ESMARTMONEY

SEPTEMBER/OCTOBER 2015

BANKING ON AN INHERITANCE

Britons rely on a cash windfall to fund their retirement plans

IS *CASH* REALLY KING?

Retirees exploit new pension freedoms

INVESTING

Six principles to consider

CHANGING FINANCIAL ATTITUDES

New priorities increase the protection gap

THE CRITICAL FACTOR

Would a tax-free 'lump sum' help if you became seriously ill?

SUITS YOU SIR!

Over-50s changing the way they work in later life

Financial planning is our business.

We're passionate about making sure your finances are in good shape.

Our range of personal financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

Contact us to discuss your current situation, and we'll provide you with a complete financial wealth check.

CONTENTS

05
THE CRITICAL FACTOR
Would a tax-free 'lump sum' help if you became seriously ill?

06
INVESTING
Six principles to consider

07
IS CASH REALLY KING?
Retirees exploit new pension freedoms

08
BANKING ON AN INHERITANCE
One in three Britons rely on a cash windfall to fund their retirement plans

10
CHANGING FINANCIAL ATTITUDES
New priorities increase the protection gap

11
TAXING TIMES
Reduction in the amount those with income of more than £150,000 can contribute tax-free to pensions each year

INSIDE THIS ISSUE

We accept that planning for the future means making conscious decisions now, and rather than always being preoccupied with day-to-day events, it's important to take a step back and look to the bigger picture. We hope the articles featured inside this issue provide you with a perspective on some of the areas you may need to consider in the present to ensure that your future is what you desire.

Anticipated inheritances often don't materialise. But one in three working Britons (35%) are still relying on an inheritance in order to achieve a stable financial future. The reality is that many could be in for a big shock. On page 08 we look at findings from a study released by LV= that shows millions are banking on an inheritance to provide them with financial assistance, and with this cash windfall often key to their retirement plans. Without the right advice and careful financial planning, HM Revenue & Customs could become the single largest beneficiary.

Most home buyers purchase life assurance when they arrange a mortgage, but many overlook another form of financial protection that they are potentially more likely to need prior to retirement. Critical illness cover, also known as critical illness insurance, covers specified serious illnesses and provides a tax-free 'lump sum' that could be used to help pay for your mortgage, liabilities or alterations to your home such as wheelchair access should you need it, but ultimately it's your choice how you use it. Turn to page 05 to find out more.

Changes to the pension rules are creating new opportunities for scams. On page 13 we consider the importance of being cautious of anyone approaching you with advice on how to invest your pension. Almost one in ten pensioners has been targeted by financial fraudsters since their retirement.

The full list of the articles featured in this issue appears on page 03 and opposite.

We hope you enjoy reading this issue and find it informative. To discuss any of the articles featured, please contact us.

CONTENTS

12
PENSION PLANNING APATHY
More than ten million pots are being left largely unmonitored

13
PENSIONER SCAMS
Financial fraudsters using reforms to target retirees

15
SUITS YOU SIR!
Over-50s changing the way they work in later life

16
PARENTS MASSIVELY UNDERESTIMATE STUDENT DEBT
Helping children financially through university may mean resorting to drastic measures

17
FUNDING A COMFORTABLE RETIREMENT
Taking steps to plan for a better future

18
STAYING CONNECTED TRUMPS PRIORITIES
Only 39% considered providing financial security for their family as essential

20
RISING CARE NEEDS FOR RETIREES
People going into care could face bills in excess of the total pension pot they retired with

22
MIND THE GAP
Widening void between the 'haves' and 'have nots'

23
NEW DOMICILE RULES
Significant structural changes introduced from 6 April 2017

25
CASH FLOW MODELLING
Visualising your financial future

26
UNLOCKING CASH IN YOUR HOME – IS IT RIGHT FOR YOU?
Funding a pension shortfall or meeting an unexpected expense

28
ESTATE MATTERS
Structuring your affairs efficiently means starting the correct planning early enough

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.

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

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

TAXATION & TRUST ADVICE IS NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.

The content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. Articles should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. Past performance is not a reliable indicator of future results.

THE CRITICAL FACTOR

Would a tax-free 'lump sum' help if you became seriously ill?

Most home buyers purchase life assurance when they arrange a mortgage, but many overlook another form of financial protection that they are potentially more likely to need prior to retirement.

CRITICAL ILLNESS COVER, also known as critical illness insurance, covers specified serious illnesses and provides a tax-free 'lump sum' – a one-off payment that could be used to help pay for your mortgage, liabilities or alterations to your home such as wheelchair access should you need it, but ultimately it's your choice how you use it.

SPECIFIED MEDICAL CONDITIONS

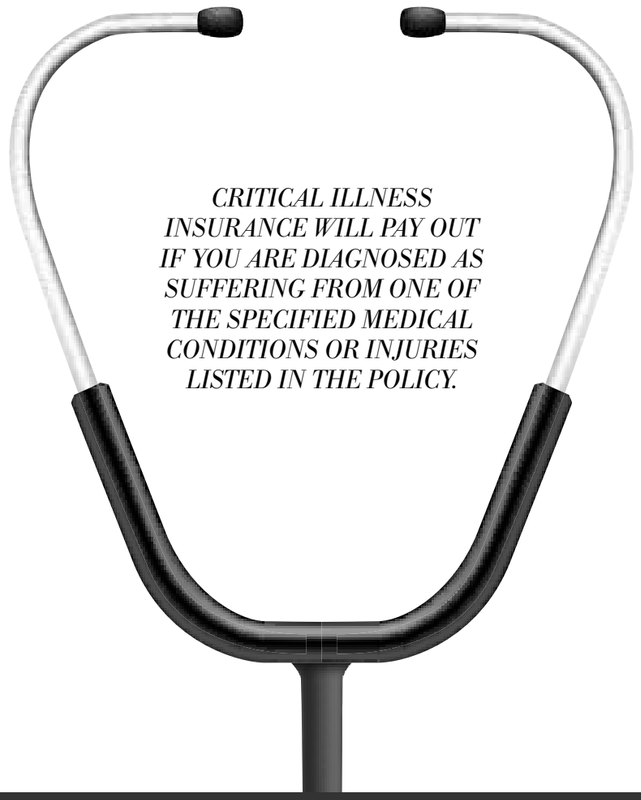
Critical illness insurance will pay out if you are diagnosed as suffering from one of the specified medical conditions or injuries listed in the policy. But you need to be aware that not all conditions are covered, and the policy will also state how serious the condition must be. Conditions covered could include heart attack, stroke, certain types and stages of cancer, and conditions such as multiple sclerosis.

Some policies may also include permanent disabilities as a result of injury or illness. Some policies may make a smaller payment for less severe conditions, or if one of your children has one of the specified conditions.

MAJOR FINANCIAL COMMITMENTS

People typically purchase critical illness cover when they take on a major financial commitment, and it also pays to start young when premiums should be relatively cheap, rather than leaving it until later in life when the price of cover can start to rise substantially.

You might already have some cover included in other products or work benefits. However, if you don't, State benefits might not be enough to replace your income if something goes wrong. In this eventuality critical illness cover should be considered if you don't have sufficient savings to tide you over if you become seriously ill or disabled, or you don't have an employee benefits package to cover a longer time off work due to sickness. ■



TIME TO DISCUSS YOUR CRITICAL ILLNESS OPTIONS?

The good news is that medical advances mean more people than ever are surviving conditions that might have killed earlier generations. For example, more than 90% of men diagnosed with testicular cancer are still alive five years later, while more than 80% of women diagnosed with breast cancer have the same survival rate, according to the Office for National Statistics. If you're not sure if this type of protection is suitable for you, or you'd like to discuss your options, please contact us.

INVESTING

Six principles to consider

Successful investing involves making choices that meet your unique needs today and your financial goals for the future. Your personal circumstances will affect your decisions every step of the way. Whether you are saving for a home, retirement or your child's education, here are six investing principles to consider:

1. INVEST FOR THE LONG TERM

It may seem very obvious but the longer you invest, the bigger the potential effect of compound performance on the original value of your investment. Many investors will be familiar with the term 'compounding' from owning cash savings accounts. The term refers to money multiplying itself by earning a return on the return. Over time, compounding can make a significant difference.

Your investments can also benefit from compounding in a similar way if you reinvest any income you receive. You should remember, however, that the value of stock market investments will fluctuate, causing prices to fall as well as rise and you may not get back the original amount you invested.

SPREADING RISK ACROSS A WIDE RANGE OF INVESTMENTS IS AN EFFECTIVE WAY TO REDUCE YOUR RISK EXPOSURE AND INCREASE POTENTIAL RETURNS OVER THE LONG TERM.

2. DIVERSIFY TO SPREAD RISK

Spreading risk across a wide range of investments is an effective way to reduce your risk exposure and increase potential returns over the long term. Holding a mixture of different types of investments can help cushion your portfolio from downturns, as the value of some investments may go up while the value of others may go down. Shares, bonds, property and cash react differently in varying conditions, and opting for more than one asset class can help to ensure your investments won't all rise or fall in value at the same time.

Holding a portfolio of investments with a low level of correlation can help to diversify the perils associated with investing in individual assets and markets, as well as less visible hazards such as inflation risk – the possibility that the value of assets will be adversely affected by an increase in the rate of inflation. Geographical exposure and long-term investing are other ways of spreading risk. Above all, investors should aim for a level of risk they are comfortable with, which reflects their investment objectives.

3. UNDERSTAND YOUR INVESTMENTS

While a well-constructed portfolio can produce a healthy return for investors, the opposite is also true. It is easy to incur permanent losses by putting money into an asset that behaves in an unexpected way. Investors should always set aside time to try and understand what it is they want to hold.

