a spending spree. The former Pensions Minister Steve Webb, famously remarked at the time that pensioners could choose to spend their savings on buying a Lamborghini if they wished. However, the evidence suggests that this hasn't happened.

Whilst the total value of pension withdrawals made since April 2015 is over £25bn, the average withdrawal made between July and September 2018 was £7,597, the lowest level recorded by HMRC since their records began[4] in Q2 2015.

Volatility playing a part

The lower level of withdrawals could be a sign that pensioners were reacting to market volatility and concerned to preserve their wealth. Managing withdrawals from pension funds can be a challenge for those unfamiliar with the stock market; that's why taking advice is so worthwhile. Ensuring their pension funds last as long as they do themselves is a concern often expressed by those approaching retirement; we can help ensure retirees make the right choices at the right time.

[4]HMRC, April 2019

Investment jargon made simple

The commonly used words and phrases used in connection with investing can often seem confusing, but the good news is that we are well-versed in providing plain-English explanations of technical terms.

Volatility

You will probably have heard this term quite a lot recently. Volatility refers to the rate at which the price of an investment moves up and down. If the price moves up and down rapidly over a short period, it is described as having high volatility. If the price remains relatively stable, it is said to be a low volatility stock. Needless to say, investors generally prefer lower volatility.

Asset allocation

This is the process of deciding what proportion of your investment portfolio should be invested in different types of investment.

There are four main categories of assets – cash, equities, bonds and property. Determining which mix of assets you should hold in your portfolio will depend on personal factors including your investment time horizon and your attitude to risk. Asset allocation helps to spread risk through diversification, which in simple terms, means not putting all your eggs in one basket.

Index

An index, and there are several, is a combined measure of fluctuating market prices of shares in a selection of companies that have similar characteristics, such as size. Some indices are designed to reflect the overall performance of a particular market, while others follow a specific sector.

So, for example, the FTSE 100 is made up of the UK's 100 largest quoted companies, the FTSE 250 includes the next largest 250 companies, and the FTSE Small Cap includes companies smaller than that. In the US, the Dow Jones Industrial Average consists of 30 large American companies across various sectors.

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Millennials could save £10.5bn by making a few lifestyle swaps

With two-thirds of millennials admitting they don't save enough, and saying they're finding it difficult to get the cash together for a deposit on a property, Barclays has suggested a few ways in which they could boost their savings without giving up on socialising or treats.

According to the findings of a survey carried out by the bank[5], millennials spend on average £3,312.72 a year on things like takeaways, eating out, buying clothes and spending time with friends.

Barclays has concluded that the answer is not to sacrifice but to swap. As an example, they suggest that simply swapping every fifth takeaway, shop-bought coffee and night out could add up to a saving of over £600 each a year.

Three-quarters of those surveyed said they would be willing to make a few compromises if it meant that they could meet longer-term goals, such as the purchase of a car or a home, more easily.

A mix and match approach

Other ideas include changing the route to work to avoid tempting coffee shops, mixing expensive gym classes with free or less-expensive activities, such as local running clubs and preparing and sharing food at home with friends.

Tips on managing money

Building up savings requires a disciplined process and takes time and patience. Many people find it helpful to set up a standing order that goes through on pay day to transfer money into a savings pot, removing the temptation to spend.

When it comes to purchases, it makes sense to take a step back and consider whether it's something you really need or just something you'd like. If it's the latter, then you have to think about the impact it would have on your future plans, such as buying a property.

Tax-free savings

When it comes to building up cash for the future, making the most of your £20,000 tax-free ISA allowance makes good sense. If your goal is buying your first home, then a Help to Buy or Lifetime ISA could be a good choice. And although retirement could seem a long way off, putting cash into your pension when you're young will give your money time to grow. Don't forget that contributions into a pension attract valuable tax relief too.

[5]Barclays, Feb 2019

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Gifting money for a deposit – what you need to know

Parents and grandparents keen to help their offspring get onto the housing ladder are increasingly helping them out with the money they need for their deposit. This can help reduce Inheritance Tax (IHT) too, but you need to be aware of the rules.

