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WHAT IMPACT WILL LIVING LONGER HAVE ON YOUR RETIREMENT PLANNING?

Planning for retirement and the need for later-life care are becoming the decade's most talked-about areas of social policy. In the UK we are seeing a major shift in emphasis; financial provision for our retirement years is moving from being the responsibility of the state, to being the responsibility of the individual.

Increased life expectancy means that people retiring at 65 today can reasonably expect to live on into their 80s if not longer, and some can expect to live to 100. However, when it comes to planning for retirement people can underestimate the odds of reaching a great age, and may not be adequately prepared financially for the years ahead. This may be one of the reasons behind the recent increase in the number of those working beyond state retirement age.

Making the most of your pension savings

Unless you're in a pension scheme that pays you an income based on your salary when you retire, you're most likely to be saving into a scheme that provides you with a sum of money, your pension pot. How you turn your pension pot into income is one of the biggest financial decisions you have to take at retirement, and there are many pitfalls to avoid. Getting advice will give you the comfort of knowing that you're doing the right thing with your money, and means that you will have in place a detailed plan that takes a holistic view of your finances.

What a good retirement plan looks like

There's a lot to think about when making plans for a comfortable retirement. A good retirement plan needs to take account of factors such as inflation, investment risk and the potential need for funds for long-term care. With the increase in life expectancy, more of us can expect to need help and support at some time in our lives. Residential and nursing care costs can often be around £1,000[1] a week.

Take the right steps

Taking professional advice about your pension has never been as important as it is today. Many of us struggle to find the time to plan our retirement finances properly, and it can be hard on your own to make informed decisions. Taking advice can give you peace of mind and help ensure you don't run out of funds in later years.

[1] LaingBuisson, 2017

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INCREASED LIFE EXPECTANCY MEANS THAT PEOPLE RETIRING AT 65 TODAY CAN REASONABLY EXPECT TO LIVE ON INTO THEIR 80s IF NOT LONGER, AND SOME CAN EXPECT TO LIVE TO 100. HOWEVER, WHEN IT COMES TO PLANNING FOR RETIREMENT PEOPLE CAN UNDERESTIMATE THE ODDS OF REACHING A GREAT AGE, AND MAY NOT BE ADEQUATELY PREPARED FINANCIALLY FOR THE YEARS AHEAD

FINANCIAL ADVICE FOR THE 'SANDWICH GENERATION'

It's estimated that up to 17 million people[1] are finding themselves part of what's come to be known as the 'sandwich generation' – those who are looking after the needs of children and ageing parents.

There's increasing evidence that people in this situation can find it difficult to put in place the right plans for their own financial well-being while taking care of others. Increased life expectancy, coupled with starting families later in life, means that more of us than ever are facing heavy demands on our time and energy, and there could be implications for our finances too.

Plan for your future as well as theirs

In your middle years, the chances are that looking after your growing family means that the important things like day-to-day living costs, family holidays and possibly school fees, will all be taking a sizeable bite out of your disposable income. At this stage, you may find yourself needing to take more financial care of your ageing parents.

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

Retirement is on the horizon

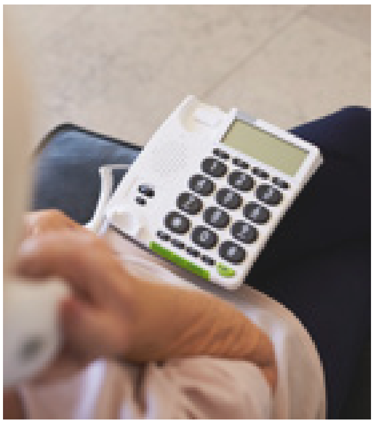
Although retirement could be anything from five to 15 years away at this point, these are likely to be your peak earning years, so it's important to make sure you are on top of your money.

You'll need to have a retirement plan in place, even if it seems light years away right now; it will come around quicker than you think, so keep an eye on your pension. It's critical 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. Ensuring you review your portfolio regularly will mean your investment strategy remains in line with your goals, and takes account of your attitude to risk, which may change over the years.

There's a lot to think about, and taking financial advice at this stage of your life can make the difference between just about managing in your later years, or enjoying a financially-secure retirement.