The type of investments you choose will also depend on whether you're saving for long-term or short-term goals. For your long-term goals, you may want to consider long-term, growth-oriented investments. Your short-term goals call for investments that are more conservative and more accessible. For example, if you're investing to save for a house deposit, you'll want quick and easy access to your funds.

4. AVOID PORTFOLIO COMPLACENCY

The mix of investments within your portfolio is also known as your portfolio's asset allocation. A portfolio should typically hold a combination of savings, income and growth investments. History is no indication of how an investment might act in the future, and investors should always try to weigh the potential risks associated with a particular investment alongside the prospective rewards. One consideration is to invest smaller amounts over time – also known as 'pound-cost averaging' – to benefit from lower average costs than infrequent purchases. For example, your money will buy more units or shares within a fund when prices are low, and fewer units or shares when prices are high. Provided the fund gains in value over the long term, you'll have the opportunity to profit from your purchases during short-term price declines.

5. SEEK BROADER OPPORTUNITIES

As we witnessed in 2008 following the collapse of US investment bank Lehman Brothers, unexpected or adverse news flow can have a significant effect on stockmarket performance. More recently, the crisis in Greece may well present broader opportunities in European stocks for investors willing to take on a certain level of risk.

Indeed, there have been times when highly cash-generative, defensive businesses capable of creating value in a range of market conditions have been subjected to the same negative sentiment that has driven down the price of stocks more sensitive to economic cycles and those that are poorer quality.

6. FOCUS ON THE REAL RATE OF RETURN

Inflation, taxation and charges (such as dealing, switching and ongoing charges) are three of the factors that can affect the real rate of return on your investment. There are certain options that can reduce costs, including the use of tax-efficient wrappers, namely Individual Savings Accounts (ISAs), private pension plans and employment 'save as you earn' schemes.

There are also inflation-protected instruments, such as index-linked bonds (interest-bearing loans where both the value of the loan and the interest payments are related to a specific price index – often the Retail Prices Index), National Savings investments or commercial property holdings, where rents can often be increased in line with the rate of inflation. ■

DO YOU HAVE THE RIGHT INVESTMENT STRATEGY?

Creating and maintaining the right investment strategy plays a vital role in securing your financial future. Whether you are looking to invest for income or growth, we can provide the quality advice, comprehensive investment solutions and ongoing service to help you achieve your financial goals. To find out more, please contact us.

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.

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

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

IS CASH REALLY KING?

Retirees exploit new pension freedoms

Since 6 April this year, anyone aged 55 or over could – in theory – empty their money purchase pension funds entirely, although any withdrawals will be treated as income and taxed as such. Nine in ten people (90%) going in to drawdown have taken advantage of the new pension freedoms and have chosen to take a cash lump sum, according to pension provider Zurich. The remainder are opting for an annuity or drawdown.

LESS ONEROUS TAX IMPLICATIONS

Among the people accessing their pension, 80% are taking sums of less than £10,000, with the average amount being withdrawn totalling £4,000. This highlights the fact that many are making the most of the new pension freedoms to access their money in a way that best suits them. For very wealthy individuals, high levels of tax may also not be a deterrent, as they would typically be subjected to paying a high level of tax on that income.

Some people are withdrawing small pots in full, while others, according to findings, are taking out small lump sums using the partial uncrystallised funds pension lump sum (UFPLS) option. This is one of the most notable changes brought in on 6 April 2015. An UFPLS can be paid from uncrystallised money purchase funds as a lump sum – there is a 25% tax-free element, and the balance is taxed at the individual's marginal rate of tax.

USING A PENSION AS A BANK ACCOUNT

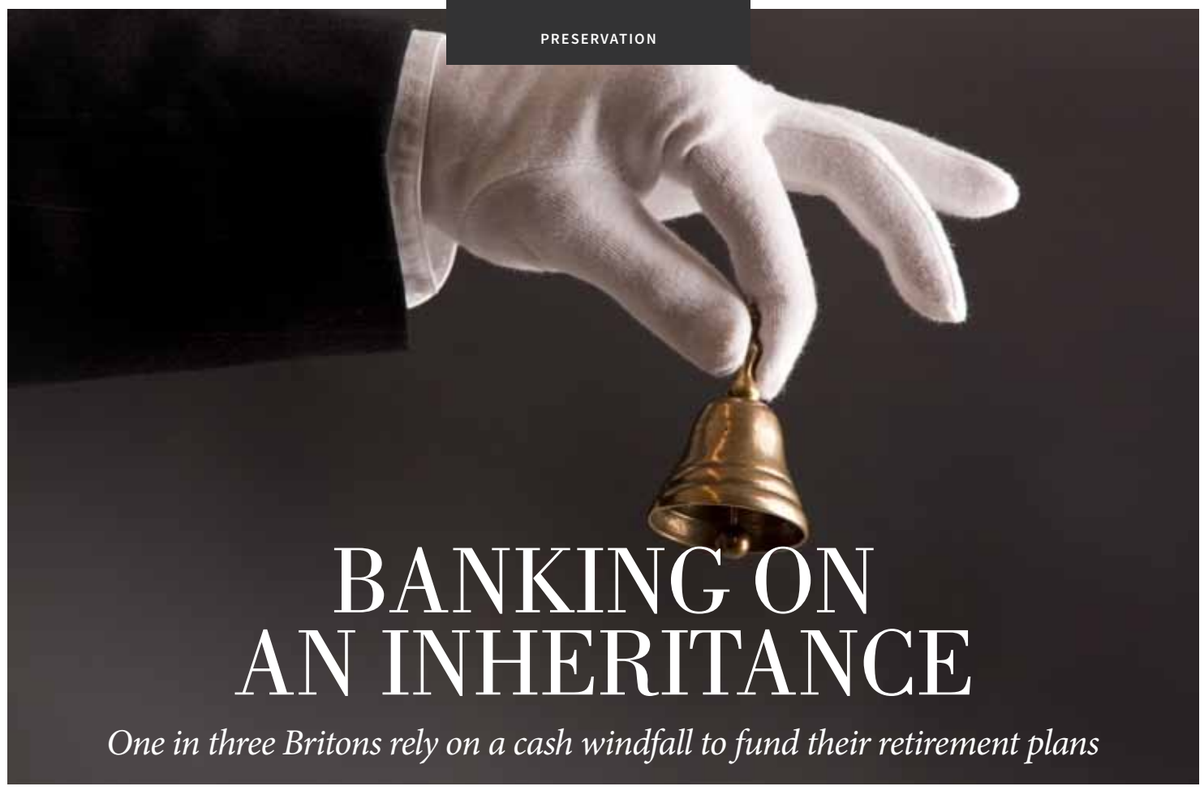
If the scheme allows, people can take their entire money purchase pot as an UFPLS in one go, or take a series of smaller UFPLSs, each of which will have a 25% tax-free element. Some media reports have likened this to using a pension as a bank account, but the reality is more complex. ■

PROVIDING FOR YOUR NEEDS IN THE FUTURE

As you approach retirement, if applicable, you'll need to check your personal, company and State Pensions to ensure you have enough income to provide for your needs in the future. We can help you assess your situation and take advantage of the options available to you. To find out more, please contact us.

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.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.



BANKING ON AN INHERITANCE

One in three Britons rely on a cash windfall to fund their retirement plans

Anticipated inheritances often don't materialise. But one in three working Britons (35%) are still relying on an inheritance in order to achieve a stable financial future. The reality is that many could be in for a big shock. The study[1] released by LV= shows millions are banking on an inheritance to provide them with financial assistance, with this cash windfall often key to their retirement plans[2].

UNSURPRISINGLY, THE MOST COMMON thing people would do with an inheritance is to pay off their mortgage and clear other outstanding debts[3]. One in six people (16%) would also use inherited funds to bolster their retirement savings.

LEAVING LESS OR NOTHING

For those individuals who are hoping to be left an inheritance, unfortunately the number of people leaving significant amounts to the younger generation is falling, with most people leaving less or nothing at all[4].

According to the findings, a quarter of retirees (28%) say they don't expect to leave much to their children. A fifth (20%) say they intend to spend their money enjoying their retirement rather than leave it behind, and 4% say they will follow Bill Gates and Warren Buffett's lead and leave their money to charity.

UNPREPARED FOR LATER YEARS

Without such help, many working people admit that they would be unprepared for their later years. One in five (20%) say they will struggle to retire comfortably without inheriting and a quarter (25%) will have to work longer than planned should they not receive such a windfall.

Increasingly people are now spending almost as long in retirement as they do in the workplace, so it's worrying to see that so many people say they are reliant on something essentially out of their control to provide them with a comfortable retirement. ■

Source data:

UK nationally representative research carried out by Opinium between 24-27 March 2015, questioning 2,004 UK adults online, of which 516 were retired.

[1] Of those questioned who were not yet retired (1,488 adults), 35% said they relying on some sort of inheritance to help financially now or in the future.

[2] 20% of non-retired respondents said that without some form of inheritance they will struggle to have a comfortable retirement.

[3] Respondents said that if they were to receive an inheritance, 60% would make other provisions (apart from putting towards pension) to ready themselves for later years, such as paying off debts (31%) or paying off the mortgage (29%).

[4] Sourced from HM Revenue & Customs statistics. Latest figures on number of Inheritance Tax paying individuals (not including estimated figures) shows the number of individuals falling from 35,000 in 2005/06 to 16,000 in 2011/12.

TAKING STEPS TO SECURE THE LIFESTYLE YOU DESERVE IN RETIREMENT

With all the everyday demands on our time, retirement planning is often at the bottom of the to-do list, but it is important that people take steps to secure themselves the lifestyle they deserve in retirement. Regardless of the life stage you have arrived at, it is important to receive expert and professional advice on your pension plans and requirements. To discuss the ways we could help you make the most of your retirement opportunities, please contact us.

