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independent financial services ltd

NOVEMBER/DECEMBER 2019

CULTIVATE THE ART OF PATIENCE

FOCUS ON LONG-TERM INVESTMENT OBJECTIVES

TAX-WISE
Make the most of your valuable allowances, reliefs and exemptions

WOMEN'S STATE PENSION AGE CHANGES
Government's bid to ensure 'pension age equalisation'

FOR RICHER, FOR POORER
Pension and asset advice should be part of the divorce process

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INSIDE THIS ISSUE

Welcome to our latest edition. Inside this issue, we look at a number of the topical financial planning stories making the news agenda.

Creating and maintaining the right investment strategy plays a vital role in securing your financial future. But we live in the era of the 24-hour news cycle, and 'bad news sells'. The investment world can be unpredictable and investors currently have plenty of bad news to process, with a plethora of events making the daily and even hourly news headlines – from the US-China trade conflict and oil price volatility, to Britain's exit from the European Union. On page 06, we consider why it's important to stay positive and focus on your investment goals.

Once we enter January, the end of the 2019/20 tax year will be just over three months away on 5 April. As this date approaches, the window of opportunity reduces if you want to make the most of valuable allowances, reliefs and exemptions that could help reduce your tax bill and make sure your finances stay tax-efficient. Read the full article on page 04.

On 3 October, campaigners lost a significant legal battle against the Government's handling of the rise in women's State Pension age. The retirement age for women has increased from 60 to 65, in line with men, and will go up to 66 by 2020, and to 67 by 2028. Nearly four million women have been affected by these changes. On page 08, we consider the impact of the High Court's decision.

Also inside this issue, we look at whether some people are 'sleepwalking' into retirement and how much you will need to save to afford a comfortable retirement. We assess, too, how the financial implications of divorce, added to the emotional upheaval, can be difficult to deal with. A full list of the articles featured in this issue appears opposite.

WE HELP YOU FIND ANSWERS

We believe anything is possible when you manage your money the right way. Whatever your goals in life are, careful planning, successful investing and protection of your wealth can help you get there. If you would like to discuss any areas of your financial plans, please contact us – we look forward to hearing from you.

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.

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TAX-WISE

MAKE THE MOST OF YOUR VALUABLE ALLOWANCES, RELIEFS AND EXEMPTIONS

Once we enter January, the end of the 2019/20 tax year will be just over three months away on 5 April. As this date approaches, the window of opportunity reduces if you want to make the most of valuable allowances, reliefs and exemptions that could help reduce your tax bill and make sure your finances stay tax-efficient.

Some of these allowances will be lost forever if they are not used before the tax year end – and the sooner you claim them the better. Every year, some people leave end-of-year tax planning until the last minute. But leaving planning until the eleventh hour increases the risk that you will discover you have left it too late and missed out on the chance to improve your financial position.

Acting well before the tax year end means you can also be sure that you are maximising your opportunities and minimising your stress. The list we've provided below isn't exhaustive, but it highlights some of the main areas to consider if appropriate to your particular situation. If you would like to discuss your own financial position, please contact us.

INCOME TAX

Consider making use of lower-rate tax bands. It's important to review the tax implications of transferring income-producing assets and taking note of anti-avoidance and settlements legislation.

The way you receive an income, and the rates and allowances that apply, should be at the front of your mind. How much you pay depends on where you live in the UK, with Scotland and Wales in receipt of devolved powers to set their own Income Tax bands on top of the personal allowance.

The annual dividend allowance remains at £2,000 for 2019/20 after reducing from £5,000 this time last year. With the new personal allowance of £12,500 added to the frozen dividend allowance, the maximum tax-free income you can receive through dividends is £14,500 in 2019/20.

Some smaller amounts of income are tax-free up to annual limits. Under the Government's rent-a-room scheme, you can continue to earn tax-free income of up to £7,500 a year from letting out a furnished room in your home.

INDIVIDUAL SAVINGS ACCOUNT (ISA) ALLOWANCE

With a Cash ISA or a Stocks & Shares ISA (or a combination of the two), you can save or invest up to £20,000 a year tax-efficiently.

If you are in a position to, it makes sense for you and your spouse to take advantage of each other's ISA allowance, particularly if one of you has more financial resources than the other. That way, combined, you can save (in the case of Cash ISAs) or invest (in the case of Stocks & Shares ISAs) up to £40,000 tax-efficiently in 2019/20.

Currently, 16 and 17-year-olds actually get two ISA allowances, as they're able to open a Junior ISA (which for 2019/20 has a limit of £4,368) and an adult Cash ISA. This means that you can put away up to £24,368 in your child's name tax-efficiently this tax year.

People aged 18–39 can open a Lifetime ISA, which entitles them to save up to £4,000 a year until they're 50. The Government will top up the savings by 25%, up to a maximum of £1,000 a year.

PENSION CONTRIBUTIONS

The annual pensions allowance enables you to contribute up to £40,000 in 2019/20. If your adjusted income exceeds £150,000 in 2019/20, your annual allowance will be reduced by £1 for every £2 that exceeds this threshold down to a limit of £10,000.

Any unused pensions annual allowance can be carried forward for three tax years, providing you were a member of a registered pension scheme during that period. This unused allowance can be added to your 2019/20 annual allowance, giving a maximum pension contribution of £160,000, all of which will attract personal tax relief if you have the required level of relevant earnings.

You can also increase your basic State Pension by paying voluntary Class 3 National Insurance Contributions (NICs).

Consider contributing up to £2,880 towards a pension for your non-earning spouse or children. Tax relief is added to your contribution, so if you contribute £2,880, a total of £3,600 a year will be paid into the pension scheme, even if you earn less than this or have no income at all.

You begin to lose your personal allowance once your adjusted net income exceeds £100,000, such that the allowance reduces to £0 when adjusted net income reaches £125,000.

INHERITANCE TAX

You can act at any time to help reduce a potential Inheritance Tax (IHT) bill when you're no longer around.

Gifts of up to £3,000 per year can be made on an IHT-free basis. The limit increases to £6,000 if the previous year's annual exemption was not used.

A married couple can therefore make IHT-exempt gifts totalling £12,000 – if unused, the annual allowance can be carried forward to the next tax year only. This simple technique could save a possible IHT bill of £4,800 in the event of your untimely death.

You should also consider using other annual gifts such as gifts in consideration of marriage or £250 small gifts.

Business Relief (BR) is a valuable IHT relief, with business property potentially receiving up to 100% relief if certain criteria are met. BR is an important part of succession planning, but due to the complexity of the BR rules, the relief may not be due even though you expect to meet the conditions.

It is important to regularly review your BR position to ensure that it continues to apply and that your business activities do not jeopardise your BR position.

CAPITAL GAINS TAX ALLOWANCE

Capital Gains Tax (CGT) is a tax on the gains and profits you make when you sell something, such as an investment portfolio or second home.

Everyone has an annual allowance of £12,000 (in 2019/20) before CGT applies. Like the ISA allowance, it doesn't roll over – so if you don't use it, you'll lose out. And you may have to pay more CGT in the future.

Also, it's worth remembering the allowance is for individuals, so couples have a joint allowance for 2019/20 of £24,000. In some situations, it may be appropriate to transfer assets into your joint names so you both stay within your individual allowances. However, this is only effective if the gift is a genuine gift of beneficial ownership, and the transferor does not continue to benefit from the asset following the transfer.

Not every investment portfolio is subject to CGT. If you're looking for a tax-efficient way to invest, a Stocks & Shares ISA could be for you. Just like any investment, it carries risk – meaning you could lose some or all of your money – but if you do make a profit due to share price increases, you won't be required to pay CGT on it.

A Bed & ISA will allow you to utilise the current year's ISA allowance by moving investments from an unwrapped environment to the ISA tax-efficient wrapper. This is achieved by disposing of the unwrapped investment and repurchasing it via an ISA. The disposal of the unwrapped investments may be liable to CGT, but once inside the ISA, the investments are sheltered from CGT in the future. ◀

DON'T LOSE IT, USE IT

As we make our way towards the end of the tax year, now is the ideal time to review your tax affairs to ensure that you have taken advantage of all the valuable allowances, reliefs and exemptions available to you. To discuss the planning opportunities available to help you, your family and business to reduce your tax bill, please contact us.

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THE TAX BENEFITS RELATING TO ISA INVESTMENTS MAY NOT BE MAINTAINED. TAX RULES ARE COMPLICATED, SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

CULTIVATE THE ART OF PATIENCE

AVOID KNEE-JERK REACTIONS BY FOCUSING ON LONG-TERM INVESTMENT OBJECTIVES

Creating and maintaining the right investment strategy plays a vital role in securing your financial future. But we live in the era of the 24-hour news cycle. Human tendency is to prioritise negative over positive news content, and no one is immune from bad news. So as an investor, when you do get it, how do you process the information, deal with it and move on unscathed?

The goal of any investor should be to focus on long-term investment objectives and avoid any knee-jerk reactions. Volatility can understandably give any investor the jitters. The investment world can be unpredictable, and investors currently have plenty of news to process with a plethora of events making the daily and even hourly news headlines – from the US-China trade conflict and oil price volatility, to Britain's exit from the European Union.

Market downturns can also unnerve even the most seasoned of investors. But if you want to give your investments the best chance of earning a return, then it's important to cultivate the art of patience. Whatever happens in the markets, in all probability your reasons for investing won't have changed.

STAY POSITIVE AND FOCUS ON YOUR INVESTMENT GOALS

TUNE OUT THE NOISE

The deluge of information we receive every day on our mobiles, TVs and computers might have something to do with increasing levels of uncertainty, but remember: 'bad news sells'. We are inundated with new information all the time. There is no break from it. And that can be exhausting.

This information overload, news alerts, tweets and posts can lead to poor, knee-jerk reactions. We're hardwired to want this amount of information but not hardwired to deal with it. But if you do find yourself in a situation where you require insightful information that you can trust, then speak to us and we'll give you an unbiased assessment of the situation.

LOOK TO THE LONGER TERM

The length of time you stay invested in the market is generally more important than market timing. One of the advantages associated with long-term investing is the potential for compounding. When your investments produce earnings, those earnings are reinvested and can earn even more. The more time your money stays invested, the greater the opportunity for compounding and growth.

Keep in mind that compounding, overall, can have a significant long-term impact, even if there are periods where your money won't grow. While there are no guarantees, the value of compounded investment earnings can turn out to be far greater over many years than your contributions alone. As Warren Buffett, the American business magnate, investor and philanthropist, put it so eloquently; 'The stock market is designed to transfer money from the active to the patient.'

DIVERSIFY YOUR PORTFOLIO STRATEGY

Diversification is a strategy that involves investing across or within different asset classes to minimise the ups and downs of financial markets. In other words, diversification is about not having all your eggs in one basket. Although having a diversified portfolio won't eliminate all volatility, a well-thought-out diversification strategy can help to reduce risk during this period and help with gaining more consistent returns over the long term.

