ESSENTIALLY **WEALTH**

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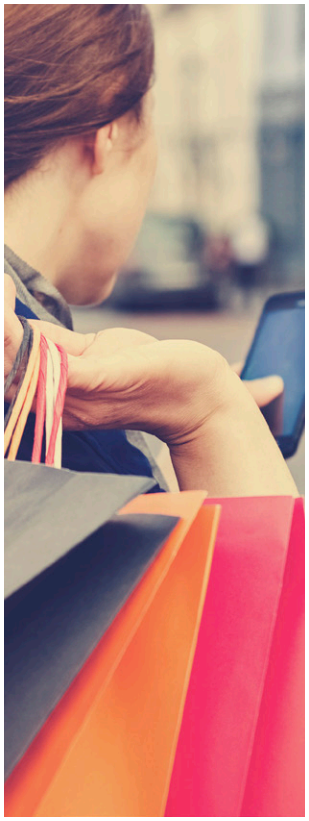


THE CHANGING PATTERNS OF WORK

The patterns of our working lives have always been subject to change, but the pace is now more rapid than ever. This is particularly true when it comes to older workers who no longer view retirement as a fixed date.

There was a time, not so long ago, when many people's lives fell neatly into three distinct stages – they were educated, embarked upon a career and then retired. The date at which people chose to retire was usually in line with their state retirement age, meaning 60 for women and 65 for men. Today, retirement is no longer about clearing your desk on your 60th or 65th birthday and facing a work-free future.

More seniors remain in work

By the beginning of the decade, it was far more common for older employees to opt for reduced hours, and instead of the abrupt end of work scenario experienced by workers in previous decades, taking a more considered approach to their retirement. 'Pre-tirement', the process of gradually reducing the number of hours worked, is now a widely-accepted concept which generally begins in people's 50s and can run into their 70s.

With the advent of the new pension rules launched in 2015, more people than ever before have a choice. They can retire as early as 55 and take their pension then, remain in work, or even pursue a new career. Many more businesses than ever before acknowledge that older workers have valuable skills and have an important role to play in upskilling younger employees. With those nearing retirement often wanting to remain physically and mentally active, remaining in employment can produce income to supplement their pension, or provide a stimulating outside interest.

What is clear is that it's important to plan and save for retirement as early as possible in your working life. That way when the time nears, the options of retiring, working part time, changing career or doing voluntary work are all open to you.

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

INTEREST RATE TIMELINE – THE UPS AND (MOSTLY) DOWNS OVER THE PAST NINE YEARS

Can you cast your mind back to November 1979? It's likely that your trousers were flared and your hair was long; and if you had a mortgage, your pockets in those flared trousers were considerably lighter! Interest rates had hit an all-time high of 17% that winter; high and volatile official interest rates were a permanent fixture throughout the 1970s and 1980s, before stabilizing at lower levels in the mid-1990s. This presented challenging times for household finances.

Fast forward to the present day, in the first rate move since 2009, the Bank of England Monetary Policy Committee (MPC) cut its benchmark interest rate by a quarter of a point to 0.25% this August, taking the borrowing costs to a record low.

At the same time, the MPC also introduced a new £100 billion funding scheme for banks, enabling them to borrow at rates close to the base rate, encouraging them to pass the cut onto customers. It also expanded its quantitative easing programme to include purchasing up to £10 billion in corporate bonds as well as a further £60 billion in government bonds. The government has abandoned fiscal restraint, as it was.

