ROTHESAY BENNETT

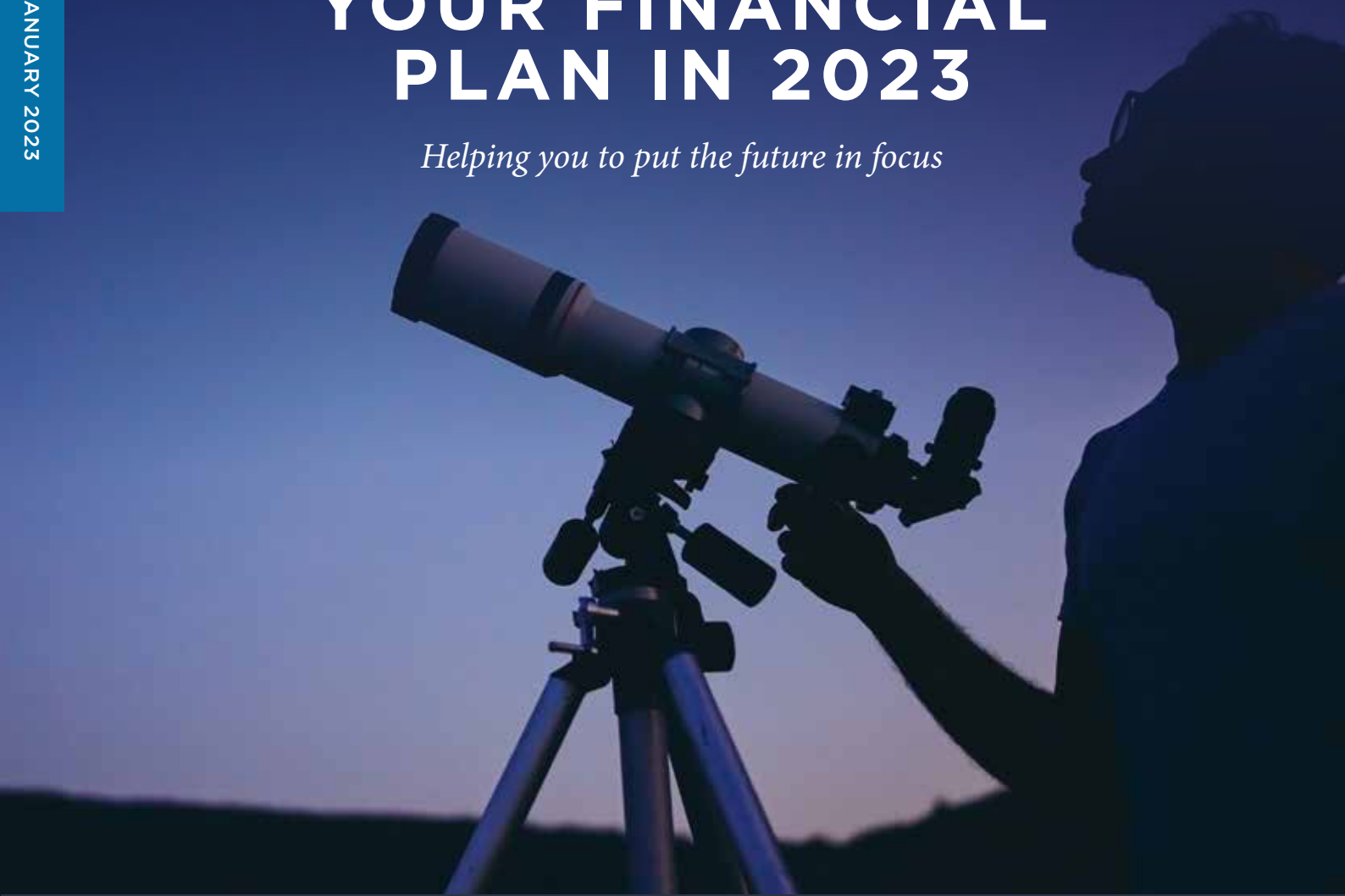
FINANCIAL PLANNING

JANUARY 2023

GUIDE TO

# REVISITING YOUR FINANCIAL PLAN IN 2023

*Helping you to put the future in focus*



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GUIDE TO

# REVISITING YOUR FINANCIAL PLAN IN 2023

*Helping you to put the future in focus*

## WELCOME

Welcome to our '*Guide to Revisiting your Financial Plan in 2023*'.