Generally speaking, there are four broad asset classes: cash, fixed interest, property and shares. Because asset classes have their own unique economic cycles, when one class is making stronger returns, another may not be performing as well. By spreading your investments across and within different asset classes, you'll be in a better position to offset the volatility of individual investments.

DEFINE YOUR GOALS FOR INVESTING

Knowing what you want your money to achieve will help you to remain focused through times of market volatility. One of the first steps to investing is to clearly define your investment goals. Taking time to consider what you want to achieve as a result of your investment process will guide you in determining specific investment goals.

Whatever your personal investment goals may be, it is important to consider the following questions: What is your time horizon? What is your investment risk tolerance? What are your liquidity needs? And are you investing for growth, income or both? ◀

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HELPING YOU ACHIEVE YOUR FINANCIAL GOALS

Financial news can be dangerous to the health of your investment portfolio. Whether you are looking to invest for income, growth or a combination of the two, we can provide the quality advice and a comprehensive range of investment solutions to help you achieve your financial goals. For more information, please contact us.

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FOR RICHER, FOR POORER

PENSION AND ASSET ADVICE SHOULD BE PART OF THE DIVORCE PROCESS

Divorce – it's one of the most difficult subjects to talk about. The emotional upheaval of divorce can be difficult to deal with, but so too can the financial implications. When relationships come to an end, there are so many things to consider. Children, home and support are naturally the first things you focus on.

When you begin the process of separating a shared life, the sheer number of things to deal with is daunting. On top of that, the settlement may come with its own financial pressures, having a lasting impact on your plans for later in life.

DIVORCE RATES ARE INCREASING FOR MEN AND WOMEN OVER 55

A study from Research Plus[1] shows that divorcees retiring in 2018 expected to receive up to 18% less in retirement income. And with the Office for National Statistics[2] confirming that divorce rates are increasing for men and women over 55, it's an issue likely to affect a growing number of the baby-boomer generation.

ONE OF THE MOST DIFFICULT ASSETS TO SPLIT

Divorcing spouses are often unaware of their rights and still less aware of how to begin to approach the issue of a fair split of pension assets. While it may not be the first thing you need to think about, a pension fund is likely to be one of the most difficult assets a couple will have to split in the event of a divorce, so it's best to start early.

The stress of getting through a divorce can mean people understandably focus on the immediate priorities like living arrangements and childcare, but a pension fund and income in retirement should also be a priority.

ADVICE IS CRUCIAL AS EARLY AS POSSIBLE IN ANY SEPARATION

A pension fund is one of the most complex assets a couple will have to split, so anyone going through a divorce should seek legal and professional financial advice to help them do so. For many more couples, the increase in the value of pensions means that it is often the largest asset.

It goes without saying that this advice is crucial as early as possible in any separation where couples have joint assets. The law on divorce is different across the UK. Taking legal advice in the early stages of separation is important.

HOW MUCH MONEY YOU THINK YOU'LL NEED TO LIVE ON LATER IN LIFE

Before planning how to separate your pension assets, you may want to consider how much money you think you will need to live on later in life. It's never easy when things come to an end, but support and advice can make this clearer.

So what are the options available when you are ready to look at separating your assets? Firstly, it's important that you both list the different pensions you and your ex-civil partner or spouse have. Then you can start to explore the options.

Across the UK, there are three core options to consider when you're separating pension assets. These are pension sharing orders, pension attachment orders (called 'pension earmarking' in Scotland) and pension offsetting. Some of these options need to be administered by the courts, and not all of them will be suited to your individual circumstances.

PENSION SHARING ORDER

Pension sharing is one of the options available on divorce or the dissolution of a registered civil partnership. Each party owns a share of the pension fund but is able to decide what to do with their share independently. This provides a clean break between parties, as the pension assets are split.

PENSION ATTACHMENT ORDER

This redirects some or all of the pension benefits to you or your ex-civil partner or spouse at the time of payment. When the person who owns the pension receives their benefits, the pension provider makes a payment to their ex-civil partner or spouse. With this option, you don't get the clean break as you would from the pension sharing order.

PENSION OFFSETTING

With pension offsetting, the total assets are considered and then divided up. For example, if your ex-partner has a large pension pot, they may keep this as you may agree to receive an asset of similar value (the house, for example). This may be an appropriate option if there are overseas pension assets that need to be split, as these cannot be shared via a UK court order.

When contemplating divorce, many people put themselves under undue stress worrying about their financial well-being. Much of that stress is due to the fear of the unknown before, during and after divorce. It is important to focus on your financial situation realistically, since doing so will give you a sense of control over your life, which in turn can reduce your stress level. ◀

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PROTECTING YOUR PENSION AND ASSETS IN A DIVORCE

A divorce is never something people plan, but it should be something to plan for. There are so many assets to consider and so much legislation to understand. If you are considering a divorce and want to know more about the options available to you regarding your finances, please contact us.

Source data:

[1] Research Plus conducted an independent online survey for Prudential between 29 November and 11 December 2017 among 9,896 non-retired UK adults aged 45+, including 1,000 planning to retire in 2018.

[2] Divorce statistics from the Office of National Statistics, published 26 September 2018

WOMEN'S STATE PENSION AGE CHANGES

GOVERNMENT'S BID TO ENSURE 'PENSION AGE EQUALISATION'

On 3 October, campaigners lost a significant legal battle against the Government's handling of the rise in women's State Pension age. Up until 2010, women received their State Pensions at the age of 60, but that has been increasing since then.

The retirement age for women has increased from 60 to 65, in line with men, and will go up to 66 by 2020, and to 67 by 2028. Nearly four million women have been affected by these changes. Women born in the 1950s claim the rise is unfair because they were not given enough time to make adjustments to cope with years without a State Pension.

FAST-TRACKED CHANGES

Plans to increase the State Pension age were announced firstly in the Pensions Act 1995, but the changes were fast-tracked as part of the Pensions Act 2011. The Government decided it was going to make the State Pension age the same for men and women as a long-overdue move towards gender equality. Campaigners have argued the changes are discrimination, but the judges disagreed.

In a summary of the High Court's decision, the judges said: 'There was no direct discrimination on grounds of sex, because this legislation does not treat women less favourably than men in law. Rather it equalises a historic asymmetry between men and women and thereby corrects historic direct discrimination against men.'

PENSION AGE ENTIRELY LAWFUL

The Court also rejected the claimants' argument that the policy was discriminatory based on age, adding that even if it was, 'it could be justified on the facts'. The State Pension age has been increased by successive governments in a bid to ensure 'pension age equalisation' – so that women's State Pension age matches that of men.

A spokesman for the Department for Work and Pensions said: 'We welcome the High Court's judgment. It has always been our view that the changes we made to women's State Pension age were entirely lawful and did not discriminate on any grounds.'

FINANCIAL HARDSHIP FOR MANY

Up until 2010, women received their State Pensions at the age of 60, but that has been rising since then. While some campaigners support pension age equality, they argued that the Government was discriminatory in the way it has introduced it. The judges said there was nothing written into the law that ordered specific notification about the pension age changes.

The result has been that some women who thought they would retire and receive a State Pension at 60 found that they would have to wait longer – for some, a wait of more than five years, which has resulted in financial hardship for many.

FOCUS OF MUCH OF THE CAMPAIGN

Those affected were born in the decade after 6 April 1950, but those born from 6 April 1953 were particularly affected and have been the focus of much of the campaign.

In June, the judicial review in the High Court heard the claim from two members of the Backto60 group who said that not receiving their State Pension at the age of 60 had affected them disproportionately. They argued that many women took time out of work to care for children, were paid less than men and could not save as much in occupational pensions, so the change had hit them harder.

DISADVANTAGED MILLIONS OF WOMEN

The Backto60 group is seeking repayment of all the pensions people born in the 1950s would have received if they had been able to retire earlier. It argues that the speed of the change and what it calls the 'lack of warnings' has disadvantaged millions of women.

However, the Government has estimated that a reversal of the pension changes in the Acts of Parliament of 1995 and 2011 would cost £215 billion over the period 2010/11 to 2025/26. About £181 billion of that would be money potentially owed to women, and the rest to men.

'BRIDGING' PENSION TO COVER THE GAP

The Backto60 group has taken this legal action to demand 'the return of their earned dues'. The separate Women Against State Pension Inequality (WASPI) group is calling for a 'bridging' pension to cover the gap from the age of 60 until their State Pension is paid.

Commenting, the group said: 'We can't simply follow in our parents' footsteps as the social norms that worked for them are unlikely to work over longer lives. We will all have to start doing things differently. This is particularly apparent in retirement planning.' ◀

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WHAT WILL YOUR RETIREMENT INCOME BE?

Increasingly, people now feel saving for a pension is right, sensible, worthwhile and – above all – a normal part of working life. The fact that we are generally living, and remaining healthy, for longer than ever before is welcome news. If you have any questions or require any further assistance to find the right pension strategy for you, don't delay – please contact us.

TAX-EFFICIENT SHELTERS

USE YOUR ISA ALLOWANCE OR LOSE IT FOREVER

Even though the Individual Savings Account (ISA) deadline may be a number of months away, and despite the tax year date remaining the same year in year out, somehow it always creeps up on us. A tax year runs from 6 April one year to 5 April the next.

So rather than subjecting yourself to the mad rush of deciding how to fully utilise your 2019/20 ISA allowance, now is a good time to start preparing how you intend to use it. You also need to remember that if you don't use your current ISA allowance by 5 April 2020, you've lost it forever.

YOU CAN SHELTER RETURNS FROM TAX

ISAs are a means of saving tax-efficiently and were introduced by the Government to encourage more of us to save and invest. Each tax year, the Government sets a limit on the amount you can contribute to an ISA (currently £20,000).

A married couple could invest £40,000 before 5 April 2020, followed by a further £40,000 on 6 April 2020 – a total of £80,000 invested, with all profits or dividends completely free from UK Income Tax and Capital Gains Tax.

TIME TO CONSIDER YOUR ISA OPTIONS?

There are six different types of ISA, and they each have slightly different features:

CASH ISA

Basic and higher-rate taxpayers receive a Personal Savings Allowance (PSA) that sets the amount of interest they can earn tax-free in any year. The total amount you can save in a Cash ISA in the current 2019/20 tax year is £20,000. Using a Cash ISA gives you further flexibility to earn interest from the ISA without paying tax on it. Different accounts are available, which can offer easy access to your money – useful for short-term savings. When deciding what to do with any spare money you have, it's worth bearing in mind the effect of inflation on what your money can buy. If inflation is higher than the interest you're earning, then the cost of living is going up faster than the rate at which your money is growing.

STOCKS & SHARES ISA

In the current 2019/20 tax year, you can invest up to £20,000 in a Stocks & Shares ISA, which is generally considered a medium to long-term investment. You have complete flexibility as you can choose to invest your money in a wide range of different investments, and any money you make in profit or dividends is completely free from UK Income Tax and Capital Gains Tax. You can invest a single lump sum or smaller amounts, but you must remember that once the tax year is over, if you have not used all your ISA allowance, you will lose it.