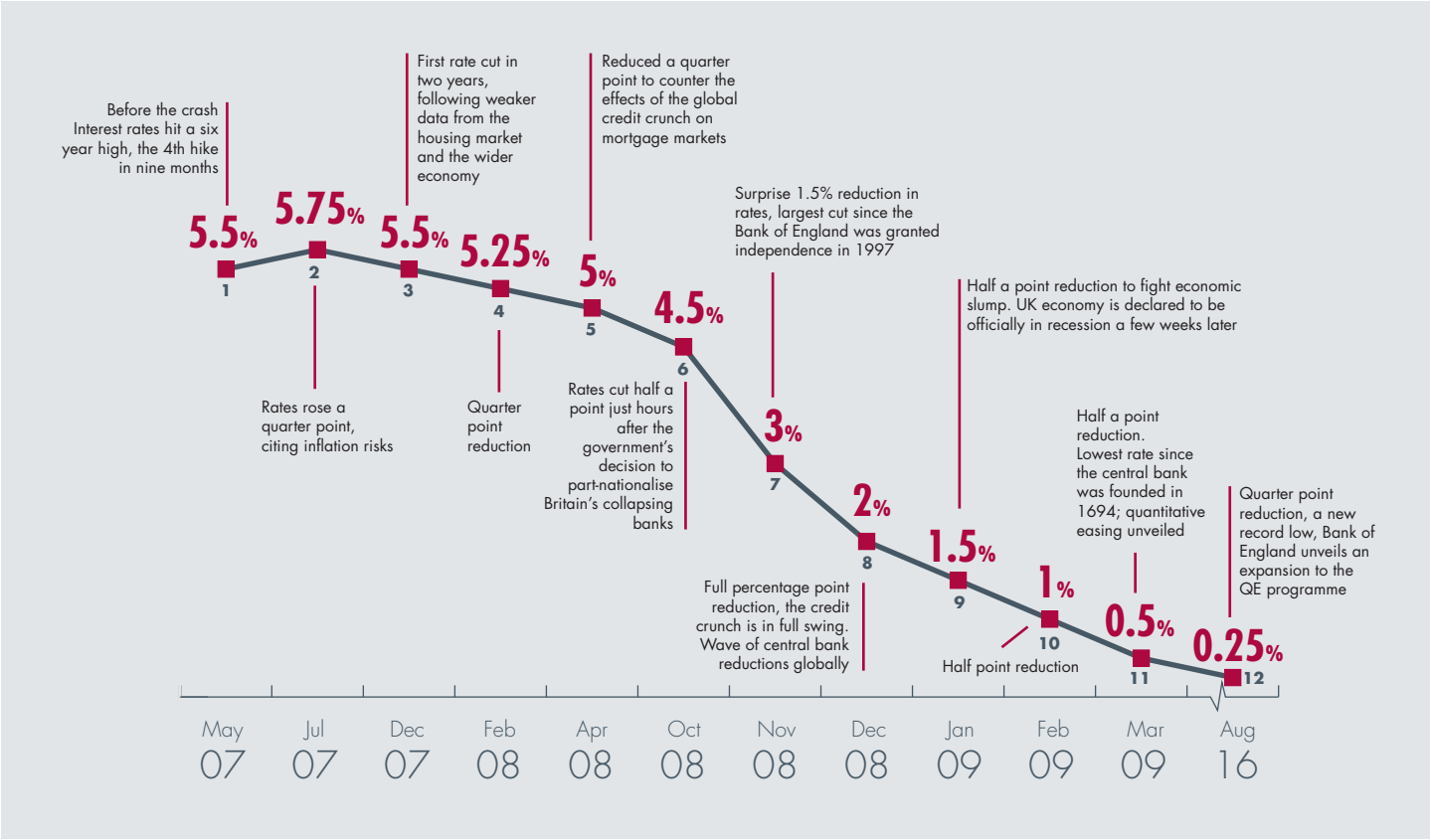
These actions are intended to lower interest rates for borrowers and boost credit growth, which should act to stimulate the economy. The recent devaluation of sterling is also expected to increase exports, adding another potential boost.

Will there be more cuts?

The result of the EU Referendum meant we got a cut, but what next? The central bank have commented that a majority of members would support a further rate cut in November this year if the economic outlook at that time is consistent with August Inflation Report projections.

However, if rapid growth ensues and inflation accelerates, the August cut in interest rates may be short lived. Could this turn out to be the shortest rates cycle we have ever seen?

HERE WE TAKE AN ECLECTIC LOOK BACK AT THE CENTRAL BANK'S RATE DECISIONS SINCE THE ERUPTION OF THE GLOBAL FINANCIAL CRISIS IN 2007



HOW MUCH WILL YOU SPEND IN RETIREMENT?

Budgeting for retirement can often be more difficult than budgeting while you're still at work. Some costs will probably increase, like the cost of heating your home, but others like the cost of travelling to work will be a thing of the past.

Recent research[1] based on family spending data from the Office for National Statistics (ONS) has concluded that the average cost of being a pensioner is £11,620 a year. This figure represents an increase of £420, up 3.75% on last year.

As might be expected, there are marked regional variations. Those living in Wales spend £9,990 whereas those living in the more expensive South-East spend more, around £13,270.

Unsurprisingly, retired people spend more time at home, and around 14% of their cash is spent on fuel and housing. This is more than they spend on food and non-alcoholic drinks (13%). The biggest spending is on recreation and culture (16%) reflecting the increased leisure time available to pensioners.

