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INDEPENDENT FINANCIAL ADVISERS

YOUR MONEY SPRING 2017

INSIDE THIS ISSUE

KEY POINTS FROM THE SPRING BUDGET 2017

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

RETIREMENT REGRETS AND HOW TO AVOID THEM

First, the good news. Research[1] shows that nine out of ten recent retirees are really enjoying their retirement. Freed from the restrictions of working life, they can pursue their hobbies, take lots of holidays and spend more time with their families.

Where people have regrets, it's often to do with the way they planned for their retirement and the decisions they did or didn't take about their finances whilst there was still time.

NOT SAVING ENOUGH

Some people wish they'd taken the opportunity during their peak earning years to put more into their pension pots. Even small sums saved earlier in a working life can mount up over the years. There's valuable tax relief available on pension contributions, providing an extra encouragement to save.

NOT PLANNING EARLY ENOUGH

It really pays to plan early and keep an eye on how your pension is progressing during your working life. That way, you can think about making additional contributions, or saving into tax-efficient savings accounts like ISAs to boost your income in retirement.

NOT SEIZING THE OPPORTUNITIES

Older pensioners often regret not having travelled more while they felt able to do so. It's often said that there are two times in retirement, when you are healthy, and when you are not. It's a good idea to plan your finances in such a way that you can spend more on leisure pursuits and travel in your early more active retirement years, whilst at the same time keeping funds in reserve to cover the likely cost of care in later life.

GETTING ADVICE ON YOUR PENSION OPTIONS

Should you opt for an annuity? Go into income drawdown? Take a tax-free lump sum? Defer your state pension? These are just a few of the questions you might need to consider as you approach retirement. Each one of them has implications for your future, and each one requires some careful thought.

Not getting appropriate advice is often mentioned as a regret by those people who feel they made poor financial choices when they retired. Taking professional advice can help you understand the implications of each of them in the context of your financial circumstances.

[1]Prudential, 2016

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

CONFUSING FINANCIAL TERMINOLOGY LEAVES PEOPLE OUT OF POCKET

If you've ever felt confused by financial jargon, you're certainly not alone. Research[1] has shown that many consumers are bewildered by unfamiliar terminology that they find difficult to understand, and worse still, they could be left out of pocket as a result.

About 41% of those who contributed to the survey[1] said that they ignored financial information because they didn't understand the wording used. Whilst 43% could correctly identify the capital of Peru, and 26% were able to explain how football's offside rule works, when it came to knowing what the term 'defined contribution' meant, only 22% of people could come up with the right answer.

FINANCIAL IMPLICATIONS

Confusion caused by unfamiliar jargon could mean that people might be making important decisions without thoroughly understanding the implications. The research found that there is also a disconnect between the percentage of adults who say they understand financial terms describing pensions and the proportion who can identify the correct definitions.

For example, 53% of UK adults said they knew what an annuity was, however, 27% of them then went on to choose the wrong definition. When it comes to understanding what a defined benefit pension is, 39% said they understood the term, but only 27% could identify the correct explanation.

When it comes to mortgages, many people are confused about the different types available. Many mortgage holders don't even know what type of interest rate they are paying on their mortgage – fixed, variable, tracker or discounted.

GETTING PROFESSIONAL HELP

When it comes to money, it's important not to make an uninformed decision that could turn out to have serious implications for your financial future. Independent professional advice can help you understand your financial options, be better informed and make wiser choices for your money.

[1]Aviva, Jan 2017

PARENTS RELUCTANT TO LEAVE AN INHERITANCE AS THE RISK OF DIVORCE WEIGHS HEAVY

Planning how best to leave your finances to your heirs, can be a difficult decision to make. Parents may wish to pass some money on to their children during their lifetime, rather than hang on to all of it until their death.

Many grandparents are concerned about their grandchildren and are anxious to provide for their financial futures, while at the same time balancing the needs of their children. When looking at how best to pass on wealth to future generations, there's a lot to consider.

Research[1] has highlighted another concern experienced in some families. Almost a third of parents questioned in the recent survey expressed worries about providing their married children with financial aid, or planning to leave them an inheritance. The reason given was that they were afraid that divorce could mean that the money left the family. Many didn't feel confident that their children's marriages would last a lifetime.

Others who took part in the survey expressed concerns about their children's ability to manage their finances, fearing that money they were given would be frittered away on extravagances, meaning that there might not be much left for grandchildren and further generations.

INHERITANCE PLANNING

Setting up a trust can protect family wealth from the effects of a divorce. Trusts were once considered the preserve of the wealthy, but today you don't have to be incredibly rich for your family to benefit from the creation of a trust. They can offer long-term asset protection and can have a variety of uses in financial planning strategies.

Under a discretionary trust, for example, a trustee is appointed who has the power to decide who benefits from the assets held in the trust and when they can receive them. Putting money or property into trust means that you don't own it anymore, and can reduce the amount of inheritance tax your estate is liable to on your death. It is important to note that if a home is held in a discretionary trust, it wouldn't normally form part of a person's estate, jeopardising eligibility for the residence nil rate band even if the home is bequeathed to the beneficiaries' direct descendants.

[1]Investec Investment & Wealth, 2016

POWER OF ATTORNEY NUMBERS ROCKET

With dementia and Alzheimer's disease now officially the UK's leading cause of death, more families than ever are considering putting power of attorney arrangements in place against the time when they might lose mental capacity. Office for National Statistics figures show that deaths from dementia jumped by a fifth in 2015[1].

As the illness is becoming more widely-reported and more is known about its effects, many people have decided to act while they have the mental capacity to do so. In total, just under two million lasting powers of attorney (LPAs) have been registered since 2008.