> *UNSURPRISINGLY, THE MOST COMMON THING PEOPLE WOULD DO WITH AN INHERITANCE IS TO PAY OFF THEIR MORTGAGE AND CLEAR OTHER OUTSTANDING DEBTS[3].*

You've protected your most valuable assets.

But how financially secure are your dependents?

Timely decisions on how jointly owned assets are held, the mitigation of inheritance tax, the preparation of a will and the creation of trusts, can all help ensure your dependents are financially secure.

Contact us to discuss how to safeguard your dependents, wealth and assets, don't leave it until it's too late.

CHANGING FINANCIAL ATTITUDES

New priorities increase the protection gap

Many Britons consider that having an Internet connection and mobile phone is a greater financial priority than protecting their mortgage and income, according to new research. The economic downturn in previous years, low interest rates, job uncertainty and government cuts appear to have taken their toll on some people's protection priorities.

THE LATEST SCOTTISH WIDOWS PROTECTION REPORT revealed that only 39% considered providing financial security for their family in the event of their premature death as essential – which has dropped from more than half in four years.

BECOMING CRITICALLY ILL

Meanwhile, just over a quarter (28%) of the 5,144 UK adults polled felt financial security for dependents in the event of becoming critically ill or a partner being unable to work (18%) was a necessity.

This slip down the financial priority ladder could leave a significant proportion of the 14.5 million mortgage holders in the UK and their families at risk of losing their homes by failing to have adequate protection in place. The report found just a third (33%) of the UK population have a life insurance policy, less than one in ten (8%) have critical illness cover and fewer than one in twenty (4%) have income protection insurance.

ESSENTIAL FINANCIAL PROTECTION

The age group where the largest proportion of people had protection is 35-44, with those who had mortgages most likely to own financial protection products. Almost 45% of 35-49 year-olds feel life insurance is essential, with almost a quarter (24%) of the same group feeling that protecting their or their partner's income is essential, compared to 18% of the general population.

Despite this, just under a quarter of those polled didn't know how long they could pay the mortgage for or said they would run out of money within five months if they lost significant income.

REMAINING AT RISK

Against an average £1,085 monthly cost of running the home and more than a third of people (35%) carrying non-mortgage debt over each month, a vast proportion remain at risk if the unexpected were to happen to themselves or a loved one without this type of safety net in place.

Almost half said they could live on a single income if necessary, cutting back on spending (43%), using savings (38%) and relying on the state (27%) for support if one wage earner was unable to work for six months or more. Less than one in ten (8%) would claim on an insurance policy, and a quarter don't know how they would cope.

Age	Mortgage	Life insurance	Critical Illness	Income protection
25-34	35%	24%	10%	5%
35-44	54%	42%	17%	7%
45-54	42%	43%	12%	5%
55+	15%	36%	2%	1%

LIFESTYLE AND EXPENDITURE

The Mortgage Market Review has placed greater scrutiny over lifestyle and expenditure, with an increase in mortgage holders and potential new longer repayment terms impacting the way we assess our short and longer-term financial priorities, yet more[1] of us continue to give more attention to home, contents and car insurance than protecting mortgage repayments. ■

Source data:

The Scottish Widows Protection Report examines the habits and attitudes of the UK adult population in relation to protection and financial robustness. Research conducted online by YouGov among 5,144 respondents aged 18+ between 31 October and 5 November 2014. Results weighted to the profile of the UK population aged 18+

[1] Scottish Widows - 40% said they give a lot of attention to home, contents and car insurance; 31% said protecting their mortgage repayments was important

TIME TO REVIEW YOUR PROTECTION PLANS?

Although the here and now tends to dominate when it comes to the way we assess our needs and spending, it is more important now than ever to have the appropriate protection in place at the right time to protect our families and lifestyles. There are many things to consider when looking at financial protection, and deciding what type and level of cover to take can be a challenge, especially without the right professional advice. If you would like to see how we could enhance your current situation, please contact us – don't leave it to chance.

TAXING TIMES

Reduction in the amount those with income of more than £150,000 can contribute tax-free to pensions each year

A gradual reduction in the tax-free limit on pension contributions from the current £40,000 a year to £10,000 for high income individuals was announced by the Chancellor, George Osborne, in the July Summer Budget 2015. High income individuals could see their retirement pots reduced by hundreds of thousands of pounds over a lifetime after he confirmed that pensions tax relief will be reduced for those with income (including all pension contributions) of more than £150,000.

THE GOVERNMENT HAS PRESSED AHEAD with plans to progressively reduce the annual amount those earning over £150,000 can contribute tax-free to a pension each year.

TAPERED ANNUAL ALLOWANCE

With effect from 6 April 2016, the Annual Allowance of £40,000 will be reduced by £1 for every £2 of income over £150,000 per annum, up to a maximum reduction of £30,000. This means individuals with 'adjusted income' of £210,000 or more will only have an Annual Allowance of £10,000.

The income definition of 'adjusted income' will include any employer pension contributions. This means that the tapered allowance cannot be manipulated by reducing income via salary sacrifice.

While the annual contributions will be capped at this low level in future, there may still be an opportunity for individuals caught by this change to maximise contributions with the use of two particular measures.

CARRY FORWARD ALLOWANCES

All individuals are able to carry forward any amount of their Annual Allowance that remains unused for up to three full tax years. While their levels of carry forward accrual will be significantly limited in the future, high earners who currently have carry forward relief should consider using it before it expires.

Anyone who has not fully maximised their pension contributions across these back years could make use of accrued carry forward and receive additional-rate relief before the end of the current 2015/16 tax year. If the carry forward allowance for the above tax years is not used, it will start reducing as each year falls off and will be lost completely by 6 April 2019. The levels of unused relief from the tax years before 2016/17 will still be available in full (subject to falling within the previous three tax years), but in any years from 2016/17 onwards where the annual allowance has been reduced, only the balance of the tapered annual allowance will be available for carry forward to future years.

PENSION INPUT PERIODS

A further change which will considerably simplify the Annual Allowance is the alignment of Pension Input Periods (PIP) to the tax year. A PIP is the period over which an individual's pension savings are tested against the Annual Allowance. It has previously not always been aligned to the tax year, but all existing PIPs open on 8 July 2015 automatically ended on this date. A new PIP then opened on 9 July will run to 5 April 2016. Future PIPs will then be aligned with tax years.

For those who have made contributions in PIPs ending between 6 April and 8 July 2015, the Annual Allowance for 2015/16 could be as much as £80,000. The £80,000 allowance is split between contributions paid in the two (or, in some cases, three) PIPs. Anyone with a PIP that previously ended between 6 April and 7 July will have a PIP that had already ended in the pre-alignment tax year, plus the additional PIP that was ended by the Government on 8 July 2015, so could have three in total in 2015/16. Any allowance not used up to 8 July 2015 could be carried forward to the post–8 July PIP, but up to a maximum of £40,000.

This provides a one-off opportunity to those who have paid contributions in PIPs ending between 6 April and 8 July 2015 of less than £80,000 to make additional contributions in this tax year of the balance of the £80,000, up to a maximum of £40,000 if they have sufficient earnings to use against an additional contribution in the current tax year, or it can be made as an employer contribution. Anyone who has made no pension contributions in PIPs ending between 6 April and 8 July 2015 can make contributions of up to £40,000 in the period between 9 July 2015 and 5 April 2016.

Coming in a year that has witnessed the biggest shake-up to pensions in more than a century, the Chancellor also indicated he might be willing to go further with reforms to retirement savings.

He said the recent pension freedoms had helped those who had 'worked hard and saved hard all their lives', but that now it was time to look at those starting to save.

'For the truth is Britain isn't saving enough and that's something we need to fix in our economy, too,' he said. ■

NEED MORE INFORMATION?

Looking for more information about how the reduction in the tax-free limit on your pension contributions could impact on you? To find out more, please contact us.

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.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

ANNUAL ALLOWANCES FOR THE PREVIOUS THREE TAX YEARS:

2012/2013	2013/2014	2014/2015
£50,000	£50,000	£40,000

AMOUNT OF CONTRIBUTION WHICH COULD BE PAID BASED UPON DIFFERENT LEVELS OF CONTRIBUTION PAID BEFORE JULY 2015:

Contributions paid in PIPs ending between 6 April and 8 July 2015	Annual Allowance 9 July 2015-5 April 2016
£0	£40,000
£20,000	£40,000
£40,000	£40,000
£60,000	£20,000
£80,000	£0

PENSION PLANNING APATHY

More than ten million pots are being left largely unmonitored

Individuals are living longer, meaning that savings have to fund a longer period of retirement. However, there has been a well-documented decline in pensions saving over time. Many people do not think about retirement as they consider it's too far in the future, and almost two thirds (63%) of over-45s who are not yet retired admit they pay little or no attention to their pensions, leading to more than ten million pots being left largely unmonitored[1].

The findings form part of research from Aviva which also highlights that two fifths (41%) of over-45s never spend any time planning and reviewing their pensions, while almost a third (29%) spend just one day a year or less doing this.

FAILING TO DEDICATE ANY TIME

Those who are further away from retirement are most likely to spend no time reviewing their pension, but a quarter (25%) of those retiring in two years or less still fail to dedicate any time towards doing this.

Among those with more than one pension, just 27% manage them all very closely while 34% ignore their secondary pots completely – including a worrying 24% who ignore their main pension pot too. Even among those who have just one pension pot, 33% do not pay any attention to it.

