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Money & Wealth

Issue 7 | Winter 2019

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Does your money need a New Year workout?

We can all be guilty of letting our finances go, especially over the Christmas season. So now is a good time to take a long look at the state of your wealth and review the plans you have in place for the future. Regard us as your personal trainer, here to help you get your money in shape.

Adding bulk to your savings

With the tax year-end approaching, it's a good idea to maximise the amount you're saving into your ISA. The allowance for the 2018-19 tax year is a bountiful £20,000, and the tax benefits are alluring. Don't leave it to the last minute, the longer the money is in your ISA account, the more opportunity it has to grow.

Toning up your retirement plans

If it's been a while since you last looked at your pension, it may be time to get it reviewed. To enjoy a comfortable retirement, it pays to save as much as possible, for as long as you can. The state pension will only ever provide a basic safety net.

Pumping up your protection plans

If you haven't reviewed your protection plans, you may find that you need more cover. If you've recently bought a house, had a baby or changed jobs this could mean you need to think about a different type of plan to meet your new needs. Policies don't just provide a payout on death, they protect against the effects of critical illness, provide an income if you're unable to work due to an accident or sickness, and can protect your mortgage payments.

Strengthening your investments

Now could be a good time to revisit your portfolio. If you haven't informed us of a change in your circumstances, get in touch. We will ensure that your investments remain in line with your risk profile and if necessary, rebalance your assets to ensure you achieve your current goals.

So, make 2019 the year you keep your financial plans fit and well. Why not schedule a review meeting?

Income protection (with no investment link) has no cash in value at any time and will cease at the end of the term. If you stop paying premiums your cover may end. The value of investments and income from them may go down. You may not get back the original amount invested.

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IN THE NEWS...

Millennials put property before pensions

Many younger people are focusing on a home of their own and overlooking the need to start saving for their pension, analysis from Prudential shows[1]. Their survey found that 35% of millennials prioritise saving for a deposit over their retirement. 19% say buying a house is the main reason they don't save more into their pension, while 10% say student debt prevents them saving. 9% admit that frequently changing jobs affects their ability to make pension contributions.

Gifting Premium Bonds

Changes announced in the 2018 Budget mean that National Savings and Investments (NS&I) will now allow people other than grandparents and parents to gift Premium Bonds to a child. The minimum investment is lowered to £25 from £100 from the end of March 2019. So anyone will be able to buy bonds for children aged under 16.

Poor health prompts retirement

One factor that undoubtedly plays a major part in workers deciding when to retire is their state of health. A recent study[2] found that nearly four million employees over the age of 50 in the UK expect poor health to be the main reason they retire. Work pressures were ascribed by 21% of those surveyed as a major strain on their physical and mental health, with 37% reporting that their work could be detrimental to their health and wellbeing.

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[1]Prudential, Oct 2018
[2]Aviva, Sep 2018

Rebuffing retirement regrets

We'd all like to think that our later years will be enjoyed and not just endured. Thankfully, most people find their retirement a relaxing and enjoyable period of their lives, an opportunity to take long holidays, pursue their hobbies and spend more time with friends and family.

However, some people can find retirement more of a struggle than they would like. When they have regrets, they're often to do with the way they planned for their retirement and the decisions they did or didn't take about their finances whilst there was still time.

Ensure you're saving enough

Lack of money is likely to be the most obvious regret. If you haven't saved enough for your retirement, everything else becomes more difficult and your opportunities to enjoy life are more limited.

Regularly reviewing how much you're saving towards your pension will ensure that you know how much you're likely to have to live on when you retire and will give you the chance to increase your contributions if you can afford to. Remember, the State Pension isn't overly generous and on its own won't make for a financially-comfortable retirement.

Research[3] warns that many workers aren't saving enough for retirement and risk sleepwalking their way to a pension that will, in effect, be less than the minimum wage. Don't let this happen to you.

Take advice

Those retiring today can expect to have several decades of active life ahead of them. Making the right choices about when and how much to take from your pension can help ensure that your funds don't run out too soon. Getting good financial advice can help ensure that you have a plan in place that meets your likely pattern of expenditure and keeps funds in reserve in case you need to pay for nursing or residential care.

Learning to save

Junior Individual Savings Accounts (JISAs) are a good way for children to learn about the benefits of accumulating money for the future, and develop good savings habits that will stand them in good stead throughout their lives. Your child can have a cash JISA, or a stocks and shares JISA, or a mixture of the two.

