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Independent Financial Planning

MARCH/APRIL 2017

Don't miss the

ISA DEADLINE

Time to take control over where your money is invested tax-efficiently

SAFEGUARDING WEALTH FOR FUTURE GENERATIONS

New Inheritance Tax rules apply from 6 April 2017

A LITTLE TODAY, A LOT TOMORROW

Managing investment risk during turbulent markets

LOOKING TO THE FUTURE

Cost of essentials is the most common perceived threat to over-55s

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INSIDE THIS ISSUE

Welcome to our latest issue, featuring articles written to help you make the most of your hard-earned money and achieve your long-term financial security.

Each tax year, we are given an annual Individual Savings Account (ISA) allowance. Anyone wishing to utilise their allowance should do so before the deadline on Wednesday 5 April 2017. The date marks the end of the 2016/17 tax year. It is a 'use it or lose it' allowance, meaning that if you don't use all or part of it in one tax year, you cannot take that allowance over to the next year. On page 06, we consider your options.

The UK's decision to leave the EU has left over two million people planning to change their retirement plans, according to findings from a survey by LV= that commissioned Opinium Research. It's undoubtedly a thought-provoking time for many approaching retirement, and it means it's even more difficult for retirees to know what is right for them. On page 08, we consider the importance of having access to professional financial guidance and regulated financial advice at a time when you are deciding how you will receive an income for the remainder of your life.

Under the new Inheritance Tax (IHT) rules, more estates are likely to pass free of IHT post–5 April 2017. By 5 April 2021, some estates worth £1 million will pass free of IHT. This is the good news, but it's far from the whole picture. For many, in particular the childless, the IHT could in fact (with the effect of inflation) be higher post–5 April 2017. Turn to page 11 to see how the new rules could impact on you and your family.

The full list of the articles featured in this issue appears opposite.

To discuss any of the articles featured in this issue, please contact us.

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FOR MOST OF US, MANAGING OUR MONEY DAY TO DAY OCCUPIES MOST OF OUR ATTENTION, PARTICULARLY WHEN RISING INFLATION PUTS FAMILY BUDGETS UNDER EVER GREATER STRAIN.

PENSION BOOSTER

Setting goals for retirement

THOSE WHO SET TANGIBLE GOALS FOR THE FUTURE COULD BE £30,000 BETTER OFF IN RETIREMENT, ACCORDING TO NEW RESEARCH.

The Set the Right Goals study from Zurich UK found that those who set specific goals for when they are aged 65 or over are more likely to save, putting aside approximately 7% of their salary into their pension compared to 5% for those without. The study combined research from YouGov of UK adults from across the UK and neuroscience specialists Mindlab to measure the effect of emotions on saving.

GOAL-SETTING AND SAVING

The findings uncovered a definitive link between goal-setting and saving when it comes to pensions. Those of working age with a workplace or private pension who set goals for life when they are aged 65 or over – such as travelling more, taking up new hobbies or being in a position to financially support children and grandchildren – save 7.25% of their salary into their pension, while those who don't know what their aspirations are for the same period save just 5.36%.

DIFFERENCE IN PENSION POTS

Given that an employee with 5–9 years' experience typically earns £30,708, a 'goalless' saver earning at this level would put away just £1,646 per year into their pension, compared with £2,226 per year for those with set goals. Based on calculations from Zurich's Retirement Planner, a 28-year-old goalless person earning this typical salary could potentially have a personal pension pot of £87,600 once he/she reaches the age of 65. However, if the same person sets goals for this stage of life, they could expect to have a personal pension pot of £118,000 after the same amount of time – a potential increase of £30,400. This does not include any contributions from employers, who can sometimes match the employee's pension contribution, meaning that the difference in pension pots could be far greater.

SOUND FINANCIAL MANAGEMENT

The research also found that 78% of those under 65 who had goals for life when they are aged 65 or over have savings and investments, as opposed to just 49% of those who are unsure of their goals for this period of their life. Meanwhile, goals such as starting a family or going travelling also affect a person's likelihood to practice sound financial management. Just 29% of those who do not have any current goals have money put aside in their current account, compared with 49% of those who are currently saving towards a specific goal.

MOST EMOTIONALLY MOTIVATED

The results found that certain goals have a greater impact on savings behaviour than others. Where people have an emotional attachment to a goal (for example, saving to support elderly relatives, have children or go on holiday), they are more likely to take positive saving action to achieve them. Saving towards retirement was identified as respondents' most important saving goal, as well as one of the most emotionally motivated.

REALISE YOUR AMBITIONS

For most of us, managing our money day to day occupies most of our attention, particularly when rising inflation puts family budgets under ever greater strain. But this research demonstrates that thinking about what you aspire to and having goals for the immediate and long term will inspire people not only to save, but to save more. This is why it is so critical to take time out and visualise your future, so that you can then take action to financially prepare and realise your ambitions. ◂

WILL YOU MAKE YOUR GOALS ACHIEVABLE?