It's the start of a new year so you might want to set yourself some financial goals. This can be anything from getting on the property ladder to retiring early, but each goal requires a plan.

Creating a professional financial plan is essential for ensuring long-term financial stability and success. It helps you identify where your money is going, set goals to save more and invest wisely, and track progress towards reaching those goals.

By taking the time to create a financial plan, you can make sure that your finances are well managed and organised in order to reach your desired future goals. Additionally, having professional guidance will help maximise your potential for achieving greater wealth and security over time.

This means you will be better equipped with the knowledge and tools necessary to make informed decisions about how to best manage and protect your money for the future. ●

**READY TO DISCUSS YOUR MOTIVATIONS AND LONG-TERM AIMS – BOTH FINANCIAL AND LIFESTYLE ?**

No matter how complex your finances or personal situation, we have the expertise to provide professional and forward-thinking advice, tailored precisely to your needs. If you have any concerns, or to review your current situation, please contact us – don't leave it to chance.

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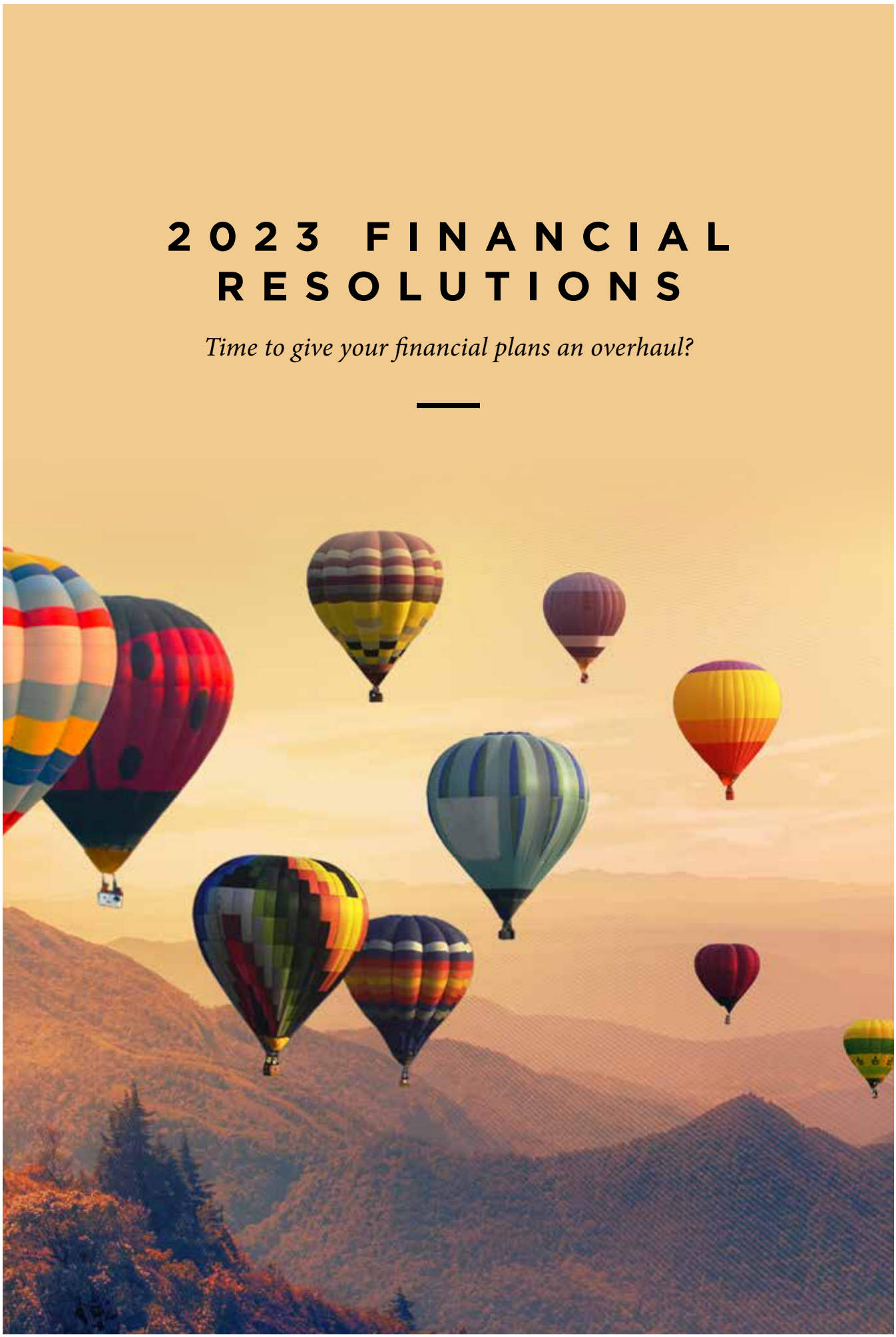
# 2023 FINANCIAL RESOLUTIONS

