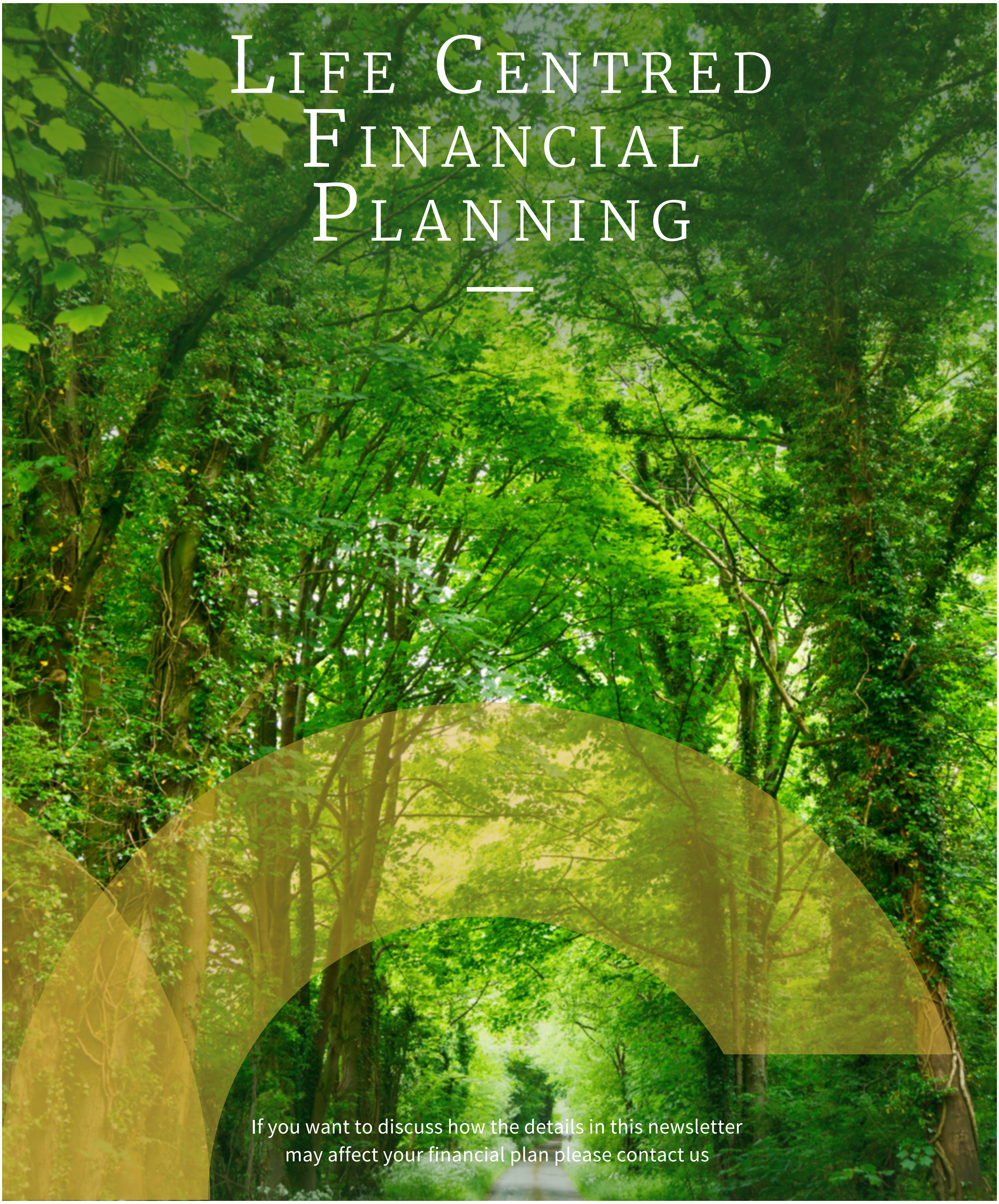
Life Centred Financial Planning



If you want to discuss how the details in this newsletter may affect your financial plan please contact us

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Succession planning: Minimising liability to IHT

The **next three decades** are set to witness the largest ever intergenerational **transfer of wealth as baby boomers** – the richest generation in history – prepare to pass on their assets. And **careful planning** will be a necessity if the value of these estates is to be bequeathed in full **without** the imposition of **potentially hefty tax bills**.

