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Money & Wealth

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Reap the rewards of financial advice

Those people who took financial advice between 2001 and 2007 had accumulated significantly more in liquid financial assets and pension wealth by 2012–14 than their peers who chose not to take professional advice, according to a report by the UK think-tank, the International Longevity Centre, produced in conjunction with insurers Royal London. The report demonstrated that those who receive financial advice are on average £40,000 better off than those who don't.

The report entitled The Value of Financial Advice looked at the impact taking advice had on the finances of various defined groups of people. The report examines the impact of financial advice on two groups, the 'affluent' and the 'just getting by'. The affluent group comprised a wealthier subset of people who are more likely to have degrees, be part of a couple, and be homeowners. The 'just getting by' group was formed of a less wealthy subset who are more likely

to have lower levels of educational attainment, be single, divorced or widowed, and be renting.

The 'affluent but advised' group accumulated on average £12,363 (or 17%) more in liquid financial assets, and £30,882 (or 16%) more in pension wealth than those who were affluent but hadn't received advice.

For the 'just getting by but advised' category a similar picture emerged. This group accumulated on average £14,036 (or 39%) more in liquid financial assets, and £25,859 (21%) more in pension wealth than those who were 'just getting by but not advised.'

Sadly, many people who buy complex investment, insurance and pension products don't take the hugely important step of asking a financial adviser for help before making their decision

These findings make a clear case for taking financial advice, and quantify what this could mean in monetary terms. Sadly, many people who buy complex investment, insurance and pension products don't take the hugely important step of asking a financial adviser for help before making their decision.

TAKING GOOD ADVICE

Getting a good mortgage deal, taking out the right pension plan, or investing wisely for the future are just some of the areas where financial advice can help you make the right decisions for your money.

So, if you'd like help with life's important financial decisions, or feel that you could benefit from an assessment of your current circumstances and would like help devising a comprehensive wealth plan or your future, then do get in touch, we're here to help.

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

Treasury confirms Lifetime Allowance will go up in line with inflation

The Treasury has confirmed that the pensions Lifetime Allowance (LTA) will increase by inflation from 2018.

Since the announcement by the then Chancellor George Osborne in his 2015 Budget that the LTA for pension contributions would be reduced from £1.25m to £1m from April 2016, and that the LTA would be indexed by inflation from April 2018, there has been a change of government. This meant that there had been doubt in some quarters as to whether the Treasury would implement both these changes, but now they have confirmed that they will.

A Treasury spokeswoman announced that the increase will be based on the rise in the Consumer Prices Index in the year to the previous September, and where this is not a multiple of £100, it will be rounded to the next £100.

So, although this increase is unlikely to be substantial, for those people who are currently on the threshold of exceeding their LTA, it will bring some relief. If you'd like advice on any aspect of your pension and retirement planning, then do get in touch.

How much will your spending change in retirement?

The simple answer is that some expenditure will go up, some will stay the same, and some will go down or disappear altogether. There's a widely held view that you'll need between half and two-thirds of your final salary, after tax, to maintain your lifestyle in retirement.

The best way to work out what your annual expenditure is likely to be is to draw up a budget showing your potential spend under various headings, putting down a realistic figure for each category.

Living expenses

This heading covers all your likely regular expenditure and running costs. If you've paid off your mortgage, then your housing costs will obviously be lower. However, you'll still need to budget for maintenance costs, repairs and refurbishments. If you're renting, and more and more retirees are, you'll clearly need to factor this in.

Many people find their utility bills rise as they are likely to be spending more time at home – heating bills, for instance, will be more expensive. Travel costs often go down dramatically, as you won't have to budget for the expense of getting to work. However, you may want to factor in more days out and trips to see family and friends.

Security net

Typically, expenditure under this heading would include health and later-life care costs, and any emergency financial help you might need for yourself or your family.

Free time

Under this heading most people include the likely cost of enjoying all those things that they never had enough time for when they were working. So, that can include longer foreign holidays, weekends away, eating out and spending money on hobbies and entertainment.

Legacy fund

This is the amount of money you may want to pass on to your children and grandchildren during your lifetime. This could include helping to pay for their education or a deposit on a property.

Consumer magazine Which? recently surveyed thousands of its retired members to see where their money was being spent. Their research showed households spend on average just under £2,200 a month or around £26,000 a year. This expenditure covered all the usual basics and provided for a few luxuries such as European holidays, hobbies and meals out. They estimated that if long-haul trips and the purchase of a new car every five years were to be included, the figure would increase to around £39,000.