Small steps taken early on can make a huge difference. Saving regularly into your pension or drip-feeding amounts of money into the right investments can generate an income that will make your goals achievable, whether this includes travelling more or supporting loved ones. If you would like to review your particular situation, please contact us – we look forward to hearing from you.

Source data:

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,073 adults. Fieldwork was undertaken between 25 and 26 October 2016. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

900 adult participants (19–55+) who are representative of the general population took part in the Mindlab experiment in the UK from 25–26 October 2016.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

GETTING YOUR AFFAIRS IN ORDER

What you have and what you want to happen to it

EVERYONE SHOULD HAVE A WILL, BUT IT IS EVEN MORE IMPORTANT IF YOU HAVE CHILDREN, YOU OWN PROPERTY, YOU HAVE SAVINGS, INVESTMENTS OR INSURANCE POLICIES, OR YOU OWN A BUSINESS.

The very act of having a Will drawn up can be beneficial in that it makes you think about what you have and what you want to happen to it. While most of us find it difficult to think about our mortality, the fact is that one day we will be gone, and we owe it to our beneficiaries to make the task of settling our affairs as easy as we can.

RULES OF INTESTACY WILL APPLY

If you do not leave a valid Will, the rules of intestacy will apply in respect of your estate (your 'estate' is defined as assets less outstanding liabilities). If your estate is very small, this may not matter, and there are circumstances in which the result might be perfectly acceptable (for example, if the value of your estate is such that it will pass wholly to a surviving spouse or children). In most cases, however, it still makes sense to have a Will drawn up. The rules of intestacy do not provide for 'common law' spouses. If you do not provide for them via a valid Will, they may be obliged to make a legal claim against your estate and could find themselves seriously short of funds in the meantime.

PROTECT CERTAIN FAMILY MEMBERS

The very act of having a Will drawn up can be beneficial in that it makes you think about what you have and what you want to happen to it. For example, whether you want to protect certain family members (such as minor children or those who will struggle to manage their affairs), whether you want certain interests to take priority (for example, giving a second spouse or registered civil partner a right to remain in occupation of the family home for the rest of their life), whether you want children or grandchildren to benefit equally (or for any inheritance to be adjusted to reflect lifetime gifts), whether you want to benefit charities, and whether it would be appropriate to consider some tax planning.

ASPECTS OF YOUR ESTATE

In addition to a Will, you can write a letter of wishes. This is not legally binding, but you can use it to deal with smaller items and more significant matters such as the factors you would want trustees for your children to consider in exercising their discretion. You might also want to guide your executors towards professional advisers who you think would be best placed to deal with particular aspects of your estate or the estate as a whole.

REFUSAL TO ACT ON YOUR WISHES

Talk about your Will to those who will be affected by it. You can name people as

executors without their prior consent, but they can refuse to act when the time comes. Check that they are willing, tell them why you have chosen them, and make clear why your Will says what it says and what your wishes are in respect of any matters not covered in the Will. Tell them where your Will is kept.

IMPACT AND THE LEGAL COSTS

If the terms of your Will are likely to lead to arguments within your family, think very carefully about the impact and the legal costs associated with any challenge and whether it makes sense to explain things in a covering letter or face to face while you have time. Think carefully about your choice of executors. While family or friends are usually a good option, there are circumstances – for example, if you have business interests, if family conflicts are expected or if there is simply no one else appropriate – where the appointment of one or more professional executors may make sense.

KEEP IT UNDER REVIEW

If you already have a Will, make sure you keep it under review. Are your chosen executors still the right people? Are they still alive? Have your wishes changed in any way? Have your family circumstances changed? (Bear in mind that marriage usually makes a Will invalid and that divorce makes any bequests to your ex-spouse/civil partner null and void.) Minor amendments to a Will can be achieved via a codicil. More wholesale changes call for a new Will which, assuming it is valid, takes priority over your old Will.

MAKE YOUR WISHES CLEAR

You cannot bind family or friends in terms of funeral arrangements or, at present, organ donation. You could sign up to the organ donor register and carry a donor card, and – most importantly of all – talk to your family about your wishes and the reasoning that lies behind them.

KEEP RELEVANT PAPERS SAFE

It is essential that Wills are kept secure, whether in a professional adviser's safe or at home in a fireproof box. Your executors, however, are going to need access to far more. They will need to determine your assets and liabilities on death and, if Inheritance Tax (IHT) is an issue, investigate any gifts in the seven preceding years. Leave them lists, together with relevant papers, life policies and contact details.

Also leave a note of relevant contact details – your accountant, your solicitor, your bank and professional financial adviser – with details of pension and life policies.

IMMEDIATE FAMILY NEEDS

Assets that are owned jointly (including properties held as joint tenants) pass to the survivor automatically on death. Most other assets, however, will be frozen until a Grant of Probate has been obtained (a process that invariably takes several months). Ensure that your spouse or registered civil partner, or any adult child who is dependent on your support, has sufficient funds in a bank account of their own or in a joint account to meet their immediate needs.