Everyone has a yearly 'gift' allowance for IHT and can give away up to £3,000 each year. If you don't use it, you can carry over any unused allowance from one tax year to the next, up to a maximum of £6,000. This means you could give away up to £6,000, or £12,000 for a couple.

Wedding gifts

You can also make small gifts of up to £250 per person per tax year to as many people as you like. Weddings are another opportunity to hand over cash to loved ones – parents can each give children £5,000 as wedding presents, £2,500 to grandchildren or great-grandchildren, and £1,000 to anyone else, all free of IHT.

You can make more significant gifts above and beyond those listed above, known as 'potentially exempt transfers'. You need to live for at least seven years after making the gift for it to be outside the estate for IHT.

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

WORRYINGLY, 68% OF RETIREES DON'T TAKE ADVICE

If you're looking ahead to your retirement, the good news is that nowadays there are more choices open to you than ever before. However, recent research[6] shows that many retirees may not be exploring these options and aren't shopping around at retirement, selecting instead to take the annuity or drawdown facility offered to them by their existing provider.

How advice can help

A report from the Financial Conduct Authority[7] highlighted that those who didn't take financial advice often struggled to choose between retirement options, and many ended up making poor investment decisions, or put their money into cash funds that provide low returns and risk being eroded by inflation.

We can explain what the various choices available to you are, what they could mean for you, and help you make the right decisions for the future. We know that for many people this is a complex and bewildering area, so will explain everything in plain English and will be able to answer any queries you may have.

[6]Canada Life, March 2019
[7]FCA Financial Lives Survey, 2018

Trusts – not just the preserve of the rich and famous

Today, you don't have to be incredibly rich for your family to benefit from the creation of a trust. They can offer long-term asset protection and have a variety of uses as part of financial planning strategies. A family trust can help protect your family's assets for the benefit of future generations and may be used to protect the family home.

What is a trust?

A trust is a legal arrangement which allows assets, usually property or money, to be looked after by a trustee for the good of one or more beneficiaries. Those beneficiaries can be named individuals, such as your children, or can be children who are yet to be born.

Why set up a trust?

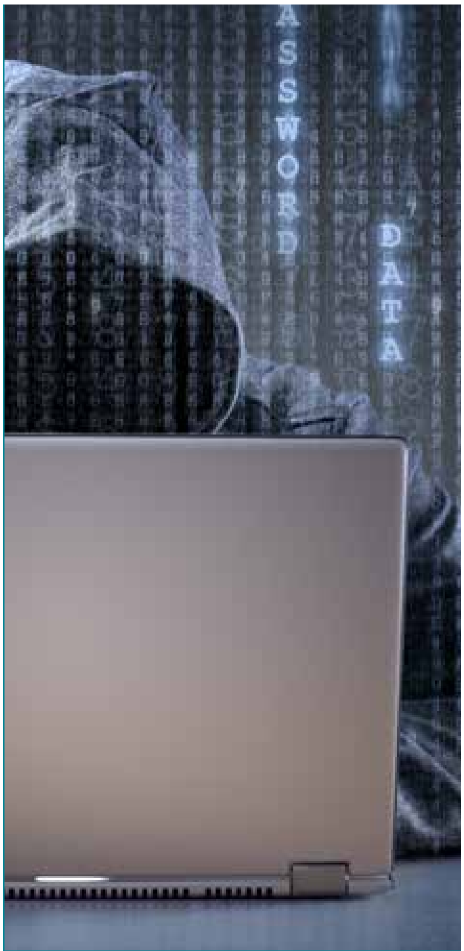
They can have a variety of uses such as:

- Protecting the financial interests of a young beneficiary by retaining control of the assets until they reach the age of 18 (16 in Scotland)
- Looking after the interests of somebody who can't handle their own financial affairs through incapacity
- Providing for a husband or wife, while keeping the assets intact for the benefit of children
- Reducing Inheritance Tax (IHT) liability by taking assets out of an estate, thereby reducing the amount on which IHT might otherwise be payable
- Protecting assets on marriage
- Ensuring that the proceeds from a life insurance policy go to the beneficiary without waiting for probate, and don't form part of the estate for IHT purposes.