UNCLEAR ABOUT THE TYPES OF PENSIONS

The majority (61%) of over-45s with a personal pension scheme have only joined one scheme, although more than a quarter (28%), have started two or more. A similar proportion (29%) of those with the most common type of company pension – defined contribution – has two or more.

However, many over-45s aren't sure how many pension schemes they have started. Overall, 6% don't know how many personal pension schemes they have, rising to 7% who are unclear on the number of defined contribution schemes and 9% who don't know how many defined benefit schemes they have. This may suggest that some savers are unclear about the types of pensions they have and/or are not closely involved in managing them.

TOO LATE TO MAKE ANY IMPROVEMENTS

Half (49%) of over-45s do nothing about the routine information they receive about their pension, including one in ten (12%) who don't even read it. Only a third (37%) use the information to check if their pension savings are on track and act upon it. An even smaller proportion (7%) discuss this with a professional financial adviser.

One in ten (11%) over-45s ignore their annual statements because they say they don't know how to manage their pensions, while the same proportion believe their pensions are so small they aren't worth bothering with. 8% delay looking at them until they are ready to retire – when it could already be too late to make any improvements on their financial situation.

TOP THREE REASONS THAT OVER-45s IGNORE THEIR PENSION STATEMENT

However, people tend to make more effort to monitor their pensions the closer they are to retirement – for example, only 7% of those retiring in two years or less believe their small pension pots are not worth the effort, compared to 11% who are retiring in six to ten years.

MULTIPLE PENSION SCHEMES

Just 14% have consolidated their pension pots or intend to do so in the future. A fifth (17%) will keep their multiple pension schemes separate, and 13% are waiting for their pension provider to contact them before deciding what to do with their pots. More than one in ten (14%) prefer to keep things simple by having just one pension pot and don't intend to change this in the future.

Of those who have consolidated their pots, 21% did so because they took the advice of their professional financial adviser – however, nearly the same proportion (19%) did so because they found it easier to manage. ■

	All	Retiring in 2 years or less	Retiring in 3-5 years	Retiring in 6-10 years
I don't know how to manage my pensions	11%	6%	11%	10%
My pensions are worth so little they're not worth bothering with	11%	7%	9%	11%
I prefer to look at it when I'm ready to retire	8%	7%	10%	9%

Source data:
The Real Retirement Report is designed and produced by Aviva in consultation with ICM Research. The above findings are based on an online survey carried out among more than 1,500 over-45s who have not yet retired.
[1] ONS Pension Trends Chapter 7 (October 2014) estimates there are 8.1 million active occupational pensions and 8.2 million active members of private pension schemes. 63% of 16.3 million = 10,269,000.

PLANNING IN AN INFORMED WAY FOR RETIREMENT

An alarming proportion of the UK's pensions pots are being left unmonitored, with many simply ignoring their pension statements and hoping for the best. At the heart of this is how involved people are with their pensions. At the very least people need to understand what their total savings are across all of their pension pots, so they can plan in an informed way for their retirement. To discuss any concerns you may have about your retirement provision, please contact us – we look forward to hearing from you.

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.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

PENSIONER SCAMS

Financial fraudsters using reforms to target retirees

Changes to the pension rules are creating new opportunities for scams. Be cautious of anyone approaching you with advice on how to invest your pension. Almost one in ten pensioners has been targeted by financial fraudsters since their retirement.

A NATIONWIDE STUDY by MetLife[1] shows that among retired people, 9% say they have been victims of financial scams or targeted by financial scammers since they stopped work. That rises to 14% among retired people in the South West.

VISHING SCAMS

Recent reported frauds involving retired people have ranged from attempting to gain access to bank or savings accounts through so-called vishing scams, where people are tricked into handing over bank details and cards, to selling bogus investment and pension schemes.

The risk of fraud underlines the need for professional financial advice, especially as people retiring this year have greater pension freedoms enabling defined contribution pension savers aged 55 and over to take their funds as cash, subject only to tax rules. Beware of financial fraudsters who take advantage of these new options by tricking people into cashing in their pension and handing over their money for them to invest – you could lose some, if not all, of your pension savings, or end up with a large tax bill.

REGION	PERCENTAGE OF RETIRED PEOPLE TARGETED
South West	14%
Wales	13%
London	11%
East Midlands	10%
South East	10%
West Midlands	9%
Yorkshire & Humberside	7%
North East	6%
Scotland	5%
Eastern	3%
Average	9%

WARNING SIGNS

The Association of British Insurers in conjunction with The Pensions Advisory Service[2] has launched a campaign to help people avoid pension scams, including the warning signs and how fraudsters operate.

The table shows the picture across the country – retired people in the South West are the most likely to have been targeted by fraudsters. ■

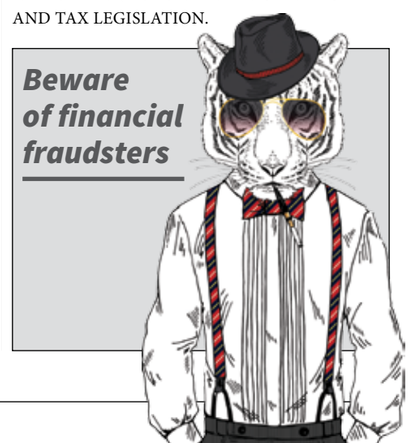
YOUR PENSION SAVINGS: WHAT CHOICES DO YOU NEED TO CONSIDER?

Deciding what to do with your pension savings is an important step, and now you'll have more choices to consider once you reach 55. To discuss your options, please contact us for professional financial advice.

Source data:
[1] Research conducted online between 2 and 15 January 2015 among a nationally representative sample of 1,006 retired people by independent market research firm Consumer Intelligence.
[2] http://www.pensionsadvisoryservice.org.uk/news/tpas/tpas-and-abi-launch-new-social-media-campaign-tacklingpension-scams

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.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.



Financial planning is our business.

We're passionate about making sure your finances are in good shape.

Our range of personal financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

Contact us to discuss your current situation, and we'll provide you with a complete financial wealth check.

SUITS YOU SIR!

Over-50s changing the way they work in later life

If you are approaching your 50s, you may be considering your retirement options. Perhaps you want to work flexible hours and work when it suits you. You might want to be 'your own boss' and set up a business or become self-employed. Or you may want to know what your options are for working after retirement.

NEARLY TWO-THIRDS of over-50s workers would consider retraining so they could work longer in retirement. Findings from research conducted by MetLife[1] found 63% of over-50s are looking at potentially lengthening their working lives, with 50% considering learning new skills to continue in full or part-time employment, while 13% would look to retrain so they could launch their own business.

WORKING PATTERNS IN LATER LIFE

Traditional working patterns in later life are changing dramatically. The research among all adults shows around 71% of all workers say they would consider working after retirement with just one in three (31%) expecting to retire completely from full-time work.

The decision to work past traditional retirement ages is not entirely financially driven, with 23% of over-50s saying they enjoy working and don't feel ready to retire, while a further 30% would miss the social interaction that work provides, and 29% say they feel that work gives them a sense of purpose.

NOT FINANCIALLY WELL PREPARED

However, the study found 55% of working over-50s admit they are not financially well prepared for retirement. The change in working patterns was highlighted in an independent report from Dr Ros Altmann CBE, 'Flexibility in Retirement – Planning for change'.

The report by Dr Altmann, now the Government's Business Champion for Older Workers, highlighted the tremendous opportunity of how the change in working patterns can dovetail with pensions planning, flexible approaches, new products and more creative methods of funding retirement. It's also ironic that many over-50s are considering retraining to become more flexible at work just as pensions are being changed to be more flexible. ■

Source data:

[1] Research conducted online between 11 and 12 March 2014 among a nationally representative sample of 2,531 employed adults aged 18+ by independent market research firm Consumer Intelligence

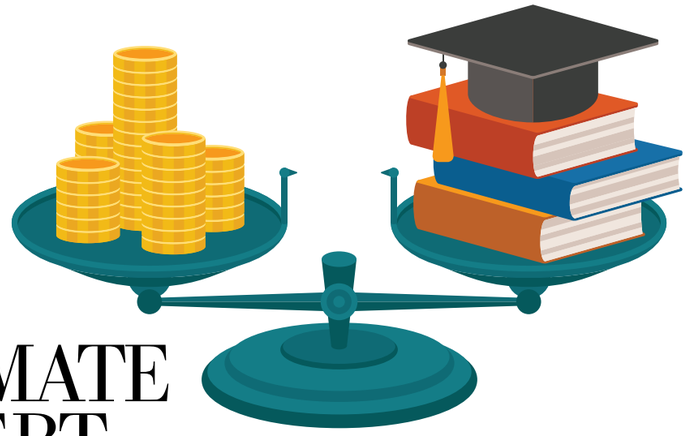
MAKING THE BEST USE OF PENSION FREEDOMS

The numbers contemplating working in retirement – whether it's full-time or part-time – shows that as the retirement landscape changes and people prefer to phase retirement, flexible income solutions will be needed to enable people to make the best possible use of pension freedoms. To discuss how we could help you plan for a successful retirement, please contact us – we look forward to hearing from you.

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.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

50% OF OVER-50s ARE CONSIDERING LEARNING NEW SKILLS TO CONTINUE IN FULL OR PART-TIME EMPLOYMENT



PARENTS MASSIVELY UNDERESTIMATE STUDENT DEBT

Helping children financially through university may mean resorting to drastic measures

Parents are still very much in need of a reality check when it comes to the true costs of a university education according to the latest annual student debt research by the Association of Investment Companies (AIC) using Opinium Research. And while over two thirds of parents plan to help their children financially through university, many say they have to resort to drastic measures in order to do so, whether it be downsizing the family home (9%) or using their entire cash savings (22%).

Parents estimate, on average, that their child's student debt will be £17,965. Students anticipate a more realistic £30,348 debt, although the actual figure is higher still, at closer to £44,000*.

