ESMARTMONEY

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YOU HAVE ONE LIFE, SO INVEST WISELY

IDENTIFYING MULTIPLE RISK PROFILES FOR MULTIPLE GOALS

FESTIVE GIFTS
Building wealth for a solid financial future

INFLATION MATTERS
Impact of rising prices on investments

WEALTH NAVIGATOR
Planning the best route for the next generation

AVOID THE MAD MARCH RUSH
Get a head start on your tax planning resolutions

EXPERIENCE
LIFE TO THE FULL

Welcome to our latest edition and our customary collection of articles designed to help you create and protect your wealth to be able to experience life to the full.

As a parent, guardian or grandparent, you'll want to provide the best future for your children or grandchildren that you can. Christmas is an excellent time to encourage children to start thinking about the value of money. Many children have hundreds of pounds spent on them at Christmas, but could that money be put to better use? Turn to page 06.

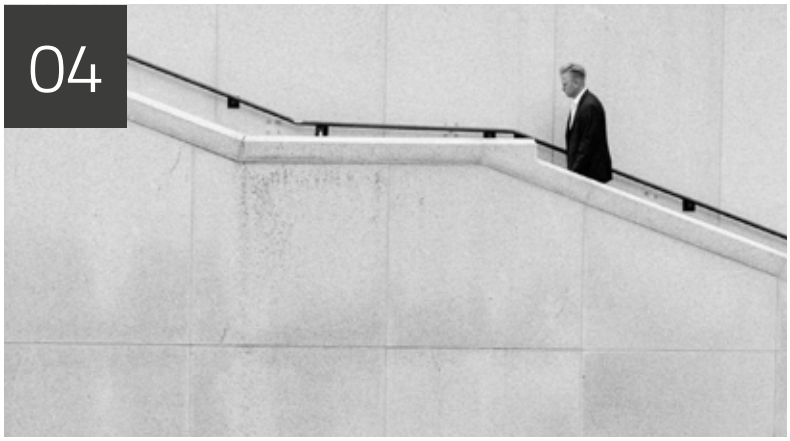
Although the current tax year does not end until 5 April 2019, tax planning shouldn't be a mad March rush. Now is the perfect time to get a head start on your tax planning resolutions to enhance your own, your family's or your company's tax-efficient plans for the future. On page 04 opposite, we have set out some tax tips and actions that may be appropriate to certain taxpayers.

Throughout our lives, we will have many different lifestyle and financial goals that we would like to achieve. Although we all have different goals, there are some key goals that we'll have in common, especially when it comes to retirement. What do you want from your investments? Supplementing your income? Building your retirement pot? Read more on page 08.

A pound saved is a pound earned. But thanks to inflation, over time, the value of the pound saved could be much less than when it was earned. One cannot ignore the corrosive impact of rising prices on investments. On page 13, we look at ways investors can easily fail to prepare for the risk of inflation eroding the purchasing power of money, especially in a low-inflation environment.

A full list of the articles featured in this issue appears opposite and on page 03 – we hope you enjoy them.

We don't know what the future holds, but a little preparation goes a long way when it comes to planning for the future. We hope you enjoy this latest edition. If you want to discuss any of the topics featured, we're here to help. To review any area of your financial plans, please contact us.



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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 MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

04 TAX PLANNING

AVOID THE MAD MARCH RUSH

GET A HEAD START ON YOUR TAX PLANNING RESOLUTIONS

Although the current tax year does not end until 5 April 2019, tax planning shouldn't be a mad March rush. Now is the perfect time get a head start on your tax planning resolutions to enhance your own, your family's or your company's tax-efficient plans for the future.

We have set out some tax tips and actions that may be appropriate to certain taxpayers. Reviewing your tax affairs now will ensure that available reliefs and exemptions have been fully utilised, together with future planning which could help to reduce your tax bill.

It is important to ensure that, if you have not done so already, you take the time to carry out a review of your tax and financial affairs to identify any tax planning opportunities and take action before it's too late. Personal circumstances differ, so if you have any questions or if there is a particular area you are interested in, please contact us.

HERE ARE OUR TIPS TO HELP YOU GET AHEAD ON MANAGING YOUR TAX AFFAIRS IN 2018/19

Pension contributions – spouses and children – consider contributing up to £2,880 towards a pension for your non-earning spouse or children. The Government will add £720 on top – for free.

Individual Savings Accounts (ISAs) – fully utilise your tax-efficient ISA allowance. The allowance for 2018/19 is £20,000 per person, whilst the Junior ISA allowance is now £4,260 for children under 18.

Capital gains – use the capital gains annual exemption of £11,700 (2018/19) to realise gains tax-free. The allowance cannot be transferred between spouses or carried forward.

Pension contributions – maximise contributions amount and tax relief. Take full advantage of increasing pension contributions by utilising the annual allowance, which is £40,000 (tapered if you earn over £150,000) or the value of your whole earnings – whichever is lower. Unused annual allowances may also be carried forward from the previous three tax years.

Remuneration strategy – if you run your own company, it's a good idea to determine your pay and benefits strategy sooner rather than later. For 2018/19, the dividend nil-rate band is reduced from £5,000 to only £2,000 – it's really important to consider the tax implications of your chosen approach to salary, benefits, pensions and dividends.

Gifting – you can act at any time to help reduce a potential Inheritance Tax bill when you're no longer around. Make use of the Inheritance Tax annual exemption that allows you to give away £3,000 worth of gifts outside of your estate. If unused, the exemption can be carried forward one year.

Transfer income-producing assets – consider transferring income-producing assets between your spouse or registered civil partner in order to use the Income Tax personal allowance and lower Income Tax bands of the transferee.

Overpayment and capital loss claims – submit claims for overpaid tax and capital loss claims for the 2014/15 year before 5 April 2019, after which such claims will be time-barred.

Landlords – for 2018/19, the restriction on deductibility of mortgage interest and other finance costs doubles from 25% to 50%. If you plan to take steps to mitigate the impact (such as incorporation, for example), you may save more tax by taking those steps earlier on in the year. In future years, the restriction will apply to 75%, and then from April 2020, 100% of finance costs incurred by individual landlords. ◀

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SAVE TAX – WE'RE HERE TO HELP

Not all of these tax tips will be relevant to you, your family or your business. However, where an idea is of interest or to review your situation, please contact us for a discussion on how this could form part of your tax-efficient plans for 2018/19 and the future. We look forward to hearing from you.

FESTIVE GIFTS

BUILDING WEALTH FOR A SOLID FINANCIAL FUTURE

As a parent, guardian or grandparent, you'll want to provide the best future for your children or grandchildren that you can. Christmas is an excellent time to encourage children to start thinking about the value of money. Many children have hundreds of pounds spent on them at Christmas. But could that money be put to better use? Rather than buying yet more toys for your children or grandchildren, why not consider setting up a tax-efficient Junior ISA for them?

With today's kids likely to need thousands of pounds to get them through university and onto the property ladder, a Christmas gift that will help with some of these expenses is well worth considering.

If the investment is allowed to grow, it could build up into a sizeable sum. The money could then be given to the child as an adult. Depending on the amount invested, the capital may be enough to cover tuition fees and possibly board and lodging as well, or a deposit for their first property.

JUNIOR INDIVIDUAL SAVINGS ACCOUNT (JISAS)

A JISA is a tax-efficient children's savings account where you can make contributions on the child's behalf, subject to an annual limit. Any gains do not incur Capital Gains Tax and they will not be considered part of the parents' or grandparents' estate for Inheritance Tax purposes.

Nevertheless, the child will automatically get access to the money when they turn 18 and can choose what to do with it.

THERE ARE TWO TYPES OF JISA – A CASH JISA AND A STOCKS & SHARES JISA:

- **Junior Cash ISAs –** these are essentially the same as a bank or building society savings account. But Junior Cash ISAs come with one big advantage: your child doesn't have to pay tax on the interest they earn on their savings, and you don't have to either
- **Junior Stocks & Shares ISAs –** with a Junior Stocks & Shares ISA account, you can put your child's savings into investments like shares and bonds. Any profits you earn by trading shares or bonds are tax-efficient

A child's parent or legal guardian must open the Junior ISA account on their behalf. Money in the account belongs to the child, but they can't withdraw it until they turn 18, apart from in exceptional circumstances. They can, however, start managing their account on their own from age 16.