The advantage of a JISA is that they are tax-free, and once the account has been opened by the parent or guardian, anyone can make contributions, including grandparents, friends and family. The savings limit for the 2018-19 tax year is £4,260 per child, rising to £4,368 from April 2019.

Children gain control of their JISA at age 16, but the money cannot be withdrawn until they are 18. At that point, the account is automatically rolled over into an adult ISA, a valuable facility for teenagers who want to continue saving or investing tax-efficiently.

[3]Aviva, Sep 2018

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Making gifts to avoid IHT

No one wants to think that their loved ones will receive a hefty Inheritance Tax (IHT) bill when they die. That's why more and more people are seeking advice about making lifetime gifts to avoid paying more IHT than they have to.

Passing money on in your lifetime

Estimates suggest that nearly seven million parents have already given their children around £227bn of their wealth early in order to reduce the amount of IHT payable on their estates[4]. More than 6.5m are thought to be considering similar moves. However, recent news reports underline the need to receive proper advice when making gifts.

In normal circumstances, making a gift of cash or property will be free from IHT if you survive the gift for at least seven years. However, the rules are complex, meaning that if you continue to benefit from the gift in some way, the gift can still be taxed. This is particularly true when a property is involved, and would be the case if, for example, an elderly couple gifted their home, but continued to live in it rent-free. Figures from HMRC show that £128m of property gifts failed this test in the 2017-18 tax year and were subject to tax as a result.

Using annual allowances

No IHT is liable on up to £3,000 worth of gifts given by the deceased in any tax year (the annual exemption can be carried over for one year if not used). Wedding and civil partnership gifts are exempt, up to £5,000 for a child, £2,500 to a grandchild, or £1,000 to anyone else. Individual gifts of up to £250 per beneficiary in each tax year are exempt (where the above exemptions have not been used for the same individuals). Regular gifts from the donor's income can also be exempt, although strict rules apply.

The Chancellor has ordered a review of the IHT system, the implications of which we will closely monitor.

[4]Direct Line Group, Oct 2018

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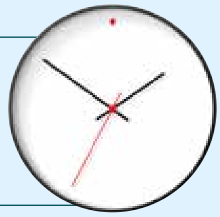
TIME FOR AN ISA TOP-UP?

With the tax year-end fast approaching, if you're planning to save into your ISA, don't miss out on this great way to save tax-efficiently. You can't carry any unused allowance over to the next tax year, so timing is important.



The ISA allowance for the 2018-19 and 2019-20 tax years is £20,000.

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TEENAGERS SAVVIER THAN MILLENNIALS

Research[5] has revealed that 16-year-olds have higher levels of financial literacy than 19 to 39-year-olds – suggesting financial education in English secondary schools is having a positive impact.

More than 1,000 people in England were tested on their personal finance skills, sitting a financial literacy exam to gauge their understanding of key financial principles such as calculating the best interest rates, analysing the impact of inflation, understanding the difference between good and bad debt and choosing the right supermarket multiple purchase deal.

[5]Noddle, Nov 2018

IS BEING ABSENT-MINDED COSTING YOU MONEY?

Losing something can be frustrating, and it can be costly too.

It can be easy to lose track of financial products like bank accounts we no longer use, or ISAs and other savings plans we started but forgot all about. People change jobs more frequently nowadays, meaning that they can often have small pension pots with past employers that they fail to keep track of. Incredibly, there are around 1.6m pensions that have been forgotten about by UK workers[6].

[6]Research carried out by Pensions Policy Institute on behalf of the ABI, Oct 2018

Single adults find pension saving more difficult

Research[7] shows that single people find it more difficult to save for retirement than those who are married or cohabiting. The survey estimates that more than six million single adults are under-prepared for retirement.

Just 47% of single people are saving enough for their future and a quarter, 2.8m, aren't contributing to a pension.

Starting a pension and planning for retirement makes sense, whatever your circumstances; even small amounts saved regularly into a pension can, usually boosted by tax relief, mount up over the years.

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[7]Scottish Widows, 2018

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If you're self-employed, make 2019 the year you sort out your pension

Being your own boss has risen in popularity over the last few years. There are now around 4.8m self-employed workers in the UK[8], representing around 15% of today's workforce.

Whilst being your own boss comes with lots of benefits, it does mean that you have to be responsible for your own pension arrangements and can't rely on an employer scheme.