JUNIOR ISA

Junior ISAs are a way to save tax-efficiently for your children. There are two types of Junior ISA: a Cash Junior ISA and Stocks & Shares Junior ISA. Family and friends can put up to £4,368 into the account on behalf of the child in the 2019/20 tax year. There's no Income Tax or Capital Gains Tax to pay on the interest or investment gains. Junior ISAs are available to any child under 18 living in the UK. The ideal festive gift this year!

HELP TO BUY: ISA

A Help to Buy: ISA was introduced to help first-time buyers save towards the cost of buying their first home. You can make an initial deposit of £1,000 when you open a Help to Buy: ISA, and then receive £50 for every £200 saved up to a maximum of £12,000. The tax incentive is capped at £3,000. You also earn tax-efficient interest on your savings as with a standard ISA. These ISAs are limited to one per person rather than one per house. You can't contribute to a Cash ISA in the same tax year. The Help to Buy: ISA scheme closes on 30 November 2019. After that date, they won't be available to new savers anymore. However, if you opened your Help to Buy: ISA before then, you can keep saving into your account until 30 November 2029 when accounts will close to additional contributions. You must also claim your bonus by 1 December 2030.

LIFETIME ISA

The Lifetime ISA is a longer-term tax-efficient savings account that will let you save up to £4,000 per year and receive a government bonus of 25% (up to £1,000). As with other ISAs, you won't pay tax on any interest, income or capital gains from cash or investments held within a Lifetime ISA. It's designed for first-time buyers between the ages of 18 and 40 to use towards a deposit for their first home or towards future retirement savings once they reach 60 years of age.

INNOVATIVE FINANCE ISA

An innovative finance ISA (IFISA) lets you use your tax-efficient ISA allowance while investing in peer to peer (P2P) lending. They work by lending your money to borrowers, and in return you receive interest based on the length of time and the risk of your investment. However, they are considered higher risk than other types of ISA due to the risk of default by borrowers and the lack of a secondary market for these types of assets. ◀

TAKE THE COMPLEXITY OUT OF INVESTING

If you're new to the world of ISAs or have an existing portfolio, and you want to make the most of your allowance, please contact us before it's too late – we look forward to hearing from you.

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'SLEEPWALKING' INTO RETIREMENT

HOW MUCH WILL YOU NEED TO SAVE TO AFFORD A COMFORTABLE RETIREMENT?

There is a widespread and common-sense-based perception, backed to some extent by evidence, that planning and preparing for later life is associated with increased well-being in older age. Despite this, it's concerning that some people at mid-life have not thought much about their later life nor taken fundamental future-oriented actions, such as engaging in financial planning or writing a Will.

New research[1] highlights the fact that millions of mid-life UK employees are sleepwalking into retirement. The study, which looked into mid-life[2] employees' financial preparedness for later life, revealed that 64% of employees aged 45 and over – equivalent to nearly nine million people – do not know how much they will need to save to afford a comfortable retirement.

ELIGIBLE FOR THE STATE PENSION

In addition, over five million mid-life employees (37%) do not know how much is already saved in their pension. Question marks also hang over the State Pension, with two in five (43%) respondents unaware of how much support they will receive from the Government. A further 26% do not know at what age they'll be eligible for the State Pension.

If you're entitled to the full new single-tier State Pension currently valued at £168.80 per week, this adds up to a retirement income of £8,777.60 per year[3]. Most employees (62%) aged 45 and over also do not know what the pension freedoms mean for them, while 37% do not know what type of pension scheme they have – for example, whether it's a defined contribution or defined benefit scheme.

NEVER TOO LATE TO SAVE

The analysis highlights that it is never too late to plan. But without a clear picture of what they currently have saved or might need to save for a comfortable retirement, the findings show that many UK employees are approaching retirement with their eyes closed – with no realistic idea of how near or far they are from their retirement destination.

As a first step, mid-life employees who are mystified by their pension savings should try to get a clear picture of what they have saved so far and how much of an income this can provide them with over the course of retirement.

PENSIONS IN NEED OF A BOOST

For some, this may be a pleasant surprise, while for others, it could be the wake-up call that's needed to spur them to take action. People whose pensions are in need of a boost shouldn't be disheartened, however, as it's never too late to save. Your retirement should be something to look forward to, so it's good to make sure you'll have financial security for when you decide to stop working.

There are various ways to save for your retirement. Putting your money into a pension is one of the most tax-efficient ways to save for the kind of life you want in retirement. With the tax breaks you receive, it can mean that building up your retirement savings could cost less than you might think. What's more, your pension is invested, which gives your money the potential to grow. ◀

Source data:

[1] Research of 1,036 UK employers and 2,020 employees aged 45+, conducted on behalf of Aviva by Censuswide, January 2019. All figures are based on this research unless otherwise stated. 8.9 million figure scaled up according to the latest ONS Labour Market Stats – calculated as 64% of UK employee population aged 45+

[2] Employees aged 45+ are defined as 'mid-life employees' throughout the release

[3] UK State Pension Allowance – weekly allowance of £168.80. £168.80 multiplied by 52 = £8,777.60

HELPING YOU SAVE FOR YOUR FUTURE

It's important to make sure you keep an eye on your pension value and understand if the amount you're putting away will be enough to fund the future you want. We're here to help you make good decisions so you can live the lifestyle you want when you retire. If you would like to discuss your particular situation, please contact us – we look forward to hearing from you.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

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

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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

TIME TO UPDATE YOUR PLANNED RETIREMENT DATE?

SAVERS RISK MISSING OUT ON MONEY FROM THEIR FINAL PENSION POT

Millions of savers risk missing out on money from their final pension pot if their provider doesn't have their correct planned retirement date. The analysis[1] revealed that workplace pension savers in the UK could miss out on thousands of pounds in retirement because they haven't updated their planned retirement date.

Recent changes to State Pension age, and the removal of the default retirement age, means people are now free to work for as long as they want or need. Previously, women would receive their State Pension at age 60 and men at 65. Now, anyone aged under 41 won't receive it until they are 68.

CONSEQUENCES IN TERMS OF RETIREMENT INCOME

If someone is planning to retire later and fails to notify their pension provider, there can be consequences in terms of retirement income. This outcome can occur because every default investment solution has a de-risking element.

This means that as savers get closer to their retirement date, investments are switched from higher-risk (higher return) funds to lower-risk (lower return) funds to protect their retirement savings from sudden market moves.

AVERAGE EARNER IN AN AUTOMATIC ENROLMENT SCHEME

The analysis shows that an average earner in an automatic enrolment scheme could miss out on more than £4,000[2] in their pension pot by sticking with a default retirement age of 65 when they actually intend to retire at 68.

But anyone whose retirement age is still set at 60 could miss out on almost £10,000. This is a situation that is more likely to affect women, due to the way default retirement ages were set in the past.

MOVING INVESTMENTS TO LESS RISKY ASSETS TOO EARLY

If a provider holds a retirement age that is too young, they will move investments to less risky assets too early. This means people lose out on investment growth when their pension pot is the largest.

If they hold a retirement age that is too old, they will keep the money invested in riskier investments for too long. If investments lose value too close to the planned retirement age, there may not be time for them to recover their value. This means less money, or perhaps a last-minute delay to retirement plans.

SETTING THE DEFAULT RETIREMENT AGE FOR ALL EMPLOYEES

With 47% of all workers saving into defined contribution pensions[3], and around 90% of those invested in default funds, this issue could affect a significant number of people.

Employers typically set the default retirement age for all their employees when they first set up their workplace pension. Members can then contact their provider and set their own retirement date.

RETIRING AT A DIFFERENT AGE THAN WAS ORIGINALLY ASSUMED

De-risking profiles have been carefully designed to balance risk and return in the approach to retirement. But this balance is thrown out of kilter if someone wants to retire at a different age than was originally assumed when they started their pension.

Changing your retirement age is a really simple way to maximise the potential returns of your pension investments. Plus, it's an opportunity to check how much is in your fund and if you're on course to achieve the type of retirement you want. ◀

HELPING YOU MAKE THE RIGHT DECISIONS

There are a range of choices and options available when it comes to setting realistic retirement goals. We can provide expert professional financial advice to help you make the right decisions. To find out more, please contact us.

Source data:

[1] Aviva Life 11 September 2019

[2] Loss for an individual earning £27,664 automatically enrolled at age 22 into an AE minimum scheme invested in Aviva's My Future default fund, contributions assumed to increase annually at 2.5%, figures discounted for inflation at 2.5% p.a. Retirement age set to 68, life styling begins at 53 – total fund value at 68 is £137,600 Retirement age set to 65, life styling begins at 50 – total fund value at 68 is £133,500 Retirement age set to 60, life styling begins at 45 – total fund value at 68 is £127,700

[3] Employee workplace pensions in the UK: 2018 provisional and 2017 revised results. Office for National Statistics

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“EMPLOYERS TYPICALLY SET THE DEFAULT RETIREMENT AGE FOR ALL THEIR EMPLOYEES WHEN THEY FIRST SET UP THEIR WORKPLACE PENSION. MEMBERS CAN THEN CONTACT THEIR PROVIDER AND SET THEIR OWN RETIREMENT DATE.”

EVERY JOURNEY STARTS WITH A DESTINATION

LOOKING AT THE BIGGER PICTURE FOR YOUR WEALTH AND SECURITY

Every plan starts with a goal, just like every journey starts with a destination. Planning your financial future is not only important for your security, but it also provides peace of mind. Financial planning should be viewed as a long-term approach to managing your finances.

Creating your financial plan will help you see the bigger picture and set life goals, which are crucial for mapping out your financial future. When you have a financial plan, it's easier to make financial decisions and stay on track to achieving your goals.

ROBUST AND PRACTICAL FINANCIAL PLAN

Everyone's situation is unique, but creating a coherent, robust and practical financial plan is crucial if you want to take control of your financial future. We often meet people who suddenly realise that they took their eye off the financial ball.

When this happens, the impact of an unexpected situation or emergency can be much more intense, because there are money issues on top of a very stressful situation. So we look objectively at your plans to provide solutions that work as your priorities change over the years.

TIME OUT TO CONSIDER YOUR FINANCIAL POSITION

Procrastination is the greatest enemy of achieving financial independence. Creating your financial plan doesn't have to be a daunting process. It is more about taking the time to consider your financial position and what changes you need to make. And it's built on a close analysis of your entire financial position, requirements, prospects and objectives.

The first step is to identify your financial goals in the short, medium and long term. This could include buying a property, paying off the mortgage, retiring by a certain age or setting up your own business. There is no right or wrong financial goal – they are unique to you and what you ultimately want to achieve.

MEETING YOUR NEEDS TODAY AND IN RETIREMENT

A financial plan will help you meet your needs today and in retirement and help protect you from the unexpected along the way. It includes the right mix of savings and investments and insurance protection products to help you meet your financial goals.