The Junior ISA limit is £4,260 for the tax year 2018/19. If more than this is put into a Junior ISA, the excess is held in a savings account in trust for the child – it cannot be returned to the donor. Parents, friends and family can all save on behalf of the child as long as the total stays under the annual limit. No tax is payable on interest or investment gains.

When the child turns 18, their account is automatically rolled over into an adult ISA. They can also choose to take the money out and spend it how they like.

PENSIONS

A pension is one of the greatest gifts you could give children this Christmas. Children's pensions benefit from the same advantages as adult pensions. That means the pension fund benefits from the favorable tax treatment, in terms of tax relief on contributions along with the tax advantages of the fund.

INVESTMENT ACCOUNT

For tax reasons, this approach may best be suited to grandparents. A grandparent can set up a designated account for a grandchild and invest a capital sum in it. The account remains under the full control and ownership of the grandparent, with any income and gains taxed as the grandparent's own.

When the grandparent deems appropriate, the account can be gifted or assigned to the child. Where this occurs, the grandchild is legally entitled to the money at age 18, and can use it as they see fit – which may not necessarily be for education purposes. The transfer of ownership of the monies would be treated as a Potentially Exempt Transfer (PET). The value of the gift will be outside the grandparent's estate after seven years. Many parents and grandparents want to set up their children or grandchildren to enjoy a secure financial future. Yet paying down student debt is not necessarily the best option if they have a spare capital sum to invest. They could also consider helping their children or grandchildren to save towards a deposit for a property or start a pension for them so that they have security in later life. ◀

'A PENSION IS ONE OF THE GREATEST GIFTS YOU COULD GIVE CHILDREN THIS CHRISTMAS. CHILDREN'S PENSIONS BENEFIT FROM THE SAME ADVANTAGES AS ADULT PENSIONS.'

GIVE A FESTIVE FINANCIAL GIFT THIS CHRISTMAS

Time is a powerful ally of all investors, so where you are investing on behalf of children, you start with a great advantage – the power of compounding as profits are re-invested year on year. If you would like to discuss the options available to you, please contact us. We look forward to hearing from you.

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

A PENSION IS A LONG-TERM INVESTMENT, WHICH IS NOT NORMALLY ACCESSIBLE UNTIL AGE 55.

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

YOU HAVE ONE LIFE, SO **INVEST WISELY**

IDENTIFYING MULTIPLE RISK PROFILES FOR MULTIPLE GOALS

Throughout our lives, we will have many different lifestyle and financial goals that we would like to achieve. Although we all have different goals, there are some key goals that we'll have in common, especially when it comes to retirement.

What do you want from your investments? Supplementing your income? Building your retirement pot? It's essential we tailor your investments to suit your goals. To understand your personal investing goals, you need to take into account all the needs and preferences that may shape your financial life.

When setting goals, you are forced to think hard about the various life aspects you care about and how much they will cost in future. This helps to put your expectations in perspective, so that you can align your savings with future requirements. It also prevents you from underestimating the amount of money you require for the future or being misled about your savings ability.

INCREASING YOUR CHANCES OF ACHIEVING YOUR GOALS

The simple act of writing your goals down and sharing them with others increases your chances of achieving them. What are your objectives for the money you're investing? Do you want to accumulate money for a longer-term goal, such as a child's or grandchild's university education, or perhaps a comfortable retirement for yourself?

You might even have several goals, and each of those goals may require different investment approaches to achieve them. Before you decide to invest your hard-earned money, it is important to fully understand why you are investing and what you want to achieve.

PRIORITISING YOUR INVESTMENT GOALS

Growth: how much investment growth is appropriate and realistic to accomplish your objectives and meet your needs?

Cash flow: your portfolio ideally must sustain the ability to generate sufficient cash flow throughout your retirement.

Combination of growth and cash flow: you would like your portfolio to have the necessary growth to provide consistent cash flow. As with the pure growth goal, it's vital to understand what potential returns to expect.

Capital preservation: this aspect of goal-based investing refers to preserving the nominal value of your assets. Nominal values aren't inflation-adjusted, and this goal may be more appropriate for shorter-term cash flow needs than for longer time horizons, as capital preservation over a long period can mean watching your purchasing power diminish.

Capital preservation and growth: these two goals are inherently at odds. Realistically, these cannot be pursued at the same time, as terrific as that may sound. Growth cannot be achieved without putting investment capital at risk. It will be necessary to segment the investment monies to nominate the required amount to be set aside with a view to capital preservation, with an amount being maintained separately for investment with a view to achieving growth potential.

Maintain or improve lifestyle: you have worked hard for your retirement and may wish to maintain or enhance your current lifestyle in your retirement years. This means growing your purchasing power over time. Ultimately, this goal requires a growth strategy that must offset the erosive effects of inflation.

Depletion, or spending every pound: although spending every pound before you die isn't a common goal among retirees, it does exist. But as you might guess, it is a risky proposition. There is no way to accurately predict your lifespan. And should you live longer than you expect, you could run out of money sooner than you had planned.

With your goals in place, you then need to know how much risk you can tolerate. Along the way, there will inevitably be periods of ups and downs – and while the former are celebrated, the latter can be frightening, even to the most seasoned investor.

When you know exactly what the money is for, the time you have to achieve those goals and your tolerance for risk, you can construct your investment portfolio accordingly. ◀

HELPING YOU MAKE A PLAN TO REACH YOUR FINANCIAL GOALS

Achieving your financial goals – especially your long-term goals – requires a highly disciplined approach. No matter where you are in life, you will have financial goals you want to achieve. We can help you make a plan to reach them. To find out more or to discuss your future plans, please contact us.

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

09 DIVORCE

RELATIONSHIP BREAKDOWNS

A PENSION COULD WELL BE THE BIGGEST SINGLE ASSET IN THE RELATIONSHIP

What is likely to be a divorcing couple's most valuable asset? The family home will spring to most people's minds first. But the value of a pension could well be the biggest single asset in the relationship.

When and how pensions are divided on divorce depends on the circumstances of you and your family. If your marriage has been short and both of you are in your twenties or thirties, then your pensions may not need to be divided formally at all, although their value may still be taken into account in other ways.

CENTRAL PART IN NEGOTIATIONS

If you and your partner are in your 50s, pensions are likely to play a far more central part in your negotiations or the decision a court has to make. It will be necessary to look at them within the overall context of your family finances.

New research[1] shows that a fifth of people with pensions in the UK (20%) have no idea who will inherit their pension pot when they die. Surprisingly, 17% of divorcees don't know who stands to inherit their pension, even though this could be their ex-partner. This figure rises to 28% among people who are separated from their partner.

UPDATE PERSONAL INFORMATION

Of those who were formerly in a relationship that has since broken down, just 24% say they updated their pension policy immediately, while half (50%) said they had no idea they needed to update their personal information. A further 16% did eventually update their policy, but waited for over three months to do so, with men more likely to update a pension policy when a relationship ends. More than a quarter (28%) of men do so straight away, compared to just 20% of women. Three fifths of women (60%) don't know they should be updating a policy, compared to 42% of men.

Co-habitees are also leaving themselves exposed, as there is no guarantee a partner would receive pension savings if they are not named as a beneficiary on the policy. Over a quarter (28%) of co-habitees are unsure who will inherit their pension if the worst were to happen.

SORTING OUT YOUR PENSION

A relationship ending can be a really stressful time, and sorting out your pension may not be the biggest priority. However, it is important that you know who stands to inherit a pension when you die – for all you know, it could be an ex from many years ago.

Likewise, just because you and your partner live together and are in a committed relationship, there is no guarantee they'll receive your pension savings when you die unless you make specific requirements.

STAYING ON TOP OF YOUR FINANCES

1. Make sure you know who stands to inherit your pension pot when you die.
2. If you are co-habiting, many pension policies will require you to name that person on your policy as the beneficiary upon your death.
3. Periodically check all finances, including pension pots, bank accounts and insurance schemes, and ensure the right dependents and beneficiaries are named. ◀

PROTECTING YOUR FINANCIAL POSITION

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Obtaining the right professional financial advice is vital in the event of a divorce. Often, pensions aren't even considered in the divorce discussions. But the older you get, the bigger the size of your pension, so it may not be that dissimilar to the value of your property. Please speak to us about any concerns you may have or for further information.

Source data:

[1] The research was carried out online for Scottish Widows by Opinium across a total of 5,000 nationally representative adults in September 2017.