Recent research[9] shows that many self-employed people aren't making provision for their retirement years. More than two-fifths (43%) do not have a pension plan. Up to two out of five (36%) say they can't afford to save into one. Nearly a third (31%) expect to rely entirely on the State Pension to fund their retirement.

Don't neglect your future

If you're self-employed, saving for a pension can be harder than for employees. Irregular income patterns can make regular contributions more difficult. But there are plans available that can give you the flexibility you need, and the good news is that your contributions are topped up by income tax relief.

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[8]Office for National Statistics, Feb 2018
[9]Prudential, Aug 2018

Were older people short-changed by the 2018 Budget?

Experts have criticised the government for failing to adequately tackle the reform of care for the elderly in the 2018 Budget.

Whilst the Chancellor set out some extra spending in key areas such as the NHS, the plans contained little concrete detail in many areas. He was also quick to point out that Brexit could give rise to an Emergency Budget in the Spring.

Pensions and taxation

There had been media speculation that major changes to pension taxation might be in the offing. These didn't materialise, but the Lifetime Allowance will increase in line with the Consumer Price Index to £1,055,000 for 2019-20. The tax-free savings income limit of £5,000 and the annual ISA limit of £20,000 both remain unchanged for 2019-20.

A year earlier than originally planned, the personal allowance will increase from £11,850 to £12,500 in April 2019. The higher rate tax threshold will also rise from £46,350 in 2018-19 to £50,000 in 2019-20. The dividend allowance of £2,000 remains unchanged, as does the personal savings allowance of either £1,000, £500 or £0 (according to marginal tax rate).

Cold calling finally banned

Many were delighted that the ban on pensions cold calling has finally been agreed. In addition, National Trading Standards will receive additional funding to extend the provision of call blocking technology for vulnerable people.

New money for social care

Many felt that the investment in social care of £650m plus £55m for disabled facilities was unlikely to make much difference to the standard of care provided to the elderly, as much of the spending was destined to go towards children's care services.

Measures were announced to tackle winter pressure on the NHS, such as bed blocking by elderly patients. However, experts pointed out that if the elderly were to be properly cared for outside hospital, there would need to be marked improvements in care packages provided elsewhere within the health service.

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Common investment mistakes

We are all prone to making mistakes, and that can be true when we invest. Some of the most common include making emotional rather than rational decisions, dipping in and out of the market too frequently, perhaps because of worries about economic or political news, or concerns over volatility. Putting all your eggs in one basket, trying to time the market, not taking a longer-term view also come high up on the list.

Setting goals, being prepared to invest over the medium to long term, diversifying your portfolio and getting professional advice are all ways you can avoid making mistakes.

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MORE WOMEN AGED 60-64 STILL WORKING

More employers are recognising and retaining the skills of older workers within their businesses, employment statistics reveal.

Figures show that women are staying in the workplace for longer, with 48.5% in the 60-64 age bracket in employment, compared with just 23.4% back in 1998[10].

This may in part be due to the effects of the short notice rise in the state pension age from 60 to 65 or 66, currently affecting the retirement decisions of many women born in the 1950s. It could reflect a need to top up pension savings or simply be a desire to keep mentally and physically active for longer.

[10]Royal London, Oct 2018

PENSIONERS TO RECEIVE LEGAL PROTECTION FROM COLD CALLERS

Around 250 million scam calls are made each year[11], at a rate of eight every second. These calls have led to fraudsters conning people into moving their pensions into unsafe or non-existent investments, resulting in some losing their entire life savings.

The government has acknowledged that cold-calling is one of the most common methods used by fraudsters to access people's pension savings, so it's good news that the long-awaited measures to curb it are now to take effect.

The government's new rules make it illegal for companies to call people out of the blue and discuss their pension plans. Unsolicited calls are banned and only companies authorised by the Financial Conduct Authority who have your prior permission, or a trustee of your workplace scheme, will be allowed to call about your pension.

Other moves may follow

Prior to confirming the ban, the government consulted with pension providers and professional adviser firms. Many offered views on other measures to crack down on fraud, including rules requiring retirement savers to take professional advice before moving their pension, and stricter controls on unregulated investments.

[11]FCA, 2017

Money advice to pass on to your kids in 2019

We all learn about money from an early age, so it's interesting to think about what we were taught when we were young. What rules have stood you in good stead and which ones would you pass on to future generations? Here are some thoughts.

Set yourself financial goals

At every stage of life, you'll have financial goals and learning to control money from a young age will help them become achievable. Whether it's saving for a deposit for a home of your own or ensuring you have enough to live on in retirement, starting early, getting good advice and regularly reviewing the progress you're making all add up to a sound strategy.

