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TIPS

The Truly Independent magazine is full of news, articles and guidance on financial matters.

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JULY/AUGUST 2018

BACK TO THE FUTURE

Visualising what really matters to you is the key to the planning process

ISA RULES AND INHERITANCE TAX
Families set to pay millions in unnecessary tax

AVERTING A LATER-LIFE FINANCIAL CRISIS
More retirees drawing pensions without LPAs

PROTECTING YOU AND YOUR FAMILY'S FINANCES
Top reasons people gave for not taking out protection

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INSIDE THIS ISSUE

Hello and welcome to our latest issue. The summer edition brings you an array of insightful articles covering everything you need to help plan your finances, both before, during and after retirement.

Have you ever thought about writing a letter to yourself to describe your ideal future life, long-term life goals and the process of how to plan for them? On page 04, we look at how imagining what you want your life to be like in the long term when you retire can help you think much further ahead than you might ever have done before.

If you have accumulated a number of Individual Savings Accounts (ISAs) over the years, keeping them all in one place could give you better control and help you save money. There's a common misconception that you can't move existing ISAs from one provider to another. Turn to page 03 to find out more.

At some point, you'll say 'goodbye' to your co-workers, get into your car and drive towards the next phase of your life – retirement. But when will that be? On page 06, we consider your move to retirement – it's one of the most important decisions you'll ever make, so it's not surprising that determining the date is harder than you may expect.

A full list of the articles featured in this issue appears opposite.

We hope you enjoy reading this edition, and if you would like to discuss or review any areas of your financial plans, please contact us. We very much look forward to hearing from you.

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INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS.

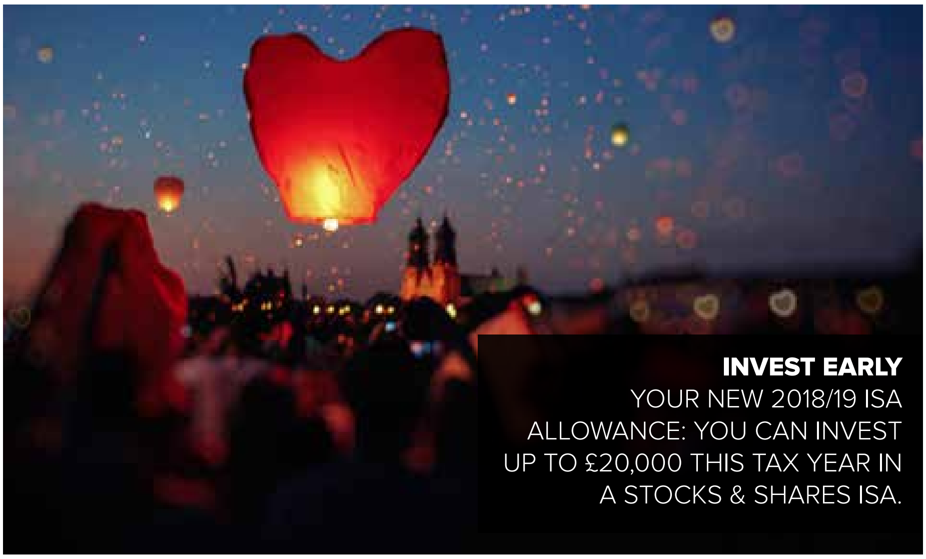
ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

TRANSFERRING ISAs

Time to bring your investments together?

If you have accumulated a number of Individual Savings Accounts (ISAs) over the years, keeping them all in one place could give you better control and help you save money. There's a common misconception that you can't move your existing ISAs from one provider to another. Transferring your ISAs doesn't affect its tax-efficient status, but you should make sure that you don't have to pay penalties or give up valuable benefits.



If you want to switch from an existing ISA provider to a new one, you're perfectly within your rights to do so. Much like a mortgage, you shouldn't feel as though you're saddled forever with your first ISA provider choice. Transferring your ISAs could allow you to widen your range of investment choices, as the range on offer can differ between providers.