10 INHERITANCE TAX

WEALTH NAVIGATOR

PLANNING THE BEST ROUTE FOR THE NEXT GENERATION

You have worked hard to build your wealth. Passing it on to the next generation fairly, safely, effectively and efficiently takes skill and careful preparation. But some people find the idea of discussing inheritance uncomfortable and subsequently put off estate planning until, in some instances, it may be too late to make a difference.

Seeking early professional financial advice and guidance about the options to mitigate your liability is a sensible move, and there are lots of different options to be considered depending on your individual financial and personal circumstances and preferences.

FUTURE NEEDS AND ASSET REVIEW

By looking at your future needs and reviewing all your assets, including investments, property, businesses, pensions and life assurance – and by gifting and utilising investment reliefs – we can advise you how to plan the most effective way to pass on your wealth. Inheritance Tax is an unpopular and controversial tax, coming as it does at a time of loss and mourning.

But as property prices make Inheritance Tax more of a reality for many in the UK, it can impact on families with even quite modest assets – including those who have been basic-rate taxpayers all their lives. It's important to note that Scottish law is different and applies to the estates of people who die domiciled in Scotland, which differs from the rest of the UK.

FAILING TO PUT YOUR FINANCIAL AFFAIRS IN ORDER

It can be difficult to accept that you have to pay tax on your estate – which has usually been accumulated out of taxed income – and that your heirs will not reap the full rewards of your hard work. However, many people who end up paying Inheritance Tax do so because they have failed to put their financial affairs in order in advance. If you plan proficiently, neither you nor your heirs may have to pay Inheritance Tax at all.

HOW MUCH THE TAX BILL MIGHT BE

The first step in Inheritance Tax planning is to work out how much the tax bill might be. This isn't easy, bearing in mind the ever-changing values of property and other assets, plus changing legislation. Inheritance Tax is levied at a fixed rate of 40% on all assets worth more than the £325,000 nil-rate band threshold per person.

Your tax rate may be reduced to 36% if you leave 10% or more of your estate to charity. Your estate (including any gifts made by you) can pass Inheritance Tax-free to a spouse or registered civil partner living in the UK. This can give you a joint allowance of £650,000.

FAMILY HOME ALLOWANCE

From 6 April 2017, a family home allowance (known as the 'residence nil-rate band') was added to the Inheritance Tax threshold. This is currently £125,000, increasing to £175,000 by 2020/21, and applies where a home is left to direct descendants (such as children or grandchildren) of the deceased. Like the nil-rate band, any unused portion is transferable between spouses and registered civil partners.

There are effective and legitimate ways to mitigate against the impact of Inheritance Tax. But some of the most valuable exemptions must be used seven years before your death to be fully effective, so it makes sense to consider ways to plan for Inheritance Tax sooner rather than later.

MITIGATING AGAINST INHERITANCE TAX

MAKE A WILL

One of the most important things you can do to help reduce the amount of Inheritance Tax you could be liable to pay is to write a Will. If you die without a Will, your estate is divided out according to a pre-set formula, and you have no say over who gets what and how much tax is payable. Dying intestate (without a Will) means that you may not be making the most of the Inheritance Tax exemption which exists if you wish your estate to pass to your spouse or registered civil partner.

If you don't make a Will, then relatives other than your spouse or registered civil partner may be entitled to a share of your estate, and this might trigger an Inheritance Tax liability. You also need to keep your Will up-to-date. Getting married, divorced or having children are all key times to review your Will. If the changes are minor, you could add what's called a 'codicil' to the original Will.

MAKE LIFETIME GIFTS

Gifts made to an individual or to a bare trust more than seven years before you die are free of Inheritance Tax, so it might be wise to pass on some of your wealth while you are still alive. This will reduce the value of your estate when it is assessed for Inheritance Tax purposes, and there is no limit on the sums you can pass on. You can gift as much as you wish, and this is known as a 'potentially exempt transfer' (PET).

If you live for seven years after making such a gift, then it will be exempt from Inheritance Tax. But should you be unfortunate enough to die within seven years, then it will still be counted as part of your estate if it is above the annual gift allowance. You need to be particularly careful if you are giving away your home to your children with conditions attached to it, or if you give it away but continue to benefit from it. This is known as a 'gift with reservation of benefit'.

You can make certain gifts that are given favourable Inheritance Tax treatment:

- Charitable gifts made to a qualifying charity during your lifetime or in your Will
- Potentially exempt transfers (PETs). If you survive for seven years after making a gift to someone, that gift is generally exempt from Inheritance Tax
- You can give away up to £3,000 each year, and you can use your unused allowance from the previous year
- You can make small gifts up to £250 to as many people as you like Inheritance Tax-free
- Weddings and registered civil partnership gifts are exempt up to a certain amount
- You can make regular gifts from surplus income after tax, but these need to be documented and lead to no reduction in standard of living for you as donor

SET UP A TRUST

Some people who make gifts to reduce Inheritance Tax are concerned about losing control of the money. This is where trusts can help. When you set up a trust, it is a legal arrangement, and you will need to appoint 'trustees' who are responsible for holding and managing the assets. Trustees have a responsibility to manage the trust on behalf of, and in the best interest of, the beneficiaries in accordance with the trust terms. The terms will be set out in a legal document called the 'trust deed'.

You need to bear in mind that there might be tax consequences if you set up a trust. The rules around trusts are complicated, so you should always obtain professional advice.

INSURANCE POLICY

If you don't want to give away your assets while you're still alive, another option is to take out life cover, which can pay out an amount equal to your estimated Inheritance Tax liability on death. It's essential that the policy is written in an appropriate trust, so that it pays out outside your estate.

'IF YOU DON'T WANT TO GIVE AWAY YOUR ASSETS WHILE YOU'RE STILL ALIVE, ANOTHER OPTION IS TO TAKE OUT LIFE COVER, WHICH CAN PAY OUT AN AMOUNT EQUAL TO YOUR ESTIMATED INHERITANCE TAX LIABILITY ON DEATH.'

One option could be to purchase a whole-of-life assurance policy, designed to provide funds to the beneficiaries of your estate in the event of your death, to meet the cost of any Inheritance Tax bill payable.

BUSINESS PROPERTY RELIEF

Business property relief can be a very effective way to remove assets from your estate but still have full access to the funds if needed in the future. You can hold shares in the portfolios of certain companies; they are considered business assets and attract 100% relief from Inheritance Tax. You'll only need to hold these shares for two years to qualify for business property relief. Qualifying companies include most of those trading on the London Stock Exchange's Alternative Investment Market.

Investments eligible for Business Property Relief 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. ◀

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TIME TO CARRY OUT A FULL REVIEW OF YOUR ESTATE'S POTENTIAL LIABILITY?

Inheritance Tax is not completely out of your hands. Whether you are taking a principled stand or a practical one, you do have some control. We can carry out a full review of your estate's potential liability to Inheritance Tax and advise you if there is any scope to reduce your estate's exposure to Inheritance Tax. To find out more, please contact us – we look forward to hearing from you.

WORK PRESSURES

THE GREATEST STRAINS ON PHYSICAL AND MENTAL HEALTH

There is an increasing trend for people to work for longer and delay their retirement, with some staying in work out of financial necessity. But one of the primary concerns people have about working beyond their 50s is the impact this could have on their health, or whether any health concerns might prevent them from working.

Nearly two in five (37%) workers aged above 50 – equivalent to 3.8 million people[1] – anticipate that problems with their health will be the main factor that forces them into retirement, according to new research[2].

HEALTH AND WELL-BEING PROBLEMS

Though the number of workers in this age bracket has risen by more than one million people in the past five years[3], the findings suggest the longevity of this trend is at risk, with many indicating that health and well-being problems are caused or aggravated by the workplace itself.

Work pressures are described by those surveyed as one of the greatest strains on their physical and mental health (21%), alongside money issues (35%) – which are also often linked to working life – and pre-existing medical conditions (24%).

ACHIEVING FULLER WORKING LIVES

Worryingly, more than half (53%) of workers aged over 50 do not feel supported by their employer when it comes to their well-being – a feeling which is much less prevalent among younger colleagues (falling to 34% of workers aged 16–49). As an indication of the type of support employees need to achieve fuller working lives, one in five (21%) agree employers should offer workshops or seminars on health and well-being in later life.

The research also reveals improved health and well-being in the workplace could be achieved by encouraging employees to reassess their priorities, as almost two in five (37%) over-50s workers admit they often put their job above their health and well-being.

THE TWO BIGGEST HEALTH CHALLENGES

While few people say they do not feel confident about their long-term career plans (27%), 38% are not confident about long-term plans for their health. Greater communication is also needed, as more than a quarter (27%) of those surveyed do not feel comfortable telling their employer about any health issues they face as they grow older.