Get into the savings habit

Whatever your age, having a savings fund makes good sense. One of the best ways to ensure you're building up your savings is to ensure you pay yourself first. Setting up a regular transfer to your savings account that goes through on pay day means you're less likely to miss the money and it will help you stick to your savings target.

Don't neglect your pension

Although retirement could seem light years away, it pays to start saving as early as possible. Putting as much as you can comfortably afford into your pension will give you the best chance of enjoying a reasonable standard of living in your later years. So, while saving for things like a deposit for a home is important, don't

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overlook your pension. Opting out of auto-enrolment could bring regrets later.

Be aware of financial scams

More and more financial scams come to light each year and they are getting increasingly sophisticated. What they offer may look appealing and be presented by people who seem plausible, but scams have resulted in people losing large amounts of money to fraudulent investments and even being conned out of their entire pension savings.

It's often the case that if something looks too good to be true, then it probably is. When it comes to major transactions such as investments, mortgages and pensions, it always pays to take professional advice so that your interests are fully protected.

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Remind me what a tracker fund is

Tracker funds, also commonly referred to as index funds, attempt to replicate the holdings and performance of a given index such as the FTSE 100 and the S&P 500.

A form of collective investment, they provide investors with exposure to an entire index, typically buying the individual securities in the index they seek to replicate, allowing wide exposure via one fund. When an index rises, the value of your investment rises and when the index falls, your investment in the fund falls.

Tracking error refers to the difference between the return of a fund and the index it is trying to track. Tracking error will always exist with this type of fund because the fund manager can't invest directly in an index; they have to physically purchase all the stocks, plus the fund's expenses will provide a slight divergence.

Trackers are categorised as a type of passive investment because the fund manager isn't making any active decisions about individual stocks in which to invest. As a result, management charges are typically lower than for actively managed funds, although their growth in popularity has led to more sophisticated offerings; strategies have expanded to include indexes screened for a wide range of characteristics and fundamentals, providing for much more targeted investment.

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Hurrah! Pension tax relief unchanged

Although there had been much speculation, the Chancellor stopped short of major pension changes in his 2018 Budget speech, leaving pension tax relief unchanged. Other than the raising of the Lifetime Allowance, in line with the Consumer Prices Index, to £1,055,000 for the 2019-20 tax year, the rules surrounding pensions will stay the same.

An incentive to save

Pensions continue to offer enticing tax breaks aimed at encouraging us all to provide for our later years. If you contribute to a pension, or if your employer deducts your payments from your salary, you automatically get 20% tax relief as an additional deposit into your pension pot. Higher-rate taxpayers can claim an extra 20%, while those paying additional-rate tax can claim back an extra 25%. At age 55, you can take 25% of your savings as a tax-free lump sum. There are different ways of doing this, including taking the tax-free cash only, taking part of the tax-free cash, taking a lump sum including the tax-free element and taking the whole pension fund including the tax-free cash.

Ban on pensions cold calling

The Chancellor announced that the long-awaited ban on pensions cold calling would at last be implemented following Parliamentary review. Cold calling is a common tactic used by scammers to try and access pension pots and has resulted in people losing substantial amounts to fraud.

The government's new rules make it illegal for companies to call people out of the blue and discuss their pension plans. Unsolicited calls are banned and only companies authorised by the Financial Conduct Authority who have your prior permission, or a trustee of your workplace scheme, will be allowed to call about your pension.

Keeping your pension planning on track

If you're self-employed, an employee, work part-time, run your own business or have accumulated pension pots with past employers, we can offer you the advice you need. If it's been a while since you checked out your pension, then why not arrange to see us for a review?

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ARE YOU AND YOUR FAMILY PROPERLY PROTECTED FOR 2019?

One of the primary reasons people take out life insurance is to ensure that in the event of their death, there would be a financial payout available to those they leave behind. However, the great thing about insurance is that it comes in a number of different forms and it can protect you and your family against a variety of risks that can happen to anyone at any time.

Life's unexpected events

Insurance policies can also protect you against the impact of falling ill, having an accident, or through no fault of your own finding yourself unemployed, by providing cash to help you deal with your financial loss. It's worth remembering that the younger and healthier you are when you take insurance out, the lower the premiums are likely to be.

If you haven't got proper protection in place for you and your family, then you could be vulnerable if you faced one of life's unexpected crises. We can help you find the cover that's right for your needs.

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