Death duties

When someone dies, the value of their estate, including all property, possessions and money, becomes liable for Inheritance Tax (IHT). This tax, at a rate of 40%, is chargeable on the excess of an individual's estate above the nil-rate band, which is currently £325,000. In some cases, this threshold may be higher, for example if a home is passed on to children or grandchildren, or unused allowance from a spouse or civil partner is taken into account.

IHT receipts at record levels

While the concept of death duties consistently raises strong emotions amongst the public, the nation's total IHT bill has continued to climb over the past decade. Indeed, the latest figu es released by HMRC show the tax raked in was £5.4bn during 2018-19, a 3% increase on the previous year and the highest figu e ever recorded. This rise continues a long-term trend, with IHT receipts having doubled in the last nine years, partly as result of the nil-rate threshold being frozen since April 2009.

Early planning key

Understandably, most people want to maximise the amount passed on to their beneficiaries and minimise any p tential tax bill. However, the relatively low level of IHT thresholds, allied with soaring property values over the last decade, has resulted in an increasing number of estates facing the prospect of a signifi ant IHT liability. But it is possible to minimise or eliminate any tax due on an estate through forward planning: undoubtedly, the key is to formulate a plan at the earliest opportunity as options for mitigating IHT become more limited the longer you leave it.

Difficult regime to navigate

A number of exemptions and reliefs are available for people seeking to mitigate the impact of IHT on their estate. Making annual gifts while you are still alive, for instance, can be a good way to reduce the value of an estate for IHT purposes. However, estate and tax planning is a devilishly complex area and a thorough understanding of the current rules and regulations is a prerequisite in order to avoid potentially costly pitfalls.

Expert advice essential

The complexity of the regime therefore means it's imperative to seek professional advice before implementing any measures designed to mitigate IHT. So, whether you're planning to leave your estate to your children, grandchildren, nieces, nephews, or to charity, speak to us fi st in order to ensure you adopt the most appropriate options for your personal circumstances.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Investing for the long term – lessons from the past

The emergence of COVID-19 brought a rapid end to the drawn-out recovery of major stock markets from the share price lows associated with the financial crisis a decade ago. When the scale of the threat to lives and livelihoods became apparent, market analysts and investors reassessed the global economic outlook and corporate prospects; they didn't like what they saw and a wave of selling followed, with inevitable consequences. Most share prices, and thus stock indices, were impacted.

Market analysts and investors aren't infallible, but when something like COVID-19 strikes they get nervous because closed borders, flight bans and lockdowns can pose a threat even to large companies, especially in exposed sectors. Axed dividends and distressed rights issues are anathema to the jittery; and the largest blue-chip companies aren't immune. Little wonder then that the 100 shares comprising the UK's blue-chip share index, the FTSE 100, rapidly lost about one-third of their combined value before regaining some composure.

Lessons from history

Created in 1984 with a starting level of 1,000 points to provide a wider index of leading shares quoted in London, the FTSE 100 largely superseded the narrower Financial Times 30-share index launched in 1935. As a barometer of economic outlook and corporate prospects, the FTSE 100 has gauged a few storms over the past 36 years. A chart of its progress reveals a plethora of spikes and dips, the starkest of which can be associated with key events in recent financial history.

Chart: **FTSE 100 from inception to March 2020**
https://tradingeconomics.com/united-kingdom/stock-market
Not the first FTSE 100 dip

After its launch on 3 January 1984, the FT's new share index only slipped very briefly below 1,000 points that year. It then made progress, sometimes faltering, to hit 2,000 points by March 1987, by then buoyed by the effect of the previous October's 'Big Bang' modernisation of the London Stock Exchange's trading structure. Six months of further upticks followed and the index broke through 2,350 in early October 1987. It would be two years before that level was attained again.

On 19 October 1987, the Monday after The Great Storm ravaged Southern England, global stock markets suffered a crash so severe that the day became known as Black Monday. A tsunami of selling, much of it blamed on new-fangled computer-program trading, rapidly took the FTSE 100 down to around 1,600, starting with an 11% drop on the Monday and 12% the next day.