Careful planning pays

The new flat-rate state pension, paid to all those retiring after April 2016, is set at £155.65, meaning that there will be a funding shortfall for many.

The key to a good retirement is to save as much as you can from as young an age as possible. With life expectancy continuing to rise (there are currently 9,000 centenarians living in the UK today according to the ONS) it's important to accumulate enough cash so that you can look forward to a financially-comfortable retirement.

[1]Key Retirement, The annual cost of being a pensioner, May 2016

IS THE 'BANK OF MUM AND DAD' SET TO GO OVERDRAWN?

The continued rise in house prices has had a major impact on family finances. Understandably, children want to leave the family home, live their own lives and inhabit their own space. They start looking into the cost of making the move to a home of their own, and then find that they can't make the house purchase price affordable without considerable financial help from their parents.

A familiar scenario

With many young people in their 20s and 30s already paying off student loans, and wage rises having been thin on the ground for the last few years, saving sufficient money for a deposit can seem like an uphill struggle.

No wonder then that 'The Bank of Mum and Dad' is on track to lend over £5bn in 2016[1]. This means that it will notionally figure in the top ten of UK mortgage lenders. It's estimated that around one in four mortgages are now assisted by parental contribution, with the amount needed being on average £17,500 or around 7% of the average property price. The 300,000 mortgages that parents will have helped into being will amount to £77bn worth of housing purchases.

Problems may lie ahead

Whilst all families want to help their children as much as they possibly can, some economists fear for the future on several counts. Heavy reliance on 'The Bank of Mum and Dad' risks creating housing inequality and means that those without wealthy parents may end up renting for years to come.

Secondly, generous parents who may have several children they want to help could be prejudicing their own future financial security, and could find themselves running out of cash in their later years.

With life expectancy continuing to rise, parents retiring today can expect to spend more years in retirement than their forebears. The number of Britons over the age of 90 has almost tripled since the early 1980s. This means a growing likelihood of needing to fund home support or residential care in later years; it's not uncommon to be quoted a figure of £1,000 a week by care homes across the country.

Financial planning can pay dividends

Taking financial advice can help parents balance their own needs with those of their children, and help prevent them from jeopardising their future financial security.

It's also important to realise that helping financially has tax implications; giving money away in the wrong way or at the wrong time can result in children or grandchildren being faced with a considerable tax bill. Careful planning and full utilisation of the various allowances can help ensure that Inheritance Tax is kept to a minimum.

If you're making plans to help your children and would like some advice, then please get in touch.

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

[1]Legal and General, Bank of Mum and Dad, 2016

CGT – THE BASICS

Capital Gains Tax (CGT) was introduced in 1965 by James Callaghan, the then Chancellor. He introduced CGT at 30% to stop people avoiding income tax by switching their income into capital. A threshold of £9,500 was set for that tax year, and gains have been subject to CGT at differing rates ever since.

Although Inheritance Tax (IHT) tends to grab all the headlines, HM Revenue & Customs actually raises more from CGT than it does from IHT; in 2013-14, CGT accounted for around £5.5bn whereas IHT produced about £4.7bn for the Exchequer.

As an investor, it's worth knowing a bit about the basics of CGT as it may become payable when you dispose of assets and take a profit. You don't pay CGT on the sale of assets such as your principal private residence, stocks and shares held within an ISA, Premium Bonds, life insurance policy proceeds, or the sale of a private car.

Tax rates

Each individual gets an exemption to set against any capital gains made during the tax year. For tax year 2016-17, this is £11,100.

After offsetting your annual exemption, CGT is charged at different rates, depending on your income tax band. For tax year 2016-17 there are new lower rates of CGT in operation that mean if you are within the basic rate income tax band you will pay 10% (down from 18%), and if you are in the higher rate or additional rate band you will pay 20% (down from 28%).

From 6 April 2016, a higher charge for those selling a second home or a buy-to-let property has been in force, 18% for those in the basic rate income tax band and 28% in the higher or additional rate income tax band. However, there are various reliefs available that can, in appropriate circumstances, be applied to reduce the tax payable, such as principal private residence and lettings relief.

Tax strategies

With the Individual Savings Account (ISA) allowance now set at £15,240 and due to rise in future years, experts expect CGT receipts from shares to fall, whereas house price growth and increased buy-to-let property investment will mean that more people are facing a bill for CGT when they sell properties. The Office for Budget Responsibility predicts that the government will be raising around £9bn in CGT receipts by tax year 2018-19.