Consider life insurance as an appropriate way of supporting your family after you are gone, and make sure that life insurance policies are 'written in an appropriate trust', which means that the proceeds can be released before Probate has been obtained.

SIMPLE AND TRANSPARENT FINANCES

The more complicated your financial affairs, the greater the difficulty could be for those you leave behind. Try and make things as simple and transparent as you can. Go through your documents and either dispose of or identify those that are no longer valid. If there are matters that should have been disclosed to HM Revenue & Customs (HMRC), think seriously about disclosing now and getting everything cleared up.

INHERITANCE TAX PROVISION

In the event that your estate is likely to be subject to Inheritance Tax (IHT), it requires advance planning. If your estate passes to a surviving spouse or partner (or to charity), IHT is not likely to be an issue. On the second death, the first £325,000 (the 'nil-rate band') of your estate is likely to be free of tax. You may benefit from an additional £325,000 if a spouse has pre-deceased you, and those dying after 5 April 2017 may benefit from an additional exemption in respect of the family home. However, if you have remained single, have divorced and not remarried, or are in a common-law relationship, the exempt amount may be just £325,000. And, if you have made substantial lifetime gifts, this may not be available to set against your estate at death. Any value not covered by reliefs or exemptions is charged to IHT at 40% (or 36% if 10% of the net estate is left to a registered charity).

LASTING POWER OF ATTORNEY

All of the above relate to what happens when you die. There is a distinct possibility, however, that you will lose capacity to deal with your affairs well before that point.

Lasting powers of attorney (LPAs) are intended to fill the gap – they are a legal document under which you appoint one or more persons to deal with either or both of your financial affairs and your health and welfare in the event that you are no longer able to deal with things yourself. An LPA is important, and it should be drawn up while you still have full capacity (they are often dealt with at the same time as a Will). Bear in mind that incapacity could be triggered by an accident or a sudden illness, rather than gradual decline. ◂

NEED SOMEONE TO TALK THINGS THROUGH?

If you want to be sure your wishes will be met after you die, then a Will is vital. Whatever your circumstances, we are there as someone to talk things through with and guide you in an appropriate direction. If you require more information or would like to discuss your situation, please contact us.

LEVELS, BASES OF AND RELIEFS FROM TAXATION MAY BE SUBJECT TO CHANGE, AND THEIR VALUE DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE INVESTOR.

Don't miss the ISA DEADLINE

Time to take control over where your money is invested tax-efficiently

EACH TAX YEAR, WE ARE EACH GIVEN AN ANNUAL INDIVIDUAL SAVINGS ACCOUNT (ISA) ALLOWANCE. THE ISA LIMIT FOR 2016/17 IS £15,240, RISING TO £20,000 IN 2017/18. ANYONE WISHING TO UTILISE THEIR ALLOWANCE SHOULD DO SO BEFORE THE DEADLINE AT MIDNIGHT ON WEDNESDAY 5 APRIL 2017. THE DATE MARKS THE END OF THE 2016/17 TAX YEAR. IT IS A 'USE IT OR LOSE IT' ALLOWANCE, MEANING THAT IF YOU DON'T USE ALL OR PART OF IT IN ONE TAX YEAR, YOU CANNOT TAKE THAT ALLOWANCE OVER TO THE NEXT YEAR.

An ISA is a tax-efficient investment wrapper in which you can hold a range of investments, including bonds, equities, property, multi-asset funds and even cash, giving you control over where your money is invested tax-efficiently.

SHELTERING YOUR MONEY FROM TAX

ISAs are becoming an integral part of financial planning. However, it is important to remember that an ISA is just a way of sheltering your money from tax – it's not an investment in its own right.

ISAs offer a unique range of benefits, as there is no Income Tax on interest payments (which are made by bond funds) or dividends (which are paid by equity funds), and you don't lock your money away, so you can still access it whenever you need to.

WITHDRAWALS TO INCREASE YOUR INCOME

Income from an ISA doesn't affect your personal allowance or age-related allowance, and there's no Capital Gains Tax (CGT) payable on any growth you may achieve. This means you could use withdrawals to increase your income when necessary. However, any losses made in the ISA cannot be used to offset gains made elsewhere.

When you invest through an ISA, you don't have to pay personal Income Tax on any interest you receive from your investments. In a Stocks & Shares ISA, interest is generated by bond funds, which many investors choose because they offer the potential for a regular, lower-risk income, compared with equities.

PARTICULARLY USEFUL IN RETIREMENT

This feature of an ISA is particularly useful in retirement, as it means you can hold your money in bond funds and generate a tax-efficient income on top of the payments you receive from your pension. It is also very beneficial if you want to generate long-term capital growth from your funds but prefer to take a cautious approach to investing.