Once you have identified your financial goals, it is important then to consider your current financial position. What assets and liabilities do you have, and what is your income and expenditure? You need to determine how much can you afford to save or invest on a regular basis to assist in achieving your goals.

ESTABLISHING THE PLAN

Once you have determined your current position and your goals, the next stage is to develop your plan. Creating your road map will help you understand the financial structure you need in place to achieve your goals and reach each destination successfully. Any effective plan also needs to have tax planning as its foundation.

WHAT SHOULD YOU CONSIDER FOR YOUR FINANCIAL ROAD MAP?

YOUR GOALS

Where do you want to be or expect to be in 10, 20 and 30 years? Remember that you may be living in retirement longer than you think.

YOUR EMERGENCY FUND

How do you plan on paying for unexpected events such as a career break, an extended illness or a job loss?

YOUR LONGEVITY

People are living longer, so there's a chance that you could be living into your 90s. Be optimistic. How much money will you need?

YOUR LIFESTYLE

Consider the kind of lifestyle you have now and think about what you will want or need later on. How much will this lifestyle cost?

YOUR PROTECTION

How will you keep safe all that you hold dear if you were to die unexpectedly? What would happen if you were diagnosed as suffering from a serious illness? Could you continue to pay the bills?

YOUR CURRENT SAVINGS PLAN

How much money are you saving now? Is it enough to help fund your future short, medium and long-term goals? At what point do you expect to start using your savings for living expenses?

YOUR LEVEL OF INVESTMENT RISK

Are you comfortable with the level of risk you're taking with your investments? Does it need to change to better reflect your own situation or the state of the economy?

YOUR INCOME IN RETIREMENT

Take a look at any income you may have in retirement. Are you ready for life beyond work? How much money do you need to retire? How long will your money last? How much will you need to spend?

YOUR ESTATE PLAN

More than a Will, an estate plan can ease the burden on your loved ones, ensure your assets are distributed as you wish, reduce taxes, and plan for future personal care and health care needs. How do you want to pass on your wealth?

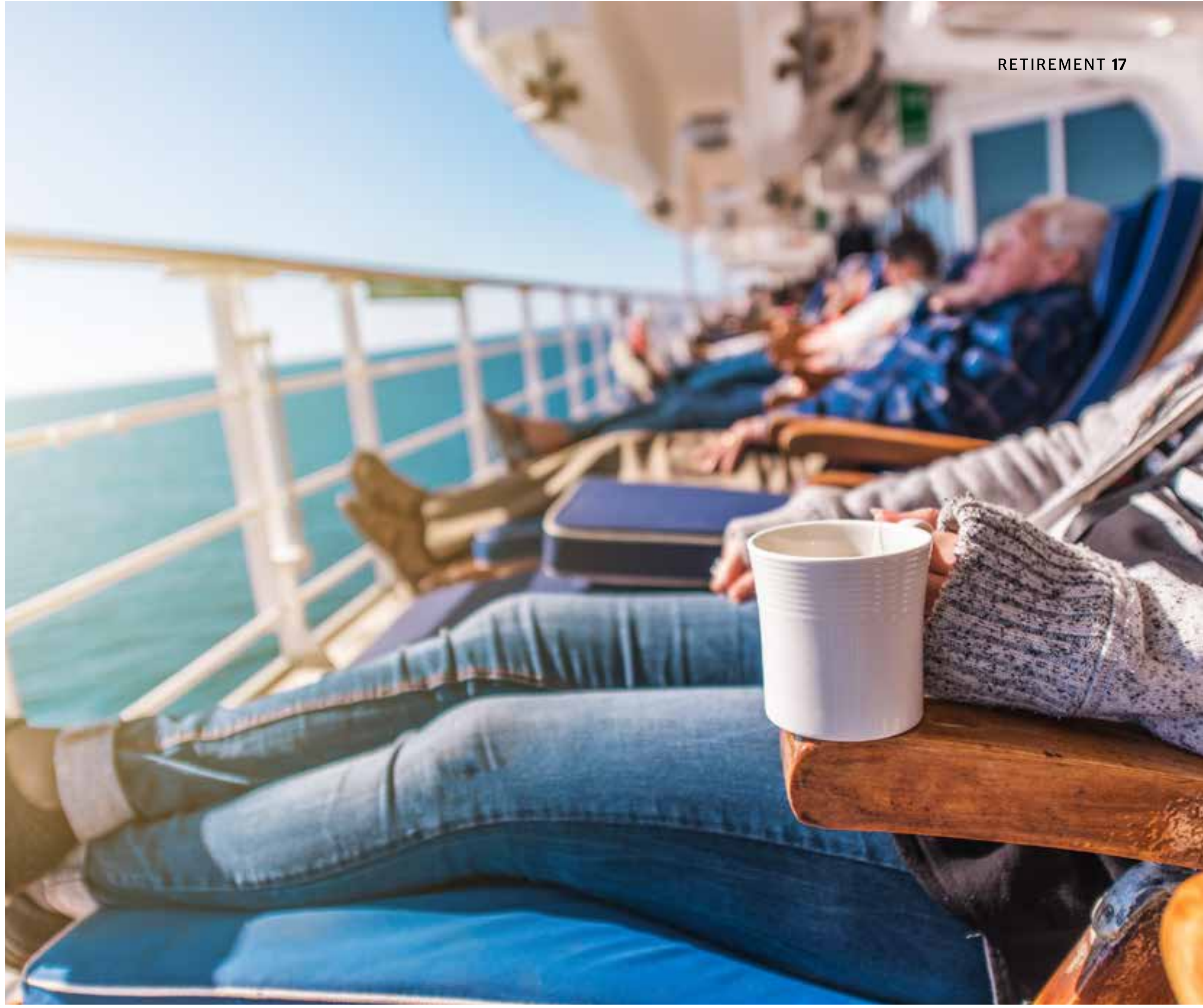
REVIEW THE PLAN

Effective financial planning is about much more than simply coming up with an initial strategy. Regularly going back to your plan and reviewing it is crucial to ensuring it remains suited to your needs and aspirations. As with all of life's plans, things can go awry and opportunities can present themselves.

Finding time in our busy schedules to review our financial plans is not always easy. You should review your plan at least annually, or when your circumstances change, to ensure that you remain on course to meeting your goals. It's also a time for reviewing the performance of your investments and changing these where appropriate. ◀

IT'S ALL ABOUT WHAT YOU WANT

Whether building a financial plan with you from the start, or reviewing your existing arrangements, we can give you the expert and professional financial advice that can help you meet your goals. To find out more, or to arrange a meeting, please contact us.



A LONG LIFE NEEDS A SMART RETIREMENT PLAN

REACHING THE BIG 50 CAN BE A FINANCIAL WAKE-UP CALL

Your 50s are a crunch time when saving for your retirement. If you've already set a retirement savings target but have been neglecting it, the reality is that now you can't afford to delay your planning any further – and it's time for a careful review.

Are you on track to retire when you want to? Do you have enough in your pension pot to retire comfortably? A comfortable lifestyle means different things to different people. If you're in your 50s, it's important to make retirement planning a priority if you haven't done so already. At this age, retirement is no longer a distant concept, and time is short if your plans aren't on track.

WILL YOU HAVE ENOUGH MONEY FOR RETIREMENT?

One of the advantages you have in your 50s is that you are no longer relying on very long-term projections to determine if you have enough for retirement. The decision to retire will also depend on how financially independent you are, how healthy you are and even perhaps whether you have hobbies or goals you'll want to pursue.

Now is the time to think about your retirement income goals and the steps that you need to take to achieve your goals. One of the most important things to do in your 50s is to work out how much money you'll need to retire comfortably.

There are many variables to consider, including the age that you plan to retire, your life expectancy, your income requirements in retirement, your expected investment returns, inflation, tax rates and whether you qualify for the State Pension.

Given the number of variables, this part of the retirement planning process is not always straightforward.

DO YOU KNOW THE ANSWER TO THESE QUESTIONS?

Q: When do I want to retire?
Q: How much income do I want in retirement?
Q: Do I have previous personal or company pension plans that need reviewing?
Q: Can I work part-time and take some of my pension?
Q: How much will my State Pension be?
Q: Where is my pension money invested, and is it growing?
Q: Can I retire early?

PROVIDING YOU WITH MORE CLARITY

Nowadays, it's common for many people to have accumulated an array of different pension agreements throughout their working life. By the time you have been working for a decade or two, you may have accumulated multiple pension plans on your career journey.

If appropriate, it may be worth considering a pension consolidation at this stage of your retirement planning process. This could provide you with more clarity in relation to your overall pension savings and make it easier to plan for your retirement. You may also benefit from lower costs.

But not all pension types can or should be transferred. It's important that you know and compare the features and benefits of the different pension agreements you are thinking of transferring. It is a complex decision to work out whether you would be better or worse off combining your pensions.

ALTERNATIVE WAY TO GROW YOUR PENSION SAVINGS

In your 50s, one alternative way to grow your pension savings is to save money regularly into a Self-Invested Personal Pension (SIPP) account. This is a government-approved retirement account that enables you to hold a wide range of investments and shelters capital gains and income from HM Revenue & Customs (HMRC).

SIPP contributions receive tax relief. Basic-rate taxpayers benefit from 20% tax relief, meaning an £800 contribution is topped up to £1,000 by the Government, while higher-rate taxpayers and additional-rate taxpayers can claim an extra 20% and 25% tax relief respectively through their tax returns. Please note that the tax relief claimed from your tax return won't be automatically added to your SIPP.

There is a limit to how much tax relief you are entitled to. It is currently applicable to contributions up to £40,000 or 100% of your earnings – whichever is lower. Another special feature is the three-year carry-forward rule. This rule allows you to carry the last three tax years' annual allowance into the current tax year.

This is a useful feature for people who were unable to use up their annual allowances in the past but have the ability to do so for the current tax year. You must use this year's allowance before using the carry forward rule.

There is also the option to invest within a Stocks & Shares ISA. Like the SIPP, this type of account allows you to hold a wide range of investments, and all capital gains and income are sheltered from HMRC. Each individual can contribute £20,000 per year into a Stocks & Shares ISA.

GOOD TIME TO REVIEW YOUR ASSET ALLOCATION

Your 50s is also a good time to review your asset allocation. You'll want to ensure that your asset allocation matches your risk profile now that you are getting closer to retirement. As you move closer to retirement, and if appropriate to your situation, it may be sensible to begin reducing your exposure to higher-risk assets such as equities.

You need to pay close attention to your asset allocation and consider de-risking your portfolio. With retirement just around the corner, you don't want to be overexposed to the stock market, as there is less time to recover from a major stock market correction.

If retirement beckons in the short to medium term, you may look to build a sustainable portfolio with perhaps an emphasis on greater income and reduced volatility and risk. However, moving away from an exposure to growth assets entirely or too early can be very expensive, so it's essential you obtain professional financial advice before taking any action.

