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YOUR FINANCE *MATTERS*

Issue 2 Q1 2017

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WHAT'S YOUR FINANCIAL GAME PLAN FOR 2017?

Wrap up in an ISA

The 2016–17 allowance is a generous

£15,240

As it can't be carried forward, it makes sense to take advantage of this savings opportunity as soon as possible, rather than risk losing your entitlement if you miss the tax year-end deadline.

The 2017–18 allowance increases to £20,000

The ISA deadline is **5 April 2017**

The New Year is a good time to review your finances and set goals for the coming 12 months. With the tax year end in April approaching, it makes sense to ensure you're making the most of the various tax allowances available to you.

Save as tax-effectively as possible

Don't forget to use this year's Individual Savings Account (ISA) allowance before 5th April. You can contribute up to £15,240 in this tax year. If you're looking to save for children, the Junior ISA allowance is £4,080 for 2016–17.

Make pension and retirement planning a key objective

At every stage of your working life, you should save as much as possible into your pension. Consider topping up your pension whenever financial circumstances allow – there's valuable tax relief on contributions within HMRC annual and lifetime allowances. Make sure you know your state pension age and get a forecast of how much you'll receive. Speak to your adviser about arranging a regular review to ensure your retirement plans remain on track; if you're nearing retirement, then their advice on how to manage your cash flow can help ensure you don't run out of money in your later years.

Protect your family's future

Your life cover needs change as you reach different stages of your life. So, if you've moved to a bigger house, had more children, changed jobs or are planning to retire, then your insurance plans might need revising. Don't forget you can take out cover to protect your income and insure against critical illness and unemployment too.

It's also important to have an up-to-date Will in place to ensure family members are provided for in the event of your death.

Think about your inheritance tax position

With property prices remaining high, many more people will find that their estate falls within the scope of Inheritance Tax (IHT), so planning to minimise the incidence of the tax makes good financial sense. With more and more parents and grandparents looking to pass on wealth to family members during their lifetime, it's important to be aware that these gifts of money can potentially attract IHT.

Like many other families, you might benefit from professional advice about how best to use your IHT allowances and structure your finances to ensure that your wealth will be passed on as tax-efficiently as possible.

So, why not make 2017 the year you review your finances and ensure you have the right plans in place for the future?

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Not all Inheritance Tax Planning solutions are authorised and regulated by the Financial Conduct Authority.

MOST PENSIONERS REJECT CHAMPAGNE LIFESTYLE

Ahead of the April 2015 pension changes, many commentators tried to second-guess how retirees would respond to the new freedoms. Some thought that there would be a rush to splash the cash; others felt that after a lifetime of careful saving, pensioners would adopt a more measured approach.

New research from Prudential[1] shows that just one in 10 pensioners overspent in the first year of retirement. Most pensioners have a realistic attitude to their finances and understand the risks they might run later in life if they spend too much during the early years of their retirement.

However, one worrying trend that the survey revealed is that of those who took cash from their pension pots in the first year of retirement, 68% did so without taking any professional advice. In addition, only 33% of those questioned for the survey had set themselves a retirement budget. 13% admitted to finding living on retirement income harder than they had expected, and 36% expressed concerns about their money lasting for the rest of their lives.

If you want to make the most of the new pension freedoms, then getting the right advice is essential.

[1]Prudential, Pensioners reject the champagne lifestyle, 2016

Paving the way for a "match fit" UK

In light of slower growth forecasts and an undeliverable surplus by 2020, the Chancellor used the Autumn Statement to announce his plan to ensure the UK economy is "match-fit" for Brexit. Following hefty infrastructure and innovation investment announcements, housing and regional funding measures, he slipped in a few extras including a further increase in Insurance Premium Tax and a ban on letting fees for tenants; following consultation, the landlords alone will be liable.

In a positive reconfirmation he announced that the personal allowance will rise to £11,500 this April and then to £12,500 by 2020. In addition the higher rate threshold will rise to £50,000 by the end of this parliament. The government has no plans for further welfare savings measures in this parliament beyond those already announced, crucially protecting the triple lock arrangement.

A big sacrifice for some

The Chancellor promised salary sacrifice would be taxed as normal from April; however, pensions contributions, childcare vouchers, the cycle to work scheme and ultra-low emission company cars are excluded. Items bought under the scheme such as computers, gym membership and health screening will be subject to tax.