EASIER TO MONITOR AND MANAGE

Another reason to switch is that you could find you're better off because another provider is offering lower fees and charges. You may also want to move because you prefer to keep all your investments conveniently in one place, where they're easier to monitor and manage.

You can transfer your ISA from one provider to another at any time. You can also transfer from one type of ISA to a different type of ISA – for example, you can move money held in a Stocks & Shares ISA into a Cash ISA, or from a Cash ISA to a Stocks & Shares ISA. Similarly, money held in an Innovative Finance ISA can be transferred into a Stocks & Shares ISA or into a Cash ISA.

NOT ALL ISA PROVIDERS ACCEPT TRANSFERS

Remember that not all ISA providers will accept transfers. Also, bear in mind that the ISA provider you are moving from might charge you for the transfer. If you transfer cash from an existing ISA into a Lifetime ISA, it will count towards your £4,000 Lifetime ISA allowance for the year and qualify for the government bonus, but will not count towards your overall ISA allowance of £20,000 in 2018/19. It is not advisable to transfer from a Lifetime ISA.

Transferring your ISAs won't affect their tax-efficient status, provided you follow the correct process. You might think that to make a transfer from one ISA to another, you'll need to close down your existing account, make a withdrawal, then open up a new account and pay in. But closing down your current ISA means you'll immediately lose all the tax benefits, so never withdraw your savings to pay into a new ISA.

ADDITIONAL PERMITTED ISA ALLOWANCE

Instead, if you want to make a transfer, we'll contact your provider to inform them and manage the entire transfer process for you. Remember that tax rules can change in future, and their effect on you will depend on your individual circumstances.

If you are looking to transfer ISA tax benefits following the death of your spouse or registered civil partner, the survivor can now inherit their ISA tax benefits. This will be in the form of an additional permitted allowance equal to the value of the ISA at the holder's death and will be in addition to your own ISA allowance. ◀

LOOKING TO MAKE AN ISA TRANSFER?

We can make transferring existing ISAs simple and straightforward to help you reduce your administration and manage all of your investments in one place. Whether you're a novice or an experienced saver or investor, we'll help you get the most from your 2018/19 ISA allowance. Please contact us for more information.

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

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

BACK TO THE FUTURE

Visualising what really matters to you is the key to the planning process

Have you ever thought about writing a letter to yourself to describe your ideal future life, long-term life goals and the process of how to plan for them? Imagining what you want your life to be like in the long term when you retire can help you think much further ahead than you might ever have done before. Research conducted for a new campaign[1] shows that over half (54%) of people plan their lives only days (31%) or weeks (23%) ahead.

The participants were asked to look deep into their future lives in a bid to uncover what really matters to them. When asked to write a letter to describe their ideal future lives, people were very good at imagining it. But many didn't know how they were going to achieve it or how to take the next step to build a bridge from now to that future self by putting a plan in place to get there.

KEY WELL-BEING ASPIRATIONS

The writing exercise uncovered how people really envisage their life in the future. The letters illustrate that well-being in old age pivots on simple hopes (family, health and happiness) rather than extravagant financial ambitions. A well-balanced life was a key aspiration for many respondents. The letters confirm a clear hierarchy of needs and aspirations in life that many of us would have expected: family/partner, followed by career and financial security, followed by hobbies and interests, including friends.

While a handful of the respondents hope for lottery wins or gold medal glory, the overwhelming majority express their desire to remain healthy and active in old age and to live 'comfortably' with some degree of financial security. The letters revealed a nation aspiring to much more grounded ambitions: the centrality of family, a desire to travel to learn throughout life and to have fulfilling but balanced careers with a good work/life balance.