*Time to give your financial plans an overhaul?*



> **ANY GOAL (LET ALONE FINANCIAL) WITHOUT A CLEAR OBJECTIVE IS NOTHING MORE THAN A PIPE DREAM, AND THIS COULDN'T BE MORE TRUE WHEN SETTING FINANCIAL GOALS.**

Most of us have probably made at least one New Year's resolution, but how many of us will actually go on to achieve it? We all have different financial goals and aspirations in life, yet these goals can often seem out of reach. In today's complex financial environment, achieving your financial goals may not be that straightforward.

This is where financial planning is essential. Designed to help secure your financial future, a financial plan seeks to identify your financial goals, prioritise them and then outline the exact steps that you need to take to achieve your goals.

If your New Year's resolutions include giving your financial plans an overhaul, here are our financial planning tips to help you create a robust financial plan for 2023 and beyond.

## BE SPECIFIC ABOUT YOUR OBJECTIVES

Any goal (let alone financial) without a clear objective is nothing more than a pipe dream, and this couldn't be more true when setting financial goals.

It is often said that saving and investing are nothing more than deferred consumption. Therefore, you need to be crystal clear about why you are doing what you're doing. This could be planning for your children's education, your retirement, that dream holiday or a property purchase.

Once the objective is clear, it's important to put a monetary value to that goal and the time frame you want to achieve it by. The important point is to list all of your goal objectives, however small they may be, that you foresee in the future and put a value to them.

## KEEP THEM REALISTIC

It's important to keep your goals realistic, as it will help you stay the course and keep you motivated throughout your journey until you get to your destination. You need to plan for where you want to get to, which will likely involve looking at how much you need to save and invest to achieve your goals.

The approach towards achieving every financial goal will not be the same, which is why you need to divide your goals into short, medium and long-term time horizons. As a rule of thumb, any financial goal which is due within a five-year period should be considered short-term. Medium-term goals are typically based on a five-year to ten-year time horizon, and over ten years these goals are classed as long-term.

## DIVISION OF GOALS

This division of goals into short, medium and long-term will help in choosing the right savings and investments approach to help you achieve them, and it will also make them crystal clear. This will involve looking at what large purchases you expect to make, such as purchasing property or renovating your home, as well as considering the later stages of your life and when you'll eventually retire.

It's often said that inflation is taxation without legislation. Therefore, you need to account for inflation whenever you are putting a monetary value to a financial goal that is far away in the future. It's important to know the inflation rate when you're thinking about saving and investing, since it will make a big difference to whether or not you make a profit in real terms (after inflation).

## INFLATION 41-YEAR HIGH

As we experienced during 2022, UK inflation reached a 41-year high. So always account for inflation. You could use the 'Rule of 72' to determine, at a given inflation rate, how long it will take for your money to buy half of what it can buy today. The 'Rule of 72' is a method used in finance to quickly estimate the doubling or halving time through compound interest or inflation respectively. Simply divide 72 by the number of years to get the approximate interest rate you'd need to earn for your money to double during that time.

It's best to discuss your goals with those you're closest to and make plans together so that you are well aligned. An evaluation of your assets, liabilities, incomings and outgoings will provide you with a starting point. You'll be able to see clearly how

you're doing and may find areas you can improve on. Risk protection plays a vital role in any financial plan as it helps protect you and your family from unexpected events.