Unless your situation is unusual, some retention of these growth assets is going to be required during a retirement that could last more than 30 years. It's important to balance the need for liquidity and an exposure to growth assets.

REVIEW YOUR RETIREMENT PLANNING ON A REGULAR BASIS

Finally, in your 50s, it's important to review your retirement planning on a regular basis. As with any other aspect of your personal finances, it's essential to conduct regular reviews of your pension arrangements to ensure that they fit best with your current situation.

A regular review will ensure healthy progression towards retirement by checking that you are firmly on track with your retirement goals. This is the time to adjust your plan to fit any evolving needs and desires for your post-retirement years. We all change as people over time, and our pension pot needs to reflect our most current reality.

Retirement planning is a continual process, and the more often you review your progress, the more prepared you'll be for retirement and the more in control you'll feel. At a minimum, aim to review your retirement planning at least once annually to ensure that you're on track to achieving your retirement goals. ◀

WE'RE WITH YOU EVERY STEP OF THE WAY

Are you already saving into your pension or just getting started? Whatever stage you're at, we'll give you a clear idea of how much you'll need to afford the lifestyle you want after you retire. To find out more or to discuss your requirements, please contact us.

'NO, THANKS' TO DOWNSIZING

MORE BABY BOOMERS PLAN TO STAY IN THEIR OWN HOME

A growing number of ageing baby boomers are saying, 'No, thanks' to downsizing, choosing instead to remain in the same house in which they raised their family and created lifelong memories.

Over two thirds of people say they plan to stay in their own home during their retirement, according to new research[1]. The findings suggest nearly 14 million people plan to remain in their current home when they retire. Typically, people look to downsize or move to retirement housing following a negative event, such as health issues or the death of a spouse.

GENERATING INCOME THROUGH EQUITY RELEASE

Of those who say they will stay, an increasing percentage will use their property to generate income through equity release. The research highlights that 69% of adults say they will remain in their current home in old age when asked what they are most likely to do with their main property in retirement.

There has been a 5% increase in three years, compared to when the survey was last carried out in 2016. The second most popular option was downsizing at 24%, with less than 4% of those surveyed saying they would sell or rent their house when they retire.

PEOPLE WHO WANT TO GROW OLDER IN THEIR HOMES

Of the respondents who said they would remain in their home, 6% plan to release cash from the property, up from 5% in 2016. This increase is in line with the growing popularity of equity release options, which includes lifetime mortgages.

The latest figures from the Equity Release Council[2] reveal that in the first two quarters of 2019, £1.85 billion was lent to customers using equity release, more than double the amount in the first two quarters of 2016 at £908 million. Equity release may be an option to consider for some people who want to grow older in their homes and need to make improvements to make life more comfortable and their property more accessible.

AN INCREASINGLY POPULAR FORM OF EQUITY RELEASE

Lifetime mortgages are an increasingly popular form of equity release because, for many people, a large proportion of their wealth is tied up in the value of their home. A lifetime mortgage involves taking a type of mortgage that does not require monthly repayments. However with some plans, rather than rolling up the interest, you can opt to make monthly repayments if you wish.

You retain ownership of your home, and interest on the loan is rolled up (compounded). The loan and the rolled-up interest is repaid by your estate when you either die or move into long-term care. If you are part of a couple, the repayment is not made until the last remaining person living in the home either dies or moves into care, meaning that both you and your partner are free to live in your home for the rest of your lives. ◀

IT'S GOOD TO TALK

The reality is that increasingly fewer people are budging in retirement. Instead, they are ageing in place, preferring to remain in their own homes for as long as possible, whether to keep the family home, stay close to friends or remain in comfortable and familiar surroundings. To discuss your situation, please speak to us for further information.

Source data:

[1] Canada Life 08 October 2019

[2] The latest edition was produced in Autumn 2019 using data from new plans taken out in the first half of 2019, alongside historic data and external sources as indicated in the report. All figures quoted are aggregated for the whole market and do not represent the business of individual member firms.

EQUITY RELEASE MAY INVOLVE A HOME REVERSION PLAN OR LIFETIME MORTGAGE WHICH IS SECURED AGAINST YOUR PROPERTY.

TO UNDERSTAND THE FEATURES AND RISKS, ASK FOR A PERSONALISED ILLUSTRATION.

EQUITY RELEASE REQUIRES PAYING OFF ANY EXISTING MORTGAGE. ANY MONEY RELEASED, PLUS ACCRUED INTEREST, TO BE REPAID UPON DEATH OR WHEN MOVING INTO LONG-TERM CARE.

EQUITY RELEASE WILL AFFECT POTENTIAL INHERITANCE AND YOUR ENTITLEMENT TO MEANS-TESTED BENEFITS BOTH NOW AND IN THE FUTURE.

HEALTH FEARS

BARRIER TO EMPLOYMENT AND RETENTION OF OLDER WORKERS

Older workers are an invaluable component of the UK workforce, given their extensive industry knowledge and expertise that all colleagues – particularly younger generations – can benefit from.

They also represent a valuable talent pool for employers as Britain struggles to counter a growing skills shortage. It's an unfortunate fact of life that health concerns tend to become more frequent as we age, and they will become more common in the workforce as we live and work for longer.

POTENTIAL FOR POOR HEALTH TO ACT AS A BARRIER

Nearly three quarters (71%), or 23 million employees[1], plan to work beyond the age of 65, but two in five of these (41%) – equivalent to 9.5 million workers – are concerned their health will make it difficult to do so, according to new research[2].

Over a quarter (27%) of UK employees think their boss views older workers as a 'hassle' because of these possible health struggles. This highlights the potential for poor health to act as a barrier to employment and retention of older workers.

OLDER WORKERS BRING TANGIBLE BENEFITS TO THE WORKPLACE

Employees also believe their boss perceives older workers as stuck in their ways (30%) and technologically inept (30%). Among the biggest concerns of those intending to work beyond the age of 65 is that they will be treated differently because their boss or colleagues perceive them as being 'old'.

Despite these negative perceptions, a significant proportion of employees recognise the tangible benefits that older workers bring to the workplace. Three in ten (28%) UK workers believe that a mix of older and younger workers is desirable because it creates a wider range of skills in the workforce.

OPPORTUNITY TO TAP INTO THE VALUE OF THIS UNDERUSED TALENT POOL

Meanwhile, two in five say that their employer values the experience (43%) and loyalty (40%) of older workers. Demonstrating the latter, among survey respondents aged 55 and above, almost two thirds (62%) have been with their employer for ten years or more. A third (32%) of UK employees also acknowledge that older workers help younger staff by coaching and mentoring them.

The UK's ageing population means that the number of older workers in the country is set to increase in the coming years, providing employers with the opportunity to tap into the value of this underused talent pool. For example, if half a million keen and able older workers who are currently out of work returned to employment, the UK's GDP would increase by £25 billion per year[3].

NOT DOING ENOUGH TO SUPPORT OLDER EMPLOYEE HEALTH

Employers have a duty of care towards older workers, particularly as a majority (68%) of those planning to work beyond 65 intend to stay in the same job. However, some employers could lose out on retaining valuable older workers because they do not do enough to support employee health.

Among the 14% planning to switch jobs when working beyond the age of 65, a fifth say it is because their current job is either too physically demanding (22%) or too stressful (20%).

HELP TO RESOLVE ISSUES SUCH AS A STRESSFUL OR EXCESSIVE WORKLOAD

Employers keen to retain older workers must address these issues, especially considering it costs an average of £30,000 to replace an employee[4]. The research reveals that flexible working (32%) and appropriate workplace benefits (16%) are the best ways to attract and support older workers and can help to resolve issues such as a stressful or excessive workload.

Employees planning to work beyond 65 indicate that income protection (17%) and life insurance (16%) would be the most highly valued benefits, while one in ten value critical illness cover (13%) or an Employee Assistance Programme (10%). ◀

PEACE OF MIND AND PROVIDING SECURITY

We can help you put your financial plans in place. We'll enable you to achieve your goals and ambitions while at the same time giving you peace of mind and providing security in times of uncertainty. Contact us to discuss your goals and ambitions.

Source data:

[1] ONS Labour Market Statistics, May 2019. There are 32.70 million people aged 16 years and over in employment in total

[2] Canada Life Group Insurance. Based on a survey of 1,002 full and part-time employees, carried out in April 2019

[3] RSPH, That Age Old Question

[4] Oxford Economics, The Cost of Brain Drain

STATE PENSIONERS

INFLATION-BUSTING INCREASE TO WEEKLY PAYMENTS ON THE HORIZON

In October this year, those receiving the State Pension are likely to find out that their weekly payments will increase by 4% from April 2020, subject to any last minute adjustments.

This means the full new State Pension will see an increase from £168.60 weekly to £175.35 weekly, and the full old basic State Pension will see a rise from £129.20 weekly to £134.35 weekly.

'TRIPLE LOCK'

Under current rules, the State Pension is increased by the 'triple lock' which is the highest of earnings growth, price inflation or 2.5% a year. The price inflation figure used is for the year to September, which is announced in mid-October, following a fall in the August figure to 1.7%, down from 2.1% the previous month[1].

But the earnings growth figure used is that to July (seasonally adjusted and including bonuses), which was 4%[2]. This means pensioners are on track to receive a 4% increase – far above the rate of increases we're currently seeing with prices.

PURCHASING POWER

The triple lock was announced back in 2010 as a way of making sure pensioners didn't fall behind the working age population in terms of their State Pension purchasing power. It was first used to increase the State Pension in April 2011 and, since then, state pensioners have done well from the triple lock, with overall increases outstripping both price inflation and earnings growth.

SIGNIFICANT COST

A single person receiving the old basic State Pension, which was £97.65 back in April 2010, is now receiving £129.20 – an increase of 32% – while prices have increased by 24% and average earnings by only 20%.

This will be welcome news for current state pensioners. However, these above-inflation increases do come at a significant cost. The State Pension is not funded in advance, so pensions are funded on a 'pay as you go' basis from today's workers' National Insurance contributions. At the time of writing, with the prospect of an early General Election, it will be interesting to see where each party stands on commitments to retaining the triple lock for the next five years. ◀

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POINTING YOU IN THE RIGHT DIRECTION

Whether you're looking for advice on how to invest for retirement or wanting to better understand how and when to take your pension benefits, we can help point you in the right direction. For more information, please speak to us – we look forward to hearing from you.

Source data:

[1] CPI Annual Rate: https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7g7/mm23

[2] LMSB SA AWE total pay WE growth yr on yr 3 months average: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/timeseries/kac3/lms

Figures from the Office for Budget Responsibility show that without the triple lock, or under just earnings indexation, spending is projected to increase by £21 billion between 2020/21 and 2060/61. Under the triple lock, the increase is projected to be £35 billion in today's terms for the same period. These figures assume the Government raises the State Pension age for men and women to 68 by 2041 and 69 by 2055.