ESTIMATED DEBT

Students who gave an estimated debt think it will take 15 years on average to pay back, while just over a third (35%) think it will take longer than 20 years, which is an increase from 2014 (28%). Nearly a third (30%) of students have considered dropping out of university altogether (more female students than male have considered this – 34% and 26% respectively). Financial reasons were the second most commonly cited reason for this (37%), after not enjoying the course (47%).

One fifth (21%) of students have lived or currently live with their parents during term time for financial reasons, and this increases to 36% amongst Londoners and 30% for students from lower income groups.

DRASTIC MEASURES

If the figures are anything to go by, many parents will be making extreme sacrifices to help their kids financially through university. Almost as many parents are as likely to sell the family home (i.e. downsize) as they are to sell shares and investments (9% versus 11%).

Nearly two thirds (64%) of parents are either planning to, or already do, contribute financially to help their child pay for university. This rises to 70% amongst the better-off parents, compared to 50% amongst the less well off. Financial contributions mostly come in the form of cash savings, with 61% of parents saying they will use some of their cash savings, and over a fifth (22%) of parents prepared to suffer financial wipe-out and use all or most of their cash savings.

BANK OF GRANDMA AND GRANDPA

Some 20% of grandparents will be helping financially with university costs, to an average tune of £2,540 per year. This has increased since last year, when the average contribution from grandparents was £1,533 per year.

FINANCIAL PRIORITIES

While nearly half (49%) of students would prioritise any financial assistance from their parents for university costs, 31% would prioritise help towards a first property; 9% would prefer help towards a car and 6% towards going travelling.

There's no doubting that many parents are prepared to make very real sacrifices to help their children through university. But students are making sacrifices too, with a fifth of students planning to live at home during term time simply due to financial reasons, and a number considering dropping out altogether due to the cost. Historically, university hasn't just been about education, but about the life experience and opportunity to 'fly the nest'. ■

With a little forward planning, some of the drastic sacrifices could be avoided. To review your situation or to discuss your options, please contact us for further information.

Source data:

*1. *Source: Institute of Fiscal Studies, April 2014*

2. The 2015 survey of students was conducted by Opinium Research for the AIC between 29 May–10 June amongst 1,002 students in full-time education aged 16–24 years who are planning on going to, or are currently at, university. The 2015 survey of parents was conducted by Opinium Research for AIC between 29 May–10 June amongst 1,003 parents aged 35+ who have children aged 13–18 years who will expect to be at, or are currently at, university.

3. The 2014 survey of students was conducted by Opinium Research for the AIC between 21–28 May amongst 1,001 full time students aged 16–24. The 2014 survey of parents was conducted for the AIC by Opinium between 21–28 May amongst 1,001 parents of which 63% had children aged 13–15, 57% had children aged 16–18, 97% had children who they expect will go to university, and 11% had children who are currently at university.

FUNDING A COMFORTABLE RETIREMENT

Taking steps to plan for a better future

Regardless of the life stage you have arrived at, it is important to receive expert and professional advice on your pension plans and requirements. Yet many people spend more time planning their holiday than their own retirement. Perhaps because planning for retirement seems too complicated to think about. But according to people surveyed for BlackRock's Investor Pulse survey, the biggest financial priority was still 'funding a comfortable retirement'.

We know that we want an active, comfortable retirement but often don't know where to start the savings process. If confusion and a lack of understanding around your retirement needs has caused you to put off planning and saving anything, you're not alone. In fact, over half of people in the UK are in the same position.

New pension rules which give us far greater flexibility over what we can do with our pension pot came into force on 6 April 2015. Understanding these reforms and more informed planning will enable you to consider the changes you could make and take steps towards planning for a more comfortable future.

KNOW WHAT YOU NEED – SET YOURSELF A TARGET

The closer you are to approaching retirement, the more you are likely to know how much income you will need to cover your outgoings. If you have longer to go until retirement, it is still good to have an idea of what you are aiming for, and you can review this each year as you get closer.

KNOW WHAT YOU ALREADY HAVE

The second step is to understand what you have already saved. Knowing what you already have will help you to understand how far you are towards your retirement target. If you have a lot of different pensions, it may be worth considering bringing those all together into one account. Should you consolidate?

WHAT YOU NEED TO THINK ABOUT

- Are you paying in the right amount?
- Are you invested in the right kind of fund?
- When can you realistically retire?

BE FULLY AWARE OF THE TAX IMPLICATIONS

The decisions you make can have markedly different tax implications when taking your retirement income, so you should consider these carefully before you choose.

TYPE OF INCOME

How important is it that you guarantee your income for life? Would you like your income to increase each year to offset inflation? Do you need the flexibility to vary your income? These questions and others will help you decide what's right for you.

TAKING ON INVESTMENT RISK

If you still need to provide an income for your retirement and don't buy an annuity, what will you do with the money? Are you comfortable taking investment risk?

PASSING ON AS MUCH AS YOU CAN TO DEPENDANTS

The treatment of your fund on death differs depending on the decisions you take. ■

Understanding the new pension freedoms options may seem daunting but it doesn't have to be. Don't put off planning for retirement. Whether you need to set up or review existing retirement planning strategies, we can look at ways to help you make the most of your retirement opportunities – please contact us.

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.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

NEW PENSION RULES WHICH GIVE US FAR GREATER FLEXIBILITY OVER WHAT WE CAN DO WITH OUR PENSION POT CAME INTO FORCE ON 6 APRIL 2015

STAYING CONNECTED TRUMPS PRIORITIES

Only 39% considered providing financial security for their family as essential

Britons consider having an Internet connection and mobile phone to be greater financial priorities than protecting mortgage and income, according to new research.

THE LATEST SCOTTISH WIDOWS Protection Report revealed that only 39% considered providing financial security for their family in the event of death as essential – which has dropped from more than half in four years – compared to eight out of ten (80%) who considered broadband and mobile phones (71%) essential for daily living.

BECOMING CRITICALLY ILL

Meanwhile, just over a quarter (28%) of the 5,144 UK adults polled felt financial security for dependants in the event of becoming critically ill or a partner being unable to work (18%) was a necessity.

This slip down the financial priority ladder could leave a significant proportion of the 14.5 million mortgage holders in the UK and their families at risk of losing their homes by failing to have adequate protection in place. The report found just a third (33%) of the UK population have a life insurance policy, less than one in ten (8%) have critical illness cover and fewer than one in twenty (4%) have income protection insurance.

FINANCIAL PROTECTION

The age group where the largest proportion of people had protection is 35–44, with those who had mortgages most likely to own financial protection products. Almost 45% of 35–49-year-olds feel life insurance is essential, with almost a quarter (24%) of the same group feeling that protecting their or their partner's income is essential, compared to 18% of the general population.

Despite this, just under a quarter of those polled didn't know how long they could pay the mortgage for, or said they would run out of money within five months if they lost significant income.

REMAIN AT RISK

Against an average £1,085 monthly cost of running the home and more than a third of people (35%) carrying non-mortgage debt over each month, a vast proportion remain at risk if the unexpected were to happen to themselves or a loved one without this type of safety net in place.

Almost half said they could live on a single income if necessary, cutting back on spending (43%), using savings (38%) and relying on the state (27%) for support if one wage earner was unable to work for six months or more. Less than one in ten (8%) would claim on an insurance policy, and a quarter don't know how they would cope.

LIFESTYLE AND EXPENDITURE

The Mortgage Market Review has placed greater scrutiny over lifestyle and expenditure, with an increase in mortgage holders and potential new longer repayment terms impacting the way we assess our short- and longer-term financial priorities, yet more[1] of us continue to give more attention to home, contents and car insurance than protecting mortgage repayments. ■

SAFEGUARDING YOUR TIME AND MONEY

Although the here and now tends to dominate when it comes to the way we assess our needs and spending, it is more important now than ever to have an appropriate plan in place at the right time to protect our homes and families, not only for peace of mind but to safeguard the time and money we invest throughout working life and for the future. To discuss your options, please contact us – we look forward to hearing from you.

Source data:
[1] 40% said they give a lot of attention to home, contents and car insurance; 31% said protecting their mortgage repayments was important.

RISING CARE NEEDS FOR RETIREES

People going into care could face bills in excess of the total pension pot they retired with

With the number of retirees going into care rising, research from LV= reveals that many people going into care could face bills in excess of the total pension pot they retired with. Over the last decade, the average length of stay in a care home has increased by 13% from 829 days to 955 days[1] – which equates to two years and seven months.

RETIREE AFFORDABILITY

However, the figures reveal that the average Briton reaches retirement with a pension fund that would cover less than this. As most retirees typically enjoy several years of active retirement, drawing on their pension before they reach a point where they require care[2], the issue of affordability is likely to be far greater for retirees and their families than these figures show.

The gender disparity when it comes to pension savings and income means that the care-cost challenge is set to be more keenly felt by women. One in four (23%) women approaching retirement have only the State Pension to rely on, compared to just 9% of men, but women are more than twice as likely to go into care[3].

DELAYING CARE

The Government recently announced that it was delaying the implementation of the care-cost cap by four years, meaning that it is currently unclear how much someone will have to put towards their care. The research shows that, of those adults who have had a parent go into care, two fifths (38%) said their parents used their savings to cover the cost of care, with one in five (22%) saying their parents sold their home to pay the bills.

According to a new Freedom of Information (FOI) data request by LV=, in the past five years, more than 19,000[4] retirees have had a charge placed on their property by their local authority to meet the cost of their care. These charges are placed on the homes of individuals that don't have enough savings to cover their costs, but have enough equity in their property.