[1] Aviva, 2017



PENSION SCAMS UPDATE

Fraudsters are using evermore sophisticated ways to part savers from their pension cash. The Pensions Regulator estimates that around £500m is stolen from pensions every year[1]. This figure could be on the low side, as many people are too embarrassed to report that they have been conned.

Recently-reported scams include one using Brexit as a means of pushing fake investment opportunities. Here, the scammer suggests that Brexit will destroy the value of the victim's pension pot, urging them to move their money into a fund that will provide an impossibly-high guaranteed return.

In a scam reported by the BBC in January, those targeted were told that their money would be invested in low-risk investments. Instead the money was invested in a firm producing so-called truffle trees. Other frauds doing the rounds include investment in timeshares in St Lucia, parking spaces at football grounds and airports, carbon credits, and foreign exchange and binary options.

Everyone should be aware of scams and get professional advice on their pension; don't risk being conned out of your savings.

[1] The Pensions Regulator, 2017

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BABY BOOMERS FACE A CHOICE – HIGHER CAPITAL TAXES OR LOWER INCOMES FOR THEIR CHILDREN?

Intergenerational fairness is never far from the news headlines these days. The issues are becoming widely known and frequently debated. The Equality and Human Rights Commission recently published a review which stated that today's young people are suffering the *"worst economic prospects for several generations"*.

Rising health and care costs

In a recent speech, Lord David Willetts, Executive Chair of the Resolution Foundation, outlined the stark choices that he feels the country faces in paying for the health and social care costs associated with our ageing society. He believes that baby boomers must pay to fund these spiralling costs or risk inflicting crippling tax hikes on their children and grandchildren.

He argued that while all generations should pay towards the costs, higher capital taxes will need to be borne by the baby boomer generation, if the UK is to avoid putting the entire tax burden on the shoulders of the younger generation, many of whom are already struggling financially. The alternative is that the extra spending needed, which is almost entirely driven by health costs, would mean an income tax rise of 15p in the basic rate to cover the funding gap, which would fall disproportionately on younger workers.

Tough choices

Lord Willetts believes that unless action is taken, the UK is likely to face tough choices between changing its approach to taxation, or cutting access to the NHS and letting social care get into a worse state of crisis. He believes that a 1% tax on property values over £100,000 would bring in around £9bn.

WHY BEING DIVERSIFIED ALWAYS MAKES SENSE

Overall, the stock market has been generous over the course of the past eight years or so. This optimism continued into 2018, with further strong gains seeing equity indices around the world soar.

This run was halted at the end of January and the market subsequently witnessed a correction with many share indices retreating from record highs.

The markets actually fell for the same reason that they had risen so strongly across 2017: good news on the economic front, specifically a US employment report showing stronger than expected jobs growth and an increase in wage levels. The data was viewed with trepidation amid fears of rising inflation and impending monetary tightening. Concerns that monetary policy is set to be tightened at a quicker pace and to a greater extent than previously envisaged has begun to weigh on market sentiment.

Stock market volatility is an inevitable part of investing. What you have to decide as an investor is how much risk is right for you. While the process of building a portfolio includes strategies to reduce risk, it cannot be eliminated altogether. Stock market performance is unpredictable and investing is all about adopting a longer-term view, diversifying risk and allowing your money time to grow.

The benefits of a diversified approach

The old adage about not putting all your eggs in one basket certainly applies when it comes to adopting an investment strategy. One way we can help you is by recommending a combination of different assets. Diversification is the process of spreading your money around different types of investments, so that your exposure to any one of them is limited, helping to reduce your exposure to risk and volatility. That way, a poorly-performing investment shouldn't greatly damage your overall returns, and your money has more opportunities for growth.

The goal of a diversified strategy is not necessarily all about boosting performance, but once you've established the level of investment risk that you're comfortable with, based on your chosen investment goals and time horizon, diversification has the potential to improve returns for your preferred level of risk. Regardless of what amount you have to invest, we can recommend the most cost-effective way to achieve this mix – often through collective investments.

Regular reviews

It is important to regularly revisit your objectives and any changes in your personal circumstances which may affect your finances.