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What lies ahead for investors?

Just over ten years since the start of the global financial crisis, and the global economy is now in recovery mode. Investors were hit hard, with UK and global equities falling by 46% and 38% respectively in the aftermath. Aggressive policy stimulus implemented by central banks and governments was instrumental in reducing the depth and length of the recession.

What do the last few months of the year have in store for investors?

2017 has been an interesting year. Recent political events have clearly illustrated the difficulty of investing on the basis of prediction. We have all become much better at expecting the unexpected; experience has certainly taught us that. Many investors are getting used to a variety of political, financial and economic factors and hopefully learning to look through the 'noise'. What we do know is that market volatility will continue and areas of value exist, which make asset allocation a key tool when planning your portfolio.

On the cusp of change

Investors started the year confidently as the 'Trump reflation rally' continued from the tail end of 2016. Although fading a little more recently, global equity markets hit all-time highs in the summer with over $10 trillion added to their value in the first half of the year, exemplifying a healthy investor appetite. With the global economy faring better, the changing stance of central banks is evident as the need for emergency policy stimulus is receding, even if the situations in the UK, US and the euro area are different.

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Domestic focus

With a backdrop of modest global growth at home, there are mixed signals of growth for the UK economy. We have the added complication of ongoing Brexit negotiations to contend with. Weaker sterling has been the key driver of UK blue chip companies with high overseas earnings, nudging the FTSE100 higher. The weaker currency has particularly benefitted those industries which export services and goods. Despite inflation remaining above target, many economists do not expect UK interest rates to rise until 2019.

The prospect of normalising economic policy

The past year has shown the benefits of staying globally diversified. Portfolio diversity holds the key to approaching your investments and managing risk. It is important to think about longer-term timescales instead of focussing too intently on short-term events and market fluctuations. What is clear is that financial advice is essential to help position your portfolio in line with your objectives and attitude to risk.

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State pension changes leave millions of women worse off

Over one million women are now worse off by an average of £32 a week due to changes made to the state pension, according to recent research by the Institute for Fiscal Studies. The study identified that the phased increase in the state pension age for women was saving the government billions, but having a significant effect on household incomes. A large number of the affected women are worse off each week by the full amount of their previously forecast state pension.

Continuing to work

As a direct result of the changes, many women have remained in work. However, the research highlights that the extra wages earned by those who have remained in work, have only partially offset the potential pension income they would have received.

So, basically, many women are working when they weren't expecting to be and are still worse off than if they had received the state pension to which they were told they would be entitled until the changes were initiated at short notice a couple of years ago. The campaign group Women Against State Pension Inequality (WASPI) was created as a result of this situation.

Why increase the SPA?

The state pension age (SPA) was increased by the government in response to the challenge the public finances face in paying pensions for longer as life expectancy increases.

A spokesperson for the DWP (Department for Work and Pensions) commented: *"Women retiring today can still expect to receive the state pension for over 24.5 years on average – which is more than any generation before them, and several years longer than men. By 2030, more than three million women stand to gain an average of £550 per year as a result of the new state pension."*

The importance of taking advice

Approximately seven million people in their late 30s and 40s are likely to be affected by planned further rises in pension age, to 66, 67 and eventually 68, affecting both men and women. As a result it's particularly important that younger workers are aware and plan accordingly.

In the UK, a massive number of people rely on the state pension to supplement their retirement income. So, if the change in pension age is likely to affect your finances, getting good advice as early as possible in your working life will help you get a full picture of the amount you will have to live on in retirement.

Careful pension planning throughout your working life can help ensure you have a financially-comfortable retirement.

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Repaying student debt

Whether you've just started university, or reaching the end of your studies, the time will come when you'll need to start to make student loan repayments.

Once your earnings reach £21,000 a year you'll repay your loan at a rate of 9% of everything you earn above that figure. After 30 years from the April after your graduation, if it hasn't all been paid off, the debt is automatically cleared. With students from the poorest backgrounds likely to accrue debts of £57,000 (including interest) from a three-year degree, it's likely that a significant proportion of students won't repay their loan in full.

It's worth remembering that student loans are different from other types of borrowing. A sensible way of viewing a student loan is to think of it as a 'graduate tax'. And like any other tax, you'll have to budget to make sure that you can make payments every month.