Introducing bond, a new savings bond

The Chancellor expects two million people to benefit from a new savings bond which will be launched through National Savings and Investments in April. With an interest rate of around 2.2% and open to those aged 16 and over, the minimum investment limit is £100, with a maximum investment of £3,000. Savers must lock in their money for three years. The new product will be available for 12 months.

Pensions

For those who have already flexibly accessed their pension, the Money Purchase Annual Allowance may be limited to £4,000 from April. This is designed to stop beneficiaries from gaining double pension tax relief.

The tax treatment of UK residents' foreign pensions will be brought more closely into line with the UK's current domestic tax regime, bringing any pension payment or lump sums into the UK for tax purposes.

The government has no plans for further welfare savings measures in this parliament.

GEN O STRUGGLING TO SAVE

...social media has bred a culture where millennials have a fear of missing out, choosing to prioritise this over long term thinking.

The 'Ostrich Generation', or Gen O for short (16-34 year olds), have got their heads in the sand when it comes to how they choose to spend and especially save their money. A recent survey[1] revealed that over half of Gen O regularly treat themselves whenever they want.

Choosing to spend more money in the present is having a huge impact on their ability to save for the future. When questioned about what would motivate them to save money, just one third said that saving for their pension or retirement would motivate them. The majority would be more driven to spend their savings on items or experiences to live for the moment. When questioned about how their finances make them feel, the survey reveals that Gen O experience a range of negative emotions when considering their financial affairs.

Of those who do save, a massive 41% of Gen O spend it on buying things they want but don't need, like the latest technological devices. This spending on items which provide short term gratification again highlights a disregard for longer term financial security.

Keeping up appearances

Embedded into daily life, social media has bred a culture where millennials have a fear of missing out (FOMO for short), choosing to prioritise this over long term thinking. This fear is amplified by people continuously advertising their lives online, providing a constant reminder about experiences and events, triggering other people to spend money just to ensure they are involved too. A generation focussed on their appearance and likely to take 25,000 selfies during their lifetime, over a third of Gen O (35%) want more control over their appearance, many choosing to live beyond their means to strive for physical perfection – a far cry from older generations.

Not only are social and cultural pressures resulting in higher spending but short-term thinking practised by many Gen Os, combined with an overriding avoidance of investing or saving, will undoubtedly affect their future savings. An increase in spending facilitated by the rise in contactless payments and online money transfers, also impacts people's ability to save.

[1]Aviva, Meet Gen O: 'The Ostrich Generation', 2016

HOW YOUR INCOME NEEDS CHANGE OVER TIME

and how to plan for when they do

Will your need for income change during your retirement years, and if so, by how much?

This can be a difficult question to answer and the response is likely to differ from person to person. It will depend on factors that are personal to you such as the age at which you retire and your state of health in your later years. Stock market performance and the impact of inflation also need to be taken into consideration when planning your finances.

Many people retire when they are still comparatively young and in good health. Some decide to ease themselves into retirement by working part time or on a consultancy or self-employed basis. Others see this time as their opportunity to travel extensively and take up new interests and pursuits. This means that they are likely to want to spend considerable amounts of money in this phase of their lives. For many, this could be ten or even 20 years.

However, at some point most of us will begin to slow down and may find we develop health problems. At this stage, for some people the amount they need to live on will diminish. For others this could mean spending more on medical and nursing care.

Planning for whatever the future holds

It wasn't so very long ago that it was the general rule that men retired at 65 and women at 60, with a state pension and a defined benefit pension from their employer which paid out a fixed income, regardless of the spending needs of the recipient. Now things have changed and people are increasingly retiring with defined contribution pensions that give them greater flexibility when it comes to planning their income to match their lifestyle during their retirement years.

Planning for future expenditure should involve thinking about your likely spending needs in your later years, and should address issues such as whether you want to downsize to a smaller property, how much money you want to pass on to your family and how much you need to have as a reserve that could be used to pay for care costs. It helps to have these figures in view during your working years when you are contributing to your pension, as they can help determine how much you might need to save to achieve your goals.

Pension planning advice pays

Research by Citizens Advice[1] has revealed that seven out of ten people who accessed their pension pots since the new pension changes were introduced in April 2015 didn't shop around or consider other planning options for their retirement.

Getting professional advice on retirement income planning has never been more important than it is today. Planning your income needs to meet your likely pattern of expenditure can help alleviate financial worries later on in life. It can help you understand what your financial future might look like, take into account your attitude to investment risk, and give you a roadmap for the future.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

[1] Citizens Advice, People not shopping around under the pension freedoms, June 2016.

