

# ESSENTIALLY WEALTH

---

Q2 2017 ISSUE 4

**FINANCIAL HABITS THAT CAN  
DESTROY YOUR WEALTH**

**IS IT TIME YOU REVIEWED  
YOUR PROTECTION NEEDS?**

**FINANCIAL PLANNING:  
STEPS YOU SHOULD TAKE NOW**

GENERATION X  
AND Y OVERESTIMATE  
THE AMOUNT  
THEY'LL INHERIT

DEMENTIA: HOW A  
LASTING POWER OF  
ATTORNEY CAN  
PROTECT FAMILIES

SAVERS OVER 55 CITE  
FALLING INTEREST RATES  
AS A MAJOR CONCERN

  
**INTRINSIC**

## IN THIS ISSUE

FINANCIAL HABITS THAT CAN DESTROY YOUR WEALTH	2
UK OFFICE WORKERS SPEND £350 A YEAR ON TEA AND LEAVING PRESENTS	3
KEY POINTS FROM THE 2017 SPRING BUDGET FOR SAVERS AND INVESTORS	3
DON'T FORGET TO USE YOUR TAX ALLOWANCES	4
IS IT TIME YOU REVIEWED YOUR PROTECTION NEEDS?	5
GENERATION X AND Y OVERESTIMATE THE AMOUNT THEY'LL INHERIT	5
FINANCIAL PLANNING: STEPS YOU SHOULD TAKE NOW	6
4.4M MORE WORKERS ARE NOW SAVING FOR A PENSION	6
DEMENTIA: HOW A LASTING POWER OF ATTORNEY CAN PROTECT FAMILIES	7
CONFUSED BY FINANCIAL JARGON? YOU'RE NOT ALONE	8
SAVERS OVER 55 CITE FALLING INTEREST RATES AS A MAJOR CONCERN	8



## FINANCIAL HABITS THAT CAN DESTROY YOUR WEALTH

We all lead increasingly busy lives and taking time out to tackle our financial bad habits can seem tedious; somehow it never quite gets to the top of our 'to do' list. However, spending just a comparatively small amount of time thinking about our money, and what we could do differently can help make the future more financially secure.

### Being impulsive

We all have our little weaknesses, for some it's multiple trips to the coffee shop, for others it's online shopping, visits to the garden centre or match tickets. Whatever life stage you've reached, having a budget to work within will help you keep track of what you spend. This can be important at any age, but if

you're saving hard for a deposit for a property, or planning your retirement finances, it's essential to know where your money goes and how much you can afford to spend.

### Not having an emergency fund

Everyone should have cash put by that could cover three to six months of living costs based on their current expense level. If you dip into this fund, remember to build it back up as soon as you can, especially if your cost of living increases over the years.

### Not comparing costs

Expensive debt can end up eroding your wealth very quickly, so it pays to keep loans and mortgages under regular review. Credit cards can also come with high interest charges, so shopping around for good deals really pays. And although it can seem time consuming, it's important to compare costs for bank accounts, utilities, home insurance, phone and broadband deals too.

### Failing to plan

For many younger people, retirement can seem light years away. In many cases, people only think seriously about their later years when they have reached their peak earnings somewhere in their 40s. Defining your goals, short, medium and long-term, will help you get a feel for how much you should be saving in your early years to make adequate provision for your future. Even small sums saved regularly can make a big difference to your financial future.

### Not keeping track of investments

It pays to review your savings and investments from time to time. That way, you won't expose your money to unnecessary risks. Weeding out poorly-performing holdings, and rebalancing the mix of assets that you hold will help to keep your portfolio healthy.

...SPENDING JUST A COMPARATIVELY SMALL AMOUNT OF TIME THINKING ABOUT OUR MONEY, AND WHAT WE COULD DO DIFFERENTLY CAN HELP MAKE THE FUTURE MORE FINANCIALLY SECURE.

