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YOUR WINDOW ON FINANCIAL MATTERS

INSIDE THIS ISSUE

ONE IN TEN BRITONS ADMIT THEY ARE BAD WITH MONEY – HOW TO BUCK THE TREND

A recent survey[1] has shown that for many, building up their savings is not top of their agenda.

Everyone should think about putting some money aside for emergencies, and for the bigger things in life like the deposit on a home, a child's education or a wedding. So, for most of us having some cash that we can access quickly to pay for unexpected things like an unforeseen bill, and some that steadily builds up over the years, makes good financial sense.

An ISA is a simple, tax-free way to save or invest for the future. 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 the value of your investments. There are now several different types of ISA available, designed by the government to encourage everyone to save or invest for their future. 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 their first home
- Lifetime ISAs for those saving to buy their first home or who wish to save until age 60.

TAKE YOUR FIRST STEPS IN INVESTMENT

Investment means introducing your money to risk, but also offers the prospect of getting better returns than are available on savings accounts.

Fledgling investors often begin by drip-feeding smaller amounts of money into ISAs, collective investments such as unit trusts, managed funds or bonds, rather than risking a lump sum at what could turn out to be a bad time.

If you put your money into stock market investments you should be prepared to do so for at least five years and preferably longer. You'll also need to think about your attitude to risk, as this will have a bearing on the type of investments that will be right for you. If you invest in the stock market, your capital will rise and fall according to how the economy and markets here and globally are performing, meaning that you need to be able to cope with peaks and troughs.

Whether you're saving or investing to help your children, want to retire early, or simply build your lifetime wealth, good advice can ensure that you make the most of your money and avoid the pitfalls.

[1] PiggyBank, 2018

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.

YOUR ISA – LUMP SUM OR REGULAR SAVINGS?

The good news is that since 6th April you can use this year's ISA savings allowance to put your hard-earned cash to work in a tax-efficient way. The 2018–19 allowance is a generous £20,000, and it makes sense to take advantage of this savings opportunity as soon as possible in the year, rather than risk losing your entitlement if you forget and miss the tax year end deadline.

The longer your money is in your ISA, the more opportunity for interest and growth.

If you're planning to use your ISA allowance this tax year, it's worth remembering that the longer your money is saved or invested, the more time it has to produce tax-free returns.

If you're thinking of putting your ISA subscription into the stock market but are worried about volatility that stocks and shares experience, then you can always choose to make regular contributions. This approach is called 'pound-cost averaging' and means that you don't have to worry about getting the timing of purchases exactly right, and there's no need to constantly watch markets to invest at the right moment.

AVERAGE PRIVATE SCHOOL FEES RISE ABOVE £17,000 – HOW TO SAVE FOR YOUR CHILD

According to the annual census of leading independent schools, the average fee for attending a private school is now over £17,000[1] a year.

Despite the rising cost of fees, private education continues to remain popular, with the number of pupils reaching 529,000, the highest figure since the Independent Schools Council began collecting data in 1974.

IT PAYS TO PLAN EARLY

After buying a home, school fees could be a family's largest expense, especially if you have several children to put through school and college. Starting to save from the day the children are born and encouraging other family members to contribute to accounts like Junior ISAs, can all help in building up the amount needed in fees. If you have more than ten years to go before schooling starts, then it's worth considering stock market investments. Whilst your money will be exposed to risk, it also has the potential, although not the guarantee, to outstrip the returns you would get in an average savings account.

Parents can make use of their annual ISA allowance (£20,000 for 2018–19). Money invested in an ISA grows in a tax-free fund and can be withdrawn to meet fees without incurring tax. Increasingly, grandparents are looking at passing money on to their grandchildren during their lifetime as a way of reducing the value of their estate for inheritance tax purposes, either by giving a lump sum or setting up a trust for the benefit of the child.