While the onus is partly on employers to do more to promote health and well-being within the workplace, employees also have a role to play. The two biggest health challenges among employees in the 50-plus age group – weight and diet (24%) and physical fitness (18%) – are both issues that individuals can take steps to improve through lifestyle changes. ◀

NEARLY TWO IN FIVE (37%) WORKERS AGED ABOVE 50 – EQUIVALENT TO 3.8 MILLION PEOPLE[1] – ANTICIPATE THAT PROBLEMS WITH THEIR HEALTH WILL BE THE MAIN FACTOR THAT FORCES THEM INTO RETIREMENT, ACCORDING TO NEW RESEARCH[2].

Source data:

[1] Based on 37% of the 10.206m over-50s currently in work (source: ONS Labour Market Statistics, August 2018 (latest available figures) – table A05).

[2] Research conducted by Censuswide on behalf of Aviva in May 2018. Survey respondents included 2,497 UK adults aged 16–75, including 1,219 aged over 50 of whom 520 are still in work.

[3] ONS Labour Market Statistics, August 2018 (latest available figures) – table A05 shows there were 10.206m over-50s in work between April and June 2018, compared to 8.812m between April and June 2013.

FACTORS WHICH PUT THE GREATEST STRAIN ON EMPLOYEES' PHYSICAL AND MENTAL HEALTH

Top five	All workers	Over-50s workers
Money issues	43%	35%
Pre-existing medical conditions	16%	24%
Work pressures	30%	21%
Family issues	25%	19%
Poor diet	15%	12%

Source: Aviva, 2018.

GREATEST HEALTH CHALLENGES

Greatest strains on well-being	All workers	Over-50s workers
My weight and diet	27%	24%
My physical fitness	19%	18%
My mental health	19%	11%
Preventing/delaying the onset of health conditions	6%	11%
Managing/treating an existing health condition	7%	9%
Alcohol and/or tobacco consumption	7%	5%
I do not believe anything to be my greatest health challenge	13%	19%

Source: Aviva, 2018.

PLANNING ON TAKING ILL HEALTH RETIREMENT?

If you're ill and your illness is so bad that you can't continue to work, you may be able to retire early. If you're planning on taking ill health retirement, we can help you understand the rules. If you would like help considering your options or for further information, please contact us.

INFLATION MATTERS

IMPACT OF RISING PRICES ON INVESTMENTS

A pound saved is a pound earned. But thanks to inflation, over time, the value of the pound saved could be much less than when it was earned. One cannot ignore the corrosive impact of rising prices on investments.

Investors can easily fail to prepare for the risk of inflation eroding the purchasing power of money, especially in a low-inflation environment. Therefore, it is wise for portfolios to include assets that help offset the effects of inflation.

MAINTAIN THE PURCHASING POWER OVER TIME

After two years when consumer prices in the UK barely rose, there are signs that inflation may be about to return. If it does, how should you prepare? To help maintain the purchasing power over time, your savings need to grow at least as quickly as prices are rising.

The Bank of England forecasts that consumer price inflation will remain above 2% in each year until 2021. While nowhere close to historic highs, higher inflation stands in contrast to near-record-low interest rates offered on cash savings. Higher inflation represents a hike in the cost of everyday living – and the higher it rises, the less your cash will be ultimately worth.

BIGGEST ENEMY OF CASH SAVERS

Keeping enough cash aside to cover any foreseeable costs you might face is always sensible (typically three to six months of your monthly outgoings). However, relying solely or overly on cash might prevent you from achieving your long-term financial goals, which may only be possible if you accept some level of investment risk.

Worse, in an environment where the cost of living is rising faster than the interest rates on cash, there is a danger that your savings will slowly become worth less and less, leaving you worse off down the road.

SEEKING HIGHER INVESTMENT RETURNS

If you are prepared to take on some investment risk, you could look at investing in a bond fund to look for higher returns. Bond funds invest in a basket of IOUs issued by governments and/or companies looking to raise cash. When someone invests in a bond, they are essentially lending the bond issuer their money for a fixed period of time.

INVESTOR INCOME RISING IN LINE WITH INFLATION

Protection against this threat is offered by inflation-linked bonds, whose coupons and principal will track prices. By linking coupons to prices, the income that investors receive will rise in line with inflation, so they should be left no worse off – unless, of course, the bond issuer fails to keep up with repayments (an unavoidable risk for bond investors).

If prices fall, however, so would the value of inflation-linked bonds and the income from them – in contrast to bonds whose principal and coupons are fixed and which would therefore be worth more in real terms. If inflation falls, protection from it rising can therefore come at a price.

PROTECTION DURING INFLATIONARY PERIODS

To beat rising prices, the total returns from any investment – being the combination of capital growth and any income – must be greater than the rate of inflation. As a result, company earnings may have the potential to keep up with inflation, all things being constant, but there can be no guarantee of this – some companies may fail in inflationary times.

However, company shares (or 'equities') do potentially offer long-term investors a degree of protection during inflationary periods. Ultimately, shares are claims to the ownership of real assets, such as land or factories, which should appreciate in value if overall prices increase.

INCOME STREAM AS WELL AS CAPITAL GROWTH

Equity returns, in theory, should therefore be inflation-neutral, so long as companies can pass on any higher costs they face and maintain their profitability. In turn, a company's ability to make money will typically be reflected in its share price and its ability to provide investors with an income in the form of a dividend.

Opting for a fund which invests in a wide spread of stocks is less risky than putting your money into just a handful of shares.

HIGHER INFLATION SQUEEZES PURCHASING POWER

These vehicles invest in the shares of dividend-paying firms, or companies that tend to share their profits with their shareholders, and investors can opt to either take the income or instead re-invest it. It is vital to understand that dividends are not guaranteed: they depend on companies' profits, and those companies can decide to cut or cancel their payouts altogether – all of which can also cause share prices to fall. ◀

STAYING AHEAD OF INFLATION

Inflation has been quiet for a very long time. But there are some signs that inflation may be about to return. If it does, are you prepared? It's essential to ensure your portfolio includes some areas that may benefit from or be resilient to interest rate rises. If you would like to discuss your investments or if you have any questions, please contact us.

INVESTMENTS DO NOT INCLUDE THE SAME SECURITY OF CAPITAL WHICH IS AFFORDED WITH A DEPOSIT ACCOUNT. YOU MAY GET BACK LESS THAN THE AMOUNT INVESTED.

PROTECTING YOUR IDENTITY

COMMON WAYS FRAUDSTERS CAN STEAL YOUR PERSONAL INFORMATION

As individuals, throughout our lifetime we exchange personal information with a vast number of institutions including banks, credit card suppliers, utility companies, supermarkets, government organisations and retailers. This may be to receive important services, but also to allow us to do the fun things like shopping, eating out or going on holiday.

Fraudulent or stolen identities being used to make false applications for credit cards or loans, to obtain goods and services, or even to access money or other assets is naturally something that concerns us all. Worryingly, it is not untypical for a victim to first become aware of this when they receive a letter of demand for payment.

Of course, there are a number of basic things we can all do as individuals to protect ourselves against identity crime and reduce the risk of our personal information falling into the wrong hands. If you discover your identity has been stolen, act immediately. Following these steps will help to minimise the impact and prevent additional issues from arising.

Identity theft is frighteningly widespread. No one can prevent all identity theft, and cybercriminals are getting more sophisticated in their attempts to steal your identity. Identity theft occurs when someone steals your personal information and uses it to commit fraud or other crimes in your name.

1. CHECK YOUR CREDIT REPORTS

At a small cost, you can check your credit file with a credit reference agency such as Call Credit, Equifax or Experian to help identify any activity that you are not aware of.

2. MONITOR YOUR MAIL

Make sure you receive all post that you are expecting. If you think post is missing, contact the Royal Mail. Also, arrange for the Royal Mail to re-direct post to your new address if you have moved house, and inform companies that you deal with regularly that you have moved.

3. REVIEW BILLS AND BANK STATEMENTS

Check bank, credit card and other financial statements frequently, and look out for transactions that you do not recognise. Check for fraudulent charges or suspicious activity. Report issues immediately. Consider receiving statements and bills electronically, setting up direct deposits, and using online bill pay.

4. IDENTITY THEFT PROTECTION

Identity theft protection providers monitor your credit reports, as well as online debit and credit card number(s). If suspicious activity is detected, you will be notified and will receive identity recovery assistance.