...people are increasingly retiring with defined contribution pensions that give them greater flexibility...

Pension scams – more stolen than first thought

Pension scams have been in the spotlight since new freedoms have provided an attractive target for fraudsters.

Scammers are becoming increasingly sophisticated, frequently targeting potential victims through emails, online banking systems, text messages and online transactions. Recently hackers stole money from 9,000 Tesco Bank current accounts, highlighting how vulnerable we all are.

Data indicates the post-freedoms pension fraud spike was worse than previously anticipated. According to The Telegraph, there were 250m scam calls last year, resulting in pension fraud totalling £19m.

Don't be caught off guard by cold callers

Many pension scams start with an unsolicited phone call, text or email which usually offers a free pension review. The increase in calls from abroad is particularly alarming. A well-publicised recent scam involves an attempt to convince people to move their pension into an unregulated overseas investment such as a hotel, vineyard or overseas building project. Never agree to invest your money overseas in unregulated projects.

In a positive attempt to clamp down on pension fraud and take meaningful action to deter scammers, the government will shortly publish a consultation document, likely to include the recommendation to ban any cold calling in relation to pension products and develop greater powers for providers to block suspicious fund transfers.

Warning signs

With millions of people receiving unsolicited contact concerning pensions, even the most clued-up investors can fall victim to the scammers. Fraudsters do not discriminate and use sophisticated techniques including convincing marketing materials and websites to deceive people. Data from a report conducted by Citizens Advice[1] found that 90% of people missed the warning signs of a pension scam.

The old adage rings true – If it looks too good to be true, it probably is.

If you want advice about your pension speak to your adviser.

[1]Citizens Advice, Consumers missing pension scam warning signs, March 2016

No hiding from taxman's offshore clampdown

In an effort to crackdown on offshore tax evasion, HM Revenue & Customs (HMRC) is implementing a new regime which will allow them and other tax authorities around the globe to check that the correct amount of tax is paid on any money held abroad.

Increasing transparency and international reach

If you hold any offshore assets, including Bonds, Pensions, and Bank Accounts, your financial and tax advisers will be required to notify you that HMRC will begin to receive information on offshore accounts from more than 100 jurisdictions from 2017. At the same time, HMRC will begin to share information with other tax authorities on accounts held in the UK, increasing cross border taxation transparency.

For those failing to pay tax or the correct amount of tax on their offshore assets the penalties are set to increase; those evading tax could even face criminal prosecution. New rules mean that individuals could face further penalties based on the value of the asset as well as the tax due.

Are your tax affairs up-to-date?

HMRC are keen to point out that it is the individual's responsibility to check and declare all of their tax liabilities.

If you are confident that your tax affairs are in order and you have declared all of your UK tax liabilities, no action is required.

If you need to bring your tax affairs up-to-date you can use HMRC's online disclosure facility which allows non-compliant taxpayers to correct their tax affairs under certain terms before HMRC start to receive data.

It is also important to consider the effect of any changes in your personal circumstances, such as a recent inheritance of overseas assets which will require disclosure.

The message from the tax authorities is clear *"come to us before we come to you"*.

Advisers take action

Financial intermediaries, investment houses and tax advisers should make their clients aware of their need to disclose any offshore holdings they have when submitting their tax return.

ENGLISH OVER 55s OWN PROPERTY WORTH MORE THAN THE GDP OF ITALY

In further proof that the older generation have large amounts of money tied up in property, The Telegraph recently reported that the total value of the housing wealth owned by the over 55s in England is more that the GDP of Italy.

It's been estimated that the total value of these properties comes to a figure of approximately £1.5 trillion. The UK has an ageing population meaning that this grouping is set to grow by a third in the next 20 years.

Little wonder then that research from retirement home builders, McCarthy & Stone[1], shows that many older people would like to move to a smaller home. They estimate that almost a third (32.6%) of those aged 55+ would consider downsizing if they could find suitable alternative accommodation.

The reasons commonly given are that downsizing releases cash to bolster pension savings, purpose-built retirement properties are designed with needs of older buyers in mind, and new properties tend to have lower running costs.

The Royal Institution of Chartered Surveyors has highlighted the need for more retirement property to be built, freeing up larger family homes to help solve the housing crisis.

[1]McCarthy & Stone, Generation Stuck, 2016

IHT planning for couples – changes you need to know about

From 6 April 2017, there is an important change to Inheritance Tax (IHT) that families need to be aware of so that they can plan their wealth effectively for the future. This change is often referred to as the 'family home allowance' but is more correctly referred to as the Residence Nil-rate Band (RNRB).