LOANS, REMORTGAGES AND PENSION LUMP SUMS

Using offset mortgages or remortgaging their property are also common ways of raising the cash for fees. In some instances, older parents are taking their 25% tax-free pension lump sum and using the money to educate their offspring, although care needs to be taken to ensure the parents leave themselves enough money for their retirement.

If you're considering paying for your child's education, taking professional advice can help you plan effectively for the years that lie ahead.

[1]Independent Schools Council, 2018

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PENSIONS JARGON – BUSTED

No one should be deterred from planning for their retirement by the jargon used in the pension industry.

Happily, we are well versed in turning complex financial terms into plain English. Here we unravel a couple of terms that you may have come across and be unclear about.

ANNUITIES

When you retire, you can choose to take some or all of your pension pot as an annuity, an insurance product that provides a guaranteed income for life. One of the benefits that annuities provide is security. Unlike other retirement income products, and with the exception of investment-linked annuities, you aren't exposed to stock market risk which could erode your income. On the downside, should you die early, the residual value of the annuity dies with you; there is usually no return of capital to your estate.

DRAWDOWN

With income drawdown, you take a retirement income direct from your pension pot while leaving the rest of the cash invested, providing an opportunity for future growth. There is no minimum amount for drawdown, so you could, for instance, take your 25% tax-free lump sum and choose to leave the remaining funds invested. You can also move funds into drawdown in stages, known as partial or phased drawdown. The 25% tax-free amount doesn't have to be taken at once on retirement – smaller amounts can be taken over time, each with 25% tax-free.

Once in drawdown you can access funds as you need them. You could, for example, vary the amount you take each year, taking less if you wish to remain in a lower tax band, or more if you have plans to spend. After taking your 25% tax-free cash, your withdrawals will be subject to income tax and your drawdown income is added to any other income you receive in that tax year. It's important to remember that taking large withdrawals may result in you paying tax at a higher rate.

WHY YOU SHOULD AVOID PROTECTION PROCRASTINATION

People put off buying life insurance for a variety of reasons, and they shouldn't.

Not only does life insurance give valuable peace of mind to families up and down the country, each year insurers pay out millions of pounds to families to help ease the financial strain caused by life's unexpected events. Here are a few reasons people often give for not taking this vital step.

IT'S TOO EXPENSIVE

Many people are surprised to learn that cover is far less expensive than they'd first thought. Plus, it's a small price to pay when you consider that having no insurance would cost your family considerably more and could result in them struggling for money.

I'M FIT AND WELL

No one is immortal and buying protection policies when you're in good health means you'll find it easier to get a cost-efficient policy that meets your needs. If you leave it until you're older and have health problems, your premiums will be higher.

I DON'T HAVE KIDS

If you don't have kids but do have loved ones that depend on you financially – your spouse, partner, parent or sibling – then a payout from a policy would help to alleviate their financial burden at a difficult time.

I'M NOT WORKING, I DON'T NEED COVER

If you're a stay-at-home parent, just think of all the tasks you do on behalf of your family. Everything from cleaning, cooking and childcare might have to be paid for if you weren't there to provide it.

I GET COVER THROUGH MY JOB

While you may get insurance as part of your employment package, it may not be enough for your needs, and the policy won't move with you if you change jobs.

I DON'T HAVE TIME TO FIND THE RIGHT PLAN

It can be hard to assess how much life insurance you need on your own, but that's where we can help you. Don't let procrastination hold you back, get in touch.

ARE MILLENNIALS SAVING ENOUGH FOR RETIREMENT?

Rising house prices, burdensome student debt and a low-wage economy have all contributed to millennials feeling under financial pressure.

However, the good news is that many more people in the 18 to 35 age range are regularly saving into a pension than ever before. According to data from the Intergenerational Commission[1], a decent pension ranks as the second biggest area of concern for young people's prospects, second only to housing.

PENSION SAVING IS BECOMING THE NORM

Auto-enrolment has been a great success in improving the proportion of pension savers, particularly among the younger age group, where participation levels have increased significantly. However, it is crucial that those being auto-enrolled into pension schemes for the first time do not consider it 'job done' and disengage from their savings.

