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INVEST SOUTHWEST

INDEPENDENT FINANCIAL ADVISERS

YOUR WEALTH WINTER 2019

INSIDE THIS ISSUE

PENSIONERS TO RECEIVE LEGAL PROTECTION FROM COLD CALLERS

Around 250 million scam calls are made each year[1], at a rate of eight every second. These calls have led to fraudsters conning people into moving their pensions into unsafe or non-existent investments, resulting in some losing their entire life savings.

The government has acknowledged that cold-calling is one of the most common methods used by fraudsters to access people's pension savings, so it's good news that the long-awaited measures to curb it are now to take effect.

The government's new rules make it illegal for companies to call people out of the blue and discuss their pension plans. Unsolicited calls are banned and only companies authorised by the Financial Conduct Authority who have your prior permission, or a trustee of your workplace scheme, will be allowed to call about your pension.

OTHER MOVES MAY FOLLOW

Prior to confirming the ban, the government consulted with pension providers and professional adviser firms. Many offered views on other measures to crack down on fraud, including rules requiring retirement savers to take professional advice before moving their pension, and stricter controls on unregulated investments.

[1]FCA, 2017

MONEY ADVICE TO PASS ON TO YOUR KIDS IN 2019

We all learn about money from an early age, so it's interesting to think about what we were taught when we were young. What rules have stood you in good stead and which ones would you pass on to future generations? Here are some thoughts.

SET YOURSELF FINANCIAL GOALS

At every stage of life, you'll have financial goals and learning to control money from a young age will help them become achievable. Whether it's saving for a deposit for a home of your own or ensuring you have enough to live on in retirement, starting early, getting good advice and regularly reviewing the progress you're making all add up to a sound strategy.

GET INTO THE SAVINGS HABIT

Whatever your age, having a savings fund makes good sense. One of the best ways to ensure you're building up your savings is to ensure you pay yourself first. Setting up a regular transfer to your savings account that goes through on pay day means you're less likely to miss the money and it will help you stick to your savings target.

DON'T NEGLECT YOUR PENSION

Although retirement could seem light years away, it pays to start saving as early as possible. Putting as much as you can comfortably afford into your pension will give you the best chance of enjoying a reasonable standard of living in your later years. So, while saving for things like a deposit for a home is important, don't overlook your pension. Opting out of auto-enrolment could bring regrets later.

BE AWARE OF FINANCIAL SCAMS

More and more financial scams come to light each year and they are getting increasingly sophisticated. What they offer may look appealing and be presented by people who seem plausible, but scams have resulted in people losing large amounts of money to fraudulent investments and even being conned out of their entire pension savings.

It's often the case that if something looks too good to be true, then it probably is. When it comes to major transactions such as investments, mortgages and pensions it always pays to take professional advice so that your interests are fully protected.

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

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.

IN THE NEWS...

CONSULTATION ON LAUNCH OF PENSION DASHBOARD

The future of the pension dashboard – a platform that would allow you to see all your pension savings in one place – looks more assured since the announcement in the 2018 Budget that the Department for Work and Pensions is committed to pursuing it; watch this space.

UK PENSIONERS GET A WORSE DEAL THAN COLOMBIANS

British pensioners get a poor deal and languish way down the table when it comes to the quality of state pension provision offered to the poorest and the self-employed. They're worse off than counterparts in countries like Colombia, Chile, Australia and Germany. However, they do enjoy better benefits than those available in France, Italy, Spain and the US[2].

HMRC RETURNS £38M TO PENSIONERS

Good news for those withdrawing pension cash. HMRC paid back the £38m it had wrongly charged pensioners because their system fails to recognise one-off payments and assumes that the amount will be paid regularly. If you have been affected, visit www.gov.uk to find out how to claim a refund.

FINANCIAL ABUSE – BANKS AND BUILDING SOCIETIES PLEDGE HELP

Financial abuse can have a devastating effect on victims. Perpetrators can be partners, spouses, family members and carers. A new voluntary code provides advice and guidance to financial institutions and helps raise awareness amongst their staff. When they receive reports of financial abuse, the victim will receive support and help in regaining control of their money.

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[2]Mercer, Global Pension Index, Oct 2018

MAKING GIFTS TO AVOID IHT

No one wants to think that their loved ones will receive a hefty Inheritance Tax (IHT) bill when they die. That's why more and more people are seeking advice about making lifetime gifts to avoid paying more IHT than they have to.

PASSING MONEY ON IN YOUR LIFETIME

Estimates suggest that nearly seven million parents have already given their children around £227bn of their wealth early in order to reduce the amount of IHT payable on their estates[3]. More than 6.5m are thought to be considering similar moves. However, recent news reports underline the need to receive proper advice when making gifts.

In normal circumstances, making a gift of cash or property will be free from IHT if you survive the gift for at least seven years. However, the rules are complex, meaning that if you continue to benefit from the gift in some way, the gift can still be taxed. This is particularly true when a property is involved, and would be the case if, for example, an elderly couple gifted their home, but continued to live in it rent-free. Figures from HMRC show that £128m of property gifts failed this test in the 2017-18 tax year and were subject to tax as a result.