Whilst parents can often find they can't afford to provide financial assistance with education costs, many students now call upon the bank of Grandma and Grandad. Some grandparents find that by gifting money to their grandchildren, they can reduce their inheritance tax bill.

Savers keen to open Lifetime ISAs

The Lifetime ISA, or LISA as it's often referred to, is beginning to catch on with savers after a slow start. Four months after its launch this April, 28,000 people had opened the cash version of the account, and early indications are that the stocks and shares version is proving equally attractive.

LISAs were promoted as being innovative, and they certainly have a lot to offer. They give savers aged 18 to 40 a chance to start saving tax-free either for a first-time property purchase or for their retirement, in a cash account and/or by investing in stocks and shares.

The added attraction is the generous bonus of 25%, meaning that for every £4 saved, the government will add £1. Any savings put in before your 50th birthday will receive the 25% bonus from the government at the end of the tax year. The bonus can be claimed either when the account is used for a qualifying property purchase, or when the account holder reaches 60.

There is no maximum monthly contribution; savings can be as little or as much as you like up to the annual limit of £4,000, though they count against your overall £20,000 annual ISA allowance. For those who hold their LISA for the maximum allowable number of years and contribute up to the annual limit, this could mean they would qualify for total bonuses worth £32,000.

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Advantages

For any would-be first-time buyers who aren't planning to buy in the next 12 months and could use a 25% bonus, a LISA should be on their shopping list. Pension savers who may find themselves caught by the Lifetime Allowance pension cap could use a LISA to supplement their pension savings, as could those who pay higher rates of tax and have already hit their annual pension contribution allowance. Non-earners saving for retirement can benefit from the government bonus, tax-free growth and no tax to pay when the LISA is cashed in at 60.

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Don't be caught by the latest online scam

Financial commentator and TV presenter Martin Lewis has been quick to condemn a fake advertisement that claimed he had made money out of a risky form of investment known as 'binary trading'. He hasn't invested in this type of scheme, and would never recommend it to others, particularly as it isn't regulated by the Financial Conduct Authority.

What is binary trading?

Binary options are simply a form of fixed-odds betting that involves placing bets on whether the price of something will rise or fall below a certain amount. So, those sucked into these schemes aren't buying or selling the gold, oil or stocks or other commodities involved, simply betting on whether the price will go up or down over a given period, often as little as five or ten minutes.

Binary option traders often advertise on social media. They provide links to professional-looking websites that tend to be based outside the UK. Some scammers claim to have a UK presence, often a prestigious central London address. Many of these sites suddenly close customers' accounts and refuse to pay back any money.

Pension freedoms – making the right choices

The Financial Conduct Authority (FCA) recently reviewed the actions taken by pensioners who chose not to receive advice when accessing their pension pots. Their review flagged up several areas of concern.

New norms emerging

The report highlighted that accessing pension pots early had become the 'new norm', and that intervention might be needed to ensure that the pensions market continued to operate efficiently.

The study found that in more than half of the cases where all the money was taken out of a pension pot, the cash was not spent on purchases like cars or holidays, instead it was moved into other forms of savings or investments. Pensioners who took this course of action could risk paying too much tax, losing out on the investment growth they could have enjoyed if they had left the money invested in their pension fund, and in some instances, lose other benefits too.

Earlier this year, it emerged that the reforms had raised five times more tax for the Treasury than originally forecast, suggesting that people were withdrawing larger sums than had been expected.

Cash withdrawals

The FCA report found that almost three-quarters (72%) of the pots accessed since the introduction of the new rules were held by people under 65. Most are choosing to take lump sums rather than a regular income. Meanwhile, more than half (53%) of the pots accessed had been fully withdrawn.

Drawdown

Before the introduction of the pension freedoms, 5% of drawdown plans were bought without seeking advice, but since the introduction of the new rules, this figure has risen to 30%. Drawdown can be complex in its operation, so taking guidance that takes full account of your financial circumstances can help ensure that you make the right decisions about your retirement income.

If you could use some advice to make the most of the pension freedoms, do get in touch.

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Life insurance – Millennials listen up

Today's 18 to 35-year-olds are having a tough time in comparison with previous generations. With employment prospects likely to be less certain for millennials it's realistic that they could have a number of different jobs during their careers. The traditional life stages, such as owning a home and having a family, are generally being reached much later.

With property prices high and wages relatively stagnant, millennials often find themselves postponing these big decisions until they are well into their 30s. Property rental is a growing trend across all age ranges, with 8.5 million people opting to rent in the UK today.