When your investments are held in ISAs, you don't have to pay any CGT on the growth. Of course, this may seem like a minimal benefit if your profits are well within the current £11,100 threshold for CGT, but it's worth remembering that stocks and shares investments are for the long term. If your funds perform particularly well for several years, holding them in ISAs will mean you have full access to your money at all times without having to worry about managing a potential tax burden.

SIMPLIFYING YOUR FINANCIAL ADMINISTRATION

You don't have to declare any investments held in ISAs on your tax return. This may not seem like much, but if you have to file an annual tax return, you'll know that any way of simplifying your financial administration can be very helpful.

If you feel that your existing ISA provider is no longer appropriate for your needs or you are looking to consolidate your investments under one roof, with an ISA you are free to transfer your investment between providers to suit your individual needs. Please note: your current provider may apply a charge when you transfer your investment. While your investment is being transferred, it may be out of the market for a short period of time and may not lose or gain in value.

WITHDRAWALS FROM AN ISA ARE TAX-EFFICIENT

ISAs can give you control over your retirement income, as you can take as much money out as you like, whenever you want. Savings in an ISA and withdrawals from an ISA are tax-free. If you are a pension saver, you can generally also take out as much money as you like, whenever you want, from age 55. However, at present only up to 25% of the pension can be withdrawn tax-efficiently, with withdrawals taxed at the applicable marginal rate of Income Tax. Separately, a test against the Lifetime Allowance may also be applied, which could result in additional tax becoming payable. ◂

EXPERT PROFESSIONAL INVESTMENT ADVICE

Choosing between a Cash ISA or an investment ISA such as the Stocks & Shares ISA will depend on the level of risk you are comfortable taking with your money, as well as factors such as how soon you will need to access your money. If you require individual expert professional advice to beat the ISA deadline on 5 April, please contact us to review the most appropriate options for your particular situation.

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THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

STOCKS & SHARES AND INNOVATIVE FINANCE ISA INVESTMENTS DO NOT INCLUDE THE SAME SECURITY OF CAPITAL WHICH IS AFFORDED WITH A CASH ISA.

TYPES OF ISAs AND ALLOWANCES

Different ISA options available:

CASH ISA

Anyone over the age of 16 can put their cash savings into a Cash ISA. Accounts can be either instant access, have notice periods or have fixed terms.

The annual allowance for a Cash ISA is currently £15,240. You can invest up to this full amount in your Cash ISA, or you can share this allowance between a Cash, Stocks & Shares, and Innovative Finance ISA.

Many Cash ISAs are now flexible. If the ISA provider offers them and you withdraw from one, you can put it back into the same account in the same tax year without affecting your allowance. It works on money in old Cash ISAs and cash you've deposited this tax year.

STOCKS & SHARES ISA

Anyone over the age of 18 can put individual shares or managed funds into a Stocks & Shares ISA.

The current annual allowance for a Stocks & Shares ISA is £15,240. You can invest up to this full amount in your Stocks & Shares ISA, or you can share this allowance between a Cash, Stocks & Shares, and Innovative Finance ISA.

LIFETIME ISA

This ISA will be available for those aged between 18 and 39 from 6 April 2017 (if you turn 40 on or before 6 April 2017, you won't be eligible).

Announced in the 2016 Budget, this new tax-efficient savings or investments account is designed to help under-40s purchase their first home or save for retirement.

For every £4 you save, the Government will add £1 (worth up to £1,000 a year), paid at the end of the tax year, up to the age of 50. Up to £4,000 a year is eligible for the 25% bonus (you can add more, but it won't receive a government contribution).

In the first year, it will be paid annually, but from the 2018/19 tax year onwards the bonus is paid every month, so that you benefit from compound growth. You can invest in either cash or stocks and shares.

INNOVATIVE FINANCE ISA

This ISA is for investments in peer-to-peer lending platforms such as Zopa, Ratesetter and Funding Circle. You must be over the age of 18 to invest.

The annual current allowance for an Innovative Finance ISA is £15,240. You can invest up to this full amount in your Innovative Finance ISA, or you can share this allowance between a Cash, Stocks & Shares, and Innovative Finance ISA.

These are generally considered higher-risk investments and may not be considered suitable for all types of investors. You could lose some or all of your capital.

HELP TO BUY: ISA

This ISA has been introduced to help first-time buyers over the age of 18 get on the property ladder. You have to choose between either a Cash ISA or a Help to Buy: ISA, but you can have a Help to Buy and a Stocks & Shares ISA in the same tax year.

You can start your Help to Buy: ISA with a lump sum deposit of up to £1,200. You can then save up to £200 a month.

For every £200 you save, the Government will add 25% up to a maximum bonus of £3,000. However, the government bonus on a Help to Buy: ISA can only be applied at completion by the solicitor as the final part of the property purchase payment. As such, the monies cannot be used to help fund the deposit element of a property purchase.

Help to Buy

Backed by HM Government

JUNIOR ISA

Cash or investments can be wrapped in this ISA on behalf of children under the age of 18. The Junior ISA has an annual allowance of £4,080.