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



## UK OFFICE WORKERS SPEND £350 A YEAR ON TEA AND LEAVING PRESENTS

Research from Nationwide<sup>1</sup> has found that a typical employee can spend more than £14,000 during their working life on Christmas parties, cards, presents, sponsorships and teas and coffees. That's before factoring in the cost of office clothing, or nights out with colleagues.

These everyday expenses can make it difficult to get into the savings habit. For people trying to save hard for a deposit for a property or other financial goal, the answer can lie in the phrase 'pay yourself first'.

Many people approach savings by putting away what they have left over after paying all their bills. 'Paying yourself first' means routinely and automatically putting money into a savings account before you pay your bills, or purchase anything else. By doing this you are making savings a priority.

Saving regularly into an Individual Savings Account (ISA) comes with added tax advantages too. In addition, the ISA range now includes the Lifetime ISA that can add a valuable 25% bonus from the government to your savings. If you've found yourself confused by financial jargon and could use some practical help, contact us.

<sup>1</sup>Nationwide, January 2017

## KEY POINTS FROM THE 2017 SPRING BUDGET FOR SAVERS AND INVESTORS

- The Lifetime ISA available from 6 April 2017
- The tax-free dividend allowance will be reduced from £5,000 to £2,000 from 2018–19
- A three-year NS&I Investment Bond with a market-leading interest rate of 2.2% will be available for 12 months from April 2017

### Parents

- Tax-free childcare will soon be available to working parents and will provide up to £2,000 a year in childcare support for each child under 12
- Working parents in England will also be able to apply for an additional 15 hours of free childcare for three and four-year-olds, bringing the total to 30 hours a week

### Education and Research

- Investment in technical education for 16 to 19-year-olds will rise to over £500 million
- £536 million for new free schools and to maintain existing schools
- £300 million is to be made available for new academic research places and £270 million for research projects into Biotechnology and Driverless vehicles

### NHS

- £425 million extra investment in the NHS in the next three years to support local services

### Businesses

- £435 million to support businesses affected by the business rates relief revaluation
- Small businesses and landlords under the VAT threshold will have an extra year to prepare for Making Tax Digital

### Broadband

- £16 million for a new 5G mobile hub and £200 million for full-fibre broadband networks

### Consumer Affairs

- Introduction of a Green Paper to protect consumers by simplifying the published Terms and Conditions used by businesses

### Economic Outlook

- The Office for Budget Responsibility (OBR) forecasts the UK economy will grow by 2% in 2017
- Overall borrowing for 2017 is forecast at £51.7bn, which is £16.4bn lower than the Autumn Statement forecast
- National debt is estimated for 2017 at 86.6% of GDP and then 88.8% for 2018
- UK's national debt now stands at almost £1.7 trillion or a sobering £62,000 per household



## DON'T FORGET TO USE YOUR TAX ALLOWANCES

Each year, UK taxpayers waste billions of pounds by paying tax unnecessarily or failing to claim tax relief that was due to them. With the advent of the 2017–18 tax year, it's worth spending time thinking about the tax allowances that are available on savings and investments, and aiming to put them to good use during the year.

### Personal allowance

This is the amount of income you can earn or receive in a year without paying tax and, for 2017–18, is £11,500.

### ISAs

From 6 April 2017, the annual overall ISA allowance rose to £20,000. The tax-efficient ISA range now includes the Lifetime ISA with an annual contribution limit of £4,000 designed to help those under 40 save for a first

home, or build up savings to age 60. It offers a 25% bonus from the government on contributions made until age 50. When it comes to saving for a child, the tax-free annual limit for a Junior ISA is £4,128.

It's worth remembering that there is no Capital Gains Tax to pay when you sell shares or units held in an ISA.

### Dividends

For the 2017–18 tax year, the first £5,000 you receive in non-ISA dividends is also tax-free. (From April 2018, this will reduce to £2,000.)

### Personal savings

For a basic-rate taxpayer, the first £1,000 of savings interest received is tax-free. For higher-rate taxpayers, the threshold is £500.