FAMILY, HEALTH AND HAPPINESS

It's not surprising that family, health and happiness are central pillars of people's well-being. What is surprising is how unprepared most people are to achieve the dreams they have described. The letters are wonderfully optimistic, but there is a reality check. The findings showed that people underestimate

IT'S NOT SURPRISING THAT FAMILY, HEALTH AND HAPPINESS ARE CENTRAL PILLARS OF PEOPLE'S WELL-BEING. WHAT IS SURPRISING IS HOW UNPREPARED MOST PEOPLE ARE TO ACHIEVE THE DREAMS THEY HAVE DESCRIBED.

their required size of pension pots by up to £550,000, while many people who have the capacity to save aren't doing so.

By using the letter as a catalyst, once you know what your goals are, the next step is to plan for them. To support the letter writing campaign, a study was also commissioned to gauge people's current well-being and life goals[2]. The survey indicates a fundamental disconnect between the life people aspire to and their life now.

PREVENTION BARRIERS IN EQUAL MEASURE

The study found over half (54%) of people plan their lives only days (31%) or weeks (23%) ahead. While 14% of respondents said they plan for years ahead, very few (4%) plan for future decades. This may explain why only 11% of UK adults with life goals know how they will achieve them.

When it comes to life goals for the future, travel is a primary ambition for over two in five people (44%), followed by eating well (40%), getting fit (39%), more time with friends and family (36%) and better work/life balance (20%). Money is the main thing (33%) preventing people from achieving their goals, then motivation (28%), followed by energy and time as barriers in equal measure (26%).

PATH TO FINANCIAL FREEDOM

When it comes to financial goals, one in five people (20%) have none whatsoever. Among those with goals in mind, the same percentage of people (20%) have not worked out a strategy and don't know how they will achieve their specific goals. The top financial goals are: save for a rainy day (43%); earn more money (32%); save for a special occasion (21%); reduce or clear debts (19%); and buy property and pay off mortgage (both 17%).

Your finances touch just about every aspect of your life. Your personal life and your financial life are not separate – they intertwine with each other. Your path to financial freedom means identifying and harnessing your dreams and bringing them alive. We can help you find an answer. Whatever stage of life you're at, we can guide you through the opportunities and challenges you face. ◀

START PLANNING DECADES AHEAD

We all want to fulfil our life plans, so the earlier you know where you want to get to, the better chance you have of getting there. Ideally, it's advisable to start planning decades ahead to map out the life you want for yourself and your family. The process of writing the letter should prompt that thinking and planning and hopefully that conversation with your partner and family. To discuss your situation or to arrange a meeting, please contact us – we look forward to hearing from you.

Source data:

[1] The Brewin Dolphin letter writing project asked 500 UK adults to write a letter to their future selves deep into old age – a letter their 'future self' may discover and read as they reflect back on life. Methodology: online survey completed by 500 economically active respondents aged 18–65. Fieldwork by Trajectory from 12–20 April 2018.

[2] The survey polled over 2,000 UK adults about their life now, their well-being and attitude to money, plus what they want in the future – personal and financial goals, and how they'll achieve them. Methodology: online survey was completed by 2,004 UK adults (18+). Fieldwork by Opinium from 11–14 May 2018.

DRIVING TOWARDS THE NEXT PHASE OF YOUR LIFE

Getting the date right can help you reach your destination sooner

At some point you'll say 'goodbye' to your co-workers, get into your car and drive towards the next phase of your life – retirement. But when will that be? The move to retirement is one of the most important decisions you'll make, so it's not surprising that determining the date is harder than you may ever expect.

SOME PEOPLE WILL HAVE SET THEIR RETIREMENT DATE WHEN THEY WERE IN THEIR 20S OR 30S, AND A GREAT DEAL WILL HAVE CHANGED SINCE THEN, INCLUDING THEIR STATE PENSION AGE AND PERHAPS THEIR CAREER PLANS.

However, most over-45s are not making plans to match their hopes for the future according to new research[1]. The vast majority (86%) of those aged 45 or over are already dreaming about escaping their working life for retirement, but only 8% of the same age group have recently checked the retirement date on their pension plans to make sure it is still in line with their plans. Over half (56%) don't have a clear idea of when they want to retire, and only one in ten (10%) have worked out how much income they'll need when they decide to stop working.