5. SHRED DOCUMENTS

Carefully dispose of documentation that contains personal details rather than just throwing them away. Use a cross-cut shredder to destroy envelopes and documents.

6. SECURE YOUR COMPUTER(S) AND MOBILE DEVICES

Whether a desktop, laptop, netbook, tablet or smartphone, your computer contains critical personal information.

TO HELP PROTECT YOUR ELECTRONIC DEVICES, YOU SHOULD ALSO:

- Password-protect your device
- Install and update operating system, antivirus and anti-spyware software. For smartphones, also install a 'wiping' program to erase all data remotely if it is lost or stolen
- Use a personal firewall
- When using a wireless network, activate WPA encryption and any other security features available. Change your router's default password and SSID
- Beware of 'smishing' – text messages containing links capable of downloading malware to your smartphone
- Do not leave your device unattended or your screen visible to others
- Close your browser when you're finished with a secure session
- Log off when you leave or step away

USE CAUTION ONLINE

- Only access personal and financial information from a computer you 'trust'
- Only do business with financial institutions and online merchants you know and trust. Watch out for copycat sites, and confirm the email address is correct
- When accessing financial information or ordering online, be sure the site is secure. Look for a URL that begins with 'https://' and the 'closed padlock' symbol
- Never reply to an email or pop-up message that requests you provide or update your personal information

ON SOCIAL MEDIA SITES, IT'S ALWAYS A GOOD IDEA TO:

- Review the privacy policy
- Choose a challenging password
- Don't reveal your physical address, date of birth, school names or phone numbers
- Use privacy settings

NEED HELP? HAVE QUESTIONS?

If you're looking for further information or want to discuss any areas of concern, we're here to help.

GENERATIONAL FINANCES

JOB PROSPECTS, SAVINGS, SAFETY NETS AND LIFE EXPECTANCY

Rising housing costs, soaring student debt and low wage inflation have left many millennials with stretched budgets. They may get regularly mocked as Generation Snowflake obsessed with spending on luxuries, but new research[1] shows they are focused on saving for retirement and want more support.

We know how the generational finance argument goes. Older Brits are hanging on to all the cash, property and pension deals. Younger Brits are discouraged by student loan hangovers and house prices and are avoiding the need to save for anything at all. With retirement a lifetime away, they are blowing any extra cash at the bar.

UNFAIR REPRESENTATION

But this is an unfair representation of the majority of millennials. The study found nearly seven out of ten (69%) of under-35s are saving into pensions either through work or in personal schemes, but they are struggling for help.

Over half (53%) wish their employer would explain pensions and benefits, and nearly a quarter (24%) say they find pension rules very confusing.

SUCCESS OF AUTO-ENROLMENT

Two thirds (66%) have signed up for workplace schemes, underlining the success of auto-enrolment. However, many recognise they are not saving enough, with 23% saying their current workplace or personal pension contribution is not high enough.

Just 24% admit to not having a pension fund currently, and 27% say pensions either do not motivate them or are not relevant to their generation.

RESPONSIBLE ATTITUDE TO RETIREMENT

It all adds up to a responsible attitude to retirement planning from millennials – over a quarter (26%) have found out more about their financial options and current situation, and say they see a financial adviser regularly.

Millennials are often under a lot of pressure to get on the housing ladder and pay off their student loans at the same time as trying to prioritise pension savings. Rules can be confusing, especially when you are early into your career, which is why we advise most savers to seek financial advice when possible. Employers can help to ensure they provide information and support around their workplace scheme.

PENSION RULES AND THE OPTIONS AVAILABLE

Over a third (37%) of millennials believe that they are saving as much as they can but still don't think it is enough for a comfortable retirement. An additional 16% don't think they are ever going to be able to afford to retire.

However, millennial attitudes to retirement could stem from them not knowing enough about pension rules and the options they have available. Over two fifths (23%) admit that they do not know if they are on target for retirement saving, and a further 28% do not feel confident with money and financial matters. ◀

Source data:

[1] Consumer Intelligence conducted an independent online survey for Prudential between 20-21 June 2018 among 1,178 UK adults

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TIME TO SET UP A FINANCIAL REVIEW MEETING?

We believe that receiving professional financial advice is vitally important, whatever stage of your life you have reached. So if you would like to review your financial plans and help make your finances more tax-efficient, please contact us.

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.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. 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.

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YOUR HOME OR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

TAX TREATMENT DEPENDS ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN THE FUTURE.

SELF-EMPLOYED FINANCES

LOOMING PENSION SAVING CRISIS ON THE HORIZON

The number of people running their own businesses has soared since the financial crisis, with a significant number being set up by someone aged over 50. But an unhealthy number of self-employed workers in the UK do not currently save into a pension.

New research[1] has highlighted that self-employed workers are heading towards a pension saving crisis as they cannot afford to save for their retirement. Starting your own business and becoming self-employed is exciting. But being your own boss can have some challenges – saving for retirement is certainly one of them.

The nationwide study found that more than two fifths (43%) of those working for themselves admit they do not have a pension, compared to just 4% of those in employment. A key reason is that 36% of the self-employed say they cannot afford to save for retirement.

LESS COMFORTABLE RETIREMENT

Self-employed workers now make up 15.1% of the UK workforce, with more than 4.8 million people working for themselves[2], but the research found they are heading for a less comfortable retirement, with many not planning to stop work.

Around one in three (31%) say they will be relying entirely on the State Pension worth around £8,545 a year to fund their retirement, while 28% will be reliant on their business to provide the income they need.

DAY-TO-DAY EMERGENCIES

Self-employed workers are savers, but the research found they are more focused on day-to-day emergencies than the long term of retirement. Two thirds (64%) of the self-employed save to build up a safety net in case of an emergency, in comparison with 57% of those in employment.

Just one in ten self-employed people see a financial adviser regularly, despite having potentially more complex requirements than someone in employment. One in five (19%) are not confident with money and financial matters, while a quarter (24%) worry that they do not know enough about money.

PENSIONS FOR THE SELF-EMPLOYED

All this adds up to an education gap when it comes to the importance of pensions for the self-employed, as 20% admit they do not take pension saving seriously as they do not think it applies to them.

Saving for retirement is tougher when you are self-employed, as there is no one to organise a pension for you and no employer making contributions on your behalf. On top of that, self-employed workers often don't have a regular income, so many will focus on setting aside money as a safety net if they cannot work.

FUNDING A COMFORTABLE RETIREMENT

Saving for a pension is still important, as no one wants to work forever. And no matter what your employment status, having money to fund your retirement is essential, as the State Pension is unlikely to be enough to fund a comfortable retirement.

If you leave an employer and become self-employed, you should continue to pay in to your workplace pension if possible. Some workplace pension schemes allow you to carry on saving once you have left your employer and become self-employed. ◀

Source data:

[1] Consumer Intelligence conducted an independent online survey for Prudential between 20-21 June 2018 among 1,178 UK adults

[2] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2018-02-07

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SUPPORTING YOUR RETIREMENT JOURNEY

Starting your own business will be a busy time, and you will be feeling the financial pressures from all directions, so it's understandable that a pension might not be on your immediate radar. Wherever you sit in your retirement journey, we're here to support you. Whether it's starting a pension, saving more into your plan or to help with your options for retirement, please contact us.

MARKET EXPOSURE

BUILD A PORTFOLIO THAT MEETS YOUR NEEDS

The earlier you commit to an investment strategy, the longer your money can work in the market. However, the world is an uncertain place at the moment. The deadline for the United Kingdom's withdrawal from the EU is edging closer, and there is also the ongoing threat of an all-out trade war breaking out.

Investing should be for the long term. Why? Because markets and the economy have a tendency to rise over time. For investors, this should mean a return on investment for people who can ride out the ups and downs along the way – a reward for the extra risk they're taking.

KEY DRIVERS OF LONG-TERM RETURNS

Fundamentals and changes in value are the key drivers of long-term returns, and they are possible to forecast with a degree of accuracy rather than trying to time the markets or second-guess rises and falls in prices.

But throughout history, we have seen periods of extreme volatility when there have been rallies and sell-offs time and time again for a variety of reasons. With long-term investing, you can expect cycles – periods of falling prices followed by a recovery. A key to successful investing is being comfortable knowing that there will be falls as well as rises in the market.

CYCLICAL IN NATURE AND PRONE TO VOLATILITY

Many people will remember the dot-com bubble of 2001 and the global financial crisis of 2007. However, stock markets are cyclical in nature, and although prone to volatility, markets and wider economies have a tendency to rise over time. This applies to everything from share prices and earnings to wages and the price of household goods.