How IHT works

Firstly, it helps to understand a little more about how IHT works, and how it is applied to estates on death. Everyone has a personal nil-rate band (NRB) currently set at £325,000, that is unless they have used some of it to make gifts or have inherited NRB from a spouse or civil partner who has died.

Married couples and civil partners (but not unmarried couples) are able to pass their assets to each other tax-free, and the surviving partner is allowed to use both tax-free allowances (unless of course some was used up on the first death), effectively doubling their combined NRB to £650,000. Where IHT is payable, on amounts above the deceased's total nil-rate band entitlement, it is normally at a rate of 40%.

The residence nil-rate band (RNRB)

The RNRB is an additional allowance that can be used where the surviving spouse dies on or after 6 April 2017 and passes their interest in a residential property to one or more direct descendants, meaning children, stepchildren, adopted children, foster children and their lineal descendants. It also includes the spouses or civil partners of lineal descendants, providing they didn't remarry before the death of the individual bequeathing the property. The maximum RNRB that a couple can have is the lower of the value of the house or two times the RNRB. The RNRB is £100,000 from April 2017, rising to £175,000 by 2020.

For a property to qualify, several criteria must be met. In the case of a couple, only the second spouse to die needs to have lived in the property. Buy-to-let properties aren't eligible if the owner didn't live there. A former main residence that is rented out would qualify. If there are several properties involved, then the executor of the estate can choose which property to nominate. In the case where the deceased downsized, if this happened on or after 8 July 2015, then RNRB on the difference in value between the old and the new property can be claimed.

Where an estate has a net value of £2m or more, the RNRB is tapered away with £1 lost for every £2 net estate value over £2m. Families that have assets of over £2m may benefit from making use of the NRB and RNRB on the first death in order to reduce the estate of the surviving spouse.

A complex situation

The introduction of the RNRB gave rise to headlines saying that parents or grandparents could pass on a home worth up to £1m free of IHT; however, in practice the application of the RNRB can be complex and requires expert estate planning advice.

Not all Inheritance Tax Planning solutions are authorised and regulated by the Financial Conduct Authority.

WHAT IS THE NATURAL YIELD ON A PORTFOLIO?

You may have seen this term used in connection with taking an income from your portfolio. In simple terms, this equates to the return you get from your investments and includes stock market dividends, interest paid on cash, fixed income produced by bonds and rental income from property.

With interest rates low and dividends under pressure, it has become harder than it once was to provide an adequate income just by taking the natural yield from a portfolio, meaning that some investors may find themselves dipping into their capital earlier than they would have wished.

Many experts advocate taking the natural yield from a portfolio and using other sources to supplement their income, such as annuities and cash accounts.

With life expectancy in the UK continuing to rise, planning your retirement income is more important than ever before. Longevity brings with it an increased likelihood of needing nursing and residential care at some point in the future. Working with an adviser to plan your finances can help prevent you from running out of money in your later years.

Investment risk – where are you on the spectrum?

All investing involves risk in the pursuit of potential gains. However, our attitude to risk and the amount of risk we're happy to assume can vary markedly from person to person. It can also change with age.

An important part of working with your financial adviser will be to establish how much risk you're comfortable with and the impact that has on the rate of return you can realistically expect to earn. You should bear in mind that the level of return can vary from year to year and that past performance is not a guide or a guarantee of future returns.

Each asset class – shares, bonds, cash or property has its own risk profile. During your younger years, you may want to invest in assets with a higher potential for growth but greater risk because you have the time to benefit from their long-term growth. As you get closer to retirement your appetite for risk may well change; then you may want to choose more conservative investments that are steadier in both risk and return.

Assessing your risk profile

In order to determine where you fall on the spectrum of risk tolerance, it's important to think about what your attitude would be to the possibility that you could lose money on your investments if markets were to fall sharply. Your time horizon is important too; it's often easier to adopt a more aggressive approach to risk if you still have many years before you need to access your cash.

Typically, you could position yourself anywhere on the spectrum from a conservative investor looking for low-risk near-cash investments that can potentially produce a steady but unspectacular return, through to an aggressive investor who's happy to acquire riskier investments in less-mature markets that could produce potentially higher but less certain returns. Unsurprisingly, many people position themselves somewhere in between, as moderate investors willing to take some risk, but anxious not to face the prospect of losing too much capital.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

As you get closer to retirement your appetite for risk may well change...