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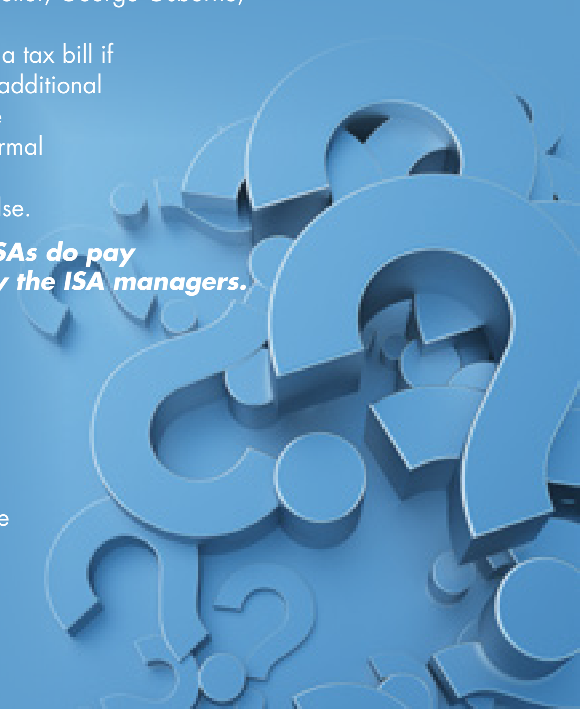
ISAs AND INHERITANCE TAX – KNOW THE FACTS

ISAs are a great way to save, and there are now several types, each designed to help young and old, home buyers and children save for their future. But while ISAs are tax-efficient during your lifetime, they may have disadvantages when it comes to Inheritance Tax (IHT).

It's easy to think that ISAs are tax-free, full stop. After all, when the then Chancellor, George Osborne, announced that from 2015 they could be passed on without incurring tax, the move was widely welcomed. It meant that a widow or widower wouldn't face a tax bill if they inherited an ISA from their spouse. This is achieved by what's called an "additional permitted subscription" allowance (APS), which is equivalent to the amount the deceased held in ISAs at the date of their death, and is in additional to the normal ISA allowance. What's more, the surviving spouse is still entitled to the APS even if their spouse or civil partner leaves the funds in their ISAs to someone else.

Investors do not pay any personal tax on income or gains, but ISAs do pay unrecoverable tax on income from stocks and shares received by the ISA managers.



Passing ISAs on

However, ISAs are still included in calculating the value of a deceased's estate. While funds left to a spouse are free of IHT, those passed directly to children or other beneficiaries are not. IHT is payable at a rate of 40% on the value of your estate over the current individual allowance of £325,000.

This means that it may be preferable for IHT planning purposes to think about passing on your pension to future generations and living off the tax-free income from your ISAs. However, everyone's circumstances differ, so it's important to get financial advice that's tailored to your particular circumstances.

Tax treatment depends on individual circumstances.
Tax treatment, rates and allowance are subject to change.

MILLIONS FACE PENSION TAX SHOCK AS THEY FAIL TO TAKE ADVICE

The Treasury has forecast that it will receive an additional £5.1bn in tax by April 2019 as a result of the pension legislation introduced in 2015.

Originally, it had estimated that the tax resulting from the pension changes would be much lower, and that people would make phased withdrawals from their pension pots over a number of years to avoid paying large amounts of tax. The higher tax figure is an indication that people are taking more money out of their pensions and some may not have been aware in advance of the tax implications of doing so.

Research conducted by the Personal Finance Society suggests that up to two-thirds[1] of pension savers don't take professional advice before accessing their pension cash.

Why good advice matters
Getting advice will ensure that you understand the choices open to you on retirement, and help you make tax-efficient decisions for your money. We will explain the options open to you, such as taking an income via a drawdown scheme or buying an annuity.

On retirement, you can take up to 25% of your pension savings as a lump sum, on which no tax is payable. However, if you choose to take more than this figure, the money is viewed as income and you will have to pay tax on it once it exceeds any unused allowances.

Taking too much too soon from your pension could result in you running out of funds in later life. You could be looking to several decades in retirement, and you'll want to ensure that your money lasts as long as you do.

If you're making plans for your retirement and would like some professional advice, then please get in touch.