On the other hand, short-term returns are driven by changes in valuation and investor sentiment. These are impossible to forecast consistently, and trying to time the markets can also mean potentially locking in losses and missing out on gains.

RETURNS GENERATING MORE RETURNS

Compounding is one of the reasons long-term investing has the potential to give such great returns. This is the snowballing effect of your returns generating more returns. In the stock markets, compounding is usually a result of reinvesting dividend income. Companies are collectively owned by their shareholders, and their board members may agree to pay investors their share of the profits through a dividend.

Dividend-paying shares are a staple of most income-seeking investors' portfolios. But when the income is reinvested, we can see a significant increase in total return over time. This makes them ideal for investors who are seeking growth – especially as a stable and growing dividend is seen as a sign of good corporate governance.

POLITICAL UNCERTAINTY OR VOLATILITY

When people feel nervous about investing – perhaps due to political uncertainty or volatility in the stock market – a common reaction is to sell their investments and keep their money in cash. Cash is seen as a 'safe' asset, but it does leave investors open to the risk of inflation. Inflation erodes the buying power of your savings over time. Your account balance doesn't change, but you can buy less with your money.

Although markets have been volatile and there remains uncertainty over the global political future, there will always be reasons not to invest and scenarios to worry about. However, you must remember that every period of time spent out of the stock markets is a period of time potentially missing out on returns. ◀

WE DO THE HARD WORK FOR YOU

If you have a long time horizon and can accept the fact that markets tend to rise and fall along the way, whatever the future holds, we're here to help you build the portfolio that meets your needs. When it comes to managing your money, the financial markets can be a daunting place – that's why we do the hard work for you. To discuss your requirements, 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.

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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

PENSION FREEDOMS

TAKING RESPONSIBILITY FOR FUNDING OUR OWN RETIREMENT

Although each generation will likely face different challenges and opportunities, achieving retirement readiness will require actions common to us all. We all know that our ageing population and increased life expectancy are putting a strain on government finances. Following pension freedoms, there's greater choice than ever before in how you access and take your retirement benefits.

Now, more than ever, it is vital that we all take responsibility for funding our own retirement. But what if you've reached your 50s and you have little or no savings to speak of? Don't panic. You can still build a decent pension. Here's how:

MAKE THE MOST OF FREE MONEY

The good news is that there's still time to build a decent pension pot when you are in your 50s. For starters, many people of this age are at the peak of their career earnings, so can make the most of the tax relief available when contributing to their pension. You can put as much as you want into your pension, but there are annual and lifetime limits on how much tax relief you get on your pension contributions.

If you're a UK taxpayer, in the tax year 2018/19 the standard rule is that you'll get tax relief on pension contributions of up to 100% of your earnings or a £40,000 annual allowance – whichever is lower.

Any contributions you make over this limit won't attract tax relief and will be added to your other income and be subject to Income Tax at the rate(s) that applies to you. However, you can carry forward unused allowances from the previous three years, as long as you were a member of a pension scheme during those years.

But there is an exception to this standard rule. If you have a defined contribution pension and you start to draw money from it, the annual allowance reduces to £4,000 in some situations. Since April 2016, the annual allowance is also reduced if you have an income of over £150,000, including pension contributions.

TRACK DOWN YOUR WORKPLACE PENSIONS

Launched in May 2016, the Pension Tracing Service is a free-to-use government initiative that searches a vast database of pension schemes to help you find a lost pension from companies you almost forgot you worked at, as well as private pension providers.

All you need is the name of the employer (or the pension provider) and the dates you worked there, and the system can locate it. What it can't do is tell you if you do or do not have a pension there, or how much the fund is worth. However, with the details it provides, it can help 'reunite' you with pensions you may have forgotten you had.

STEPS TO TAKE TO TRACE YOUR OLD PENSION:

- Keep hold of statements, old emails or mail you've had from previous pension providers
- Contact former employers for long-forgotten workplace pensions
- Get in touch with the pension provider if possible
- If you can't, then track them down via the Pension Tracing Service
- Get as much information as you can about those pension plans

PENSION CONSOLIDATION

If appropriate to your particular situation, having all your pension savings in one place could mean you're clearer about your financial position, giving you the option to make more informed decisions. If you've had more than one job during your career, you could have more than one pension pot.

Pension consolidation means bringing a number of pension pots together into a single pot. This process will not be right for everyone, and it is essential to obtain professional financial advice before moving any pension monies.

You will need to compare the benefits from your current pension with the estimated benefits of your new pension, including any guarantees that you may be giving up or any exit penalties that may apply if you transfer out of a scheme. Transferring your pension may not be the best option for you.

If appropriate, consolidating your pension monies may reduce the money spent on multiple charges and could make managing one pension easier than looking after several. Instead of receiving statements from different providers at different times, you'll only receive one statement that shows all of your pension savings.

By combing all of your pension pots together, you can also quickly and easily see how much you've got, if you're invested in the right funds and how your pension is performing. This single view could make it easier to see if you're on track to meet your retirement goals and to make changes if you need to.

It's important to keep a close watch on the pension savings you've got, and consolidating them could mean you don't lose track of your savings. ◀

TAKING GREATER RESPONSIBILITY

We're now expected to take greater responsibility for funding our own retirement. There's a lot to think about when you're planning your retirement. And don't forget your situation may change in the future, so it can help to be flexible. If you would like to discuss your particular situation or arrange a meeting, please contact us.

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INVESTING FOR TAX-FREE DIVIDENDS

NO LONGER THE PRECURSOR TO END-OF-TAX-YEAR PLANNING

Venture Capital Trusts (VCTs) provide the opportunity for appropriate investors to support the growth of small UK businesses and receive attractive tax reliefs in return. Introduced in 1995, VCTs enable smaller companies that may find it hard to get traditional finance, such as from banks.

VCTs have historically been used as an end-of-tax-year financial planning tool, but this is no longer the case. They may appeal to investors who are already maximising their annual Individual Savings Account and pension allowances and have further cash to invest. Alternatively, they may be appropriate for investors who have reached the pension lifetime allowance and want to supplement their retirement income strategy by investing in VCTs for tax-free dividends.

PORTFOLIO DIVERSIFICATION

VCTs may also appeal to higher earners with a total income over £150,000 who are affected by the tapered pension annual allowance and who want to reduce their Income Tax bill, or even investors who want to add some exposure in their portfolios to small, young UK enterprises with growth potential, or diversify their portfolio with exposure to unquoted companies.

A VCT is a company whose shares trade on the London stock market. They are high-risk investments that in certain scenarios could

'INVESTMENTS IN VCTS CARRY TAX RELIEF TO ENCOURAGE YOU TO INVEST IN THESE SMALLER, HIGHER-RISK COMPANIES. BY POOLING YOUR INVESTMENTS WITH THOSE OF OTHER CUSTOMERS, THEY ALLOW YOU TO SPREAD THE RISK OVER A NUMBER OF SMALL COMPANIES.'

work well for individuals, depending on their personal circumstances, but there are very strict rules on how VCTs can invest your pooled money in order to qualify as VCTs.

Investments in VCTs carry tax relief to encourage you to invest in these smaller, higher-risk companies. By pooling your investments with those of other customers, they allow you to spread the risk over a number of small companies.

VCTS MUST:

- Invest at least 70% in qualifying companies within three years
- Invest at least 70% in ordinary shares within three years
- Derive their income wholly or mainly from shares or securities
- Have no holding in one company representing more than 15% of the portfolio's overall holding
- Quote their ordinary shares on the London Stock Exchange
- Retain no more than 15% of their income

QUALIFYING HOLDINGS MUST:

- Have gross assets of no more than £15 million before investment
- Receive no more than £5 million of VCT investment in any 12-month period
- Undertake a qualifying trade which generally excludes property, hotels, nursing homes, dealing in land or commodities, financial or legal services, leasing, etc.
- Have no more than 250 full-time employees at the time of investment

SUBSCRIBING TO NEW SHARES

Investors can gain access by subscribing to new shares when a trust is launched or by buying shares from other investors when the trust has been established. Investors receive Income Tax relief when they buy newly issued VCTs, currently at the rate of 30% on investments of up to £200,000 per tax year.

This relief is provided as a tax credit to set against the investors' total Income Tax liability and, therefore, cannot exceed their total tax liability for the tax year. VCT tax reliefs apply to people aged 18 years or over who are UK income taxpayers, and are only available if the trust maintains VCT status. The relief received depends on the investors' own individual circumstances.