A SIMPLE PROCESS THAT GIVES PEACE OF MIND

An LPA is a legal document that allows the donor to choose and appoint one or more people to help them make decisions, or act on their behalf, if they are no longer able to do so themselves. There are two types of LPA, one covering property and financial matters, the other dealing with health and welfare.

Property and financial affairs. Here, your attorney has the power to make decisions about money matters on your behalf if you are unable to do so. This includes running bank accounts, accessing and managing pensions and funds in drawdown, paying bills and selling property.

Health and welfare. Here, the attorney has the power to make decisions on the donor's behalf regarding the donor's daily welfare (washing, eating, etc.), medical care, whether to move into a care home, and life-sustaining treatment.

You can choose to make one or both types. You will need to appoint one or more attorneys; these can be relatives or friends, your spouse or partner, or a professional adviser such as your solicitor.

It makes sense to do this when relatively young, fit and healthy. If you lose capacity and haven't written an LPA (or a pre-October 2007 Enduring Power of Attorney, applicable to property and financial matters), a family member would have to apply to the Court of Protection to be appointed as your Deputy; this can be an expensive and time-consuming process.

[1]Office for National Statistics, 2016

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LISA AND PENSION – SAVERS PLANNING TO MIX IT UP

Should you invest in a Lifetime ISA (LISA) or a pension or a mixture of both?

LISA – THE BASICS EXPLAINED

Designed as a savings vehicle for those aged 18 to 40 who want to save up to £4,000 a year, a LISA comes with a big 25% bonus incentive, meaning that for every £4 saved, the government adds £1. It can be used to buy a first home worth up to £450,000, or you can continue to save and accrue the 25% bonus until the age of 50. If the money is accessed after age 60, it can be taken tax-free. If it's accessed before age 60, unless it is being used for a qualifying home purchase, the government bonus will be lost and a 5% charge will be applied; however, no charge will be applied for exit during the 2017-18 tax year.

PENSIONS VERSUS LISAs

A LISA shouldn't be viewed as a replacement pension, but an additional way of saving. Whilst you can continue to make pension contributions up to age 75, saving into a LISA must stop at age 50. With workplace pensions, employers contribute too. So, choosing a LISA over a pension could mean missing out on this valuable extra free cash, and restricting the number of years you have available to build up your retirement savings.

The maximum contribution into a LISA is £128,000 (before bonus) and a £4,000 annual limit that comes out of your ISA allowance (£20,000 for the 2017-18 tax year). With a pension, there is a lifetime limit of £1m (contributions plus growth) and in most cases an annual allowance of £40,000.

The main advantage of keeping a LISA going until retirement is that you can withdraw all the money tax-free from age 60 onwards. With a pension, 25% is free of tax; however you can access your pension pot from age 55.

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

WHAT YOU NEED TO KNOW IF YOU'RE RETIRING IN 2017

However much we enjoy our working lives, we all look forward to retiring at some point. For many of us it's the welcome prospect of more time to spend with friends and family, or pursuing our hobbies and interests, or even starting a new career. So, if retirement beckons, here are some tips to help you plan your finances to make the most of your later years.

MAKE SURE YOU KNOW WHAT YOU ARE ENTITLED TO

You'll need to work out how much you'll have to live on and how much you'll need to spend. If you've had several jobs during your working life, you may also have built up several pension pots, and there's your state pension to consider too.

It's a good idea to put together a budget that includes all your sources of income, your basic living costs, money you'll want to spend on holidays and pastimes, and funds to cover emergencies.

DON'T GET CAUGHT OUT BY SCAMMERS

It's a sad fact of modern life that there are scammers around who are anxious to get their hands on your pension funds. They email, cold call and can even turn up unannounced on your doorstep. Very often, scams don't look like scams. They sound legitimate and come via convincing websites and glossy brochures. Don't get taken in; if an investment sounds too good to be true, then the chances are that it is. You can check out scams on the Financial Conduct Authority website (Be a ScamSmart Investor).

LOOK TO THE FUTURE

Retirement gives you more time for your family, and that can include practical matters like making a Will and thinking about putting a Lasting Power of Attorney in place, so that if the time comes when you aren't able to make decisions for yourself, you have nominated someone you know and trust to act on your behalf. If you think that your estate might be subject to inheritance tax, then this could be a good time to get some professional advice as to how to plan your wealth so that more of it will go to your heirs.

GET SOME GOOD ADVICE

The pension reforms that came into effect in 2015 gave greater flexibility and more choice. Those in personal pensions can retire from age 55, and people no longer have to take out an annuity; that's just one of many options open to them when planning their income in retirement. There is also the option to take all the cash out in one lump sum, although to do so could mean a hefty tax bill.

With life expectancy continuing to rise, many people retiring today can look forward to several decades in retirement, so it's more important than ever to make the right decisions about your finances. Financial advice can help you understand your options, make the most appropriate choices and plan your finances for the future.

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WOMEN FALTER FINANCIALLY

When it comes to saving and investment, recent research[1] has found marked differences in the attitudes and approach adopted by men and women. Men are twice as likely to invest in the stock market, and more likely to have around £7,500 in the bank, compared with the £1,500 held on average by women. A third of women only have £500 saved.

Both sexes blame their lack of disposable cash, but a reluctance to invest by women may be down to a lack of understanding of how financial markets work, a concern over the level of risk they might be exposed to, and a fear that they might not be able to access their cash quickly and easily if they needed to; all fears that could be allayed with the right financial advice.

Fewer women than men have a pension plan in place. Many women may be hoping to get the full state pension, but may get less if they contracted out of the additional state pension top-ups and under-paid National Insurance during their working lives.

[1]Wealthify, 2016

It is important to take professional advice before making any decision relating to your personal finances.

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