USING ANNUAL ALLOWANCES

No IHT is liable on up to £3,000 worth of gifts given by the deceased in any tax year (the annual exemption can be carried over for one year if not used). Wedding and civil partnership gifts are exempt, up to £5,000 for a child, £2,500 to a grandchild, or £1,000 to anyone else. Individual gifts of up to £250 per beneficiary in each tax year are exempt (where the above exemptions have not been used for the same individuals). Regular gifts from the donor's income can also be exempt, although strict rules apply.

The Chancellor has ordered a review of the IHT system, the implications of which we will closely monitor.

[3]Direct Line Group, Oct 2018

REMIND ME WHAT A TRACKER FUND IS

Tracker funds, also commonly referred to as index funds, attempt to replicate the holdings and performance of a given index such as the FTSE 100 and the S&P 500.

A form of collective investment, they provide investors with exposure to an entire index, typically buying the individual securities in the index they seek to replicate, allowing wide exposure via one fund. When an index rises, the value of your investment rises and when the index falls, your investment in the fund falls.

Tracking error refers to the difference between the return of a fund and the index it is trying to track. Tracking error will always exist with this type of fund because the fund manager can't invest directly in an index; they have to physically purchase all the stocks, plus the fund's expenses will provide a slight divergence.

Trackers are categorised as a type of passive investment because the fund manager isn't making any active decisions about individual stocks in which to invest. As a result, management charges are typically lower than for actively managed funds, although their growth in popularity has led to more sophisticated offerings. Strategies have expanded to include indexes screened for a wide range of characteristics and fundamentals, providing for much more targeted investment.

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IS BEING ABSENT-MINDED COSTING YOU MONEY?

Losing something can be frustrating, and it can be costly too.

It can be easy to lose track of financial products like bank accounts we no longer use, or ISAs and other savings plans we started but forgot all about. People change jobs more frequently nowadays, meaning that they can often have small pension pots with past employers that they fail to keep track of. Incredibly, there are around 1.6m pensions that have been forgotten about by UK workers[4].

[4]Research carried out by Pensions Policy Institute on behalf of the ABI, Oct 2018

MORE WOMEN AGED 60-64 STILL WORKING

More employers are recognising and retaining the skills of older workers within their businesses, employment statistics reveal. Figures show that women are staying in the workplace for longer, with 48.5% in the 60-64 age bracket in employment, compared with just 23.4% back in 1998[5].

This may in part be due to the effects of the short notice rise in the state pension age from 60 to 65 or 66, currently affecting the retirement decisions of many women born in the 1950s. It could reflect a need to top up pension savings or simply be a desire to keep mentally and physically active for longer.

[5]Royal London, Oct 2018

WERE OLDER PEOPLE SHORT-CHANGED BY THE 2018 BUDGET?

Experts have criticised the government for failing to adequately tackle the reform of care for the elderly in the 2018 Budget.

Whilst the Chancellor set out some extra spending in key areas such as the NHS, the plans contained little concrete detail in many areas. He was also quick to point out that Brexit could give rise to an Emergency Budget in the Spring.

PENSIONS AND TAXATION

There had been media speculation that major changes to pension taxation might be in the offing. These didn't materialise, but the Lifetime Allowance will increase in line with the Consumer Price Index to £1,055,000 for 2019-20. The tax-free savings income limit of £5,000 and the annual ISA limit of £20,000 both remain unchanged for 2019-20.

A year earlier than originally planned, the personal allowance will increase from £11,850 to £12,500 in April 2019. The higher rate tax threshold will also rise from £46,350 in 2018-19 to £50,000 in 2019-20. The dividend allowance of £2,000 remains unchanged, as does the personal savings allowance of either £1,000, £500 or £0 (according to marginal tax rate).

COLD CALLING FINALLY BANNED

Many were delighted that the ban on pensions cold calling has finally been agreed. In addition, National Trading Standards will receive additional funding to extend the provision of call blocking technology for vulnerable people.

NEW MONEY FOR SOCIAL CARE

Many felt that the investment in social care of £650m plus £55m for disabled facilities was unlikely to make much difference to the standard of care provided to the elderly, as much of the spending was destined to go towards children's care services.

Measures were announced to tackle winter pressure on the NHS, such as bed blocking by elderly patients. However, experts pointed out that if the elderly were to be properly cared for outside hospital, there would need to be marked improvements in care packages provided elsewhere within the health service.

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COMMON INVESTMENT MISTAKES

We are all prone to making mistakes, and that can be true when we invest. Some of the most common include making emotional rather than rational decisions, dipping in and out of the market too frequently, perhaps because of worries about economic or political news, or concerns over volatility. Putting all your eggs in one basket, trying to time the market, not taking a longer-term view also come high up on the list.

Setting goals, being prepared to invest over the medium to long term, diversifying your portfolio and getting professional advice are all ways you can avoid making mistakes.

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IF YOU WOULD LIKE ANY ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.