You must be a UK resident or crown employee to invest in any type of ISA (with the exception of the additional permitted subscription ISA allowance).

MILLIONS CHANGE RETIREMENT PLANS POST–EU VOTE

Turbulence in the economy has left many feeling confused

THE UK'S DECISION TO LEAVE THE EU HAS LEFT OVER TWO MILLION[1] PEOPLE PLANNING TO CHANGE THEIR RETIREMENT PLANS.

It's undoubtedly a thought-provoking time for many approaching retirement and even more difficult for retirees to know what is right for them. It's essential you have access to professional financial guidance and regulated financial advice at a time when you are deciding how you will receive an income for the remainder of your life.

UNDERSTANDING THE OPTIONS AVAILABLE

It's also important to have a clear understanding of the options available if you don't want to delay and do want to retire now – for example, a fixed-term annuity offers a guaranteed income for a set period without tying someone in for life. No matter what anyone decides to do, taking professional advice at retirement has never been more important.

Findings from LV= research has revealed that, of those approaching retirement, more than one in four (27%) have changed their retirement plans in some way as a result of the economic environment following the vote.

'WAITING TO SEE' HOW THE ECONOMY PANS OUT

Of those changing plans, nearly a third (30%) say they're definitely postponing their retirement and continuing to work instead – equivalent to 690,000 people. A similar percentage (33%) are planning to 'wait and see' how the economy pans out.

Even among those who haven't necessarily changed their plans, around four in ten (43%) say they would 'work on' rather than retire in the current climate, and more than a third (36%) would wait until Britain leaves the EU before making any decisions.

NOW MORE LIKELY TO TAKE FINANCIAL ADVICE

Unsurprisingly, the economic uncertainty has left a third (32%) feeling confused about their options, and a quarter (25%) are worried that the vote has affected the value of their pension. However, despite consumers' uncertainty, it's very worrying to see that only around one in ten (12%) said they're now more likely to take financial advice.

WHAT DO YOU NEED TO CONSIDER?

Think about all of your assets – If you're concerned about the value of your pension, remember you may have other assets that could help with your retirement, including other savings, investments or equity in your property. You should also make sure you identify any lost pension pots using the Pension Tracing Service*.

Check your State Pension** – If you're eligible to start drawing your State Pension, this could offer you some income without you having to start taking money from your personal or workplace pensions. Finding out how much you're eligible for is quick and easy to do online.

Consider different products – Most people will be familiar with annuities that provide a fixed income for life, and many also know about income drawdown products that allow you to take your money more flexibly. But there are other products available if appropriate, such as fixed-term annuities, which provide a guaranteed income but with the flexibility that you're only tied in for a set period of time. You can also use a mix of products these days so that your needs are met throughout retirement.

Most of all, take your time – Overall, the most important thing is to ensure you don't rush into a decision, and you take the time to consider all the options available – after all, it's your money and it's your choice. ◂

MAKE THE MOST OF YOUR RETIREMENT OPPORTUNITIES

Regardless of the life stage you have arrived at, it is important to receive expert and professional advice on your pension plans and requirements. Whether you need to set up or review existing retirement planning strategies, we can help you make the most of your retirement opportunities. For more information, please contact us.

**www.gov.uk/find-pension-contact-details*
*** www.gov.uk/check-state-pension*

Source data:

[1] There are 17.6 million over-55s in the UK (ONS population maps). 10.2 million are over 65, and of these around 1 million still work (DWP). This leaves a population of 8.4 million UK adults aged 55+ and NOT retired. Of the over-55s surveyed, 27% said they'd changed their retirement plans somehow due to the vote to leave the EU (equivalent to 2.3 million people). Of these people, 30% said they would definitely postpone retirement and continue working as a result of the economic environment. 30% of 2.3m = 690,000 people postposing retirement. LV= commissioned Opinium Research to conduct bespoke research among a sample of 1,000 UK residents who are over 55 years of age and NOT yet retired. Surveys were conducted online between 8 and 14 December 2016 and are nationally representative.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

LOOKING TO THE FUTURE

Cost of essentials is the most common perceived threat to over-55s

WHILE THE RISING COST OF ESSENTIALS IS THE MOST COMMON PERCEIVED THREAT TO OVER-55S' STANDARD OF LIVING OVER THE NEXT FIVE YEARS, CONCERNS OVER FALLING RETURNS ON SAVINGS HAVE RISEN TO THE HIGHEST POINT IN ALMOST THREE YEARS, AVIVA'S LATEST REAL RETIREMENT REPORT REVEALS.

FALLING RETURNS

Almost one in four (22%) over-55s now identify falling returns as a threat, compared to 17% in Q2 2016. The last time concerns were this high was in Q1 2014 (24%), with this quarter's jump coming against the backdrop of the decision by the Bank of England to cut the base rate to 0.25% in August 2016.