CARE HOME

While local authorities cannot ask a retiree's family to contribute towards the cost of their parent's care, many UK adults do so. While some adults contribute to ensure their parent can stay in their preferred care home, others help out in order to cover the basic costs of care. In fact, a quarter (25%) of adults with parents in care say that they are using their own money to help fund their parent's care costs.

The UK is facing an uncertain future on the funding of long-term care, especially with the care cap being delayed. Although many of us leave the workplace in good health, as we are living longer with the average retirement now 17 years long, the likelihood of us needing residential or domiciliary care is increasing.

FLEXIBLE RETIREMENT

In addition, we are also seeing a rise in the length of time being spent in care. This highlights a very real need for many to consider a more flexible retirement income solution such as a fixed-term annuity.

Low interest rates, coupled with social care budgets being cut, create a worrying financial backdrop for many, especially those already in retirement as they are currently faced with an open-ended bill, which makes it difficult to plan effectively to fund these costs. ■

MAKE THE MOST OF YOUR PENSION POTS

If you are approaching retirement, it is important to seek professional financial advice as to how you can make the most of your pension pots and potentially meet these costs. Please contact us if you would like to consider your options.

> *THE GOVERNMENT RECENTLY ANNOUNCED THAT IT WAS DELAYING THE IMPLEMENTATION OF THE CARE-COST CAP BY FOUR YEARS*

Source data:

[1] UK nationally representative research carried out by Opinium from 3–10 July 2015, questioning 4,003 UK adults online, of which 814 have or have had one or both parents in care. FOI request to all City, County and Metropolitan councils in England responsible for care-cost administration – placed on Wednesday 10 June 2015. 90 responded in part or in full (75 responded to the question regarding charges placed on property). According to FOI request number of days spent in care for people who died in 2004 = 829 days (32 responses), while those who died in 2014 stayed 955 days (64 responses) - 126 days longer. Therefore the percentage difference is 13%.

[2] The median age of women in Bupa care homes is 85.9 years old, and 78.3 years old for men. With the average length of stay in a care home being 2.61 years, we estimate that on average, women will enter care at the age of 84.6 and men will enter care at the age of 77 (2012 Bupa Census, 2012).

[3] In 2011, there were 2.8 women for every man in care (ONS, Changes in the Older Residential Care Home Population between 2001 and 2011, 2014).

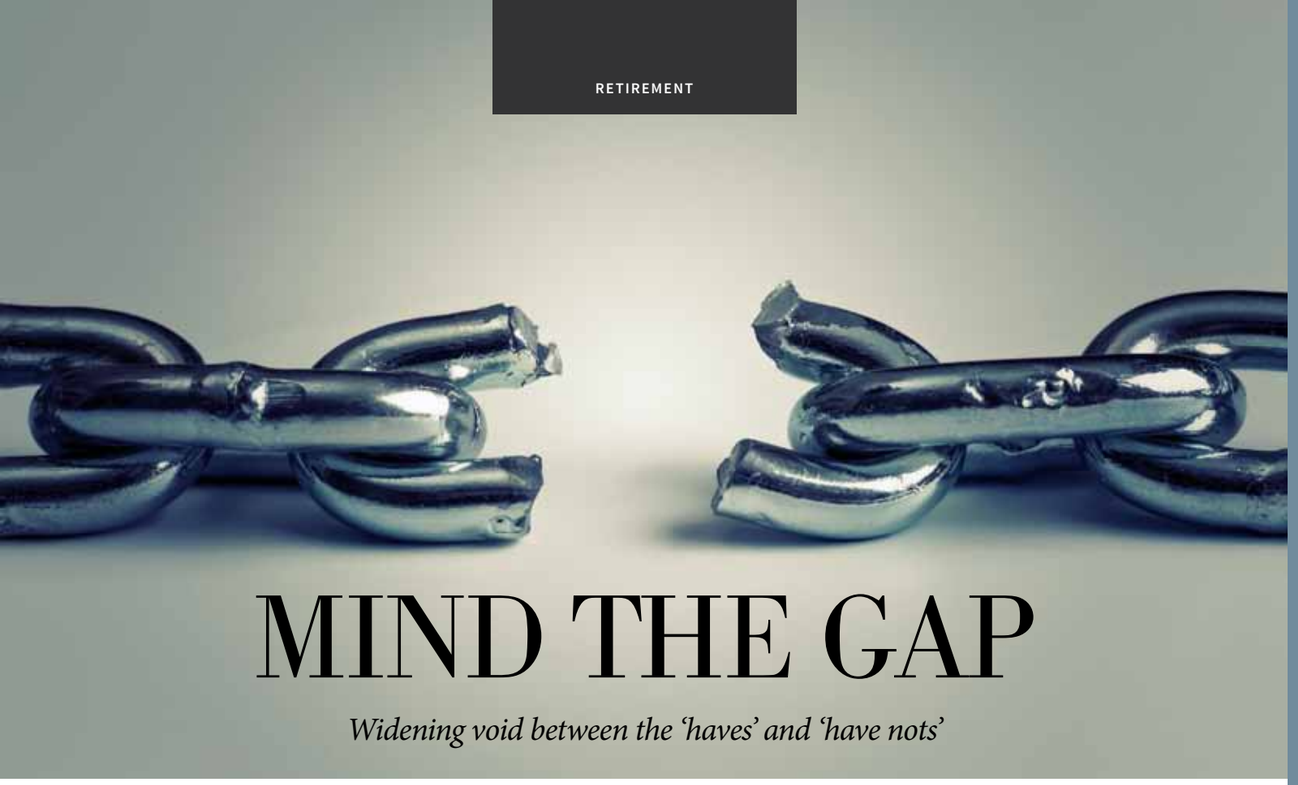
[4] The following question was asked to 100 councils and response rate was 75. Of the people in your council area aged 65 and over and in older persons residential/nursing care, how many have had a charge placed against their property to recoup costs in the last five years (April 2010–March 2015)? The answer is: 19,591.

Isn't it time you had a financial review?

We'll make sure you get the right advice for your individual needs.

We provide professional financial advice covering most areas of financial planning, including, tax-efficient savings, investment advice, retirement planning, estate & inheritance tax planning, life protection, critical illness cover and income protection.

To discuss your options, please contact us.



MIND THE GAP

Widening void between the 'haves' and 'have nots'

Rising incomes and savings pots among UK families are masking a widening gap between the 'haves' and 'have nots', the latest Aviva Family Finance Report reveals. The last six months have seen the typical family's income reach its highest point since March 2012. Better savings habits also mean the typical family is saving a record £113 each month.

BUT, DESPITE THESE IMPROVEMENTS, the income gap between family types has widened, and many families are not managing to save each month, leaving them vulnerable to financial shocks – particularly as debts have also increased.

PARENTS RAISING CHILDREN ALONE ARE LEFT BEHIND BY INCOME GAINS

The typical family's monthly income after tax reached a three-year high of £2,126 in May, the highest figure recorded since March 2012 (£2,139).

However, the upward trend masks a widening gap between the 'haves' and the 'have nots'. Couples with plans to have children have made the greatest gains since November 2014 and have seen their monthly incomes rise by £339, from £2,122 to £2,461. This is more than twice the boost enjoyed by any other family types.

In contrast, parents who are raising children alone – either as single parents or as a result of being divorced, separated or widowed – have seen their monthly incomes drop from £1,176 to £1,077 over the same period. This loss of £99 a month adds up to £1,188 annually, the equivalent of one month's salary.

This group has also seen the gap widen between their income and that of the typical family from £866 to £1,049 over the last six months.

The data shows while the proportion of families taking home at least £2,500 a month has risen from 39% to 43% in the last six months, the percentage taking home £1,000 or less has stayed consistent at 10%. This means at least one in ten families are still surviving on less than half of the typical family's income.

SAVERS ACT TO GROW THEIR POTS – BUT MANY FAMILIES AREN'T PUTTING MONEY AWAY

Savings trends also highlight the differing fortunes of UK families. Rising incomes mean the typical family is saving more and putting aside a record £113 a month, compared with £99 in November 2014. The typical savings pot is now £3,116.

However, more than a quarter of families (26%) are saving nothing each month, and the percentage with no savings cushion has remained static at 17% over the last six months.

It suggests that, while those families who can afford to save are making efforts to put more money away, the situation has shown little sign of improving for those who were already struggling or failing to do so.

The typical family has used its income gains to increase monthly debt repayments over the last six months, from £197 in November to £225. But the average balance owed has also risen by 5% from £9,050 to £9,520, suggesting that some families are relying more heavily on borrowing to supplement their incomes. ■

Source data:

The Family Finances Report is designed and produced by Aviva in consultation with ICM Research. The report is an in-depth study into the financial needs of the 84% of the UK population who live as part of a modern family. Based on customer profiles and Government data, Aviva has recognised the six most common types of modern family as:

- *Living in a committed relationship with no plans to have children*
- *Living in a committed relationship with plans to have children*
- *Living in a committed relationship with one child*
- *Living in a committed relationship with two or more children*
- *Divorced/separated/widowed with one or more children*
- *Single parent raising one or more child alone*

Unless otherwise specified, data was sourced from the Aviva Family Index, which used findings from over 26,000 people who are members of one of the six groups of families identified above via ICM research.

NEW DOMICILE RULES

Significant structural changes introduced from 6 April 2017

Permanent non-dom tax status will be abolished from 6 April 2017. The reform does not eliminate the tax status, but individuals who have lived in the UK for 15 of the past 20 years will lose the right to claim it.