Planning can save tax

Transfers made between spouses or civil partners may serve to mitigate CGT, so it can pay to look at CGT as a couple. If one partner holds an asset but has used up their exemption, but the other hasn't, it could make sense to transfer it to the other partner before realising the gain.

To make sure you're not paying more CGT than you need to please get in touch.

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

ALTHOUGH INHERITANCE TAX (IHT) TENDS TO GRAB ALL THE HEADLINES, HM REVENUE & CUSTOMS ACTUALLY RAISES MORE FROM CGT THAN IT DOES FROM IHT; IN 2013-14, CGT ACCOUNTED FOR AROUND £5.5BN WHEREAS IHT PRODUCED ABOUT £4.7BN FOR THE EXCHEQUER.

WHAT YOUNG PEOPLE NEED TO KNOW ABOUT FINANCE

ACTION POINTS

- Start saving for a pension as early as you can
- Get into the savings habit
- Know where your money goes and keep a budget
- Keep credit under control

Learning to make good financial decisions early on can make a big difference when it comes to major milestones and life stages, like buying your first property, getting married, raising a family and enjoying a comfortable retirement.

You need to control your money

If you don't learn how to manage your money early, you could miss out on things like tax breaks on savings accounts or pension contributions that could make a big difference to your finances later in life. Talking to an adviser will help you understand the basics of good financial planning.

Learn to control your spending

It's important to remember that credit card debt is effectively spending your future income before you've earned it. Yes, credit can get you the things you want instantly, but you have to pay it off at some point. You need to ask yourself if you really need to pay interest on non-essential purchases.

Know where your money goes

You'll need to show you can budget if you want to get a mortgage. Lenders operate stricter criteria these days, and before they lend, they will want to know where your money goes, how much you save, and how much you can afford to pay each month in mortgage repayments.

Drawing up a budget now will help you keep an eye on where your money gets spent. That way, you'll know how much your morning coffee costs you each month, and how much you can save towards life's big financial milestones, like getting a deposit together for a house. The more you have as a deposit, the better rate you're likely to get on your mortgage.

Start a fall back fund

Make sure you build up an emergency savings fund. If you can get into the habit of saving money each month, and making this a non-negotiable commitment, then the sooner you'll have a financial buffer against life's financial ups and downs.

Retirement planning from day one

Whatever you do, you should start saving for your retirement as soon as you can. Einstein called compound interest 'the eighth wonder of the world' and it can work for you. The younger you start saving into a pension, the better the chance you have of accumulating a reasonable pension pot when you retire. Put simply, the later you leave it, the more your pension will cost you.

THE YOUNGER YOU START SAVING INTO A PENSION, THE BETTER THE CHANCE YOU HAVE OF ACCUMULATING A REASONABLE PENSION POT WHEN YOU RETIRE.

JUNIOR ISA – WHAT TO INVEST IN?

Have you considered using a JISA (Junior Individual Savings Account) to build up savings tax-efficiently for your child or grandchild? If they are under 18 years of age and living in the UK, your child can have a Junior cash ISA, a Junior stocks and shares ISA or a combination of both up to the annual allowance of £4,080 in the 2016–17 tax year.

Selecting the right type of JISA
Cash is consistent; with a cash ISA you are guaranteed to get back all of the money you have put in (subject to Financial Services Compensation Scheme limits). However, in a very low interest rate environment, there is a risk that inflation, which has risen in the last few months, will erode the value of the money saved over time.

If you are able to lock your money away for a reasonable period of time – a minimum of five years for example – it is often better to invest in stocks and shares which historically have offered a higher return. Unlike cash, money invested in stocks and shares rises and falls in line with financial markets. To get a higher return than inflation you need to take some risk. Generally, the more risk you take, the greater the potential for higher returns.

Long term time horizon
With a Junior ISA you could be looking at a time horizon of as much as 18 years. By saving into a Junior ISA on a regular monthly basis, there is the opportunity to smooth out the peaks and troughs in the stock market.

We can advise you on the various funds available and help you make the right choice for your child or grandchild.

The value of investments and the income they produce can fall as well as rise. You may get back less than you invested.

MORE THAN A THIRD OF UK ADULTS ARE STRESSED ABOUT MONEY

Have you ever spent a sleepless night worrying about money? If you have, you aren't alone.

A recent survey[1] has found that financial anxiety affects many adults in the UK today. Money worries are cited as the main cause by those suffering from depression (28%) or anxiety (27%). 26% of those surveyed said that worrying about their finances stopped them from getting a good night's sleep.