Investors do not receive this tax relief if they buy existing VCT shares. They have to hold shares in a VCT for at least five years to keep the Income Tax relief – if they have to sell them before then, they'll lose this benefit. There is also no Capital Gains Tax payable on profits from selling VCT shares, no matter how short a period they are held, provided the company maintains its VCT status. ◀

MEETING YOUR FINANCIAL AMBITIONS

If you're looking to create or maintain a lifestyle, building a legacy or funding a long-term goal, we can help you create financial plans and investment portfolios that meet your ambitions. Please contact us to discuss your requirements.

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FUNDING YOUR **GOLDEN YEARS**

TAX ASPECTS REQUIRE CAREFUL PLANNING AFTER RECENT GOVERNMENT CHANGES

Pensions have the reputation of being confusing, but they needn't be. Private pensions are usually used by people who don't have access to a workplace pension scheme, but you can also have one if you are employed or not working. They work in much the same way as workplace pension schemes, but you, rather than an employer, are responsible for choosing the provider and setting up your plan.

When you pay into a pension, you receive tax relief on any contributions you make. People may turn to private pensions as a tax-effective way to bolster their retirement income. There are several different types of private pension to choose from, but in light of recent government changes, the tax aspects require careful planning.

AS MANY SCHEMES AS YOU LIKE

The term 'private pension' covers both workplace pensions and personal pensions. The UK Government currently places no restrictions on the number of different pension schemes you can be a member of.

So, even if you already have a workplace pension, you can have a personal pension too, or even multiple personal pensions. These can be a useful alternative to workplace pensions if you're self-employed or not earning, or simply another way to save for retirement.

Any UK resident between the ages of 18 and 75 can pay into a personal pension – although the earlier you invest, the more likely you are to be able to build up a substantial pension pot.

TAX RELIEF ON PENSION CONTRIBUTIONS

Private pensions are designed to be a tax-efficient savings scheme. The Government encourages this kind of saving through tax relief on pension contributions. In the 2018/19 tax year, pension-related tax relief is limited to either 100% of your UK earnings, or £3,600 per annum.

THE CURRENT PENSION TAX RELIEF RATES ARE:

- Basic-rate taxpayers will receive 20% tax relief on pension contributions
- Higher-rate taxpayers also receive 20% tax relief, but they can claim back up to an additional 20% through their tax return
- Additional-rate taxpayers again pay 20% tax relief, but they can claim back up to a further 25% through their tax return
- Non-taxpayers receive basic-rate tax relief, but the maximum payment they can make is £2,880, to which the Government adds £720 in tax relief, making a total gross contribution of £3,600

If you are a Scottish taxpayer, the tax relief you will be entitled to will be at the Scottish Rate of Income Tax, which may differ from the rest of the UK.

ANNUAL ALLOWANCES CAN VARY

- The annual allowance is the maximum amount that you can contribute to your pension each year while still receiving tax relief. The current annual allowance is capped at £40,000, but may be lower depending on your personal circumstances
- In April 2016, the Government introduced the tapered annual allowance for high earners, which states that for every £2 of income earned above £150,000 each year, £1 of annual allowance will be forfeited. The maximum reduction will, however, be £30,000 – taking the highest earners' annual allowance down to £10,000

Any contributions over the annual allowance won't be eligible for tax relief, and you will need to pay an annual allowance charge. This charge will form part of your overall tax liability for that year, although there is the option to ask your pension scheme to pay the charge from your benefits if it is more than £2,000.

It is worth noting that you may be able to carry forward any unused annual allowances from the previous three tax years.

- If you have accessed any of your pensions, you can only pay a maximum of £4,000 into any un-accessed pension(s) you have. This is called the 'Money Purchase Annual Allowance' (or MPAA). The MPAA applies only if you have accessed one of your pensions

LIFETIME ALLOWANCES HAVE SHRUNK

The lifetime allowance (LTA) is the maximum amount of pension benefit that can be drawn without incurring an additional tax charge. Since 6 April 2018, the lifetime allowance is £1,030,000.

Your pension provider will be able to help you determine how much of your LTA you have already used up. This is important because exceeding the LTA will result in a charge of 55% on any lump sum and 25% on any other pension income such as cash withdrawals. This charge will usually be deducted by your pension provider when you access your pension.

IT'S POSSIBLE TO PROTECT YOUR PENSION

It's easier than you think to exceed the LTA, especially if you have been diligent about building up your pension pot. If you are concerned about

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.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. 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.

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

YOUR HOME OR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

TAX TREATMENT DEPENDS ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN THE FUTURE.

exceeding your LTA, or have already done so, you should talk to us.

It may be that we can apply for pension protection for you. This could enable you to retain a larger LTA and keep paying into your pension – depending on which form of protection you are eligible for:

- **Individual protection 2016 –** this protects your lifetime allowance to the lower of the value of your pension(s) at 5 April 2016 and/or £1.25 million. You can keep building up your pension with this type of protection, but you must pay tax on money taken from your pension(s) that exceed your protected lifetime allowance
- **Fixed protection 2016 –** this fixes your lifetime allowance at £1.25 million. You can only apply for this if you haven't made any pension contributions after 5 April

OTHER WAYS TO SAVE

In addition to pension protection, if you have reached your LTA (or are close to doing so), it may also be worth considering other tax-effective vehicles for retirement savings, such as Individual Savings Accounts (ISAs). In the current tax year, individuals can invest up to £20,000 into an ISA.

The Lifetime ISA, launched in April 2017, is open to UK residents aged 18–40 and enables younger savers to invest up to £4,000 a year tax-free – and any savings you put into the ISA before your 50th birthday will receive an added 25% bonus from the Government. After your 60th birthday, you can take out all the savings tax-free, making this an interesting alternative for those saving for retirement.

PASSING ON YOUR PENSION

Finally, it is worth noting that there will normally be no tax to pay on pension assets passed on to your beneficiaries if you die before the age of 75 and before you take anything from your pension pot – as long as the total assets are less than the LTA. If you die aged 75 or older, the beneficiary will typically be taxed at their marginal rate. ◀

PLANNING A PROSPEROUS AND SATISFYING RETIREMENT

Whether you are leaving work, handing over the reins of a business or looking to enjoy the next chapter of your life, we'll help you have a prosperous and satisfying retirement. To find out more, please contact us.

DOT-COM CRASH TO GLOBAL FINANCIAL CRISIS

BUSTING THE MYTHS OF INVESTMENT COMPANIES' PERFORMANCE

Saturday 15 September 2018 marked ten years since the collapse of Lehman Brothers. And with the bull market following the global financial crisis – now the longest in history in the US – it's useful to revisit the past. The Association of Investment Companies (AIC)[1] has looked at the long-term performance of investment companies from just before the dot-com bubble burst in 2000 and just after the collapse of Lehman Brothers in October 2007.

DOT-COM BUBBLE

The bursting of the dot-com bubble in March 2000 caused the FTSE 100 to enter a period of significant decline, reaching its lowest levels around October 2002. A £1,000 investment in the average investment company at the beginning of March 2000, just before the downturn, would have recovered and grown to a staggering £4,350 at the end of August 2018 – a gain of 335%. While 18-and-a-half years is a long time, it includes a recovery from both the dot-com crash and the global financial crisis and is an example of the benefits of long-term investing, particularly when the original £1,000 investment would have initially fallen to £660 in October 2002 before recovering.

GLOBAL FINANCIAL CRISIS

The global financial crisis of 2007 to 2009 was a period of market turmoil and a major economic downturn. A £1,000 investment in the average investment company at the beginning of October 2007, when markets were near their highest levels before the crash began, would now be worth £2,470 (end August 2018) – a 147% increase almost 11 years later. This is particularly impressive given that the investment fell to £580 around the time of the market low in February 2009, and it demonstrates again the benefits of investing with a long-term view.

INVESTING OVER THE LONG TERM

The data suggests that even when investing near-market highs, lump sum investments beat regular investments over the long term. For example, a £50 monthly investment in the average investment company from October 2007 to August 2018 (£6,550 invested) would now be worth £13,736 (end August 2018) – a gain of 110%. However, a lump sum investment of £6,550 over the same time frame would now be worth £16,178 – a gain of 147%. Over longer time frames, the difference is even greater. Investing £50 a month in the average investment company from March 2000 to August 2018 (£11,100 invested) is now worth £37,240 – an increase of 235%. Whereas £11,100 invested as a lump sum over the same period is now worth £48,281 – an increase of 335%.