The study reveals that it doesn't get much clearer as you go up the generations. Less than a fifth (17%) of those aged between 55 and 64 have recently checked to see if the retirement date on their pension policy still fits in with their plans.

Some people will have set their retirement date when they were in their 20s or 30s, and a great deal will have changed since then, including their State Pension age and perhaps their career plans. It may seem like a finger-in-the-air guess when you're younger, but the date that you set for retirement on a pension plan does matter. It will often dictate how your money is being invested and the communications you receive as you get nearer to that date.

REASONS TO KEEP YOUR RETIREMENT PLANS UP TO DATE

RIGHT SUPPORT, RIGHT TIME

If the date you plan to retire changes or you simply want to take some of your pension without stopping working, it's important to tell your pension company provider. Otherwise you may not receive information and support about your pending retirement at the most helpful times, as they'll be basing this on your out-of-date plans.

DE-RISKING INVESTMENTS

Some investment options will start to move your pension savings into lower-risk investments as you get closer to retirement. If you don't have the right retirement date on your plan, you could be moving into these investments at the wrong time. For example, if you move into them too early, you could potentially miss out on investment returns that could increase the value of your pension savings. But if you move too late, you could be exposing your life savings to unnecessary risk.

INVESTMENT POT

The size of pension pot you need to build up to maintain your lifestyle when you come to retire will depend on when you plan to do so.

INCOME

If you're planning to buy an annuity at retirement, which will guarantee you an income for the rest of your life, the amount of income you'll get will depend on the size of your pot and annuity rates at that time. If you prefer to use your pension savings more flexibly, you can keep your money invested and take it as and when you require it. You're then responsible for making sure your life savings last as long as you need them to. ◀

TIME TO REVIEW YOUR RETIREMENT DATE?

Reviewing your retirement date regularly as you get older makes real sense, and most modern pension plans enable you to change and update this date whenever you choose. If you would like to make sure that you are still on track for a successful retirement, please contact us for a review – don't leave it to chance.

Source data:

[1] Research was carried out online for Standard Life by Opinium. Sample size was 2,001 adults. The figures have been weighted and are representative of all GB adults (aged 18+). Fieldwork was undertaken in November 2017.

PENSIONS ARE A LONG-TERM INVESTMENT.

THE RETIREMENT BENEFITS YOU RECEIVE FROM YOUR PENSION PLAN WILL DEPEND ON A NUMBER OF FACTORS INCLUDING THE VALUE OF YOUR PLAN WHEN YOU DECIDE TO TAKE YOUR BENEFITS, WHICH ISN'T GUARANTEED AND CAN GO DOWN AS WELL AS UP.

THE VALUE OF YOUR PLAN COULD FALL BELOW THE AMOUNT(S) PAID IN.

TO TRANSFER, OR NOT TO TRANSFER?

What to consider before making this big decision

More than 100,000 people transferred out of Defined Benefit (DB) pensions in 2017/18[1]. A DB pension scheme is one where the amount you're paid is based on how many years you've worked for your employer and the salary you've earned.

The figures show that a large number of people are still transferring out of traditional salary-related pensions, but whether this is a good idea or not depends crucially on your individual circumstances.

For many people, a guaranteed salary-related pension that lasts as long as you do, and is unaffected by the ups and downs of markets, is likely to be the best answer. But there will be some who want extra flexibility or are focused on passing on some of their pension wealth for whom a transfer might be the right answer. It is vital to take, and listen to, professional financial advice before making a big decision of this sort.

FIVE REASONS WHY A PENSION TRANSFER MIGHT BE SUITABLE

1. Flexibility – instead of taking a set pension on a set date, you have much more choice about how and when you take your pension. Many people are choosing to 'front load' their pensions, so that they have more money when they are more fit and able to travel, or to act as a bridge until their State Pension or other pension becomes payable.