Setting up a trust

The choice of trust will depend on who the beneficiaries are, what the assets are, and how and when you want them distributed. Taking advice on the type of trust that is most suitable for your circumstances is best.

The Financial Conduct Authority does not regulate trusts and some forms of taxation advice.

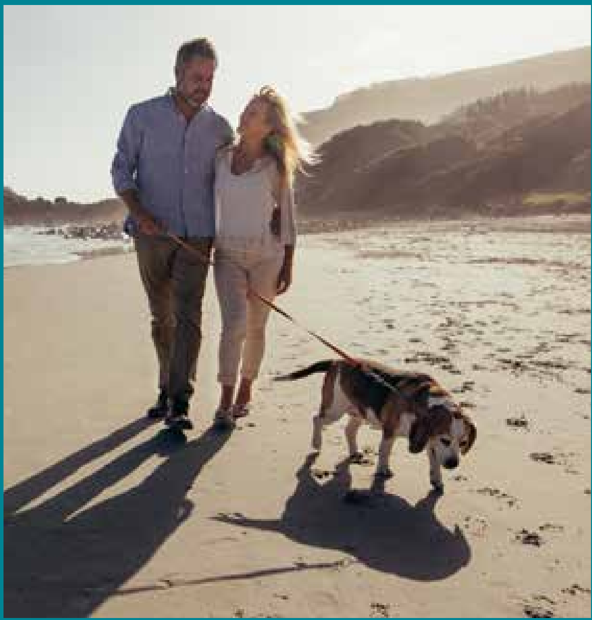


BEWARE OF SCAMMERS IMPERSONATING HMRC

Scammers are making threatening calls pretending to be from HMRC[8] and saying if the victim doesn't pay out thousands of pounds immediately, they will be arrested. This is a particularly unpleasant scam, and more than 60,000 calls are reported to have been made in the six months to January 2019.

HMRC confirms that it will never call anyone out of the blue and demand payment, they will only ever call asking for payment on a debt that you have already been made aware of in writing. If you have been approached in this way, inform Action Fraud.

[8]HMRC, 2019



GENERATION X TOP THE PENSIONS SAVINGS CHART

Information from HMRC shows that those aged 43 to 54, often referred to as Generation X, account for the largest proportion of the UK's personal pension contributions, equating to 43% of total contributions made in the 2015–16 tax year, the latest year for which data is available.

However, there are fears that they are still not saving enough. Figures from the Office for National Statistics show their average private pension wealth was approximately £70,400, and it's estimated that in order to retire comfortably, that figure should be nearer to £187,400 at this stage in their working lives.

HUGE RISE IN PROTECTION POLICY TAKE-UP

If you were unable to work due to accident, injury, sickness or redundancy, you would still need to support yourself and your family financially. Whilst you might have enough savings to tide you over for a short period off work, if it went on for longer, it could be a struggle to meet mortgage costs and other household bills; this is where an income protection policy can really help.