## UTILISE YOUR TAX ALLOWANCES

With tax rules subject to constant change, it's essential that you regularly review your own and your family's tax affairs and plan accordingly. Tax planning affects all facets of your financial affairs. You may be worried about the impact that rises in property values are having on gifts or Inheritance Tax, how best to dispose of shares in a business or the most efficient way to pass on your estate.

Utilising your tax allowances and reliefs is an effective way of reducing your tax liability and making considerable savings over a lifetime. When it comes to taxes, there's one certainty – you'll pay more tax than you need to unless you plan. The UK tax system is complex, and its legislation often changes. So it's more important than ever to be tax-efficient, particularly if you are in the top tax bracket, making sure you don't pay any more tax than necessary.

## COMPREHENSIVE FINANCIAL PLAN

Creating and implementing a comprehensive financial plan will help you develop a clear picture of your current financial situation by reviewing your income, assets and liabilities. Other elements to consider will typically include putting in place a Will to protect your family, thinking about how your family will manage without your income should you fall ill or die prematurely, or creating a more efficient tax strategy.

Beginning your retirement planning early gives you the best chance of making sure you have adequate funds to support your lifestyle. You may have several pension pots with different employers, as well as your own savings to withdraw from. The number of options available at retirement has increased with changes to legislation, which has brought about pension freedoms over the years. The decisions you make regarding how you take your benefits may include tax-free cash, buying an annuity, drawing an income from your savings rather than your pension fund, or a combination.

## MONITORING AND REVIEWING YOUR FINANCIAL PLAN

There is little point in setting goals and never returning to them. You should expect to make alterations as life changes. Set a formal yearly review at the very least to check you are on track to meeting your goals.

Setting goals marks the beginning of financial planning to help you achieve the objectives at various life stages. Goal-setting gives meaning and direction to the various financial decisions you will take during your lifetime. The start of a new year is the perfect time to review your financial strength, pore over your budget and make big plans for next year. ●

> **ESTABLISHING FINANCIAL GOALS IS AN IMPORTANT STEP TO TAKE ON THE PATH TO ACHIEVING FINANCIAL STABILITY.**

# ROADMAP FOR SUCCESS

*An important step to take on the path to financial stability*

Wherever we find ourselves on life's journey, we all have different reasons for the choices we make in life. And some of the most personal decisions we make will involve money. Early retirement. Buying a property. Saving for a child's education.

Financial goals are the priorities and targets you set for how you want to spend, save and invest your money. Financial goals are not one-size-fits-all, they are individual preferences because everyone has different needs, wants and priorities. If financial goals have not been set, you could be left wondering where all your money went.

## CURRENT FINANCES

Establishing financial goals is an important step to take on the path to achieving financial stability. Setting concrete, measurable objectives and breaking them down into smaller steps helps provide a roadmap for success. The following tips can help you create workable goals and make progress towards achieving them.

Start by taking stock of your current finances. What income do you have? How much debt? Are there any expenses that are draining your resources? An honest assessment of where you currently stand provides a starting point from which to move forward.

## BASELINE SITUATION

Once you understand your baseline situation, it's time to set realistic goals and begin working towards them. Think about what you would like to achieve in one month, six months or even a year – this will give you something to work towards.

Goal setting should be tailored to your individual situation and goals should reflect both short-term aspirations, such as paying off a small debt or creating an emergency fund, and long-term goals like saving for retirement.

## MANAGEABLE STEPS

To ensure success, it is important to break down large objectives into manageable steps. Small successes along the way will help keep you motivated and on track for achieving the bigger picture goal.

It involves creating a plan that outlines what you want to achieve and how you are going to get there. The process can be broken down into four key stages: identifying goals, assessing your resources, implementing a plan and monitoring progress.

## ASSESSING YOUR RESOURCES

Identifying goals is the first step of financial goal setting. It involves defining what it is you want to achieve and why it's important to you. This could include saving for retirement, building an emergency fund or paying off debt. Knowing what you want to accomplish can help guide decision making as well as provide motivation during difficult times.

The next stage of the process is assessing your resources. This includes taking a look at your current financial situation and understanding what resources you have available to reach your goals. You'll need to consider factors such as income, expenses, debt levels and assets in order to develop an effective plan.