2. Tax-free cash – some DB pension schemes may offer a poor deal if you want to convert part of your DB pension into a tax-free lump sum. Although the tax-free cash is in theory 25% of the value of the pension, you often lose more than 25% of your annual pension if you go for tax-free cash; in a Defined Contribution (DC) pension, you get exactly 25% of the pot as tax-free cash.

3. Inheritance – generous tax rules mean that if you leave behind money in a DC pension pot, it can be passed on with a favourable tax treatment, especially if you die before the age of 75. In a DB pension, while there may be a regular pension for a widow or widower, there is unlikely to be a lump sum inheritance to children.

4. Health – those who live the longest get the most out of a DB pension, but those who expect to have a shorter life expectancy might do better to transfer if this means there is a balance left in their pension fund when they die, which can be passed on. Please note that HM Revenue & Customs may challenge this for those who die within two years of a transfer.

5. Employer solvency – while most pensions will be paid in full, every year some sponsoring employers go bankrupt. If the DB pension scheme goes into the Pension Protection Fund (PPF), you could lose 10% if you are under pension age, and may get lower annual increases; if you have transferred out, you are not affected.

FIVE REASONS WHY A PENSION TRANSFER MIGHT NOT BE SUITABLE

1. Certainty – with a DB pension, you get a regular payment that lasts as long as you do; with a DC pot, you have to face 'longevity risk' (not knowing how long you will live).

2. Inflation – a DB pension has a measure of built-in protection against inflation, but with a DC pot you have to manage this risk yourself, which can be expensive.

3. Investment risk – with a DC pension, you have to handle the ups and downs of the stock market and other investments; with a DB scheme, you don't need to worry - it's the scheme's problem.

4. Provision for survivors – by law, DB pensions have to offer minimum level of pensions for widows/widowers, etc., whereas if you use a DC pension pot to buy an annuity, it dies with you unless you pay extra for a 'joint life' policy.

5. Tax – DB pensions are treated relatively favourably from the point of view of pension tax relief. Those with larger pensions could be under the lifetime limit (currently £1.03 milion) inside a DB scheme, but the same benefit could be above the limit if transferred into a DC arrangement. ◀

TIME FOR A PENSION REVIEW?

Before considering transferring your pensions, it's essential you receive impartial professional financial advice about your particular situation. We can help you do this. For a pension review, please contact us – don't leave it to chance.

Source data:

[1] An FOI request to the Pensions Regulator from Royal London showed that there were an estimated 100,000 transfers out of DB pensions in 2017/18, up from 80,000 in 2016/17. The average transfer was around £200,000, suggesting around £20 billion in total was transferred out in 2017/18.

PENSIONS ARE A LONG-TERM INVESTMENT.

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THE VALUE OF YOUR PLAN COULD FALL BELOW THE AMOUNT(S) PAID IN.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND YOUR ENTITLEMENT TO CERTAIN MEANS TESTED BENEFITS.

ACCESSING PENSION BENEFITS IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

WHEN I'M GONE

How a simple list can help your loved ones after your death

Although it may not feel like it, your family finances are probably more precarious than you think. It's all well and good when the breadwinners are healthy and working, but if something unfortunate were to happen, the outlook for those around you could change instantly.

Research from Macmillan[1] highlights the worrying fact that two in three people living in Britain don't have a Will – including 42% of over-55s. Without an up-to-date Will, the law could supersede a person's final wishes and leave treasured possessions, money, property and even dependent children with someone they may not have chosen.

This news comes despite official guidance recommending that people review their Will every five years and after any major life changes[2], yet a quarter of Wills have not been updated for at least five years[3]. ◀

PROTECTING YOUR FAMILY

It's an old saying that you should look at protecting before investing, and they are wise words because it's more important to make sure that your family are covered against the financial impact of your premature death than it is to invest for an uncertain future. Please contact us for a review of your situation – we look forward to hearing from you.

Source data:

[1] Macmillan/Opinion Matters online survey of 2,000 UK adults. Fieldwork conducted 1–4 December 2017. Figures based on total population.