April saw the minimum auto-enrolment contribution increased to 3% of qualifying earnings for employees and 2% for employers, and although staff can opt out of their workplace pension scheme, figures to date show that fewer than expected have chosen to do so. Whether more will opt out as the minimum contribution increases to 5% for employees and 3% for employers in April 2019 remains to be seen. It's to be hoped that having embraced the pension saving habit and got used to receiving regular statements showing how their money is growing, they will be sufficiently incentivised to stay the course.

MORE IS NEEDED TO SECURE A COMFORTABLE RETIREMENT

The problem remains that to retire with pensions that are comparable to those of their parent's generation, millennials will need to think about contributing far more than auto-enrolment. This could prove difficult if they simply don't have the spare cash available to top up their pension savings.

Employers will have an important role to play in ensuring that employees receive every encouragement to keep saving during their working lives; they could help by allowing workers to sacrifice part of their salary or bonus to make pension contributions.

[1]Intergenerational Commission, 2017

EARLY RETIREMENT COULD DISAPPEAR BY 2035, SO IT'S TIME TO PLAN

As the state pension age rises, life expectancy increases, and final salary pension schemes become a thing of the past, it looks likely that more workers will remain in employment for longer in order to be able to build up sufficient funds for their retirement years.

According to analysis by Aviva[1], the number of people retiring before they reach age 65 is decreasing rapidly. The insurer calculates that if the present rate of change continues, by 2035 almost no one will be able to retire early. Figures from the Office for National Statistics show a record 10.1 million over-50s remain in work, with 1.2m of these workers aged over 65. Ten years ago, less than 700,000 over-65s were in work. In 1998 the figure was 434,000.

HOW TO PLAN FOR RETIREMENT

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.

That's why it makes good sense at all stages of your working life to keep an eye on your pension arrangements, especially if you intend to retire earlier rather than later.

You need to think about the following key questions:

- When do I want to retire?
- How much will I need in income and savings to fund my lifestyle in retirement?
- Are my plans on track? Am I currently saving enough?

Although it has recently been increased, the state pension is still only a basic safety net for most people, and not enough on its own to guarantee a comfortable retirement.

Personal pensions offer generous tax breaks to encourage us all to provide adequately for retirement. If you are a basic-rate taxpayer making a pension contribution, every £100 you pay in will in effect only cost you £80 once income tax relief has been applied. If you are a higher-rate taxpayer, every £100 contributed within the HMRC annual allowance would cost just £60.

As part of the government's drive to ensure we all make adequate provision for retirement, employers are now legally obliged, subject to age and earnings thresholds, to automatically enrol their employees into a qualifying pension scheme, where employees and employers make monthly contributions.

TAKING ADVICE CAN HELP YOU MEET YOUR GOALS

The need for professional advice tailored to your individual circumstances has never been more important. If you're concerned about your pension arrangements, we're happy to review your plans and help you keep on track for a financially-comfortable retirement.

[1]Aviva, 2017

POWER OF ATTORNEY – RECORD NUMBERS ENTRUSTING

A Will isn't the only piece of forward planning you should consider as you get older. Against the backdrop of an ageing population, the government has been campaigning to raise the profile of Lasting Powers of Attorney (LPAs). Processes and application forms have been simplified to encourage widespread take-up. This has worked, as an increasing number of people are now deciding to consign their money, legal and healthcare affairs to family and friends.

An LPA enables you to choose the person or people who you trust to be in charge of making decisions which affect you if you are no longer able to do this for yourself. Taking legal advice over the appointment of an attorney can ensure that there are safeguards in place against financial abuse.

LPAs make things easier for family and relatives if you lose capacity, helping ensure that decisions that affect you would be made in your best interests, and that your affairs, both your finances and your health, are managed in the way you would have wanted.

If you're looking to set up an LPA for someone living in Scotland, parts of the agreement and document differ to the one for England and Wales.

IF YOU WOULD LIKE ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.