### Capital gains tax (CGT) allowance

The allowance has increased, meaning gains under £11,300

are tax-free. Married couples and civil partners who own assets jointly can claim a double allowance of £22,600.

### Pensions

The higher your tax rate, the more tax relief you could receive. You can get tax relief on private pension contributions up to 100% of your relevant earnings, and the standard annual allowance on which tax relief is available is £40,000, tapering to £10,000 for the highest earners.

### Gifts that are automatically free from Inheritance Tax

Each financial year you can make gifts of up to £3,000 (in total, not per recipient). Gifts of £250 to any number of people are exempt. Each parent of a bride or groom can give up to £5,000; grandparents or other relatives can give up to £2,500 and any well-wisher can give £1,000. Gifts to registered charities and political parties are also exempt.

**WITH THE ADVENT OF THE 2017–18 TAX YEAR, IT'S WORTH SPENDING TIME THINKING ABOUT THE TAX ALLOWANCES THAT ARE AVAILABLE ON SAVINGS AND INVESTMENTS, AND AIMING TO PUT THEM TO GOOD USE DURING THE YEAR.**

***Tax treatment depends on individual circumstances. Tax treatment, rates and allowances are subject to change. The value of pensions and the income they produce can fall as well as rise. You may get back less than you invested.***

## IS IT TIME YOU REVIEWED YOUR PROTECTION NEEDS?

Many people are introduced to the benefits of life insurance when they sign up for their first mortgage. Having taken the important step of putting cover in place that would ensure that their mortgage would be repaid in the event of their death, they often put the policy away in a safe place and don't give it another thought for many years.

However, we all experience life-changing events such as having children, buying our next house, taking on more debt or changing jobs. Before we know it, we're contemplating retirement.

Many people don't think about reviewing their policy, but forgetting to do so could mean that your family won't have enough money to pay the mortgage or meet the bills if you die. It could also mean that you're paying more for your premiums

than perhaps you need to, as there may now be more cost-effective policy options available to you.

### **Policies tailored to your needs**

Life insurance comes in various forms and can be combined with other types of cover to cater for a range of needs. So, besides providing a lump sum on death, you can take out cover to protect against the diagnosis of a critical illness, accident, incapacity or unemployment, or to provide income protection.

It can be a good idea to write your life policy 'in trust'. This simple formality ensures that the proceeds would go directly to your beneficiaries on your death, avoiding inheritance tax and the need to obtain probate before the funds are payable.

So, if you've had your policy for a few years and your circumstances have changed, then why not ask us for a review? Doing so will ensure you have the right policies in place to protect your financial future.



**Your home or property may be repossessed if you do not keep up repayments on your mortgage**

## GENERATION X AND Y OVERESTIMATE THE AMOUNT THEY'LL INHERIT

Relying on an inheritance to fund your retirement could prove to be a risky strategy. Whilst many people polled for a recent survey<sup>1</sup> expected to receive more than £100,000, this assumption could prove wide of the mark. Figures from the Office for National Statistics<sup>2</sup> show that only one in ten people inherit more than £125,000.

Increased longevity and the mounting cost of nursing and residential care could mean that the older generation has substantially less to leave to their heirs.

### **How to plan for the future**

Many people postpone retirement planning until they reach their mid-40s. Arguably, pension planning should begin the day you start work. Even small sums saved regularly early on in your career can mount up over the years to create a reasonable pension fund.

Recent changes in legislation, including the introduction of auto-enrolment pensions and the advent of the Lifetime ISA, provide greater tax-efficient opportunities to plan and save for life's major financial events, like buying a property or building up a fund for your retirement.

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

<sup>1</sup>Old Mutual Wealth 2017

<sup>2</sup>ONS, Inheritance in Great Britain 2013



# FINANCIAL PLANNING: STEPS YOU SHOULD TAKE NOW



This can be a good time of the year to focus on your financial goals. We all have things we'd like to achieve in our lives, both in the short and longer term, and there are things you should do, and new developments you should be aware of, when putting your plans in place.