Breaking up is hard to do – your finances on divorce

It's a sad fact of life that long periods of time spent with their other halves over the festive season can prove to be the final straw for many married couples.

When divorcing, couples are encouraged to come to an amicable arrangement of their finances through mediation. Whilst there are no hard and fast rules about how their assets should be divided, the broad starting point is a 50:50 split. If the couple can't agree, then the court will be left to decide how things should be apportioned between them taking into account factors such as their age, earning ability, the property and money they brought to the marriage, and their role and relationship within the marriage. Above all, the court looks to ensure that the needs of any children involved are fully considered.

The marital home

The property can be sold and the proceeds divided, or one spouse can buy out the other's share. If there are children involved, a parent will often want to remain there with them. This means that any existing mortgage arrangements will need to be reviewed especially as the other partner may wish to buy their own property.

Pensions

Many spouses are unaware that a pension doesn't belong solely to the party named on the policy and has to be apportioned along with other assets. Pensions can be dealt with in various ways, such as splitting the fund into two, arranging for a portion of the pension paid to go to the other spouse, or offsetting the value of one spouse's fund by transferring other assets to the other spouse.

Planning for the future

Post-divorce, it makes sense to discuss your revised circumstances with your financial adviser. You'll need to reassess your financial goals and review your mortgage, life insurance, savings and investment plans. You will also need to remake your Will. Reorganising their finances is for many an essential step in moving forward to a new life.

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Self-employment booms amongst women – but pensions suffer

More and more women are taking the plunge and becoming self-employed according to research from a leading insurer. The number of women working for themselves has hit an all-time high of 1.5m[1].

According to research from charity Citizens Advice[2], many of these self-employed women work part-time. Two thirds of people who work for themselves on a part-time basis are women, compared with just one in five who are full time self-employed. Examples of women working part-time self-employed include a bookkeeper who works three hours a day while her children are at school, or a graphic designer who takes on work she can fit around caring for her elderly parents.

Saving for the future

However, when it comes to saving for a pension, self-employed women are missing out. According to Prudential's research[1], just 12% contribute to a personal pension compared with 59% of employed women who pay into schemes operated by their employer.

If you're self-employed, saving into a pension can be a more difficult habit to develop than it is for those in employment. Irregular income patterns can make regular saving difficult. But there are plans available that can give you the flexibility you need, and the good news is that your contributions are topped up by income tax relief from HM Revenue & Customs. If you're a basic-rate taxpayer, for every £100 you pay into your pension, HMRC will add an extra £25.

How much should you aim to put aside to ensure you build up an adequate pension pot? The simple answer is probably as much as you can reasonably afford. If you were in an employer scheme, your employer might typically contribute 4% and you might be contributing a further 3% yourself. So it makes sense to discuss with your financial adviser the level of contributions you can make and the likely returns they would produce for you.

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

[1]Prudential, Self-employment booms among women, April 2016
[2]Citizens Advice, Women and parents driving growth in part time self-employment, April 2016

LIFE COVER FOR COUPLES

Couples have a lot of things in common, and that can include financial commitments like bank accounts and mortgages. However, when it comes to life insurance it can make sense for each partner to have their own separate policy.

Single versus joint policies

A 'single' life policy provides cover for that person only, and pays out the amount of cover provided under the policy if the insured dies during the term of the policy.

By contrast, a 'joint' policy covers two lives, normally on what's referred to as a 'first death' basis. This means that the policy pays out if during its term one of the policyholders dies. As the policy is designed to pay out only once, it will end.

So, in this case, the surviving partner would no longer have any life cover under this policy. If instead each had their own policy, the survivor would still have life cover in place.

It's also important to consider what might happen if there was a joint policy in place and the relationship breaks down. As the policy cannot be split, each would need to take out a new policy. This could mean that their premiums would be much more expensive, as the cost of insurance increases with age. People need to carefully consider their options, those taking out cover for Inheritance Tax Planning (IHT) could benefit from a joint policy.

Getting the right cover in place

Whilst one joint policy could be more affordable than two single policies, depending on personal circumstances, it makes sense to think about each partner's life assurance needs separately. With many families these days relying on two incomes, it can make financial sense for each partner to have their own policy in place. That way, they can each tailor the amount of cover and the length of the term to their own specific needs. This can be particularly relevant where the partners are different ages and in different states of health.

There's a lot to think about, and professional advice can help ensure you make the right choice.