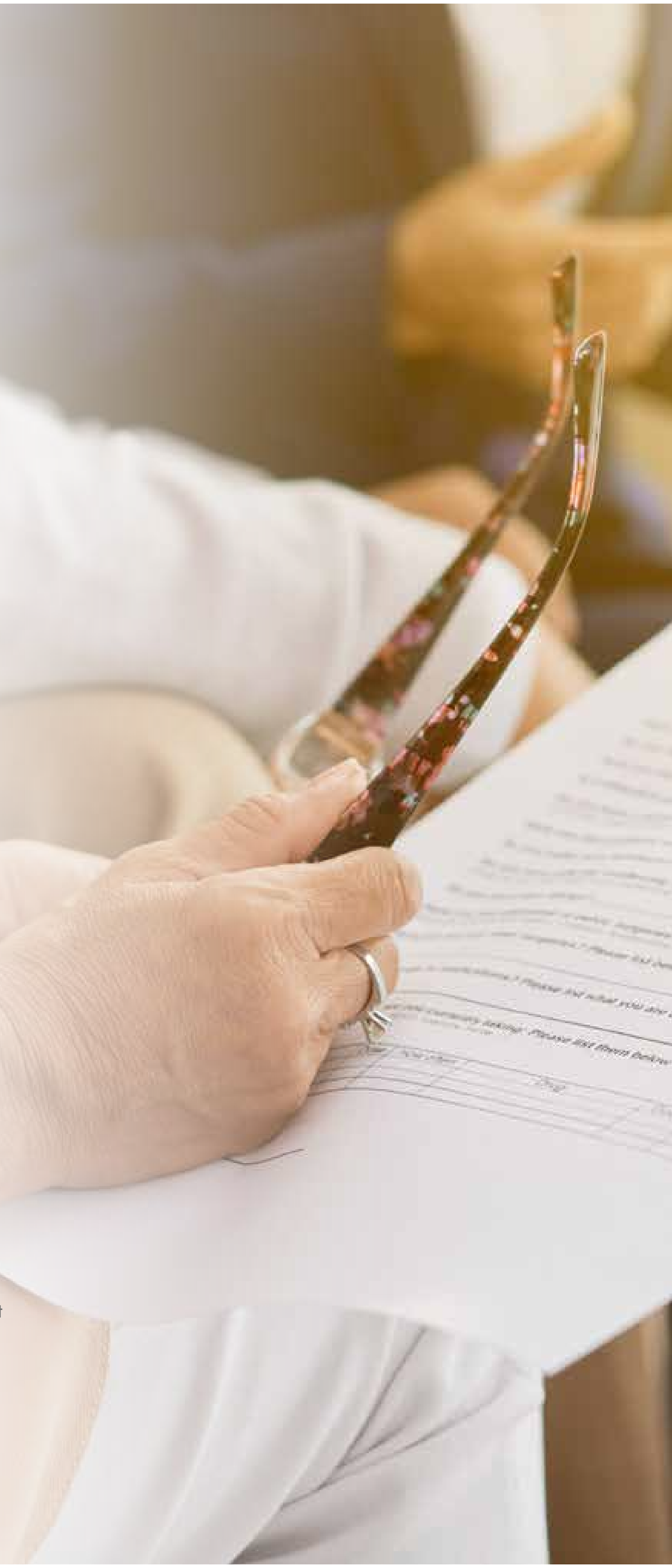
Policies are designed to pay out if you're not able to work and earn money due to illness or injury, and, in some cases, forced unemployment. They can meet the needs of families who want to protect their regular expenditure, home-owners with monthly mortgage payments, self-employed people whose incomes depend on their ability to work, and employees who receive limited or no sick pay from their employers.

More policies taken out

Figures from technology provider Iress[9], show income protection sales via its software increased 50% in the first quarter of the year, indicating that more and more people are planning for their family's financial future and protecting themselves against life's unexpected and unwelcome events.

[9]FCA, Feb 2019

Inheritance Tax – frequently-asked questions



Who pays it?
Inheritance Tax (IHT) is payable on a person's death if their estate exceeds the IHT threshold, also known as the nil-rate band. IHT is charged at 40%, although the rate may be reduced to 36% if 10% or more of the estate over the threshold is left to charity.

What is the threshold?
The current threshold is £325,000 for an individual and £650,000 for a married couple or civil partners. An inheritance from husband, wife or civil partner is exempt from IHT and the survivor can claim their spouse's unused nil-rate band upon their death.

What is the main residence nil-rate band?
This allowance applies if you want to pass your main residence to a direct descendant, such as a child or grandchild, therefore it isn't available to everyone. For the tax year 2019–20 the figure is £150,000 and will rise to £175,000 in 2020–21. When it's fully introduced in April 2020, this could potentially mean that a single person has an overall allowance of £500,000, or £1m for those who are married or in a civil partnership.

What is the seven-year rule?
Gifts of wealth can be totally exempt if you survive for seven years after making them. Should you die within this period, the beneficiaries would potentially be liable for IHT, which is charged at 40% on gifts above the nil-rate band and given in the three years before the donor dies. The amount of IHT due gradually reduces ('taper relief') following the third year after the gift was made and every subsequent year until after the seventh year. Gifts are therefore not counted towards the value of your estate after seven years.

