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YOUR WEALTH SPRING 2017

INSIDE THIS ISSUE

KEY POINTS FROM THE SPRING BUDGET 2017

- The Office for Budget Responsibility (OBR) forecasts the UK economy will grow by 2% in 2017
- UK's national debt now stands at almost £1.7 trillion or a sobering £62,000 per household
- Tax-free dividend allowance will be reduced from £5,000 to £2,000 from April 2018
- £425 million investment in the NHS in the next three years
- Investment in technical education for 16 to 19 year olds rising to over £500 million
- £536 million for new free schools and to maintain existing schools
- A three-year NS&I Investment Bond with a market-leading interest rate of 2.2% available for 12 months from April 2017
- The Lifetime ISA will be available from 6 April this year

THE HABITS OF GOOD INVESTING

With interest rates remaining low, but inflation starting to climb, investing rather than saving can give you the opportunity to increase your capital or potentially receive a higher income from your savings.

Investing can present a few challenges, and your money can rise and fall in line with stock markets, but adopting some simple guidelines should help.

DON'T PUT ALL YOUR EGGS IN ONE BASKET

When investing it's worth heeding the maxim 'don't put all your eggs in one basket'. It's good to spread your money around, to avoid being overly-exposed to one share or one market sector. A portfolio that includes a range of assets alongside equities, such as bonds, property, and cash, has over time been shown to perform better than one that is only invested in one type of asset.

AVOID THE KNEE-JERK RESPONSE

Whilst it's easy to overreact to political events and economic news, it's better to take a long-term view. Long-time investors have learned from experience that markets can be volatile and will inevitably go down as well as up from time to time. They know that probably the worst investment strategy you can adopt is to jump in and out of the stock market, panic when prices fall and sell investments at the bottom of the market. It's important to view investment as a medium to long-term exercise.

THINK ABOUT TAX

It makes sense to use your annual tax-free allowances. With the ISA allowance increased to £20,000 from this April, investors can build up a sizeable fund over the years that's protected from income tax and capital gains tax. If you invest for your retirement, then pension contributions attract valuable tax relief too, within HMRC limits.

INVEST REGULARLY

Investing regularly over months, years or even decades means that short-term downturns in the markets can be ironed out, and shouldn't have a major impact on your portfolio's ultimate performance.

ARRANGE REGULAR REVIEWS

Scheduling regular reviews means that your investments can, if necessary, be altered or rebalanced in line with your objectives and potentially changing attitude to risk.

An annual financial review also provides you the opportunity to revisit your financial strategy. Have your financial goals and priorities changed? A review gives you a chance to formally think about your financial goals, and ensure that your portfolio is in alignment with them.

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

The value of investments and income from them may go down. You may not get back the original amount invested.

INHERITANCE TAX – THE NEW MAIN RESIDENCE BAND

Many families are anxious to pass their wealth onto their families, but are worried about their Inheritance Tax (IHT) position. With property values remaining high, more families are likely to find themselves caught in the IHT net. However, new rules have been introduced from this April that may help to lighten the tax burden.

THE RESIDENCE NIL-RATE BAND

The residence nil rate band (RNRB) is available where individuals die after 5 April 2017 and pass their main residence (or alternative qualifying property that they lived in) on to their direct descendants. Direct descendants are children or grandchildren. Step-children, adopted children and foster children also come within this category.

The RNRB is being introduced in phases, starting at £100,000 and rising to £125,000 from April 2018, £150,000 from 2019, and in April 2020 it will reach £175,000. This is in addition to the existing individual nil rate band of £325,000.

TAPERING APPLIES

Whilst the introduction of the RNRB is obviously good news for many families, if the net value of the deceased's estate (after liabilities have been deducted but before reliefs and deductions are applied) is above £2m, the RNRB is subject to tapering at the rate of £1 for every £2 by which the net value exceeds this amount

POINTS TO CONSIDER

It's important to note that only direct descendants can benefit, and that doesn't include nieces and nephews for example. So not everyone will be able to rely on the RNRB for IHT planning purposes.