The traditional stages of life that served as prompts for previous generations aren't occurring. Ultimately this means that millennials are less likely to be considering life insurance.

Reasons to act now

The reasons to be thinking about life insurance are numerous and compelling. Signing up for life cover at a younger age could make a huge difference to the affordability of premiums. The older you are at the start of your policy, the higher the premiums are likely to be.

Rising personal debt is another good reason to start thinking about a protection policy. Young adults are often burdened with student loans, credit card debts and personal loans. By arranging life cover there would be funds available if the unexpected were to happen. This would ensure that family members wouldn't need to worry about your debts.

Other types of cover worth considering

There are two other types of insurance cover that millennials should think about, income protection and critical illness. Income protection replaces a percentage of your income should you become ill or unable to work for longer than the 'deferred period'. It means you can continue to pay your bills until you are able to return to work. Critical illness cover pays out a lump sum if you are diagnosed with a serious illness, as defined in the policy.

Divorce in your 60s – coping financially

Statistics show the number of people over 60 divorcing increased by 85% between 1990 and 2012. The International Longevity Centre calculates that by 2037, almost one in ten people divorcing will be aged over 60. It can be traumatic at any age, however for a couple married for a long time, their finances can be more complicated to deal with.

Dividing the assets

There are no hard and fast rules governing how assets should be divided, although there is a broad starting point of 50:50. If the divorcing couple are unable to come to an agreement between themselves, the court will decide how assets should be apportioned based on factors such as their age, earnings ability, property and money, and role in the relationship (e.g. breadwinner or primary carer).

Deciding what to do with the family home can be difficult, and it's often impossible for either spouse to be able to afford to stay put. At this age, pensions can be a major source of income, so any divorcing couple will need to decide how these should be handled. Many people think that a pension solely belongs to the party who is named on the policy, but that's not the case. Any pension must be considered in the division of assets.

Pension assets can be apportioned in various ways, by:

- offsetting the value of one spouse's fund by transferring a lump sum, or other assets to the other spouse
- splitting the pension fund into two separate pensions
- arranging that when a pension comes to be paid, a portion goes to the other spouse.

Making a fresh start

Post-divorce, it makes sense to discuss your change in circumstances with your financial adviser. You'll need to reconsider your financial goals, and any mortgage, life insurance, savings and investment needs you may now have. You should remake your will. Reorganising your finances is an essential step in moving forward to a new life.

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Retired households fork out £7,400 to the taxman

Retired households typically paid tax of around £7,400 in the 2015–16 tax year. According to analysis from the Office for National Statistics this figure is equivalent to almost one-third of their annual income.

The tax bills of retired households comprise direct taxes, including income tax and council tax, and indirect taxes such as VAT, vehicle excise duty and insurance premium tax. When compared with the total tax bill of the average working family (34%), the retired household bill was around four percentage points lower.

Planning for tax in retirement

No longer working doesn't mean that you are no longer paying tax, and illustrates clearly that retired people need to consider their tax bills when planning their budgets in retirement. It also means that saving as much as possible as early as possible during their working lives will help people plan for their later-life expenditure with more confidence.

> No longer working doesn't mean that you are no longer paying tax

With more people choosing to work longer into their retirement years, the amount of tax raised from older people looks likely to continue to rise over the years to come.

How to manage drawdown

A drawdown pension is basically a product that allows you to continue to keep your pension invested in the stock market after you have retired, but gives you the ability to withdraw money from it when you need to.

According to information from the Financial Conduct Authority, before the introduction of the pension freedoms, 5% of drawdown plans were bought without seeking advice, but since the introduction of the new rules, this figure has risen to 30%.

Drawdown can be complex in its operation, so taking advice that takes full account of your financial circumstances can help ensure that you make the right decisions about your retirement income. After all, today's pensioners can look forward to several decades in retirement, and no-one wants to face the prospect of running out of money later in life.

Striking the right balance

One of the main issues faced by those in drawdown is that there is always the chance that stock markets can fall and reduce the amount of capital they have. Then you need to decide how much money you can safely withdraw without depleting your capital. It's decisions like this that we can help you resolve. Our advice will help you decide the appropriate level of withdrawals and ensure the remaining assets are invested and managed properly.