THE PROPOSED MEASURES:

- People who have been resident for more than 15 out of the past 20 years will be deemed domicile for all tax purposes, so no remittance basis will be available. Those who came to the UK in 2002 or earlier will be affected. No grandfathering of the old rules is proposed
- The £90,000 remittance basis charge for those who have been resident for 17 out of 20 years will no longer apply, as those individuals will be taxable on the arising basis
- Deemed domicile status can only be lost after an absence of at least five tax years (compared to the current four)
- Individuals who return to the UK after living abroad, but were born with a UK domicile, will not be able to use the remittance basis even if they have acquired a domicile in another country
- Non-doms who have set up Excluded Property Trusts (EPTs) prior to becoming deemed domiciled under the new 15-year rule will not pay tax on income and gains within the trust and will retain their beneficial Inheritance Tax (IHT) treatment, except for UK residential property
- IHT will be due on UK residential property held in any offshore structure

BIGGEST CHANGE

The biggest change is for those who have a UK domicile of origin (for example, born here of British parents). The remittance basis (ability to only pay UK taxes when bringing overseas funds here rather than on a worldwide basis) will no longer be available for such people on their return to the UK. The IHT advantages of non-dom status will only be available in limited circumstances after at least 15 years of non-residence and assuming that a legitimate domicile of choice is acquired in another country.

ORIGIN OUTSIDE UK

For those who have a domicile of origin outside the UK and are here only for a limited time, the remittance basis remains available, and there are still considerable advantages to be had with careful planning. Once a stay in the UK extends beyond 15 years, it will be more important to take stock of their global financial affairs and consider how they can be arranged, as at that point the remittance basis ceases to be available and worldwide income and gains will be taxable.

BEST WAY FORWARD

Individuals who have been resident for more than 15 years in the UK have some 18 months to consider the best way forward. For many people, the £90,000 charge was already a step too far; the remittance basis was not practical and its abolition may not be missed. The Income Tax and Capital Gains Tax points may therefore have a limited impact, although double tax relief points should not be overlooked.

Of perhaps greater significance for this group are the IHT changes. There are a small number of people who will have been here for 15 years as of 5 April 2017, and so their deemed domicile status will be accelerated.

An Excluded Property Trust (EPT) will remain valuable for IHT protection on overseas assets, but from now on, if there are any withdrawals from the trust after the 15-year date, these will be taxed in full, regardless of where in the world the distribution is made. For property staying in the trust, the IHT protection previously afforded by holding UK property through an offshore company is now removed. So from this point, every trust holding UK residential property – even indirectly – can face IHT costs in the same way as UK trusts.

As the Annual Tax on Enveloped Dwellings (ATED) remains, there may be little purpose in using a company in an offshore family trust – at least as far as real property is concerned.

A similar transparency will apply on the death of the owner or shareholder of a partnership or company holding UK residential property, regardless of whether the property is let or self-occupied and regardless of its value.

The combination of these rules will mean that the focus of IHT planning will change. ■

Achieving a comfortable retirement.

Do you need a professional assessment of your situation to make this a reality?

If you are unsure whether your pension is performing in line with your expectations, and that you've made the right pension choices – don't leave it to chance.

Contact us to discuss these and other important questions, and we'll help guide you to a comfortable retirement.

CASH FLOW MODELLING

Visualising your financial future

In order to develop your financial plan, you need clarity over your goals, your objectives and your motivations. Cash flow modelling illustrates what might happen to your finances in the future, and enables you to plan to ensure that you make the most of your money to achieve your financial objectives.

THE PROCESS OF CASH FLOW MODELLING shows your current position relative to your preferred position and your goals by assessing your current and forecasted wealth, along with income inflows and expenditure outflows to create a picture of your finances, now and in the future. This detailed picture of your assets includes investments, debts, income and expenditure, which are projected forward, year by year, using calculated rates of growth, income, inflation, wage rises and interest rates.

In order to implement a detailed plan that outlines how to deliver your financial future, communication is vital. The process and planning is only as good and as comprehensive as the information you provide.

RIGHT ASSET ALLOCATION MIX

Cash flow modelling can determine what recommendations and best course of action are appropriate for your particular situation and the right asset allocation mix. The growth rate you require is calculated to meet your investment objectives. This rate is then cross-referenced with your attitude to risk to ensure your expectations are realistic and compatible with the asset allocation needed to achieve the necessary growth rate.

Where cash flow modelling becomes particularly useful is the analysis of different scenarios based on decisions you may make – this could be lifestyle choices or perhaps investment decisions.

By matching your present and expected future liabilities with your income and capital, recommendations can be made to ensure that you don't run out of money throughout your life.

HOW MUCH TO SAVE, SPEND AND INVEST

A snapshot in time is taken of your finances. The calculated rates of growth, income, tax and so on that are used to form the basis of any cash flow modelling exercise will always be assumptions. Therefore, regular reviews and reassessments are required to ensure you remain on track.

Nearly all decisions are based on what is contained within the cash flow: from how much to save and spend, to how funds should be invested to achieve the required return, so there is a lot that needs to be managed.

A lifetime cash flow plan should enable you to:

- Produce a clear and detailed summary of your financial arrangements
- Define your family's version of the 'good life' and begin working towards it
- Work towards achieving and maintaining financial independence
- Ensure adequate provision is made for the financial consequences of the death or disablement of you or your partner
- Plan to minimise your tax liabilities
- Produce an analysis of your personal expenditure planning assumptions, balancing your cash inflows and your desired cash outflows
- Estimate future cash flow on realistic assumptions
- Develop an investment strategy for your capital and surplus income in accordance with risk/reward, flexibility and accessibility with which you are comfortable
- Become aware of the tax issues that are likely to arise on your own death and that of your partner

RUNNING THROUGH THE NUMBERS

With every financial corner you turn, it is important to 'run through the numbers', which will help you make the right financial decisions. It is important to be specific. For example, it is not enough to say, 'I want to have enough to retire comfortably'. You need to think realistically about how much you will need – the more specific you are, the easier it will be to come up with a plan to achieve your goals.

If your needs are not accurately established, then the cash flow will not be seen as personal, and therefore you are unlikely to perceive value in it.

Some years, there may not be any change, or just small tweaks. However, in other years, there may be something significant; either way, you will need to ensure things are up to date and to keep your own peace of mind knowing your plans are still on track.

It is vital that you are made aware that certain assumptions have been made in the making of your plan. Projected inflation and growth rates need to be made clear, and it should be explained that the plan and cash flow model is only as good as the information provided, so it is critical that it is reviewed. ■

ARE YOUR FUTURE FINANCIAL PLANS ON TRACK?

Cash flow modelling helps you stay in control of your financial future by giving a more holistic planning approach and clearer picture of the consequences of change on an ongoing basis. It also helps to give an idea of when certain key decisions should be made, such as retiring early or downsizing a property. For more information, or to discuss how we could assist you to achieve the financial control and freedom you require, please contact us.

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.

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

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

UNLOCKING CASH IN YOUR HOME – IS IT RIGHT FOR YOU?

Funding a pension shortfall or meeting an unexpected expense

Rising incomes and savings pots among UK families are masking a widening gap between the 'haves' and 'have nots', the latest Aviva Family Finance Report reveals. The last six months have seen the typical family's income reach its highest point since March 2012. Better savings habits also mean the typical family is saving a record £113 each month.

We all look forward to the day when we can stop or cut down on the amount of time we spend at work and all of the things we'd like to do once we've retired. If you're facing a pension shortfall or need to meet an unexpected expense, equity release may be an option to consider. It allows you to unlock some of the wealth you've accumulated in your property without having to move. But before you consider taking this option, there are key aspects of it that you need to know.

The equity or value you have within your home is its open market value less any mortgage or other debt held against it. You are more likely to be able to make use of an equity release scheme if you have no current mortgage, or if any mortgage you have is relatively small.

THERE ARE TWO MAIN TYPES OF EQUITY RELEASE SCHEME:

- Lifetime mortgage – a loan secured on your home, which is repaid by selling your home when you die or go into long-term care
- Home reversion – you sell all or part of your home to a scheme provider in return for regular income or a cash lump sum, or both, and continue to live in your home for as long as you wish

WITH AN EQUITY RELEASE SCHEME, YOU:

- Have to be over a certain age (usually over 55) and own your own home
- Receive a tax-free cash lump sum, a regular income, or both, to use as you wish
- Continue to live in your own home
- Continue to be responsible for maintaining your home

GENERATING ADDITIONAL CASH

When it comes to generating additional cash, some people may feel they have no option but to sell their home and downsize to obtain the money they need. With equity release, you can generate additional cash without incurring the cost and upheaval of moving.

If you do have an outstanding mortgage and want to take out equity release, you will need to settle your mortgage first, which will affect the amount you then have access to for other purposes.

USING THE MONEY RELEASED

Some people use the tax-free cash they receive from equity release to make improvements to their home, installing a new kitchen or bathroom, or just updating the property. Others may choose to help their families, whether it is helping children and grandchildren onto the housing ladder, helping with education, assisting in times of need, or simply allowing them to see their family enjoy their inheritance early.

The tax-free cash obtained from releasing equity can also be used to pay off existing debts, which can be one way of reducing your monthly outgoings, meaning that you could have more money available to live on.