It's important to have a valid Will in place, not only to ensure that you make your wishes clear, but also to maximise the tax efficiency of your estate. Also, if you divorce or remarry, it's a good idea to revisit your Will to ensure its terms are still in line with your intentions.

If you are concerned about your IHT position, getting good professional advice is essential. The rules are complex and everyone's situation is different.

MANY OVER 55s ARE UNCERTAIN ABOUT THEIR RETIREMENT DATE

Retirement planning is something that many people are unsure about. In a recent study[1] of UK adults, only 49% of those aged over 55 knew when they would be able to afford to retire. Worryingly, just 41% knew how much they would actually need in their pension pots to enable them to enjoy a financially-comfortable retirement.

It seems that the problem isn't just confined to those nearing retirement age either. According to research, 73% of UK adults have no idea when they would be able to afford to retire, while 77% don't know how much they would need to have in their pension pot to get a good pension.

The rules governing personal pensions changed in 2015, state pension provision was altered in 2016, and the age at which you can claim the state pension is increasing and will reach 67 by 2028. Unsurprisingly, all these changes have left people confused about what they are likely to receive and at what age. But adopting a head in the sand approach can lead to a shortage of cash in retirement. With life expectancy continuing to rise, money accumulated in a pension could need to last for several decades.

TAKING THE RIGHT STEPS

There are some simple things you can do to clarify what your finances are likely to be in retirement. Make sure you're clear about when you will receive your state pension, and how much it will be. You can get this information from the gov.uk website.

Whether you are just starting to save into a pension, or approaching the stage in life when you will need to access your pension pot, it makes good sense to review your pension planning on a regular basis.

[1]Momentum UK, 2016

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MORE PEOPLE SET TO LEAVE £150,000 OR MORE

The Institute for Fiscal Studies (IFS) has produced research[1] showing that the wealth of those aged over 80 increased by 45% during the decade to 2013, and the percentage who think they will leave more than £150,000 to their family has risen from 24% to 44%.

The report attributed this sharp rise in the wealth of the elderly to home ownership and the continuing rise in property prices. Unsurprisingly, more families are facing inheritance tax (IHT) as a result, with the total bill exceeding £4bn for the first time in 2016.

CHANGES TO IHT IN APRIL

April sees the introduction of a new family home allowance. The residence nil-rate band, to give it its proper name, will start at £100,000 rising in stages to £175,000 in April 2020. This is in addition to the individual IHT allowance of £325,000. When the changes are fully implemented, a married couple will be able to pass estates worth up to £1m that include a family home, to their direct descendants without incurring IHT. Where the tax is payable it is normally charged at 40%.

IMPLICATIONS FOR YOUNGER GENERATIONS

With more wealth being accumulated by the elderly, figures show that 75% of those born in the 1970s have either received, or expect to receive, an inheritance. By comparison, only 40% of those born in the 1930s received an inheritance.

With the younger generations facing higher living costs and fewer wage increases, their future is set to depend in greater measure than ever before on the wealth they can expect to inherit from their parents and grandparents.

Families looking to pass wealth to younger generations should take professional advice. There are annual allowances that can be used to reduce your overall liability to IHT and other ways in which you can pass money on tax-efficiently. The rules are complex, and professional advice is essential.

[1]Institute for Fiscal Studies, 2017

MILLENNIALS SPENDING MORE ON COFFEE THAN SAVING FOR A RAINY DAY

It's become almost a cliché to point to the differences in spending habits across the generations, but recent finding suggest that some of the stereotypes may have a grain of truth in them, after all. A report[1] found a definite link between those Millennials who regularly treat themselves to a cup of coffee in their favourite coffee shop, and those who were terrible at saving.

Women were the worst at saving, with 44% spending more on their hot drinks than they saved. Men fared slightly better with only about 30% putting less away than they spent in the coffee shop[2].