The Money Advice Service[2] reports that one in six adults in the UK, an estimated 8.2 million people, live with debt worries. Not surprisingly, the analysis indicated a link between debt and having children; 19% of adults with one or two children were defined as over-indebted.

Their findings reveal that renters are twice as likely as those who own their own homes to feel that their debts are a burden. Around 16 million people in the UK rent their home with 4.1 million of them encountering debt problems.

If you are stressed about money then get in touch, we can help you get your finances back on track.

[1]Aviva, 2016
[2]Money Advice Service, 2016

BULLS AND BEARS EXPLAINED

Many people believe that the origin of the term 'bull', used to describe an upbeat and confident investor, is down to the way bulls tend to charge around and scoop up their opponents on their horns and fling them into the air. One of the archetypal images of Wall Street is the well-known statue named the Charging Bull that stands outside the US Stock Exchange.

'Bears' by contrast are acknowledged as the more pessimistic investors who aren't confident in the economy, and are notorious for selling investments and staying away from markets. Again, there are various explanations as to how the name came about, but many say that bears hibernate and use their claws to bring down their prey.

Bull markets are ones where prices are rising and investors are confident about the economy's future prospects. So, if a person is optimistic about investments, they are said to be 'bullish'. However, bull markets eventually run out of steam and turn into bear markets.

When business confidence is at a low ebb, and investors are staying away from stock markets this is the sign that there's a bear market underway. Markets are cyclical and a bear market eventually gives way to another bull market.

WHY IN-DEPTH RETIREMENT PLANNING SHOULD BE TOP OF YOUR 'TO-DO' LIST

If you're dreaming of taking your pension, then it's vital to have a plan in place to turn your dreams into reality. In the run up to retirement there are a number of things you can do to ensure you are better informed and prepared for what lies ahead.

It makes sense to find out what your state pension age is, get a forecast from the government of how much you will receive in state pension, and a statement showing the amount of pension you will receive from employment schemes.

Getting good advice really matters

Retirement Income Market data from the Financial Conduct Authority[1] (FCA) reveals that many reaching retirement don't take advice, preferring to take what their existing pension company has on offer.

This shows that consumers aren't sufficiently aware of the options open to them. Many simply don't realise that they are within their rights to shop around amongst other companies and compare deals, enabling them to make an informed choice. Whilst staying with your existing provider might well represent a reasonable deal for your financial circumstances, taking advice could highlight alternative options better suited to your needs.

It's never been more important to take the right advice at retirement; decisions taken at this point can have a major impact on your quality of life for many years to come. Good advice will not only take into account your pension arrangements, it will also encompass a review of your other financial assets, your goals and plans for your future.

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

The value of pensions and the income they produce can fall as well as rise. You may get back less than you invested.

[1]Financial Conduct Authority, Retirement Income Market Study, 2016

THE AGEING POPULATION – HOW IT WILL AFFECT OUR FINANCIAL FUTURES

A major triumph of the 20th century is the remarkable rise in life expectancy extending into the 21st, largely due to medical innovation. According to Public Health England[1], life expectancy has risen to its highest ever level. Figures show that for those aged 65, men can expect to live for another 19 years and women a further 21 years. Realistically we could be facing a retirement period of 20 years.

Europe's population is ageing faster than any other continent; almost a quarter of the population of Europe will be over 65 by 2030, a massive increase from 17% in 2005. The number of people aged 65 and over compared to working aged people (aged 15-64) is expected to double by 2050, from one person in four to one in two.

Increasingly we are hearing about the demographic time bomb and the fear future generations will be unable to meet a growing number of pension commitments. As a result of the ageing population, the massive increase in the dependency ratio will also place an immense burden on the shrinking working population.

There are fears over the economic sustainability of such scenarios, as the LEPAS (Long-run economic perspectives of an ageing society) research project[2] recently explored. One scenario suggests that increasing longevity and decreasing birth rates will slow down economic growth by weakening the productivity of the labour force. Combined with the fact that an ageing population will put greater pressure on healthcare and state pensions; it is clear to see how GDP (Gross Domestic Product) will suffer as a result. An alternative scenario suggests the incentive to save for old age may increase savings and investment, stimulating economic growth.

Either way, making provision for your, hopefully, very long retirement is essential as early as possible.

[1]Public Health England, 2016

[2]LEPAS, Major trends in society and their implications", Research area 3.1 "Demographic changes", 2012