## LONGER-TERM GOALS

Implementing a plan is the third stage of financial goal setting. This involves creating a budget that outlines how much money you can save each month, developing strategies for managing debt and investing towards achieving longer-term goals.

The final stage of the process is monitoring progress. It's important to regularly review your financial situation to ensure that you are on track towards achieving your goals.

## SECURE FINANCIAL FUTURE

By taking the initiative to set your financial goals and staying dedicated to achieving them, you can create a secure financial future for yourself.

Start today! Set realistic objectives and work towards them one step at a time – you will be surprised how quickly progress can be made. ●

# PLANNING FOR THE RISING COST OF LIVING

*Making short-term decisions could jeopardise your long-term financial security*

The rising cost of living is one of the most pressing issues facing many families today. The price of food, energy, fuel and other necessities has risen significantly in recent months. This has made it difficult to make ends meet and has put a strain on many household budgets.

Planning for the rising cost of living can be a challenge, especially if your income isn't keeping up with inflation. As many people feel the squeeze as the cost of essential items continues to increase, there are a few important things to consider to maintain your financial wellbeing. It's also important to think about the long term when it comes to your finances. Making short-term decisions could jeopardise your long-term financial security.

### 1. REVIEW SPENDING

The rising cost of living can be a real problem, especially if you're not mindful of your spending. Going through your spending with the finest tooth comb can help you find areas where you may be able to cut back and save money in the long run. Keep an eye on your budget and make adjustments as necessary to ensure that you are aware of your outgoing costs and can adapt your spending accordingly. Being able to see exactly where your money's going will help you to pin down where you can make savings and cuts.

Ask yourself: What's coming in and going out? Can I get something at a cheaper price? And (often the hardest of all): Do I really need that? Look at the money you have coming into your home – whether that's just you or with someone else. You want to look at every single thing that's going out (there may be a lot more than you think).

### 2. EMERGENCY SAVINGS

When it comes to financial security, one of the most important things you can do is to keep emergency savings aside for when you need them. Having a nest egg that you can tap into in times of need can help you weather a storm. One method is to create a dedicated savings account that you only use for this purpose. This way, you can easily access the funds when you need them but they remain out of reach for everyday spending.

Aim to build up enough to cover between three to six months' expenses, or as much as you can afford. The best thing to do is make room for your savings in your budget as one of your outgoings. By doing so, it'll help you see your savings as a must, rather than a must-do-later. And if you can, set up an automated payment from your normal bank account straight into your savings account – that way you don't even need to think about it.

### 3. PENSIONS AND INVESTMENTS

As many people across the country are feeling the squeeze of a cost of living crisis, it's more important than ever to make sure your finances are in good shape. One way to do this is by making sure you don't touch your pension or investments. While it may be tempting to dip into these savings to help make ends meet in the short term, it's important to think about the long-term impact this could have on your retirement plans.

Drawing down on your pension or selling investments could leave you worse off in the long run, so it's important to consider all of your options before making any decisions. Consolidating your old pensions into one could help you cut down on management fees and give you a better picture of how your finances are looking. But before transferring your pensions it is essential to obtain professional financial advice. ●

# TAX MATTERS

*Have you taken advantage of any remaining reliefs, allowances and exemptions?*

No one likes to pay tax on their hard-earned money but few actually understand the intricacies of the UK tax system. With the current tax year having begun on 6 April 2022, the clock is ticking and it is important to utilise all the tax reliefs and allowances available to you before 5 April 2023 in order to minimise any potential liabilities.

Personal tax planning should be at the top of your agenda as the end of the current tax year is not too far away. Taking action now may give you the opportunity to take advantage of any remaining reliefs, allowances and exemptions.

At the same time, you should be considering whether there are any planning opportunities that you need to consider, either for this tax year or for your long-term future. We've listed a few reminders of the issues you may want to consider as worthy of including in your 2022/23 tax health check to-do list.

## SOME KEY THINGS YOU MIGHT NEED TO ACTION BEFORE THE TAX YEAR END

**Personal reliefs:** Married couples should consider utilising each person's personal reliefs, as well as their starting and basic rate tax bands. Could you make gifts of income-producing assets (which must be outright and unconditional) to distribute income more evenly between you both?