### **Make your wishes known**

Have you made your Will? If so, is it up-to-date? Dying intestate could mean that those dearest to you receive nothing, while distant relatives you hardly know might stand to inherit your wealth.

Do you have a Lasting Power of Attorney in place? It's good advice to make arrangements whilst you have the mental capacity to do so. That way, if there comes a time when you are unable to make decisions about your finances or welfare, you have

someone you trust who can step in and legally act as your attorney, and make sure your wishes are carried out.

### **Think about your Inheritance Tax position**

With property prices remaining high, many more people will find that their estate falls within the scope of Inheritance Tax (IHT), so planning to minimise the incidence of the tax makes good financial sense. With more and more parents and grandparents looking to pass on wealth to family members during their lifetime, it's important to be aware that these gifts of money can potentially attract IHT. From April, in addition to the nil-rate band of £325,000, there is the main residence nil rate band, commonly called the family home allowance. By 2020 this will reach £175,000. However, if you're planning to leave your property to those who aren't your direct descendants, like nephews, nieces or cousins, then the family home allowance won't apply.

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

## 4.4M MORE WORKERS ARE NOW SAVING FOR A PENSION

When it comes to savings, it was generally assumed that the older generation was better at making provision for the future. This may no longer be the case. Over 4.4 million<sup>1</sup> additional workers have started saving into a workplace pension following the introduction of auto-enrolment schemes, meaning that more than 15 million people have the security of a workplace pension. Opt-out rates for auto-enrolment schemes are lower than expected. So, the decade-long decline in the number of people saving for retirement may be halting.

Auto-enrolment is bringing a large percentage of the younger generation into workplace pensions. This is creating, for the first time, a new cohort of savers who are engaging with their retirement from a much earlier age. With thousands of them eligible to join pension schemes over the next few years, their savings could outstrip those of previous generations.

### **Saving into an auto-enrolment scheme**

By 6 April 2019 the total minimum contribution will be 8%, made up of 3% from the employer, 4% from the worker and 1% from tax relief. It's important for younger workers to realise that the contributions made by their employer represent 'free money', giving them a greater incentive to join their workplace scheme.

Although it would be hard not to view auto-enrolment as a very positive step in providing pensions for many more workers than ever before, the Pensions Policy Institute has voiced concerns that saving at the minimum contribution rate of 8% may not provide sufficient pension in some cases. The important point to remember is that any pensions or savings arrangement needs to be reviewed on a regular basis to ensure that it remains on track.

<sup>1</sup>IFS, Retirement Saving Consortium, 2016



# DEMENTIA: HOW A LASTING POWER OF ATTORNEY CAN PROTECT FAMILIES



With dementia and Alzheimer's disease now officially the biggest cause of death in England and Wales<sup>1</sup>, more families are protecting their future by creating Lasting Powers of Attorney while they have the mental capacity to do so.

A Lasting Power of Attorney (LPA) enables you to choose the person or people who would make decisions which affect you, if you are not able to do this for yourself. 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. These documents are straightforward to draw up, and one or more people can be appointed to act as attorney.

Without an LPA or a valid pre-October 2007 Enduring Power of Attorney (finances only), someone would have to apply to the Court of Protection to be appointed as your Deputy, a process that can be expensive and time-consuming, often taking up to six months to complete.

<sup>1</sup>Office for National Statistics 2015

**A LASTING POWER OF ATTORNEY (LPA) ENABLES YOU TO CHOOSE THE PERSON OR PEOPLE WHO WOULD MAKE DECISIONS WHICH AFFECT YOU, IF YOU ARE NOT ABLE TO DO THIS FOR YOURSELF.**



## CONFUSED BY FINANCIAL JARGON? YOU'RE NOT ALONE

Every industry has its own jargon – words and phrases that can seem confusing to outsiders. The world of finance is no exception. In a recent survey<sup>1</sup>, less than a quarter of British adults say they know what a defined contribution pension is, while 26% could correctly explain how the off-side rule works in football.