[2] Office for National Statistics. UK population mid-year estimate for adults aged 18 or over. Available from: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland [Accessed 12 December 2017]

[3] https://www.gov.uk/make-will/updating-your-will

TOP FIVE THINGS TO DO TO HELP YOUR LOVED ONES AFTER YOU HAVE GONE:

1. WRITE A WILL

A Will ensures that the right people inherit from you, and while most of us know how important it is to have a Will and keep it up to date, many of us don't do it. The research shows that three in five adults (60%) don't have a Will, and a quarter (26%) of those are aged 55 and above. It's especially important for cohabitating couples to have a Will, as the surviving partner does not automatically inherit any estate or possessions left behind.

2. THINK ABOUT CARE OF CHILDREN

If you have children, it's important to decide on guardians, but three in five (58%) parents with children under 18 haven't chosen guardians should they die. Think about who you would want to step into this role, and ask them if they'd be happy to do so. Then make sure you appoint them as guardians in your Will.

3. WRITE A 'WHEN I'M GONE' LIST

More than one in ten (12%) adults admitted that it would be very difficult for anyone to handle their financial affairs after they died. Pulling together all your personal and financial information into one simple document can really help your loved ones when you're gone.

4. MAKE A PLAN TO PAY FOR YOUR FUNERAL

Research shows that the average cost of a funeral is around £3,800, with one in six people (16%) saying they struggled with the cost. Having a plan in place to pay for your funeral will mean your family won't have to find several thousand pounds at a difficult time.

5. HAVE A CONVERSATION WITH YOUR FAMILY

Having a conversation with your family about your wishes can remove a great deal of uncertainty for them in the event of your death. The research shows that of those who have had to arrange a funeral, two in five (41%) were not left any instructions from the deceased. Starting a conversation might include talking about your funeral wishes with your loved ones or showing them where your important documents are kept.

PROTECTING YOU AND YOUR FAMILY'S FINANCES

Top reasons people gave for not taking out protection

There are many things to consider when looking to protect you and your family. It may not be the most exciting of subjects, but it answers one of our most basic desires – to keep safe all that we hold dear.

The State of the Protection Nation report[1] reveals that the top reason people gave for not taking out protection was that they think premiums are too expensive (69%). They also believe they won't get ill and they don't need insurance. Despite this, many people want to protect their lifestyle and loved ones from the financial impact of dying or becoming seriously ill.

Nearly half of the people surveyed (46%) felt they were unlikely to go on sick leave for three months or more, 44% thought they were unlikely to have an accident that meant they were unable to work, and a third (34%) felt it was unlikely they would contract a serious health condition or illness. Research[2] shows that the chance of being off work for two months or more before age 65 is 26% for males and 37% for females.

Even if illness struck, nearly half (43%) felt they could manage for a year if they were unable to work due to serious illness or injury, 55% said they would manage for six months, and 71% would manage for three months. Yet the reality is that only two in five could survive financially for more than six months if they were unable to work.

INERTIA PLAYS A PART IN PEOPLE'S DECISION

Despite only a small percentage of consumers saying they had life insurance (3%), critical illness cover (3%) and income protection (5%) through their employer, the majority of people felt they didn't need income protection (58%), critical illness cover (47%) and life insurance (34%).

The results revealed inertia plays a part in people's decision not to buy, as 20% of full-time working people recognise they need income protection but don't have a policy. Over a third (38%) of people working full-time feel they don't need income protection, but just 8% said they didn't need it because they had cover with their employer.

LACK OF COVER IN LINE WITH PEOPLE'S NEEDS

The figures show that 58% of people with a mortgage have life cover in place if the home owner dies, leaving 42% unprotected. But worryingly, 71% of people with a mortgage would have no protection in place if they were diagnosed with a critical illness, and 81% of mortgage owners have no income protection in place. The reason this is concerning is that people are far more likely to be diagnosed with a critical illness or have an injury that stops them working than to die before retirement age, so more people should consider critical illness or income protection.