The ascent of the 1990s

Share-price recovery was slow, hampered by a short UK recession in 1991-92 caused in part by high interest rates and an over-valued pound associated with efforts to keep sterling within Europe's exchange rate mechanism. After Chancellor Norman Lamont took sterling out of the ERM in September 1992, having spent billions and upped base rate to 15% trying to stay in, the index gained about 14% in six months.

As 1994 dawned, a decade on from its launch, the FTSE 100 stood at around 3,400; although then, as now, changes had been made to its constituent shares as companies' respective market capitalisations waxed and waned. Concerns about the economy and tax plans dampened sentiment and the index fell below 3,000 during the first half of 1994 before starting a five-year ascent to break the 6,000 barrier in the summer of 1998. After a 500% rise in 14 years, what came next for the FTSE 100?

A 1,000-point drop

High interest rates and other threats to UK economic growth and even talk of an impending recession brought a 1,000-point drop in the FTSE 100 in the autumn of 1998, almost all of it recovered by the year-end. General bullishness continued through 1999, which ended with the index nudging 7,000. As the year 2000 unfolded, a combination of overvaluation, epitomised by the rapidly inflating 'dotcom bubble', and a global economic slowdown brought further investor jitters.

The bull market had marched the FTSE 100 up the hill; the ensuing three-year bear market marched it back down again to around 3,600 in the spring of 2003. The index would take another five years to climb back above 6,500, where it was delicately poised for the next big shock: the 2008 collapse of US investment bank Lehman Brothers and the cascade of failures prompting what became known simply as 'the global financial crisis'. By March 2009, the index was down around 3,500 again.

Long term trend

It was a long haul back from there for the FTSE 100 but, after gyrations associated with various stages of the Brexit process, the start of 2020 saw it comfortably above 7,000. News of a new virus outbreak in an unfamiliar Chinese city seemed at first like a distant threat. As the outbreak turned into a pandemic, global markets faltered again and the FTSE 100 headed below 5,000 before recovering some of the loss. COVID-19 has brought a reset of the blue-chip barometer, the FTSE 100 index.

Despite a variety of market shocks and rebounds, the index still has a long term growth trend. It is important to remember that some market volatility is inevitable; markets will always move up and down. As an investor, putting any short-term market volatility into historical context is useful.

Financial advice and regular reviews are essential to help position your portfolio in line with your objectives and attitude to risk, and to develop a well-defined investment plan, tailored to your objectives and risk profile.

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

OW2654 Exp. 27/04/21

The sandwich generation

You may be **supporting financially dependent children** while simultaneously **taking care of an older family member** – sound familiar? If so, **you are a member of the sandwich generation** – a category of adults 'sandwiched' between the twin challenges of caring for older and younger relatives.

According to recent research, a shift towards parenthood later in life and an ageing population are combining to create an almost four million strong group of people, caught between caring for ageing relatives and dependent children. Added to the fact that more and more children are now financially dependent on their parents well into adulthood, it's unsurprising that the 'sandwiched' are struggling to keep on top of it all.

Double whammy

The cost of bringing up children is steadily increasing. According to the Child Poverty Action Group's *Cost of a Child 2019* report, the average cost of raising a child to age 18 has soared to £185,000 for lone parents (up 19% since 2012) and £151,000 for couples (up 5.5% since 2012). And, of course, grown-up children stay at home, the higher the bill climbs. Indeed, figures show that 27% of 20 to 34-year-olds were living at home in 2019 (up from 20% in 1999).

Meanwhile, further research has found that 29% of adults cared for an elderly relative in 2019, at an average cost of £5,544.50 in lost earnings and money spent on care costs.

Financial strain

Combined, these two sets of costs are proving to be a big financial strain for the sandwich generation. The significant outgoings associated with their caring duties can have a direct impact on their ability to save for their own future.

Not just cash poor...

Caring duties are not only leaving the sandwiched cash-poor. With precious little time to themselves, they're also time-poor. In fact, almost half (47%) of survey respondents (equating to nearly two million people) said they have less than 35 minutes of free time each day, while 7% said they have no time to themselves whatsoever.