**Salary sacrifice:** This is an especially tax-efficient way for you to make pension contributions, to save and reduce your Income Tax and National Insurance. Have you considered exchanging part of your salary for payments into an approved share scheme or additional pension contributions?

**Pensions annual allowance:** Unless you are an additional rate taxpayer or have already accessed pension benefits then you are entitled to make up to £40,000 of pension contributions per tax year. Have you fully utilised your tax-efficient contributions for this tax year or any unused allowances from the three previous tax years?

**Stakeholder pensions:** A stakeholder pension is available to any United Kingdom resident under the age of 75. Children can also make annual net contributions of £2,880 per year, making the gross amount £3,600 regardless of any earnings. It is also a very beneficial way of giving children or grandchildren a helping hand for the future. Is this an option you or a family member should be utilising?

**Large pension funds:** The Lifetime Allowance (LTA) is currently £1,073,100 and has been frozen at this level until the 2025/26 tax year. The maximum you can pay in is £40,000 per annum unless you pay tax at 45% in which case the annual limit could be as low as £4,000. Inflationary increases by the end of the current tax year could also have an impact on your pension funds. Do you have a plan in place to protect your money from this?

**Pension drawdown:** If your are 55 or over you could access 25% tax-free cash from your Defined Contribution (also known as Money Purchase) pension pots and invest the rest. However, drawing large amounts in one tax year can lead to a larger tax bill than if spread over a longer period. Do you know the implications of taking money out of your pension pots?

**Passing on your pension:** Usually called a 'spousal by-pass trust', although the recipient may not always be a spouse, this is a discretionary trust set up by the pension scheme member or pension

holder to receive pension death benefits. Are your pension death benefits written in trust?

**Individual Savings Accounts (ISAs):** An ISA allows you to save and invest tax-efficiently into a cash savings or investment account. The proceeds are shielded from Income Tax, tax on dividends and Capital Gains Tax. The government puts a cap on how much you can put into your ISA or ISAs in any tax year (from 6 April to 5 April). The ISA allowance for 2022/23 is set at £20,000. Have you fully utilised the maximum annual allowance?

**Junior ISAs:** This is a long-term tax-efficient savings account set up by a parent or guardian, specifically for the child's future. Only the child can access the money, and only once they turn 18. Have you invested the maximum £9,000 allowance for your child or children?

**Lifetime ISAs (LISAs):** The Lifetime ISA (LISA) is a tax-efficient savings or investments account designed to help those aged 18 to 39 at the time of opening to buy their first home or save for retirement. The government will provide a 25% bonus on the money invested, up to a maximum of £1,000 per year. You can save up to £4,000 a year, and can continue to pay into it until you reach age 50. Could you be taking advantage of this very tax-efficient option?

**Capital Gains Tax (CGT):** There are two different rates of CGT – one for property and one for other assets. If your assets are owned jointly with another person, you could use both of your allowances, which can effectively double the amount you can make before CGT is payable. If you are married or in a registered civil partnership, you are free to transfer assets to each other without any CGT being charged. It is currently £12,300 but will be reduced to £6,000 from 6 April 2023 and £3,000 from 6 April 2024. Have you fully used your current £12,300 annual exemption?

**Inheritance Tax (IHT) relief:** IHT must be paid on the value of any estate above £325,000, or up to £1 million for married couples including the residence nil-rate band. However, certain business assets, including some types of shares and farmland, in private trading companies can qualify for 100% relief from IHT. The government has frozen the IHT thresholds for two more years to April 2028. Are you taking advantage of the reliefs available to you?

**Residence nil-rate band (RNRB):** This allowance was introduced during the 2017/18 tax year and is available when a main residence is passed on death to a direct descendant. The allowance is currently £175,000. When combined with the nil-rate band of £325,000, this provides a total IHT exemption of £500,000 per person, or £1 million per married couple. If you are planning to give away your home to your children or grandchildren (including adopted, foster and stepchildren) the RNRB must be claimed. There is a form for this purpose – IHT435. The form is available on the Gov.uk website. If applicable, have you applied for the RNRB?

**Charitable and personal gifts:** If you leave at least 10% of your net estate to charity a reduced inheritance rate of 36% applies rather than the usual 40%. Other exemptions apply for inter-spousal transfers, transfers of unused annual income, business and agricultural assets, and for various other fixed, small amounts. Are you intending to make gifts before the end of the current tax year?