'SANDWICH GENERATION' CARERS

NEARLY HALF A MILLION QUIT THEIR CAREERS IN THE LAST TWO YEARS ALONE

The decision to look after an elderly, ill or seriously disabled relative has been made by 2.6 million people according to new research by Carers UK[1]. The findings also reveal that nearly half a million (468,000) have quit their careers in the last two years alone – more than 600 people a day. This is a 12% increase since Carers UK and YouGov polled the public in 2013.

More people are now caring than previously thought, with almost 5 million workers now juggling their paid job with caring – a dramatic rise compared with Census 2011 figures of 3 million. Previous research shows those aged 45–64 – the so-called 'sandwich generation' – are most likely to have a caring responsibility, providing a strong driver for employers to support and retain some of their most skilled and experienced employees.

CARING FOR A RELATIVE OR PARTNER IN THE FUTURE

In other research[2], a further 2.6 million employees aged 45 and over also expect that they will have to leave their careers in order to care for a relative or partner in the future. One in five (19%) employees aged 45 and over in the UK expect to leave work in order to care for adult family members.

Women in particular (20%) are more likely to see their careers cut short by the need to care for a relative or a partner, but men are not far behind (17%). But just 6% of employers view caring pressures as a significant issue faced by their employees, highlighting a disconnect between employee and employer.

OPTING TO TAKE ON THEIR RELATIVES' CARE DUTIES

Many mid-life employees[3] are opting to take on their relatives' care duties themselves as a means of minimising care bills, but this decision is coming at the expense of their career.

The 'sandwich generation' is facing caring pressures at both ends of the age spectrum. It's not just the care needs of older relatives that mid-life employees are having to contend with, as those aged 45 and over are facing care demands from both ends of the age spectrum.

SUPPORTING BOTH YOUNGER AND OLDER GENERATIONS

One in ten (10%) mid-life employees expect they will have to leave work in order to care for children or grandchildren. This highlights the pressures being faced by this generation as they look to support both younger and older generations.

Despite the care conundrum expected to cause one in five employees to leave their jobs, just 6% of UK employers consider care pressures a significant issue being faced by their mid-life workforce.

LACK OF SUPPORT IN THE WORKPLACE IS A DIFFICULT REALITY

Asked what support from their employer would be most important if combining their job with unpaid care for a loved one, 89% of UK adults said a supportive line manager or employer, 88% said the option to work flexibly, and 80% said five to ten days' paid care leave.

Asked what supportive employment policies are currently available for carers in their workplace, 38% of UK employees said their employer had flexible working, but only 12% said they had additional paid care leave. A third (33%) of people currently juggling work and care said that there were no policies listed to support carers. This suggests that for many carers, the lack of support in the workplace is a difficult reality.

FINANCIAL AND EMOTIONAL COSTS OF CARING FOR RELATIVES

7% of people said unpaid caring had negatively impacted on their paid work, down from 10% in 2013, indicating that measures by employers to support carers in the workplace have been working well for some.

The practical, financial and emotional costs of caring for relatives both young and old are forcing many people in mid-life to make increasingly difficult decisions about balancing their commitments. As the UK population ages, the number of carers at work can be expected to grow. Currently, only a small percentage of employers are prioritising the issue of care.

EMPLOYERS WANT TO KEEP VALUABLE STAFF

If you need to give up your job to care for someone because it's difficult to do both, it might be possible to change your working pattern and reduce your hours. Employers want to keep valuable staff.

Talk to your employer about how they can help you stay in work. You might be able to work part-time, from home or job share. Although reduced hours would have an impact on your salary, you might think about combining work and caring as a solution. ◀

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MAKE TIME FOR THE THINGS YOU NEED

Not only is your well-being important, but by taking care of yourself, you'll be in a much better position to take care of your family. Try to make time for the things you need. It may feel self-indulgent, but your family – young and old – will benefit from it, as you will be more resilient. To discuss any areas about your financial plans or concerns that you may have, we're here to help.

Source data:

[1] All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 4,254 adults. Fieldwork was undertaken between 28 December 2018 and 4 January 2019. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+). All calculations by Carers UK using ONS population statistics for 2018.

[2] Research of 1,036 UK employers and 2,020 employees aged 45+, conducted on behalf of Aviva by Censuswide, January 2019. All figures are based on this research unless otherwise stated. 2,666,750 figure scaled up according to the latest ONS Labour Market Stats – calculated as 19% of UK employee population aged 45+

[3] Employees aged 45+ are defined as 'mid-life employees' throughout the release

GENDER GAP IN RETIREMENT SAVINGS

WOMEN SAY THEY WILL HAVE £100,000 LESS IN RETIREMENT THAN MEN

For women, the salary gap they face during their careers eventually turns into a retirement savings gap. While our country has come a long way on gender equality, the pay gap remains a prominent issue. It's felt in many aspects of women's lives, most significantly in retirement savings.

Women are saving less than men for their retirement, with only 15% saving for the future compared to 20% of men[1]. The previously unpublished figures show that women are worried they will not have enough in their pension pot in time for their retirement, with 25% saying this is because they didn't start saving for their retirement early enough.

SAVING ENOUGH TO ENSURE A COMFORTABLE STANDARD OF LIVING

When it comes to how much they think they will hold when they reach retirement age, women anticipate they will have £168,006. This is almost £100,000 less than men who think they will have £255,328.

In addition, only 22% of women believe they are saving enough to ensure a comfortable standard of living for the future, compared to 33% of men. Data shows that women are saving less of their net income each month than men, with women putting aside 9.4% of their net income compared to the 11.4% saved by men.

NOT KNOWING WHAT TO DO WITH A PENSION POT AT RETIREMENT

The findings reveal that more men have plans for their retirement pot than women, with 38% of women claiming that they don't know what to do with their pension when they retire compared to 32% of men.

While 21% of men said they planned to withdraw it as a lump sum, only 13% of women said they planned to do the same. Furthermore, 21% of females said they would be relying on a State Pension in their retirement compared to just 13% of men.

START EARLY WHEN IT COMES TO SAVING AND INVESTING

The latest figures from HM Revenue and Customs[2] show that while the gender split of numbers of Individual Savings Account (ISA) subscribers is broadly equal, males accounted for a marginally higher proportion of the higher value ISA holders. Males accounted for 52% of ISA holdings worth £50,000 or more, while 52% of females' own holdings are worth up to £2,499.

Factors such as longevity and career breaks can negatively affect a woman's long-term financial situation. 'Start early when it comes to saving and investing' is the adage, and its importance should not be underestimated. But for some, it is even more important, including women and anyone who might take a career break. ◀

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WHAT IS THE TRUE PICTURE OF YOUR CURRENT FINANCIAL HEALTH?

Your financial plan should be a true picture of your current financial health and a realistic view of your goals. To be useful, it should be updated annually, or when your needs and life situation changes. For any information you require on making sure you're on track financially, please contact us.

Source data:
[1] Brewin Dolphin 23 May 2019
[2] 30 April 2019 https://www.gov.uk/government/statistics/individual-savings-account-statistics

GET-RICH-QUICK SCHEMES

FINANCIAL FRAUD NETS MILLIONS FOR ORGANISED CRIME SCAMMERS

Fraudulent get-rich-quick schemes are netting millions for organised crime. But investment scams can be difficult to spot because they're designed to look like genuine investments, with most scammers having a professional-looking website and documents.

In the first six months of this year, across all categories of financial fraud, a total of £207.5 million was stolen from almost 60,000 people, according to UK Finance, an industry body. Increasingly, they are using sophisticated and effective tactics to get you to part with your money. Even though some investment scams may look like a real deal, there are some red flags you can spot to help you steer clear of them.

THE SCAMMER'S OFFER WILL SOUND LEGITIMATE

You may receive a telephone call or email from a scammer claiming to be a stockbroker or portfolio manager and offering you financial or investment advice. They may claim what they are offering is low-risk and will provide you with quick and high returns, or encourage you to invest in overseas companies. The scammer's offer will sound legitimate, and they may have resources to back up their claims. They will be persistent and may keep calling you back.

Some investment scams may even claim to be regulated by the relevant authorities to mislead you. In the UK, a firm must be authorised and regulated by the Financial Conduct Authority (FCA) to perform most financial services activities. A growing number of scams, often promoted on social media websites, involve foreign exchange trading and cryptocurrencies.

According to the FCA, the number of scams involving these two more than tripled in 2018/19, meaning they should be treated with particular caution. Many scams will try to use social proofing, using fake online reviews or fraudulent adverts to look credible.

HOW TO PROTECT YOURSELF

The FCA has recommended four simple steps to help protect yourself from investment-related scams:

- Reject unexpected offers – if you receive a call or email concerning an investment opportunity out of the blue, there is a very high chance that it is a scam. The best thing to do is to hang up the phone or ignore this kind of correspondence
- Check who you are dealing with – literature and websites may appear authoritative, but don't assume it's real. You can easily verify a firm's identity on the Financial Services Register. Use the contact details on the Register, not the details given to you, to avoid 'clones' of companies you trust
- Don't be rushed – common strategies employed by fraudsters include pressure to invest before a false deadline or on special terms. Sales tactics like this should always ring alarm bells. Any investment company you would want to deal with won't pressure you into making important financial decisions
- Seek impartial information or advice – rather than take advice from an outfit that has approached you unexpectedly, consider seeking professional financial advice to plan your investment decisions. While you will be charged a fee for this service, it could end up being money well spent

Remember the old adage: if the opportunity sounds too good to be true, it probably is. ◀

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KNOWING HOW TO RECOGNISE A SCAM

Scams are getting more and more sophisticated, particularly when it comes to targeting you online and through mobile devices. The key is knowing how to recognise a scam, protect yourself and what to do if you think you've been targeted or have fallen victim. To discuss any concerns you may have, we're here to help.

MIND THE INCOME GAP

SIGNIFICANT GAP BETWEEN EXPECTATIONS AND REALITY OF WHAT LIFE IN RETIREMENT WILL COST GENERATION Z

When most people envision their retirement, positive images start forming. We may picture spending our days lounging on the beach, travelling, practising our favourite hobbies, or having free time to spend with friends and taking the grandchildren on countless adventures.

But it's becoming clear that because so many people associate only upbeat feelings with retirement, it might turn out to be a problem. This could cause the gap between retirement expectations and realities to grow without a proper retirement plan.

EXPECTATIONS OF WHAT LIFE IN RETIREMENT WILL COST

According to a new study, there is a significant gap between the expectations of what life in retirement will cost Generation Z and the actual reality for pensioners in the UK. This is the generation reaching adulthood in the second decade of the 21st century and born between 1995 and 2015.

The Future Of Retirement report[1] found that the average saver believes they need an annual income of £25,000 for a comfortable retirement – but at current saving rates, their total pension pot will provide an income of only £18,500 per year.