A quarter (25%) of people who don't own any life insurance, critical illness cover or income protection said they were confident that this lack of cover was in line with their needs. This figure doesn't get much better when we look at those in full-time employment (30 hours a week or more), with 27% saying they were confident. ◀

LIFE HAPPENS – LET'S TAKE CARE OF IT

We believe that receiving professional financial advice is vitally important. Life turns out a little differently for everyone, so the amount and type of protection cover you may need depends on your personal circumstances. Please contact us to review your situation.

Source data:

[1] Royal London's 'State of the Protection Nation' report conducted by Opinium. 2,005 UK adults aged 18+ were surveyed from 9–12 January 2018. Results have been weighted to nationally representative criteria.

[2] Source: Pacific Life Re, March 2018. These figures have been produced based on their interpretation of the Institute and Faculty of Actuaries' Continuous Mortality Investigation insured lives incidence rates together with their estimate view of future trends. Incidence rates for the entire population may be different to those lives that take out insurance products.

LIFE ASSURANCE PLANS TYPICALLY HAVE NO CASH IN VALUE AT ANY TIME, AND COVER WILL CEASE AT THE END OF THE TERM. IF PREMIUMS STOP, THEN COVER WILL LAPSE.

AVERTING A LATER-LIFE FINANCIAL CRISIS

More retirees drawing pensions without LPAs

People are generally living longer these days. Increasingly, more people are living well into their 80s and 90s – and some even longer. This may mean you have a long time to budget for. That's why it is very important to consider all of your options carefully and think about what will matter to you in retirement.

You can now access your pension in more ways than ever before, after the Government introduced wide-ranging changes in April 2015. These changes give you more options, so it's important that you take time to think carefully before you decide what to do with your money.

LATER-LIFE FINANCIAL CRISIS

Nearly 80% of retirees using the UK's pension freedoms to manage their retirement savings face a potential 'later-life financial crisis' as they have not set up a Lasting Power of Attorney (LPA), a recently published report[1] has warned. There are two types of LPA. These are the Health and Welfare Lasting Power of Attorney, and the Property and Financial Affairs Lasting Power of Attorney.

The research found that 345,265 pensioners accessing their pension pots in this way have not yet given a family member or friend the legal authority to make decisions on their behalf if they were no longer able to do so.

RESPONSIBILITY OF MANAGING INCOME

The analysis underscores the scale of an issue that has emerged since the Government abandoned the requirement to buy an annuity at retirement. It has come to light that twice as many people are now opting for drawdown over annuities. In effect, this puts the responsibility of managing income in retirement on the individual.

Registering an LPA has become even more important since the pension reforms. Thousands of people are now making complex decisions on their pension into old age, when the risk of developing a sudden illness or condition such as dementia increases. Despite this, many are unprepared for a sudden health shock or a decline in their mental abilities. The time to set up an LPA is well before you need it.

POTENTIALLY CREATING PROBLEMS

With more and more people moving into drawdown, this is potentially creating problems that could leave thousands of people facing a possible later-life financial crisis. It is vital to plan for a time when managing your pension might become hard, or even impossible, and obtaining professional financial advice is one of the best ways to do this.

THE ALZHEIMER'S SOCIETY HAS DISCOVERED THAT THERE ARE CURRENTLY 850,000 PEOPLE IN THE UK LIVING WITH DEMENTIA, WHICH COULD INCREASE TO OVER 1 MILLION BY 2025. YET THE REPORT REVEALED THAT ONLY 21% OF RETIREES WHO HAVE ACCESSED FUNDS UNDER THE NEW FREEDOMS HAVE REGISTERED AN LPA.

DISCUSSIONS WITH YOUR FAMILY OR OTHERS

An LPA can be a very important part of advance planning for a time when a person will not be able to make certain decisions for themselves. It allows you to choose someone you trust to make those decisions in your best interests. This can be reassuring, and making an LPA can start discussions with your family or others about what you want to happen in the future.