FINANCIAL DILEMMAS

Millennials face some tough financial decisions. Should they save for retirement or for a deposit on a property? They often face debts in the form of student loans, and their housing costs can be huge. Rising house prices and sky-high rents can all conspire to make adequate saving for the future something that never reaches the top of their 'to do' list.

PENSIONS PLAY THEIR PART

For many younger people, the need for a pension is so far off, it's easy to dismiss as something that can be left until much later. Pension saving reverses the 'live now pay later' mentality, and requires us all to pay now to live later.

Millennials are the first generation to earn less than their parents. A study by the Resolution Foundation shows that men aged 22-30 are earning thousands of pounds less than preceding generations earned, due to wage rises being lower in the post-recessionary years after 2008.

However, the introduction of workplace pensions looks set to help redress the balance. The proportion of younger employees now saving into an employer scheme has risen sharply. Those on low wages, younger workers and new employees have all benefited from auto-enrolment into a pension scheme, with an extra £2.5bn being saved into workplace pensions each year.

[1]Acorns, Survey Monkey 2017

[2]Munchies, Money Matters 2017

The Lifetime ISA, or LISA for short, will be available from 6 April 2017. Anyone resident in the UK (plus Crown employees and their spouses or civil partners) aged between 18 and 40 will be eligible to open an account.

SAVINGS LIMIT

You can save up to £4,000 a year into your LISA. There is no monthly limit, which means you can pay in as much or as little as you like, when you like, up to the annual limit. Paying into a LISA counts towards your annual ISA limit, which goes up to £20,000 for the 2017-18 tax year.

FLEXIBILITY

You'll be able to transfer money built up in some other ISAs in previous years into your LISA, subject to the overall annual limit. You'll also be able to move your LISA to another provider to get a better deal.

Different rules apply for transfers, for example pre-April 2017 Help to Buy ISA contributions may be transferred in full without counting against the £4,000 allowance, whilst transfers from other ISAs, not subject to the 25% bonus, would count against the £4,000 LISA allowance, so could not exceed that amount.

THE GOVERNMENT BONUS

This is one of the major selling points. The government pays a bonus of 25% on your savings. This means that anyone saving £4,000 by 5 April 2018 will receive a bonus of £1,000. From April 2018, the bonus will switch to being paid monthly. The bonus is paid on contributions paid in each tax year, interest on cash LISAs and investment growth in a stocks and shares LISA is irrelevant to the bonus paid.

BUYING A PROPERTY

You'll be able to use all or part of your savings, plus your bonus, towards a deposit on your first home worth up to £450,000. You will be able to withdraw your savings, plus bonus, when contracts are exchanged.

SAVING FOR RETIREMENT

Another selling point is that you can also use your LISA to save for retirement. When you turn 60 you will be able to take out all your savings tax-free. Your LISA won't impact on how much you can save into your pension, so you can pay into a pension, get tax relief on your contributions, and benefit from a LISA at the same time.

EXIT CHARGES APPLY

If you choose to use your LISA for any other purpose than buying your first home or for your retirement, you will be charged a 25% exit fee when you take your money out. No charges will apply for exit during the 2017–18 tax year.

If you feel that you'd like some advice on saving for a home or into a pension, please get in touch.

The value of investments and income from them may go down. You may not get back the original amount invested.

IT'S A CATASTROPHE! – ONLY 8% OF PEOPLE TAKE FINANCIAL ADVICE

Research[1] shows that many people take some of the most important financial decisions of their lives without professional advice. Only 8% of people polled in a recent survey took advice when faced with a major financial decision.

Whilst most of us feel confident in making simple decisions like which bank account to choose, when it comes to matters like pensions and investments, many of us can feel unsure as to what to do for the best with our money. There are thousands of financial products on offer, and making the right choice can be very difficult. This is where professional advice can be crucial, so that you don't end up with something that doesn't meet your requirements.

A financial adviser will assess your financial needs, and help you define your goals. Through their knowledge of what's available in the marketplace, they will be able to recommend the products and policies that will work best for you. They can help you save money by selecting the most cost-efficient deals for your circumstances.

[1]Aegon, 2016