EVEN STEEPER GAPS BETWEEN EXPECTATIONS AND REALITY

The report highlights the fact that 'disengaged' savers and the self-employed face even steeper gaps between expectations and reality. 'Disengaged' savers, who make up 38% of the population, do not know how much they are saving or if they are saving anything at all. Despite also anticipating a retirement income of £25,000 each year, this group will only receive £13,000 per year if automatically enrolled – a shortfall of £12,000, or almost half the money they expect to need.

The report proposes that increasing minimum contribution rates could help bridge the gap for 'disengaged' savers. Those who might be more vulnerable to financial pressures, or on lower-middle weighted incomes, have lower expectations, citing £17,500 as the annual income needed in retirement. They still, however, face a significant gap of £3,200 between their expectations and their projected retirement income of £14,000.

FACING REAL PRESSURES IN SAVING TODAY, LET ALONE FOR RETIREMENT

While this shortfall is lower than the national average, its impact could be great, as this group face real pressures in saving today, let alone for their retirement. In fact, one in five (20%) of those currently earning between £10,000 and £20,000 per annum believe they will never be in a position to retire.

Those who rent in retirement may have to find sufficient income to cover thousands of pounds of additional rental costs. That is sufficient to risk even the typical saver running into real hardship. Financial pressures over a person's working life might mean that they take periods of absence from contributing to their retirement savings. This can rapidly diminish the pot they will have in retirement.

INCOME EXPECTATIONS FOR LATER LIFE ARE SLIGHTLY LOWER THAN AVERAGE

Self-employed individuals are solely responsible for deciding how much should go into their pension pot each month, and so they miss out on the 'nudge' to save provided by employer pension contributions and government initiatives. While there has always been a savings gap between employees and the self-employed, it has been exacerbated with the introduction of automatic enrolment.

As a result, just 32% of self-employed people (between the ages of 20 and 39) are saving adequately for retirement, while 41% save nothing at all. While their income expectations for later life are slightly lower than average, they're still set to experience a sizeable annual shortfall of £5,000 by the time they reach retirement. ◀

INVEST IN YOUR FUTURE

Got a pension question? Investing for your retirement or the years to come could be the most important financial goal of your life. To review your current situation, talk to us about your retirement goals. We look forward to hearing from you.

Source data:

[1] Scottish Widows – fieldwork was carried out 11–29 April 2019. The modelling in this report was conducted by Frontier Economics and is based on a subset of responses to our annual Retirement Report survey, which probed the current income, savings and retirement income expectations of respondents, and was carried out online by YouGov Plc across a total of 5,036 adults aged 18+. Data was weighted to be representative of the GB population.

The assumptions made in The Future of Retirement report are intended to reflect realistic prospects for investment and wage growth over a lifetime. Modelling surveyed individuals between the ages of 20 and 29 (20–39 for the self-employed due to smaller sample sizes) and assumes a retirement age of 68. The average savings gap identified is based on the responses of 300 individuals who are currently saving and aged between 20 and 29. The savings gap for the disengaged is based on the responses of 154 individuals aged between 20 and 29 who say they do not know how much they are currently saving. Finally, the savings gap for the self-employed is based on the responses of 89 self-employed individuals who are aged between 20 and 39.

GENERATION GAME

LENDING SOARS AT BANK OF MUM AND DAD

The Bank of Mum and Dad has been branded as socially divisive and a symptom of Britain's broken housing market as new figures reveal it is now one of the UK's biggest mortgage lenders. Thousands of over-55s are generously gifting money as part of the Bank of Mum and Dad, using savings and even pensions to help their family onto the housing ladder, research has revealed[1].

However, the new data also shows that many people could be accepting a more uncertain retirement after financially supporting family members to buy a home. These latest findings follow earlier research which showed that this year, the average Bank of Mum and Dad contribution has risen by more than £6,000 to £24,100. The rise means that the Bank of Mum and Dad is now the equivalent of a top-ten UK mortgage lender, gifting a total of £6.3 billion in 2019[2].

SUPPORTING LOVED ONES TO BUY A HOME

Parents and grandparents across the UK are overwhelmingly in favour of supporting their loved ones to buy a home. More than half (56%) of the Bank of Mum and Dad lenders who have or would consider helping family to purchase property said they are willing to because 'it was a nice thing to do'. Almost another fifth (19%) said they feel it's their personal responsibility to help out.

The research also shows that when it comes to gifting money, the Bank of Mum and Dad is drawing on a wide range of sources to financially support other family members with a deposit. Although more than half are using cash (53%), 9% are cashing in lump sums from their pension savings, 7% are using their pension drawdown, and 6% are drawing on their annuity income to help support their loved ones' homeownership ambitions.

DIGGING EVER DEEPER INTO RETIREMENT SAVINGS

Despite this generosity, digging ever deeper into their retirement savings is leading some over-55s into a more uncertain retirement. Over a quarter (26%) of Bank of Mum and Dad lenders are not confident they have enough money to last retirement after helping their loved ones, and 15% have had to accept a lower standard of living. A small number (6%) are even choosing to postpone their retirement.

However, the Bank of Mum and Dad research has also revealed that consumers are increasingly considering other solutions that can help them to support family members but also pay for the retirement they want to lead. Unlocking housing wealth with equity release is becoming more popular with the over-55s, and many are now using the money to help with a deposit.

HOUSING WEALTH TO FUND HOME RENOVATIONS

16% of Bank of Mum and Dad lenders have or would release equity and use that money to financially support their children or grandchildren. This makes it the third most popular source of funds for the Bank of Mum and Dad. But Bank of Mum and Dad lenders are using these funds to help with their own retirement ambitions too.

More than a quarter (26%) would or have used their housing wealth to fund home renovations, and nearly three in every five (58%) parents and grandparents are using it to free up cash to stay in their own home. Across the over-55s surveyed who haven't released property equity already, well over a quarter (29%) said they would consider drawing equity from their home with a lifetime mortgage. ◀

WILL YOU AFFORD THE LIFESTYLE YOU WANT AFTER YOU RETIRE?

We understand that the financial planning process can be overwhelming. We'll give you a clear idea of how much you'll need to afford the lifestyle you want after you retire. To review your options, please contact us – we look forward to hearing from you.

Source data:

[1] Legal & General and Cebr 27.08.19

[2] www.ukfinance.org.uk/news-and-insight/blogs/largest-mortgage-lenders-strong-2018-growth-specialist-lending

WORKING INTO OLD AGE

THREE QUARTERS OF UK EMPLOYEES SAY THEY WON'T BE ABLE TO RETIRE BY THE AGE OF 65

Britain is growing old, and not just proverbially. As the population is set to increase, the proportion of the population aged 85 and over is projected to double over the next 25 years[1], and the number of those working for longer rises with it. Recent figures[2] reveal that nearly three quarters of UK employees say they won't be able to retire by the age of 65.

Driving this development is a series of economic factors. While inflation has slowed in recent months, the rising cost of necessities has impacted on employees everywhere, as have poor savings returns from low interest rates. Britain is entering a period in which working into old age is both a novelty and a necessity.

THE PEAK OF THEIR FINANCIAL RESPONSIBILITIES

The need to work into older age is starting long before retirement. Generation X (those born between 1965 and 1979) are perhaps affected the most. Previously found to be at the peak of their financial responsibilities[3], this age group struggles to save for retirement between providing financially for their children and, increasingly, also their parents. One in four of them (27%) expect to retire after their 75th birthday.

It's not all doom and gloom, as not everyone begrudges the thought of continued employment. More than a third (35%) of UK employees cite non-monetary reasons for wanting to work beyond the traditional retirement age. Many simply enjoy their job and the benefits of social interaction that come with it.

NOT CATERING TO AN OLDER WORKFORCE

No matter what the reason for continuing to work into old age, it's clear this is a trend that Britain could bank on in the future and should seek to encourage. Currently, it's not one leveraged successfully. In fact, a report by accountancy firm PwC shows that the UK economy might be accruing a loss of nearly £200 billion as a result of not catering to an older workforce[4].

With over nine in ten (94%) UK employees believing that the Government isn't helping to promote older workers, the opportunity lies with employers to address this issue.

GIVING ADEQUATE SUPPORT FOR VARYING EMPLOYEE NEEDS

What might be the biggest challenge for employers going forward is not just including older candidates in their hiring decisions, but also ensuring they retain their employees as they age. Employers can do so by giving adequate support for varying employee needs, as well as creating positive practices to encourage a diverse workforce.

Solutions also need to be considered at an individual level, rather than a one-size-fits-all offer. For example, employers can offer flexible working options to ensure that employees can continue working in an environment best suited to their needs.

MAKING A BIG DIFFERENCE AND CREATING A MORE SUPPORTIVE ENVIRONMENT

A suitable environment also applies to the office, and it's essential that employers consider the ways they can make small but impactful changes to support employees. For example, 10 million people in England and Scotland suffer from persistent back pain, a condition that becomes more common with rising age[5]. Small changes to office equipment, such as providing adjustable or more comfortable seating, can make a big difference and create a more supportive environment.

It's not just about providing the right equipment, though. In the case of older workers, a supportive environment also means that (re-) training and upskilling opportunities are available where they are required.

FIRMS SHOULD BE TAKING INTO ACCOUNT THE DIFFERENCES IN TRAINING MOTIVATION

Many employers overlook the opportunity that lies in the training of older workers. However, firms should be taking into account the differences in training motivation – older employees get higher returns from informal and role-relevant training, rather than wider business or industry training[6].

From a business perspective, an underlying assumption that investment in training of older workers does not yield a fast enough return has also been proven wrong. In fact, most training returns an investment within a year, and the risk of an employee leaving the company after receiving training is the same across all age groups and isn't limited to those approaching retirement[7].

ENCOURAGING INCLUSIVE WORKING PRACTICES AND SKILL SHARING ACROSS ALL AGES

The perception of older workers amongst younger employees still leaves a lot to be desired. Nearly a third (30%) are concerned that they make it harder for young people to move up the career ladder, or that they don't have the right skills to offer anything to a 21st century workforce. To support an ageing workforce, employees need to encourage inclusive working practices and skill sharing across all ages.

Employers have a significant role to play in changing the way we view older workers, and often small changes can have a big impact. Almost two thirds (60%) of UK employees say they'd be more inclined to work for an employer that supported their health and well-being when thinking about working past age 65. By adapting and providing more ageing-friendly support, employers will be in a better place to engage, retain and support workers valuable to their own business and the whole economy. ◀

WANT TO FIND OUT MORE? LET'S TALK

Thinking about retirement can be stressful, but it doesn't have to be. In fact, your retirement is something to look forward to. Regardless of age, making a start on saving for retirement helps to ensure your financial security during your golden years. Talk to us about your retirement vision.