The stigma around the LPA, as with dementia, is compounded by its links to mental capacity. Some people are reluctant to consider a future where they may not be able to make their own decisions due to the connotations they associate with this. In cases where LPAs are not in place, assets and equity may be lost, or those in a vulnerable position may be forced to make decisions they are no longer able to cope with. ◄

DO YOU NEED HELP? GIVE US A CALL

Whatever your plans for the future, we are here to help you take the next step. Please contact us to discuss your requirements or to answer any questions you may have.

Source data:

[1] The study for Zurich UK is based on a YouGov survey of a UK sample of 742 people who have moved into drawdown since the pension freedoms were introduced in April 2015. The survey was carried out between 14 December 2017 and 24 January 2018.

FCA Data Bulletin (issue 12) shows 345,265 pots moved into income drawdown between October 2015 and October 2017. Assuming the number of people moving into drawdown continued at a similar rate from November 2017 to April 2018, this would equate to a further 86,316 people in drawdown. 345,265 + 86,316 / 5 x 4 = 345,265 people.

345,265 / 2 years of drawdown data = 172,632 x 10 years = 1,726,325 people.

PENSIONS ARE A LONG-TERM INVESTMENT.

THE RETIREMENT BENEFITS YOU RECEIVE FROM YOUR PENSION PLAN WILL DEPEND ON A NUMBER OF FACTORS INCLUDING THE VALUE OF YOUR PLAN WHEN YOU DECIDE TO TAKE YOUR BENEFITS, WHICH ISN'T GUARANTEED, AND CAN GO DOWN AS WELL AS UP.

THE VALUE OF YOUR PLAN COULD FALL BELOW THE AMOUNT(S) PAID IN.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND YOUR ENTITLEMENT TO CERTAIN MEANS TESTED BENEFITS.

ACCESSING PENSION BENEFITS IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

ISA RULES AND INHERITANCE TAX

Families set to pay millions in unnecessary tax

There's a fundamental lack of awareness and understanding around Inheritance Tax, especially when it comes to how Individual Savings Accounts (ISAs) are treated after death. Given that some people have been able to amass over a million pounds in their ISAs, it's an area where lack of knowledge could prove costly.

Over half (51%) of over-45s do not know that ISAs are liable for Inheritance Tax, leaving families across the UK set to pay millions in unnecessary taxes according to findings from an annual Inheritance Tax monitor survey[1].

GIFTED TO A PARTNER

On death, as ISAs can only be gifted to a spouse or civil partner and not children without incurring tax, the Government will ultimately be a major beneficiary of money currently residing in Cash ISAs and Stocks & Shares ISAs. In the last Budget, HM Treasury predicted it would raise £5.3 billion in the 2017/18 tax year in Inheritance Tax, which will eventually increase to £6.5 billion by 2022 to 2023.

The research also revealed over three quarters (77%) think the UK's Inheritance Tax rules are too complicated. Yet despite this, only a third (33%) have sought professional financial advice on Inheritance Tax planning. Of those who did seek advice, over two fifths (42%) spoke to a professional financial adviser.

RULES REGARDING INHERITANCE

Some people could inherit less than they expected because they aren't aware or make assumptions about the rules regarding inheritance. In particular, the rules governing the gifting of ISAs and valuable estates mean that many may be faced with a higher than expected Inheritance Tax bill.

ISAs remain the 'go to' financial product for many people as they look to build up a nest egg in a tax-efficient way during their lifetime. But with such a large number of older people investing into them, there is a worrying lack of awareness that ISAs are subject to a 40% Inheritance Tax charge. ISAs are a great tax-efficient investment in your lifetime, but more people need to be thinking about how to pass on their hard-earned money to their loved ones when they die. ◄

SECURING AND PROTECTING YOUR WEALTH

Early preparation is the key to success here. Taking advantage of methods to secure and protect your wealth will ensure that more wealth can be passed onto the next generation – to find out more, please contact us.

Source data:

[1] Survey of 1,001 UK consumers aged 45 or over with total assets exceeding the individual Inheritance Tax threshold (nil-rate band) of £325,000. Carried out in October 2017.

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