Some retirees choose to opt for a mix-and-match approach to their pensions. This could involve using some of your fund to buy an annuity to cover your fixed living costs, whilst leaving the rest invested. Or you could decide to buy an annuity later, as rates improve as you get older, though such improvement may be undermined if interest rates generally are on a sharply declining trend at the time (as they were during, and after, 2007).

One course of action to avoid is taking too much from your drawdown fund and putting it into a bank or building society account. This will mean that your money will be eroded by inflation, and with interest rates low, you are likely to get a poor return.

Will your pension go to the right person on your death?

One of the most important changes arising from the pension freedoms that came into operation in April 2015 was the treatment of pension funds on death. If you die before the age of 75, you can now pass your pension fund on to any nominated beneficiary(ies) free of tax. Even after age 75, the death benefit rules are more generous than they were previously, with income tax only becoming payable when your beneficiaries start to withdraw the money.

Expressing your wishes

This means that it is very important for pension policyholders to ensure that they have nominated the right person(s) to receive their pension benefits. Who gets your pension savings depends on who you nominated when you were asked to complete an 'expression of wishes' form by your pension provider. The form can be updated at any time.

An expression of wishes form, although not binding on the pension scheme administrator, helps guide them when deciding who should receive the benefits. As it isn't compulsory to provide beneficiary details and return the form, some people can overlook this important step. Without this key document in place, there can sometimes be a considerable delay in the payment of pension benefits to dependants.

It's important to be aware that problems could arise if, for instance, you nominated a previous spouse to receive your pension benefits but subsequently remarried and didn't update the form. This could mean that your ex-spouse would receive the benefits under your pension, and that any children and stepchildren might not be provided for.

Leaving clear instructions

When completing the nomination form, it's a good idea to provide the full names of all your beneficiaries. Rather than just nominating 'your children', for example, it makes sense to name each one individually.

If your circumstances have changed, you may want to update your nomination form, and keep a copy with your will and other important documents.

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Tackling the UK's savings gap

An ageing population poses considerable issues for any economy. Nowhere is that truer than here in the UK. According to the World Economic Forum (WEF), the UK should be preparing right now for a workforce composed of 80-year-olds and be imposing faster rises in pension age to avoid a £25tn pensions savings gap from opening up.

The WEF has likened the global pensions crisis to the threat of climate change in its capacity to have a major impact on the lives of many people.

The causes of the gap aren't hard to find: falling birth rates, an ageing population and a widespread disinclination or inability to save, head the list. The gap is defined as the shortfall in the amount of money needed by a pensioner to maintain their income at a figure equal to 70% of their pre-retirement earnings. If pensioners haven't accumulated enough money in their workplace, private and state pensions, then the gap will widen further.

Interestingly, the WEF report said that the UK's lifetime allowance, which caps tax relief on pension contributions, should be scrapped as it was in danger of sending the wrong signal by encouraging the belief that there is only so much you should contribute to your pension.

Pension planning

Retirement should be enjoyed rather than endured. Whatever age you are now and however near or far away from retirement you may presently be, you are strongly advised to keep your retirement plan under regular review, and to contribute as much as you possibly can to your pension throughout your working life.

Here are three simple steps that will help you avoid falling into the pensions gap:

- Speak to us about arranging a regular review to ensure your retirement plans remain on track
- Consider topping up your contributions whenever your financial circumstances allow; remember, within limits, they attract valuable tax relief
- Know your state pension age and get a forecast of how much you'll receive.

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Inheritance tax: government receipts reach record highs

Inheritance Tax receipts pulled in a staggering £4.9 billion for the taxman in the 2016–17 tax year. In the current tax year, receipts have already increased by 22%, and it is widely predicted that the final figure for the year is likely to reach a new high.

Controversially, the threshold at which Inheritance Tax (IHT) applies has been fixed at £325,000 for eight years now. Meanwhile, stock market investments, cash savings, inflation and, crucially, house prices, have continued to rise sharply, meaning that more families than ever before have found themselves liable to IHT.

Residential nil rate band

From April 2017, a new allowance was introduced that will come to the aid of homeowners. This additional allowance can now be used to reduce the IHT paid on a main home, enabling homeowners to pass on more wealth to their direct descendants.

Referred to as the 'main residence nil rate band', it is being introduced in stages over four years, with a limit of £100,000 applying from April 2017, rising each tax year until it reaches £175,000 per person in 2020. This is in addition to the individual allowance for IHT of £325,000. 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.

Every family's circumstances are different, so taking bespoke professional advice is essential in planning your estate.

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation, are subject to change.