At the same time, almost half (45%) of over-55s highlight the rising cost of living as their primary concern over the next five years. Following the UK's decision to vote to leave the EU in June last year, the resulting fall in the value of the pound has led to an expectation that inflation will continue to rise this year and push up prices.

COST OF LIVING

The concerns suggest that, even if interest rates were to rise this year, there is an expectation that returns on savings won't keep pace with the rising cost of living. Bank of England data shows that average interest rates on a variable Cash Individual Savings Account (ISA) have fallen from 2.5% in Q3 2012 to just 0.7% in Q3 2016, and, since September, they have been lower than inflation for the first time since October 2014[1].

The data highlights that although over-55s had £1,360 less in savings in 2012 (£17,750 in Q3 2012 vs. £19,110 in Q3 2016), they would have enjoyed £444 in annual interest in Q3 2012 if it was invested in the average Cash ISA, compared to £140 today: just 32% of the 2012 figure[2].

SAVINGS POTS

Not only do they receive less interest, but over-55s also have less in their savings pots, with the total amount falling 6% annually from £20,399 in Q3 2015 to £19,110 in Q3 2016.

UNSECURED DEBT

Despite the potential for falling interest rates to reduce the cost of credit, the findings also highlight a worrying increase in the average level of unsecured debt held by over-55s, which has risen by 15% since Q3 2015. Debt levels now stand at £1,904 – up from £1,662 last year.

MOST SIGNIFICANT

Credit cards remain the most significant source of debt with an average balance of £840, which has also risen by 26% since Q3 2015. However, personal loans – the second largest form of borrowing – have grown by 42% over the same period.

The research also tracked the plans of unretired over-55s since the Coalition Government announced the Pension Freedoms in 2014. Overall, awareness of the reforms remain unchanged, with 86% stating that they were aware of the changes – up by only 1% from this time last year.

PERCEIVED ADVANTAGES

When looking at the perceived advantages of the pension reform among over-55s, just 21% feel it would help them to supplement their income in retirement, and 10% said they would use the new options to pay off their mortgage or other debts such as credit cards.

However, despite the flexible access given to over-55s to their pension savings, almost half (48%) of those who have not yet retired believe there are no advantages from the reforms – only down marginally from 51% in Q3 2015. The data also shows a slight increase in anxiety about having enough money to last for the whole of retirement: 14% were worried about this in Q3 2016, up from 12% a year earlier.

SEISMIC CHANGES

Last year was a year of seismic changes, and it is still unclear what the long-term impact of the UK's decision to vote to leave the EU will be. What is clear is that those approaching retirement have heightened concerns for the future following the decision to cut interest rates in the summer of last year and through a growing consensus that inflationary pressures may start to move upwards this year. ◂

Source data:

[1] Average variable ISA rates from Bank of England Average Quoted Interest Rates (deposit rates, variable rate cash ISA, including unconditional bonuses). 2.5% and 0.7% are the average rate for Q3 2012 and Q3 2016. Inflation rates from the ONS Consumer Price Index. Savings rates were lower than inflation in November, October and September 2016.

[2] 2.5% of Q3 2012's saving pot (£17,750) is £444. 0.7% of Q3 2016's saving pot (£19,110) is £140.

ORIGINS OF WEALTH

Turning a vision into reality

WE UNDERSTAND THAT NO TWO PEOPLE ARE ALIKE AND THAT EACH OF US WILL HAVE A UNIQUE SET OF OBJECTIVES. AS PROFESSIONAL ADVISERS, OUR STARTING POINT IS THEREFORE ALWAYS TO TAKE THE TIME TO TRULY UNDERSTAND YOUR GOALS AND ASPIRATIONS AND TO TURN YOUR VISION INTO A REALITY THAT CREATES SUSTAINABLE SOLUTIONS FOR YOUR ASPIRATIONS.

You may have accumulated wealth after many years in a successful career, from the sale of a business or through receiving a substantial inheritance. Whatever the origins of your wealth, it now provides for even greater growth opportunities.

You may have specific goals that reflect your risk tolerance, time horizon or asset class preferences. Whatever your needs, we can help you develop an investment strategy that works for you. When it comes to building an investment portfolio, collective investment schemes should also be considered as part of a well-diversified portfolio.

UNIT TRUSTS

Unit trusts pool funds together under one umbrella and then manage them en masse. Investors pay into the unit trust, which then buys assets such as equities or bonds on their behalf.

The monetary value of these assets is divided by the number of units issued when the fund is created to give an initial unit value. This value then fluctuates as the underlying assets trade daily and investors put money in or take money out. As there is no limit to how many units can be created or redeemed on an ongoing basis, unit trusts are known as 'open-ended funds'.

OPEN-ENDED INVESTMENT COMPANY (OEIC)

An OEIC is a type of company or fund in the United Kingdom that is structured to invest in other companies with the ability to constantly adjust its investment criteria and fund size. The company's shares are listed on the London Stock Exchange, and the price of the shares is based largely on the underlying assets of the fund. These funds can mix different types of investment strategies such as income and growth, and small cap and large cap.