**Trust funds:** These help protect your assets and guarantee that your loved ones have financial stability for their future. Crucially, a trust can help to avoid IHT and ensure that the majority of your money, shares and equity are passed on in the most efficient way. Should you consider setting up a trust?

Future legislation could potentially result in changes to tax law, which could in turn require adjustments to your plans. ●

# INFLATIONARY IMPACT ON FINANCES

*Consider other options to make your money work harder*

Financial planning is a journey that spans your entire lifetime and it centres around where you are now, where you want to be and your values. Your financial plan is the roadmap that gets you there, and it can only be created once we truly understand your vision.

Despite inflation reaching its highest rate for 41 years, some people in the UK are not aware of its impact on their finances. More than half of all cash savers (52%) don't know what impact inflation will have on the real value of their cash savings over time. One in ten (13%) incorrectly believe inflation will leave them better off and 13% think the real value of their savings would stay the same, according to new research[1].

## IMPACT INFLATION COULD HAVE ON CASH

More than a quarter (26%) say they don't know what impact inflation could have on their cash. Millions of savers (64%, the equivalent of 10.3 million) have taken no action on their savings, despite cash earning next to nothing in interest and inflation rising steeply.

In fact, half of all savers (54%) currently keep their money in cash over the long term.

## OPTIONS TO MAKE MONEY WORK HARDER

The total cost of 'saver inaction' in such an environment could amount to £18 billion if this trend continues over the next five years[2]. Savers currently have £136 billion sitting in Cash Individual Savings Accounts (ISAs) with, on average, interest rates equating to 0.26% per year[3].

Many savers don't realise inflation is eating away at millions of pounds sitting in low-interest paying accounts. Whilst it is essential to keep some cash in the bank for an emergency fund, savers might want to consider other options to make their money work harder.

## 3 WAYS OF PROTECTING YOUR SAVINGS FROM INFLATION

**Tip 1: Work out how much to put aside as an easy-access emergency fund**
As a rule of thumb, aim to cover your essential expenses for between three to six months, or what you can afford – for example, bills like energy, your mortgage, rent, travel and food costs, so should the unexpected happen, you'll be prepared. And you'll know exactly how much money you need to keep in cash (which can be impacted by inflation), so you can start saving any extra income in more inflation-proof ways.

**Tip 2: Get the best interest rate you can on your savings**
Make sure that any cash savings you have are receiving the highest interest rate possible. These days you can switch savings accounts and ISAs relatively easily. But if you do find a higher rate, remember that they can quickly go down. For example, it's common for Cash ISAs to offer high rates for the first year. Those rates can then drop dramatically after the first year. So always set a reminder to keep an eye on any new savings rates you find.

**Tip 3: Think about investing your money or topping up your pension to beat inflation**
It's important to be aware of the long-term impact on pension contributions, alongside the compounding effects of investing. Consider topping up your pension, or investing in a Stocks & Shares ISA. It's understandable you may feel unsure about the future at this moment in time, but the key thing to remember is that investing is for the long term.

With time on your side, you can balance out the ups and downs of market volatility and economic uncertainty. And once you have an emergency fund in place, investing your money is one of the best ways to beat inflation. By investing your money, you can grow your wealth while preserving the value of your money. ●

**Source data:**
*[1] Opinium survey of 2,001 UK adults in the UK conducted between 4–8 February. The 10.3 million savers refers specifically to Cash ISA savers.*

*[2] This is based on 10,303,247 Cash ISA savers with median savings of £7,231 stalling their investment decision. The total savings amount is projected over five years at a Cash ISA rate of 0.26%, allowing for a 6%, 7% and 8% rate of inflation per annum. This results in an erosion of value of £18 billion, £21 billion and £23 billion over a five-year period.*

*[3] As at January 2022, average interest rate for instant access Cash ISAs: https://www.which.co.uk/news/2022/01/a-month-on-from-the-base-rate-rise-have-savings-rates-improved/*

# MAKING MORE OF YOUR MONEY

*Tax-efficiency is a key consideration when investing*

As your income increases, the complexity of your finances may too. Tax-efficiency is a key consideration when investing because it can make such an enormous difference to your wealth and quality of life. However, the type of investment and tax-efficiency you should be looking for depends firstly on whether your priority is to save a lump sum for the future or to draw an income today.