Protect, plan, review

With family members young and old depending on your support, it's vital to have in place the right sort of protection policies so if an unexpected event were to occur, there would be a payout from a policy to help ease the financial burden.

Even if it seems like years away, you need to have a retirement plan in place, so prioritise your pension. It's important to know how much it's likely to be worth, so that you can make plans to save more if you need to.

This is also the time to focus on your savings and investments. The significant outgoings associated with twin caring duties can have a direct impact on their ability to save for your own future. By ensuring you review your portfolio regularly your investment strategy remains in line with your goals and takes account of your attitude to risk, which may change over the years.

How we can help

More of us than ever are facing growing demands on our time and energy, which could be leading to implications for our finances too. There's plenty to think about, taking financial advice at this stage of your life can make the difference between just about managing in your later years or enjoying the retirement you deserve.

We will continually review your finances as you confront new challenges such as this stage of your life. We aim to develop and adapt your financial strategies to cope with changes in life circumstances and keep your financial goals on track.

OW2682 EXP 27.04.21

Climate change and your family finances

Climate change is having a profound impact on many aspects of our lives, including our financial affairs. It's worth thinking about what's happening to ensure we're able to respond when change arrives.

Take mortgages – the largest financial commitment that most of us ever make. If you still have a mortgage, or if you have children or grandchildren who are borrowing to buy their home, the terms of any loan may be affected by how susceptible the property is to the effects of climate change.

Extreme weather

One of the consequences of a changing climate, according to many scientists, is an increase in the frequency and severity of extreme weather events. These might take the form of unusually violent storms, heavy and sustained rainfall, or periods of prolonged drought.

Already in 2020, we have seen widespread, disruptive and damaging flooding across swathes of the UK. Recent years – 2018 in particular – saw severe drought during baking hot summer months and drought brings with it the threat of subsidence and structural damage.

When looking for a mortgage on a property in an affected area, you might be asked for a larger deposit or charged a high rate of interest. If you live near a flood plain or a coastal area, the duration of your mortgage might be less than for properties elsewhere because the lender is keen to limit its exposure to longer-term effects of climate change, such as a rise in sea levels or cliff erosion.

In extreme cases, if the market value of your house falls below the amount of your outstanding mortgage because of climate change impacts, you could be asked to restructure your debt.

Thanks to climate change, you might find that switching mortgage, or taking out a new loan, will require more shopping around and expert advice to find an attractive deal. That's because lenders are more cautious about lending on properties deemed to be at risk of damage or a reduction in their valuation.

Pressure on premiums

There are similar concerns about home insurance. Flood-stricken areas have notoriously high premiums for buildings and contents cover, with some householders struggling to find affordable cover, despite the presence of Flood Re, a government-backed scheme designed to reduce the cost of insuring flood-prone properties.

Some drought-affected areas - primarily those with clay-based soils - have seen increased subsidence, with ground movements weakening foundations and causing cracks in the fabric of buildings. Those living in regions blighted by subsidence face hefty premiums coupled with policy excesses of £1,000 or more.

Again, experienced and expert advice will be essential in finding the right protection for your home at an affordable price.

OW2690 EXP30.04.2021

Pension allowance breaches surge

Data from HMRC has revealed a **significant increase** in the total value of pension contributions exceeding the Annual Allowance. It seems an increasing number of **people are falling foul of the overly complex rules and regulations.**

The most recent personal pension statistics, covering the 2017-18 tax year, show an astonishing 26,550 people reported contributions exceeding the £40,000 Annual Allowance in their self-assessment tax return, with combined total contributions amounting to £812m. That represents an average of £30,584 per person. Furthermore, over the past decade, the number of individuals reporting such a breach has risen dramatically, from £578 million in 2016-17 and £143 million in 2015-16. In addition, just 230 people faced similar tax charges in 2007-08 when the Annual Allowance was £225,000.