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[1]Personal Finance Society, 2018

ORIGINALLY, THE TREASURY ESTIMATED THAT THE TAX RESULTING FROM THE PENSION CHANGES WOULD BE MUCH LOWER, AND THAT PEOPLE WOULD MAKE PHASED WITHDRAWALS FROM THEIR PENSION POTS OVER A NUMBER OF YEARS TO AVOID PAYING LARGE AMOUNTS OF TAX

MORE FAMILIES TURN TO PENSIONS TO AVOID INHERITANCE TAX

The pension reforms introduced in 2015 made it easier to pass unused defined contribution pension assets from one generation to the next. One of the major changes was the removal of the previous 55% tax charge which applied on defined contribution pension savings on death. At the same time, pension savers got the right to pass their pension on to any individual they nominated; previously it could only go to a spouse or dependant.

This has led to more people seeing pensions as a way to cascade wealth to the next generation free from Inheritance Tax. The Telegraph reported earlier this year that an analysis of pension drawdown accounts has shown that £2.1bn was held by those aged under 55. As people need to be aged 55 to move their pension pot into a drawdown account, then it's reasonable to assume that this figure represents inherited pension wealth.

By contrast, although ISAs can be passed tax-free to a spouse, they could be subject to Inheritance Tax if left to children.

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CHANCELLOR ANNOUNCES A REVIEW OF INHERITANCE TAX

Philip Hammond has written to the Office of Tax Simplification (OTS) asking them to put forward proposals for the reform of Inheritance Tax (IHT) *"to ensure that the system is fit for purpose and makes the experience of those who interact with it as smooth as possible".*

MANY FAMILIES WILL BE RELIEVED AT THE PROSPECT OF SIMPLIFICATION

His letter asked the OTS to look at the technical and administrative issues associated with IHT, the process of submitting returns and paying the tax. He also called for a review of the issues surrounding estate planning, and whether the current framework causes 'distortions' to taxpayers' decisions regarding investments and transfers.

The scope of the review will include looking at the current rules surrounding making gifts, including the annual threshold for gifts, and gifts made out of surplus income.

Even the latest change, the residence nil rate band introduced in 2017, designed to help people pass on more of the value of their family home to their children and grandchildren can be complex in its operation, so many families will be relieved at the prospect of simplification.

Tax treatment depends on individual circumstances. Tax treatment, rates and allowance are subject to change.

UK HOUSEHOLD SPENDING HITS TEN-YEAR HIGH – ARE YOU SAVING ENOUGH?

In the third quarter of 2017, UK households spent more than their incomes[1], giving rise to another fall in the savings ratio, meaning that families may have no savings safety net they can rely on.

Everyone needs some money put away for emergencies and for the bigger, more exciting things in life like the deposit on a home, a child's education or a wedding. It makes sense to have some cash that can be accessed quickly to pay for unexpected things like an unforeseen bill, and some that steadily builds up for the future. Once you have a rainy-day fund in place, you should seriously think about opening an ISA.

How ISAs can help

An ISA is a simple, tax-free way to save or invest. The advantage of these types of account is that you don't pay tax on the interest or dividends you earn, or the increase in value of your investments. There are several different types of ISA available, designed by the government to encourage everyone to save or invest for their future.

What types of ISA are there?

The basic types are:

- Cash ISAs and stocks and shares ISAs for savers and investors
- Junior ISAs for children
- Help to Buy ISAs for those saving for a home
- Lifetime ISAs for those saving to buy a home or who wish to save until age 60.

The right savings strategy for you will depend on your personal circumstances. We can advise you on the best home for your short and longer-term savings, and explain the features and benefits of each type of account in a simple and straightforward way.

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[1]The Office for National Statistics, 2018

GOVERNMENT TO SPEED UP COLD CALLING BAN

Last year, British consumers were bombarded with 2.2bn[1] nuisance calls from pensions, PPI and car crash claims firms, according to figures from Ofcom.

Since the introduction of the new pension legislation in 2015 that gave savers more control over their pension pots, scammers have been out in force. Their aim is to part UK workers from their pension savings by promoting bogus schemes and fraudulent investments. This has resulted in thousands losing all their pension cash to fraud.

The government has announced measures to speed up the introduction of a pension cold calling ban, following pressure from several quarters. Last year, the ban was delayed due to the general election which stalled the planned legislation.

What will be covered?

The ban will cover unsolicited calls, emails and text messages about pensions, and be enforced by the Information Commissioner's Office (ICO). There are exclusions for legitimate business, including where an existing client relationship exists.

The ban will be introduced through a "workable amendment" to the Financial Guidance and Claims Bill currently before parliament.

[1]Research using Ofcom data and commissioned by Aviva, Jan 2018

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.