TIME IN THE MARKET, NOT TIMING THE MARKET

It can be tempting to try to time stock market investments, but the saying 'time in the market, not timing the market' really has held true. Investors who invested in investment companies at the top of the market before the financial crisis and were able to hold on through the downturn would still have generated very strong returns over the long term.

SMOOTH THE VOLATILITY OF MARKETS

Investing in lump sums has outperformed regular investing over these longer time frames as more money has been invested in an ultimately rising market. However, regular investments are a convenient way to invest for people who do not have a lump sum, and they allow anxious investors to sleep more soundly at night because they smooth the volatility of markets. ◀

MAKING INFORMED INVESTMENT DECISIONS *i*

Whether you're investing for the medium or long term, the option you choose is likely to be influenced by your attitude to risk and investment needs. We can help you make informed decisions about your future investment goals – to find out more, contact us for further information.

Source data:

[1] The Association of Investment Companies (AIC) was founded in 1932 to represent the interests of the investment trust industry – the oldest form of collective investment. Today, the AIC represents a broad range of closed-ended investment companies, incorporating investment trusts and other closed-ended investment companies and VCTs. The AIC's members believe that the industry is best served if it is united and speaks with one voice. The AIC's mission statement is to help members add value for shareholders over the longer term. The AIC has 354 members, and the industry has total assets of approximately £188 billion.

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INDEPENDENCE PLAN

LEAST FINANCIALLY RESILIENT GROUP DELAY LIFE MILESTONES DUE TO FINANCIAL INSECURITY

Life can get complicated when you hit your early thirties, which means your finances are starting to get serious. You might be in the middle of countless transitions, like moving up in your career, starting a business, buying a home, getting married, having children...and a whole lot more.

A study[1] reveals that people in their early thirties are putting off life milestones, such as having children or buying a home, due to being one of the least financially resilient groups in the UK. A quarter (24%)[1] of the 30 to 35-year-olds in the study, of which there are 4.7 million in the UK, feel worried about the financial impact of life milestones – double the national average (12%)[1]. Nearly one in six (17%)[1] say they've put off major life milestones because they don't feel financially mature enough.

30 YEARS OR MORE FROM RETIREMENT

The great advantage of being in your thirties is your age – you may still be some 30 years or more from retirement and have plenty of time to right the excesses of your twenties. The potential downside, however, is that if you don't act now, these mistakes could colour your future financial health. Worryingly, seven out of ten under-35s believe their youthfulness will last forever[3], so they don't properly prepare for risks the future may hold.

The study also found that more than seven in ten (73%)[1] of this age group fall short of the Money Advice Service (MAS)[2] recommended amount of savings to be financially resilient, versus a national average of 56%[1].

UNABLE TO WORK DUE TO ILLNESS OR AN ACCIDENT

The research revealed a further one in five (22%)[1] in their early thirties don't know how long they would be able to cope financially if they found themselves unable to work – for instance, due to illness or an accident. Despite this, fewer than one in twelve working adults (7%)[1] have their own Income Protection insurance in place.

These findings – that many of those in their early thirties are delaying major life milestones because they feel worried, unconfident and ill-prepared financially – are very concerning. And it is worrying that so few can withstand the financial effects of an unexpected income shock – they have no Plan A, nor a Plan B.

LITTLE PROVISION TO HANDLE A FINANCIAL CRISIS

With low financial confidence and little provision to handle a financial crisis, there is a clear need for a safety net – a form of 'independence plan'. There are multiple reasons this age group isn't properly preparing for financial risks. A universal emphasis on the importance of 'staying young' means many people are in a state of denial or avoidance when it comes to facing up to the future. We also tend to talk within – rather than across – generational groups, which encourages us to focus inwardly on the present, not the future.

Previously, younger generations would likely inherit their parents' estate while relatively young, but increased life expectancy means this is no longer the case. By not giving proper weight to their financial status, this group could be at risk of finding themselves with a significant level of responsibility without adequate financial preparation or protection. ◀

CEMENTING A STRONGER RELATIONSHIP WITH MONEY

There are risks inherent in financial decision-making, no matter what your age. In your thirties, however, it's important to use this decade to cement a stronger relationship with money and take advantage of the time ahead of you. If you would like to discuss your future plans, please contact us to arrange a review meeting.

Source data:

[1] Methodology for consumer survey: YouGov, on behalf of LV=, conducted online interviews with 8,529 UK adults between 20-26 June 2018. Data has been weighted to reflect a nationally representative audience.

[2] Methodology for recognised benchmark of financial resilience: Money Advice Service (MAS) guidelines for financial resilience state that 'people should hold an emergency fund of three months' income'. LV= identified the 'least financially resilient' groups based on the combined factors of how respondents fared against the MAS definition and how confident respondents reported to feel about being able to manage a financial crisis.

People in their early thirties were identified as one of the least financially resilient groups using the following methodology: 30 to 35-year-olds were identified as the least financially resilient age group, with 73% falling short of having 90 days' worth of outgoings in the bank against the national average of 33%. Within this age group, 43% lack confidence in handling a financial crisis, versus the national average of 34%.

[3] Dr David Lewis, 'Life Unlimited – Peak Performance Past Forty', to be published late 2018

SANDWICH GENERATION

FINANCIALLY SQUEEZED BETWEEN ELDERLY PARENTS AND CHILDREN

Faced with the task of caring for elderly parents alongside your children, being in the Sandwich Generation can be a testing time. Finding yourself squeezed between – and often by – these two generations can be very stressful.

As well as facing time pressures, chances are your finances will be stretched too. New research[1] warns that the UK's Sandwich Generation is feeling strained when it comes to their financial responsibilities. It has found this group of around 2.4 million[2] people – typically between 40 and 60 years old – lacks financial confidence and preparedness. And as this age group grows older, the issue is set to intensify.

CONSEQUENCES OF A SERIOUS ILLNESS

More than half (52%)[2] are worried about the consequences of a serious illness affecting themselves or their partner in the next 12 months (versus 35% national average). They are also nearly two times more likely to worry about the prospect of themselves or their partner dying and leaving the family without an income (30% compared to 17% national average)[3].

The research also reveals the Sandwich Generation are unprepared for the longer-term future. Nearly two in five (37%) have less than £125 disposable income each month[3], with nearly half (46%)[3] citing their children as a constant source of unexpected expenses. More than half (54%)[3] say they want to save but can't afford to do so – which also means they struggle to top up their pension pots. On average, this group has around £60,000 to retire on, while expecting their funds to last around 20 years, which would provide a monthly income of less than £260[3].

BEING PULLED IN MANY DIRECTIONS

While your own financial security is important, many of the Sandwich Generation find that their parents' finances also become a pressing issue, especially if they become unwell. It is clear that this group feel they are being pulled in many directions, with pressures to care for older relatives and ongoing responsibilities for their children.

Many people who fall into the Sandwich Generation may have significant financial obligations and, with the rising cost of living, are worrying more about what could be around the corner. Spreading finances too thinly and dwelling on their worries mean the impact of having little or no plans in place could expose them to a real income shock. The Money Advice Service recommends you should have an emergency savings fund buffer for essential outgoings of between three to six months to help maintain financial resilience.

UNDERSTANDING THE OPTIONS AVAILABLE

Getting a better understanding of the options available is essential to being prepared for a more secure financial future. This can provide peace of mind against income shocks, such as not being able to work due to illness, and can help them ensure they are putting away what they need for their retirement.

Nearly three in five (57%)[3] of people within the Sandwich Generation fall short of the Money Advice Service (MAS) recommended amount of savings to be financially resilient, and more than a third (34%)[3] don't feel they could handle a personal financial crisis.◀

Source data:

[1] Methodology for consumer survey: YouGov, on behalf of LV=, conducted online interviews with 8,529 UK adults between 20-26 June 2018. Data has been weighted to reflect a nationally representative audience.
[2] Estimate from CarersUK.
[3] Based on averages from YouGov from consumer survey. This is the average of 'Total amount in pensions' divided by 'Time retirement funds will last'. So, £60,933 divided by 19.82 years.

PREPARING FOR A MORE SECURE FINANCIAL FUTURE

As more baby boomers become both Sandwich Generationers and seniors, the need to understand ageing dynamics and family relationships – and how to financially plan for these – increases dramatically. To discuss any concerns you may have, please contact us. We look forward to hearing from you.

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