Pension complexity confounds the problem

The sharp rise in breaches can be primarily attributed to the sizable reduction in the Annual Allowance in 2011 and the introduction of the tapered Annual Allowance in 2016, which added greater complexity to the pension landscape. For higher earners, an additional taper brings the allowance down further to just £10,000 for individuals with total earnings of £210,000 or more.

Unless the government heeds industry advice and significantly simplifies allowance rules, the next few years are likely to see even more people caught out by this complex regime.

Change on the horizon

In its manifesto, the Conservative Party promised a review of the problem 'within the first 30 days'. In the Budget on 11 March, the newly appointed Chancellor Rishi Sunak, addressed the tapered Annual Allowance issue, which has caused problems for many key services, particularly impacting some senior high-earning NHS clinicians who are facing substantial tax bills if they and their employer pay into a pension above the tapered Annual Allowance. This has resulted in some key workers selecting to decline overtime to avoid a pension tax charge.

To support the delivery of public services, particularly in the NHS, the two tapered Annual Allowance thresholds for pensions have been raised by £90,000. The threshold income is £200,000, meaning individuals with income below this will not be affected by the tapered Annual Allowance and the Annual Allowance will only begin to taper down for individuals who also have an adjusted income above £240,000.

For very high earners the minimum level to which the Annual Allowance can taper down has reduced from £10,000 to £4,000 from April 2020. This reduction will only affect individuals with total income over £300,000.

Here to help

As many more people are discovering, a breach of allowances can be extremely costly. It is therefore vital to seek professional advice if you are unsure how pension allowances impact on you.

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

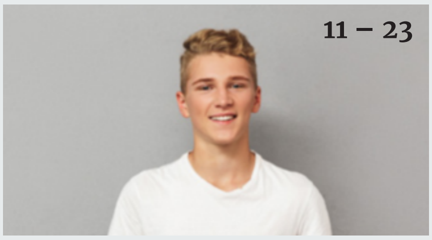
OW2687 Exp. 05/04/21

Tax-efficient investing across the ages

As investors progress through the various stages of life, their investment priorities as well as their financial goals will inevitably change. However, whatever life stage you are at, it's always important to take advantage of any tax-efficient investment opportunities available to you.

Generation Alpha

The principal tax-wrapper available to the youngest generation (new-borns to 18-year-olds) is a Junior ISA (Individual Savings Account). Changes announced in the Spring Budget mean parents, grandparents and family friends can invest up to £9,000 a year in a Junior ISA from 6 April 2020, with the proceeds free from dividend, income and capital gains tax. Another tax-efficient investment option for Generation Alpha is a junior pension which allows a maximum contribution of £2,880 per year – equivalent to investing £3,600 when topped up by government tax relief.



Generation Z

This cohort includes 11 to 23-year-olds, with younger members still being eligible for both a Junior ISA and junior pension. Older Generation Z could also open an adult ISA and those in paid employment will be eligible for a workplace pension. Another opportunity open to older members of this group is a Lifetime ISA, which allows adults under the age of 40 to invest up to £4,000 a year to fund the purchase of a fi st home or for retirement, with government adding a 25% bonus up to a maximum of £1,000 per year.

Millennials

Buying a home will inevitably be a key financial oal for members of this group (24 to 39-year-olds), which means a Lifetime ISA is usually an investment priority. While extra commitments mean cash is not always plentiful at this stage of life, if possible, Millennials should also direct regular amounts, large or small, into an adult ISA in order to take advantage of the overall £20,000 annual allowance. Making additional pension contributions can also be an effective tax-efficient savings trategy for this group.

Generation X

Members of this cohort, aged between 40 and 55, will often be at the peak of their earning prowess. Financial demands also tend to reduce at this life stage which means Generation X often have the resources to maximise ISA investments. With retirement looming, members of this group are also generally keen to boost pension savings, particularly higher rate taxpayers who qualify for extra tax relief on contributions.

Baby Boomers

This group includes 56 to 74-year-olds and maximising pension contributions is likely to be a key tax-efficient in estment strategy for its pre-retired members. Baby Boomers will also be able to take advantage of the 25% tax-free lump sum they can withdraw under the pension freedoms rules. Cash ISAs are also likely to feature more prominently for members of this group, particularly those who are retired.

OW2688 EXP 05.04.21

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