Not understanding the terminology used in communications could mean that people are taking out the wrong policy, or starting a financial plan that isn't right for their needs. Two in five UK adults say they have ignored financial information sent to them. Some people confess to having lost money because they ignored letters and circulars, or missed important changes to their policy, because they found the information they received too hard to understand.

Taking professional financial advice can make the situation and your options clear. This can be particularly important when it comes to making life's big financial decisions, like getting the right mortgage, choosing the most suitable investments, or planning and taking an income in retirement.

### How advisers can help

Independent financial advisers know that many words, phrases and terms can be unfamiliar to people. They will be able to explain things in a down-to-earth way using plain English, highlighting all the key points you need to be aware of. But more importantly, they will take the time to understand your financial situation and what your goals are, and can help you plan for the important financial stages in life. They know what's happening in the marketplace and can advise on the right plans, policies and investments to meet your needs.

If you've found yourself confused by financial jargon and could use some practical help, contact us.

<sup>1</sup>Aviva, February 2017

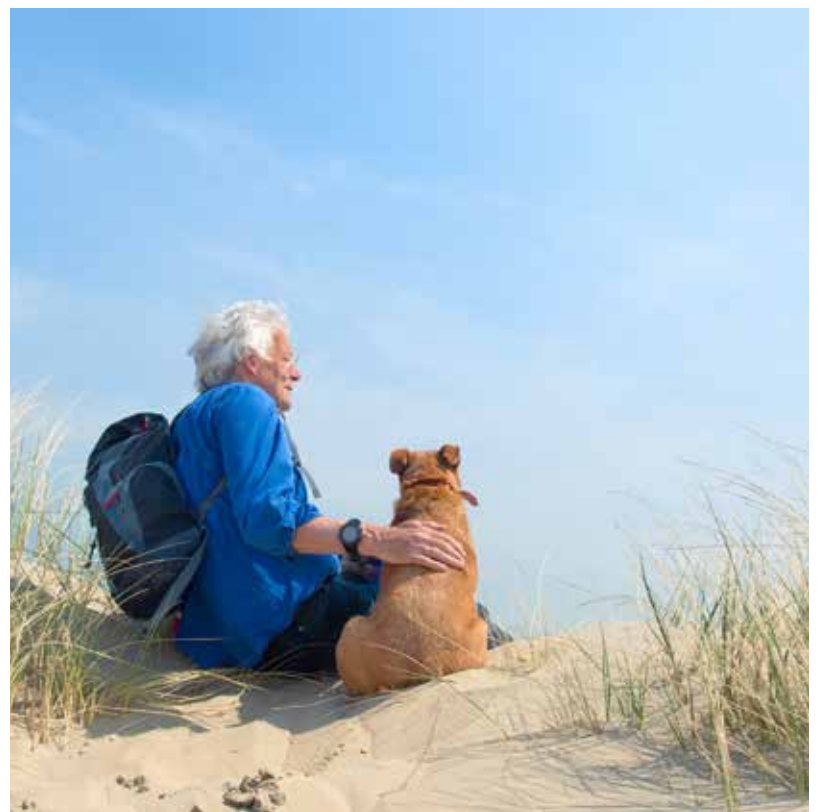
## SAVERS OVER 55 CITE FALLING INTEREST RATES AS A MAJOR CONCERN

A recent retirement study<sup>1</sup> from a major insurer highlights that while people are not feeling significant additional financial pressures on a day-to-day basis, the rising cost of living and the current low level of interest rates are of concern to many.

The report also reveals that 14% of respondents are now slightly more anxious than they were last year about having sufficient funds to last the whole of their retirement, and there's evidence that the decisions that need to be taken can seem confusing.

This is where retirement planning can help. Taking professional advice can ensure that you make the most of your money in your later years. Most people will find themselves with a range of options at retirement, so making the right decisions is crucial. With life expectancy increasing, there is now the prospect for today's retirees to spend as many years enjoying retirement as they spent saving for it. If you'd like to review your pension planning, get in touch.

<sup>1</sup>Aviva, December 2016



***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.***