Investors' money is pooled and spread across a wide range of investments, such as equities or fixed-interest securities. This diversification helps reduce risk of losing an investor's principal. OEIC funds offer the potential for growth or income as medium to long-term investments for five to ten years, or longer.

INVESTMENT TRUSTS

An investment trust works along the same principle of raising money from investors to buy assets that it manages on behalf of them all. The main difference is that the investment trust is created by selling a fixed number of shares at the outset. As no new shares are created, investment trusts are known as 'closed-end funds'.

TYPES OF INVESTMENT FUNDS

There are a few broad categories of funds available via a unit trust and investment trust. The type of fund or funds you choose will depend on your investment goals and attitude to risk.

Equity funds invest in a range of company shares that offer capital gains when share prices rise, along with an opportunity to receive the dividends that some companies pay periodically. However, share values may fall – sometimes dramatically – and dividends can be cut if companies run into cash problems.

Equity income funds specifically target the companies that pay strong dividends or have the potential to raise their pay-outs. This has proved a particularly successful strategy during a recessionary environment, as the dividends can act as a cushion against lower returns from falling share prices.

Multi-asset funds invest in a range of equities, bonds, commodities (including gold), money markets and real estate. These can be an efficient means of reducing risk by investing across a wide range of assets, so that you don't have all your eggs in one basket.

Specialist funds target countries or sectors that require expert knowledge by their fund managers to avoid the riskiest areas of the market and to maximise returns. Many have sprung up covering emerging markets such as Asia and Latin America, to sector-based funds such as commodities.

Absolute return funds aim to produce a positive return over time, regardless of the prevailing market conditions. The ability to produce positive returns is typically assessed on a rolling 12-month basis. ◄

SOLUTIONS DESIGNED AROUND YOU AND YOUR FAMILY

We provide tailored professional advice and solutions designed around you and your family to enable you to build a goal-based financial plan that reflects what's most important to you. To discover how we can help grow your wealth, please contact us.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

SAFEGUARDING WEALTH FOR FUTURE GENERATIONS

New Inheritance Tax rules apply from 6 April 2017

UNFORESEEN LIFE EVENTS AND CIRCUMSTANCES CAN POTENTIALLY IMPACT YOUR FINANCES IN A NUMBER OF WAYS. WE CAN HELP YOU TO SAFEGUARD YOUR WEALTH FOR FUTURE GENERATIONS.

Although often in the news, Inheritance Tax (IHT) is still not widely understood. That's worrying, because it affects thousands of families every year. If you thought IHT was just for extremely wealthy people to worry about, think again. The amount of IHT collected has doubled over the last five years[1].

MONEY AND POSSESSIONS

If your estate has an IHT liability, IHT must be paid prior to probate and therefore prior to the beneficiaries receiving their legacy. This may not be the kind of legacy most people think of leaving behind. IHT is payable on assets such as property, money and possessions that are passed on when you die. IHT is payable at 40% (or 36% if 10% of the net estate is left to a registered charity) on assets that exceed the threshold 'nil-rate band', which is currently at £325,000.

The good news is that there are things you can do – in your lifetime – to take care of a potential problem. But finding the right options for you will depend on your personal circumstances and receiving appropriate advice.

NEW IHT RULES

Under the new IHT rules, more estates are likely to pass free of IHT post–5 April 2017. By 5 April 2021, some estates worth £1 million will pass free of IHT. This is the good news, but it's far from the whole picture. For many, in particular the childless, the IHT could in fact (with the effect of inflation) be higher post–5 April 2017.

For deaths from 6 April 2017, an additional IHT-free 'residence nil-rate band' (RNRB) will be available. This will begin at £100,000 in the tax year 2017/18 and will increase by £25,000 each tax year, reaching £175,000 by tax year 2020/21. Based on the current information, from tax year 2020/21 onwards, the RNRB will increase each year in line with increases in the Consumer Price Index.

This RNRB is available where the deceased leaves a property (or the proceeds of sale of a property) in which they have lived at some point to their direct descendents or the spouse or civil partner of a direct descendent (children and their issue).

RESIDENCE NIL-RATE BAND

The residence nil-rate band is available on top of the existing IHT nil-rate band of £325,000, so that in 2020/21 an individual will potentially be able to leave £500,000 free of IHT. As is now the case with the standard nil-rate band, where the first of a married couple to die leaves their estate to their spouse, the IHT nil-rate band can effectively be 'passed on' to the surviving spouse.

For those with a conventional family, a modest home and savings (and subject to the rate of house price increases in the coming years), it is therefore likely that no IHT will be payable on their estate.

DOWNSIZED OR SOLD UP

The new rules are designed to ensure that the elderly are not encouraged to retain family homes they would otherwise have sold. Where the deceased has downsized or sold up, it will still be possible to pass on the proceeds of the family home. The rules provide only that the deceased must have lived in the property in question at some point, and that assets of an equivalent value are passed on to direct descendents.