Source data:

[1] ONS: National Population Projections: 2016-based statistical bulletin, 26 October 2017

[2] Canada Life Group: Three in four employees will work beyond 65 as rising cost of living and poor returns on savings takes its toll, 20 June 2018

[3] Canada Life Individual Protection research, March 2018

[4] PwC Golden Age Index: How well are the OECD economies harnessing the power of an older workforce? 2018 update

[5] Arthritis Research UK: State of Musculoskeletal Health 2018

[6] University of Wuerzburg, Faculty of Business Management and Economics: Training older employees: what is effective? 2015

[7] DWP: Employing older workers – An employer's guide to today's multi-generational workforce, February 2013

PARENTS AND GRANDPARENTS DELAY PASSING ON WEALTH

GROWING UNCERTAINTY OVER THE FUTURE COST OF CARE THE MAIN CONCERN

Increasingly, we read and hear about how the Bank of Mum and Dad is being stretched to the limit, as children are making increasing calls on its limited resources. However, research shows that a quarter (24%) of over-55s[1] are not planning to pass on any wealth in their lifetime over fears they could face crippling care costs in old age.

This means that an estimated 4.8million[2] parents and grandparents will delay passing on wealth until after their death because of growing uncertainty over the future cost of care. The findings reveal how a lack of clarity on social care funding is hindering the movement of wealth down generations. This later transfer of wealth could impact on younger generations the hardest, many of whom depend on financial support from relatives to get on the housing ladder or pay university fees.

GIFTING UNLIMITED SUMS

Under current rules, people can gift unlimited sums – known as 'potentially exempt transfers' – which are free of Inheritance Tax if the individual making the gift survives by seven years. Individuals can also pass on wealth using a £3,000 annual gift exemption.

Baby boomers are growing more cautious about passing on wealth in their lifetime in case they are hit by huge care bills in old age. As older generations hold onto their wealth for longer, younger people could find access to the Bank of Mum and Dad is increasingly restricted, or cut off altogether. For many young people, this could mean the dream of buying a first home or going to university slips further out of reach.

FEARS OVER SOCIAL CARE

Overall, nearly two thirds (59%) of over-55s will not pass on any of their wealth while they are still alive. As well as a quarter citing fears over social care, a fifth (16%) said worries of running out of money in retirement prevented them from passing on their wealth, while a third (32%) said they would like to spend their savings and pass on what is left.

Fewer than a quarter (22%) of over-55s have already contributed or intend to contribute to a house deposit for a family member, while an equivalent figure (23%) have paid or intend to pay towards a relative's university fees.

BUILD UP A NEST EGG

Parents who save small sums early on in their child's life could build up a nest egg they can pass on without jeopardising their own retirement or ability to pay for care. Making small, regular contributions to a Junior ISA is a good way to build up a nest egg for your child by the time they turn 18.

These accounts keep savings out of the taxman's reach, where they can grow tax-efficiently until adulthood and beyond. Investing just £50[3] a month into a Junior ISA from birth could grow into a pot of £14,800 by the time a child reaches their 18th birthday. ◀

ADVICE TAILORED TO YOUR PERSONAL CIRCUMSTANCES

Whether you are looking to start saving for your family, preparing for life after work or protecting your estate, we offer trusted professional financial advice at any stage of your life. Contact us to discover how we can help you with your financial plans.

Source data:

[1] Research for Zurich 22 August 2019 – all figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,012 adults. Fieldwork was undertaken between 8 and 9 May 2019. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

[2] ONS population stats show there are an estimated 20,132,486 people aged 55 and over in the UK @24% = 4,831,796

[3] Based on £50 invested every month for 18 years, assuming a balanced investment portfolio and ongoing charges of 1.75%

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.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

'PRESENTEEISM' MORE OF A PROBLEM THAN ABSENTEEISM

NINE OUT OF TEN EMPLOYEES CONTINUE TO WORK EVEN WHILE BEING ILL

Feeling ill? Well, staying at home would seem to be the sensible course of action. However, for many, going to work while sick has become the norm. Employers are seeing more staff turning up to work while ill, according to a new survey[1].

The problem of presenteeism has seen an increase of three times as many people working while ill than 'taking a sickie'. There is no official definition for worker sickness. Employees are able to self-certify sickness for up to seven days. For longer periods and statutory sick pay claims, a doctor's note is needed. Some workplaces have their own specific rules.

WORKERS FEEL PRESSURED

While some workers feel pressured to work when ill, others choose to. Nine out of ten employees say they have been into work while ill, more than three times the number who will admit to 'pulling a sickie', according to the new research. The findings show 'presenteeism' continues to rise and may be more of a problem for employers than absenteeism.

THE FINANCIAL IMPLICATIONS

The causes of presenteeism are varied. On the one hand, it stems from the fear that staying off work, even when ill, will be interpreted as a lack of commitment. This induces people to attend work when they shouldn't. The survey also found that as many as two in five (42%) of employees took no time off whatsoever for sickness in 2018.

When asked why they went into work when feeling unwell, three in five (58%) of employees said they did not believe they were ill enough to warrant a day off. Meanwhile, a quarter (27%) said their workload was too large to take a sick day, while slightly fewer (23%) worried about the financial implications of taking a day off.

EXTENDING BEYOND THE OFFICE

The survey also found that one in five (18%) said their colleagues made them feel guilty for taking time off, even when they were ill. Similarly, one in ten workers say they have had their work ethic questioned in the past, either by their manager (11%) or colleagues (10%).

But this problem is also extending beyond the office nine to five. The survey identified a trend it calls 'casual presenteeism' where employees are checking emails and laptops outside office hours. A total of one in five (22%) monitor work emails in their spare time, which rises to 26% for workers under 40. A further 21% check work emails first thing in the morning, and 17% admit to checking and responding to emails when they're unwell.

SICKNESS ABSENCE SUPPORT

At the moment, nearly half (47%) of employees are either unaware or unable to access sickness absence support in the workplace. However, three in ten (29%) can speak to a designated member of staff, while one in five (21%) have access to a helpline or external organisation, and 17% have access to an Employee Assistance Programme (EAP).

Meanwhile, the survey found that a quarter (24%) of employees would feel more comfortable taking time off for illness if there was less pressure from their employer to be 'always on' and working.

COVER IF YOU'RE UNABLE TO WORK

Income Protection (also known as 'IP insurance') helps support you financially if you have time off work and suffer a loss of earnings for a longer period due to an injury or illness. People often think about taking out Income Protection Insurance especially when they're self-employed and don't receive sickness pay, or rely on their health to make a living.

This type of insurance covers most illnesses that leave you unable to work. For example, it may cover you if you're unable to work due to a stress-related illness or a serious heart condition. Income Protection only covers you if you're unable to work due to a specified illness or injury – it does not pay out if you are made redundant. ◀

PROVIDING FINANCIAL SUPPORT UNTIL YOU CAN WORK AGAIN

Whatever the reasons for presenteeism – negative or positive – its effects on our health are likely to be the same. Working while ill can lead to greater sickness. By taking time off work, in short, you can protect yourself against even worse health – and possibly even premature death – in the future. If you would like to discuss how you can safeguard your income, please contact us.

Source data:

[1] Canada Life – 9 October 2019

MONEY LESSONS

5 TIPS THAT ADD UP TO TEACHING YOUR CHILD ABOUT MONEY MATTERS

Understanding how money works is an essential life skill. Unfortunately, for a lot of people, these lessons come later than they should, and often as the result of something going terribly wrong.

Not enough people make financial education a priority for children, which results in young adults entering a surprisingly complex financial world without the tools necessary to survive and thrive. Even if your children are very young, remember that the sooner you start teaching them money and personal finance skills, the more adept they'll be at applying those skills when the time comes.

INSTILLING A FEW BASIC PRINCIPLES EARLY ON

Educating, motivating and guiding children and grandchildren to become regular savers and investors will enable them to keep more of the money they earn and do more with the money they spend. Everyday spending decisions can have a far more negative impact on children's financial futures than any investment decisions they may ever make.

Finance is often perceived as complicated and remote, but this can be a costly impression. Understanding money matters is a valuable life skill. What children learn about money in childhood will shape their own attitudes and behaviour later on. By instilling a few basic principles early on, you could help influence for the better how they manage their money in adulthood.

1. COMMUNICATE WITH CHILDREN AS THEY GROW OLDER ABOUT YOUR VALUES REGARDING MONEY

Financial lessons – how to save money, how to make it grow and, most importantly, how to spend it wisely – must be age-appropriate to be meaningful and beneficial. Young children are not miniature adults. Lessons should be tailored for their age, rather than just made simpler.

Start as soon as they are able to count, and make money the topic of regular family discussions. Time these around dates (for example, a birthday or Christmas) when they are due to receive a cash gift so that you can talk about saving versus spending.

2. HELP CHILDREN LEARN THE DIFFERENCES BETWEEN NEEDS, WANTS AND WISHES

Help your children avoid spontaneous purchases by setting goals and prioritising what they spend their money on. This will prepare them for making good spending decisions in the future.

While a child will naturally ask for the latest games console, making them understand the difference between needs and wants will help them make sensible spending decisions from a very young age.

If they want the latest Pokémon video game that costs nearly £400, explain how long it would take an adult to earn that amount of money. Create a specific example to put it into perspective.

3. SETTING GOALS IS FUNDAMENTAL TO LEARNING THE VALUE OF MONEY AND SAVING

Help your children to set a goal and track their savings and their spending. Young or old, people rarely reach goals they haven't set. Nearly every toy or other item children ask their parents to buy them can become the object of a goal-setting session.

Such goal-setting helps children learn to become responsible for themselves. A great way to visualise goals for children is to create a savings chart you can display somewhere prominent (for example, on the fridge).

Create a table and put a picture of what they are saving for. Then, each week, they can colour in the box as they move closer to their savings goal. That way, they can track their own progress easily by simply counting the number of boxes filled in, to see how much they have saved up to that point and the number of weeks still to go.

4. INTRODUCE CHILDREN TO THE VALUE OF SAVING VERSUS SPENDING

Explain and demonstrate the concept of earning interest income on savings. Consider paying interest on money children save at home. Children can help calculate the interest and see how fast money accumulates through the power of compound interest.

Later on, they will also realise that the quickest way to a good credit rating is a history of regular, successful savings. You could even offer to match what your children save on their own.

5. WHEN GIVING CHILDREN A 'POCKET MONEY' ALLOWANCE, GIVE THEM THE MONEY IN DENOMINATIONS THAT ENCOURAGE SAVING

Providing pocket money in lower denominations makes it easier to allocate a proportion of income to different goals. Labelled jars work to separate money – one for saving, one for spending and one for donating.

Any time they make money by doing chores or receiving birthday gifts, encourage your child to divide the cash equally among their jars.

It's not a huge act, but it does show that it's okay to spend some money, as long as you're saving as well. Once they're older, their bank and investment accounts can mirror the split. Keeping good records of money saved, invested or spent is another important skill young people should learn. ◀

LOOKING TO MAXIMISING YOUR CHILDREN'S WEALTH?

Teaching children about money isn't currently on the UK school curriculum. The sooner you teach your children or grandchildren about the value of money, the more prepared they'll be for adult life. Small steps can set them on the path to money maturity, enabling them to survive and thrive financially in adult life. To discuss the different saving and investment options for your children or grandchildren, speak to us for further information.

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