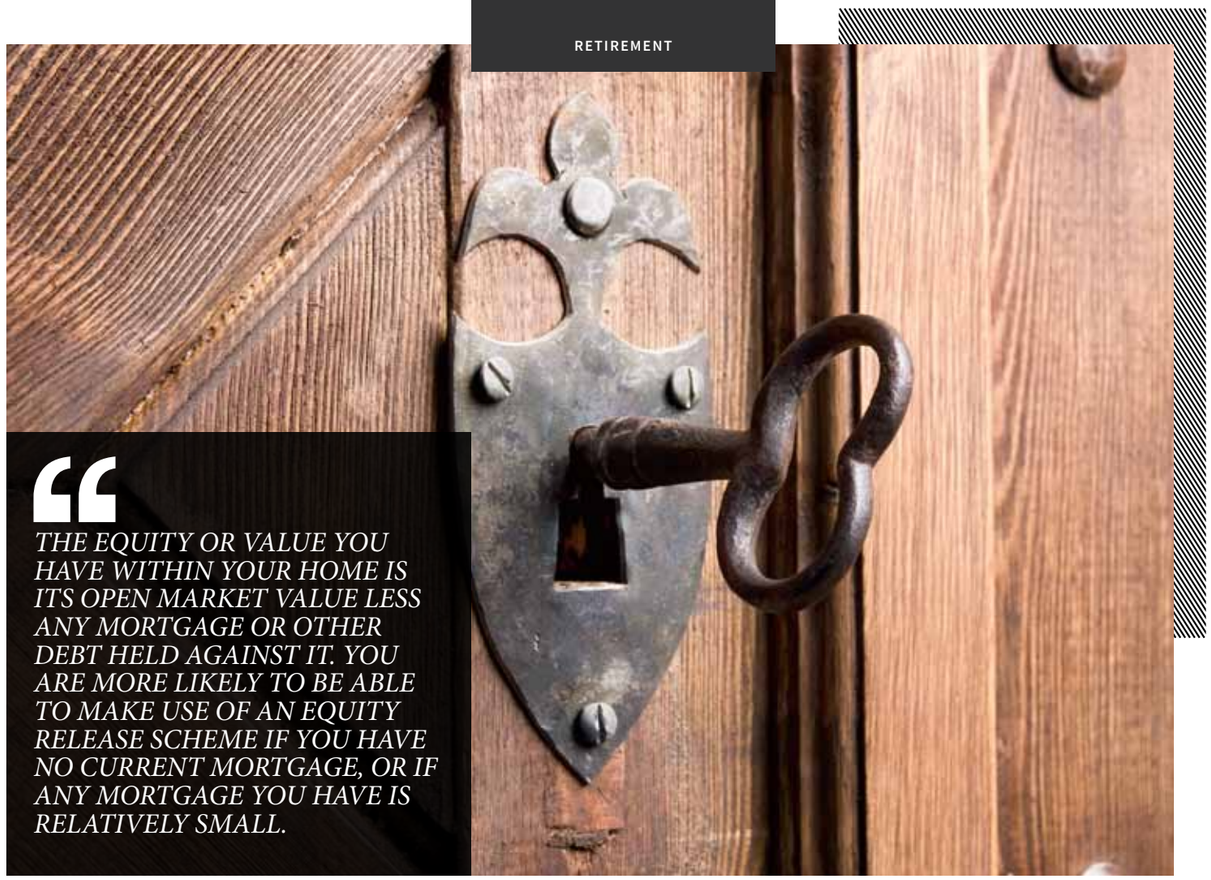
YOUR EQUITY RELEASE QUESTIONS ANSWERED

Q: What happens to my partner if I die?
A: If the scheme is in both your names, the arrangements will continue.

If you are using equity release to improve your income, make sure you consider what the situation would be if you or your partner were to die.

If the property and scheme were in your sole name, the property would have to be sold and your partner would have to find somewhere else to live (unless, for example, they could repay the lifetime mortgage in full).

Q: Is there a minimum amount I have to take?
A: There may be a minimum amount you have to take. This, for example, could be £15,000 or £25,000. It will depend on the scheme and provider. But you may not have to take it all at once. Drawdown loans can be taken in smaller amounts over time.



> *THE EQUITY OR VALUE YOU HAVE WITHIN YOUR HOME IS ITS OPEN MARKET VALUE LESS ANY MORTGAGE OR OTHER DEBT HELD AGAINST IT. YOU ARE MORE LIKELY TO BE ABLE TO MAKE USE OF AN EQUITY RELEASE SCHEME IF YOU HAVE NO CURRENT MORTGAGE, OR IF ANY MORTGAGE YOU HAVE IS RELATIVELY SMALL.*

Q: Would an equity release scheme reduce the amount of Inheritance Tax (IHT) due on my estate after my death?
A: An equity release scheme will reduce the value of the estate you leave when you die, so this may reduce a potential IHT liability. But if you are thinking of using an equity release scheme as part of your planning for IHT, you should obtain professional financial advice.

Q: Who would be responsible for maintenance costs in the home?
A: You will be responsible for keeping the home in good repair. If you don't maintain the home, the scheme provider could arrange the necessary repairs and you would have to pay for them.

Q: Should I use equity release as a way of dealing with my debts?
A: Equity release may not be the best way to clear your debts. You should obtain professional financial advice to review your situation.

Q: Is a sale-and-rent-back scheme the same as a home reversion?
A: No. You may have to leave your home after the end of the fixed term in your tenancy agreement, which may only last five years. You will have to pay a much higher rent than under a home reversion plan, and the rent could go up.

Q: What happens if my partner or I need long-term care?
A: Your equity release scheme will usually carry on unchanged if care is provided in your own home or just one of you moves to a residential or nursing home. If you both move into a care home, the scheme will usually end and the property will be sold.

Q: What about changes in my circumstances?
A: If you take equity release while single and later decide to share the home, you may be able to transfer the scheme into your joint names, but this may only be possible if the second person meets the scheme's minimum age requirements. There may also be a charge for this.

If you cannot transfer the scheme into joint names, the other person will not be able to stay in the home if you die or move out.

Releasing equity from your home is a lifetime commitment, so it's worth including your family in any decision you make.

Equity release may involve a lifetime mortgage or a home reversion plan.

To understand the features and risks, obtain a personalised illustration from a professionally qualified adviser.

Equity release is not right for everyone.

It may affect your entitlement to state benefits and will reduce the value of your estate. ■

TIME TO MAKE AN INFORMED DECISION?

Taking out equity release is an important decision, so it's vital that you have obtained as much information as possible to be in a position to make an informed decision. We can help you look at your options and establish whether equity release could be right for you. Please contact us for further information – we look forward to hearing from you.

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.

ESTATE MATTERS

Structuring your affairs efficiently means starting the correct planning early enough

INHERITANCE TAX (IHT) is payable by some people who, for the most part, could have avoided it. If you want your estate to go to your loved ones with the minimum amount of IHT payable, you should obtain professional advice. There are currently a number of generous reliefs relating to IHT.

NEW MAIN RESIDENCE TRANSFERABLE NIL-RATE BAND

From 6 April 2017, there will be a new main residence transferable nil-rate band (family home allowance) that will apply when a main residence is passed on to a direct descendant. This new main residence transferable nil-rate band will work alongside the existing IHT nil-rate band which is currently £325,000. In the same way as with the current nil-rate band, any unused main residence transferable nil-rate band will be transferred to a surviving spouse or registered civil partner.
A property which was never a residence of the deceased, such as a buy-to-let property, will not qualify. The allowance will initially be set at £100,000 in 2017/18, increasing to £125,000 in 2018/19, £150,000 in 2019/20 and up to £175,000 in 2020/21 (and then increase each year in line with inflation (CPI)).

INHERITED FROM A SPOUSE

It is possible therefore that by 2020/21, an individual will have their own nil-rate band of £325,000 as well as a main residence transferable nil-rate band of £175,000 in respect of their main residence, plus a nil-rate band of £325,000 inherited from their spouse and a main residence transferable nil-rate band of £175,000 inherited from their spouse.

This gives the much advertised total of £1 million. It is worth noting that the current nil-rate band of £325,000 is now set to remain until 2020/21. There is also going to be a tapered withdrawal of the main residence transferable nil-rate band for estates worth more than £2 million.

EFFECT OF THE PROPOSED CHANGES

Few taxes are quite as emotive – or as politicised – as IHT. The structures into which you transfer your assets can have lasting consequences for you and your family. The current rate of IHT payable is 40% on property, money and possessions above the nil-rate band. The rate may be reduced to 36% if 10% or more of the estate is left to charity.

It makes sense to ensure that your affairs are structured in the most tax-efficient way possible. However, it isn't easy to keep up with the many exemptions and reliefs available. So what should you consider?

LIFETIME GIFTS

Lifetime gifts to individuals are potentially exempt transfers and fall outside the scope of IHT, provided the donor survives at least seven years from the date of the gift.

TRUSTS

Trusts can sometimes help you to eliminate unnecessary tax charges, enabling the maximum possible part of your family's wealth to be preserved. You may like to transfer part of your wealth to a family member but still retain control; our specialists can advise on setting up trusts and can take care of all the administration.

WILLS

One important way to minimise IHT is to make a Will, so as to leave your family with the maximum assets and at the least tax cost.

BUSINESS AND CORPORATE STRUCTURES

If you have a business, it is also important to examine the structure of your business when considering your affairs. Changing the structure of a business can have significant tax implications.

ENJOY SPECIAL CONCESSIONS

The treatment for IHT purposes is more favourable for some assets than others. Business assets and shares in unquoted companies, agricultural land and works of art, for example, all benefit from special concessions which may assist in passing wealth from one generation to the next.

CHARITABLE GIFTS

Making gifts for charitable purposes can be highly effective in potentially reducing an IHT charge on death. ■

ARE YOUR NEEDS FULLY CONSIDERED?

Without the right advice and careful financial planning, HM Revenue & Customs could become the single largest beneficiary of your estate following your death, which is why you should obtain professional financial advice to ensure your needs are fully considered. To review your situation, please contact us.

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.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE WILL WRITING, INHERITANCE TAX PLANNING OR TAXATION ADVICE.

Published by **Goldmine Media Limited**,
Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL
Articles are copyright protected by Goldmine Media Limited 2015. Unauthorised duplication or distribution is strictly forbidden.

goldmine media