What can I do to tackle my IHT liability?
It pays to take advice. Putting off making plans can limit your options. For example, a substantial gift made to a beneficiary could potentially reduce or eliminate your IHT bill. However, you would need to survive seven years after making the gift for this to take full effect.

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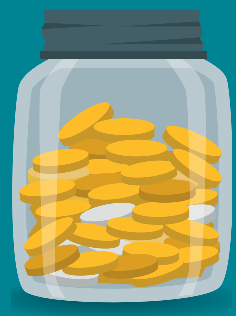
SAVINGS – DO YOU NEED A NUDGE?



According to data from the Office for National Statistics[10], the UK is losing the savings habit. In the last couple of years, the savings ratio has been at about 4%, whereas in the 1990s it was closer to 15%. Statistics show that half of 20-somethings have no savings at all, and research carried out by the Money Advice Service in 2016 found that 16 million people in the UK had savings of less than £100.

New prompts planned

Nudging, using psychological techniques to influence behaviour, might just help us all to get into the savings habit.

Technology in the form of savings apps can help savers see the bigger picture, literally. They work by allowing savers to load images of something they are saving for, such as a car, a home or holiday. The more money they transfer into their savings account, the clearer the image becomes, but if they withdraw money, the picture starts to disappear.

Another prompt is being trialled at supermarket checkouts. The shopper will receive a message asking them if they want an amount equivalent to their store discounts to be diverted to their savings accounts.

[10]ONS, Mar 2019

Saving £2,880 a year could provide a retirement windfall for your child

Planning ahead and starting early can really help when it comes to building up wealth for children.

Current pension rules, which could change in the future, allow a parent to put up to £2,880 a year into a pension for a child. Tax relief means that this is then topped up to £3,600. If a parent starts this once a child is born, the contributions would cost about £52,000 over 18 years, and this, under current rules would be topped up by around £13,000 in tax relief.

Assuming growth in investments over the period, when the child reaches age 55 currently, they could have a sizable pension pot, the spending power of which will, of course, depend on the passage of inflation over the intervening years.

Junior ISAs

Maximising the Junior ISA allowance could also produce a valuable nest egg. You can save up to £4,368 on behalf of a child in the 2019–20 tax year.

If you're unable to afford the full subscription each tax year, small regular sums build up over time, so don't be dissuaded.

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Transfers of wealth – who gets what

Data from the Office for National Statistics[11] show that various patterns are emerging in how wealth is transferred down the generations.

Unsurprisingly, gifts and loans are more commonly made to those aged 25–34, with 11% in this age bracket receiving more than £500 during the previous two years, with the average across all age groups being £2,000. This illustrates that parents are stepping in to help their offspring cope with times of major expense, like buying a house or starting a family.

Inheritances come later in life

The average inheritance across all age ranges during the previous two years was £11,000, with those aged 55 to 64 most likely to receive larger inheritances, receiving on average £33,000. Those aged 65 and over inherited on average £20,000. This money was put into savings or investments by around 49% of recipients.

This research serves to highlight that those who rely on receiving an inheritance instead of putting adequate pension provision in place might find they've reached retirement before they inherit. With gifts often given earlier in life, inheritances may be smaller in the years to come.

[11]ONS, Oct 2018

WHEN WILL YOU RETIRE?

New research[12] has shown that one in 10 workers expects never to be able to afford to stop work and believe they will have to keep on well into their retirement years. This survey also reports that 58% of respondents think they'll need to take on some form of work, in order to supplement their retirement income. Today, many older people are staying on in the workplace, with a record 10.4 million workers aged over 50 still employed.

Retirement should be enjoyed, not endured

Other research has shown that as few as one in three of us expects to have the same standard of living in retirement as we enjoyed during our working lives. This highlights the need for early pension planning, including drawing up a budget that shows you how much income you'll need for a comfortable retirement. With a full State Pension likely to be worth around £8,000, and qualifying ages on the rise, there's clearly the need for extra provision to ensure that you have money available to enjoy life.

[12]Carers Trust