The additional RNRB will not be available to the most valuable estates. This is because where the value of the deceased's estate (after deducting liabilities but before deducting any reliefs and exemptions) exceeds £2 million, the RNRB will be reduced by £1 for every £2 that this £2 million threshold is exceeded. If, therefore, death was to occur in the 2020/21 tax year when the RNRB will be £175,000, this would mean that no RNRB will be available for estates with a value of £2.35 million or more (or £2.7 million on the death of a surviving spouse where a full RNRB is available to be transferred to the survivor).

ERODED BY INFLATION

The nil-rate band of £325,000 is now frozen until at least April 2021. This means that for the unmarried, and for those who leave no children or grandchildren, the IHT-free band will continue to be eroded by inflation. A single person owning property in London, for example, is highly likely to leave an estate subject to IHT. The number of single and childless persons of even modest means who will fall within the IHT bracket will inevitably continue to increase.

The actions you need to take depend on your family's needs for capital and income, as well as your current assets and your intended beneficiaries, so it's important to speak with us for expert advice on the best options for your circumstances. ◂

DON'T LEAVE LOVED ONES WITH A LARGE AND UNNECESSARY IHT BILL TO PAY

Estate planning can be complicated, and talking to us about your situation can make a real difference. Our experience is that too many people are leaving their loved ones with a large and unnecessary IHT bill to pay. To review your situation, please contact us.

LEVELS, BASES OF AND RELIEFS FROM TAXATION MAY BE SUBJECT TO CHANGE, AND THEIR VALUE DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE INVESTOR.

Source data:

[1] HM Revenue & Customs (HMRC) collected £4.7 billion from thousands of bereaved families in 2015/16. Source: Office for National Statistics, 2016

A LITTLE TODAY, A LOT TOMORROW

Managing investment risk during turbulent markets

A COMMON MISTAKE THAT SOME INVESTORS MAKE IS NOT DIVERSIFYING THEIR PORTFOLIO ENOUGH. TO MAKE SURE INVESTMENTS ARE SPREAD ACROSS DIFFERENT ASSET CLASSES, IT COULD CONTAIN A BLEND OF EQUITIES, BONDS, CASH, PROPERTY AND OTHERS (SUCH AS COMMODITIES AND GOLD) TO BENEFIT FROM THEIR CHANGING INVESTMENT CYCLES.

But while diversification is indeed the key to managing risk, it's not just about having a balanced portfolio. Much of the success of investing is down to timing. Volatility isn't necessarily a bad thing, and there are sometimes opportunities in turbulent times. However, protecting your portfolio should absolutely be your first priority, and becoming a regular saver can be a simpler and less emotional way of investing through volatile markets.

MARKET TIMING

One of the biggest dilemmas some investors face is market timing. Jumping in and out of markets on a regular basis not only requires constant monitoring of daily events but also requires expertise to act on such events.

Many investors invest lump sums, whether it's an annual bonus or similar payment or a few thousand hurriedly put into an Individual Savings Account (ISA) before the end of the tax year. Another approach, however, is to invest smaller amounts regularly – say, once a month when you get paid.

VOLATILE TIMES

One way to achieve regular investment is to spread or drip-feed one's lump sum into the market as opposed to investing it all in one go. In fact, during volatile times, this strategy allows one to benefit from what is known as 'pound-cost averaging'. So how does it work?

The concept involves investing on a regular basis, and most funds – whether they are Open-ended Investments Companies (OEICs) or investment trusts – are available through regular savings plans (such as ISA schemes), allowing you to invest on a monthly basis.

'POUND-COST AVERAGING'

- It's a good habit to get into that helps you develop discipline as a saver
- It can help you stay focused on your long-term goals, as instead of seeing the value of your portfolio change dramatically, it ideally grows steadily over time
- You reduce your chances of making a mistake trying to time the markets (i.e. investing all your money when prices are higher and then seeing prices fall in the ensuing volatility). Instead, you invest the same amount of money monthly – when prices are lower, you will acquire more units for your money, and when prices are higher you will receive fewer. Over time, this can reduce risk and provide more stable returns

MEETING YOUR AIMS

Investing smaller amounts regularly can also be a good strategy when you're just starting out and less likely to have a large lump sum at your disposal. But whatever your circumstances, goals or financial aspirations, you can be confident that we have the know-how to help you meet your aims. That applies today, tomorrow and for the years ahead, which is ideal when you're thinking about building up wealth through regular, continued investments. ◄

LONG AND SUCCESSFUL INVESTING STRATEGY

We all know that markets can go up and down. These movements can, at times, be quite extreme. Understandably, this can deter some people from investing. By understanding the importance of investing regularly over time, you will have opened the way to a long and successful investing strategy. To review your individual situation, please contact us – we look forward to hearing from you.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

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