There are a number of allowances and reliefs available to UK taxpayers on their savings and investments. It is important to make use of these, as they can help to reduce your overall tax bill. Making use of these allowances and reliefs could save you a significant amount of money in taxes.

## MAXIMISE YOUR ISA ALLOWANCE

If you're looking to save money on your taxes, if you're a UK resident one way to do so is by contributing to an Individual Savings Account (ISA). With an ISA, you can shelter up to £20,000 of your income from taxation in the 2022/23 tax year.

## STOCKS & SHARES ISA

If you're looking to maximise your ISA allowance in this current tax year, you could consider opening a Stocks & Shares ISA. With a Stocks & Shares ISA, you can invest in a wide range of assets, including shares, corporate and government bonds, unit trusts, investment trusts, exchange-traded funds, individual stocks and shares and OEICs (Open-Ended Investment Companies). Not only will your investment grow tax-efficiently, you'll also benefit from the potential for capital gains.

## CASH ISA

Another option is to open a Cash ISA. With a Cash ISA, you can earn interest on your savings without having to pay any tax on the interest earned. This makes it an ideal way to boost your savings while minimising your tax liability. A Cash ISA is available to anyone aged 16 or over, while an ISA invested in any combination of cash and shares is available to those over the age of 18.

## LIFETIME ISA (LISA)

If you're looking to save for retirement or to buy your first home, you may also want to consider opening a Lifetime ISA (LISA), which is available for people aged between 18 and 40. With a Lifetime ISA, you can save up to £4,000 in the current tax year, which counts towards your annual ISA allowance. The government will add a 25% bonus to savings held in a LISA, up to a maximum of £1,000 per year, and this does not count towards your ISA allowance.

You need to bear in mind that the money you put into a LISA each year forms part of your overall £20,000 ISA allowance – so if you put £4,000 in a LISA during the tax year, you'll be able to put £16,000 into other ISAs.

## JUNIOR ISA (JISA)

Finally, if you have children, you may want to consider opening a Junior ISA (JISA) for them. The Junior ISA is available to UK residents aged under the age of 18 who do not have a child trust fund account (a child trust fund can be transferred into a Junior ISA to enable future subscriptions to be made to the Junior ISA – or the child trust fund can be kept and up to £9,000pa can be paid into it instead of the Junior ISA). Under-18s, or their parents, can put up to £9,000 in a Junior ISA each tax year. The money saved in a Junior ISA will grow tax-efficiently and can be used for a wide

range of purposes, including education and training costs.

If unused, your ISA allowance cannot be carried from one tax year to the next.

## CONSIDER PUTTING MORE INTO A PENSION

Under the current rules for tax year 2022/23, the maximum gross contributions that are eligible for tax relief each tax year are the lower of your gross earned income and £40,000. That includes employer and employee combined contributions and if this Annual Allowance is exceeded, a tax charge applies on the excess unless it can be covered by using carry forward. Very high earners may have a lower Annual Allowance.

Increasing your pension contributions is a very effective way of saving for retirement. By putting more into your pension, you will be able to build up a larger pot of money which can provide you with a comfortable retirement income.

## MAKING THE MOST OF RETIREMENT PROSPECTS

It is also worth considering increasing your pension contributions if you have recently had a pay rise or come into some extra money. By doing this, you will ensure that you are making the most of your finances and making the most of your retirement prospects. You can also carry forward unused annual allowances from the previous three tax years, subject to certain rules, providing further scope for making contributions.

If you earn over £100,000, making pension contributions can be highly advantageous. Your personal allowance is reduced by £1 for every £2 of income above £100,000; this means your allowance is zero if your income is £125,140 or above. However, if you make a pension contribution this comes off your income figure for this purpose and so if the gross contribution is enough to reduce your total income below £125,140, you are able to offset or remove the reduction in your personal allowance.

## UTILISE YOUR CURRENT CAPITAL GAINS TAX ALLOWANCE

If you're thinking of selling an asset, such as a second home, a piece of art or shares in a company, it's important to be aware of the Capital Gains Tax (CGT) implications. CGT is tax on the profit when you sell or dispose of an asset that's increased in value.

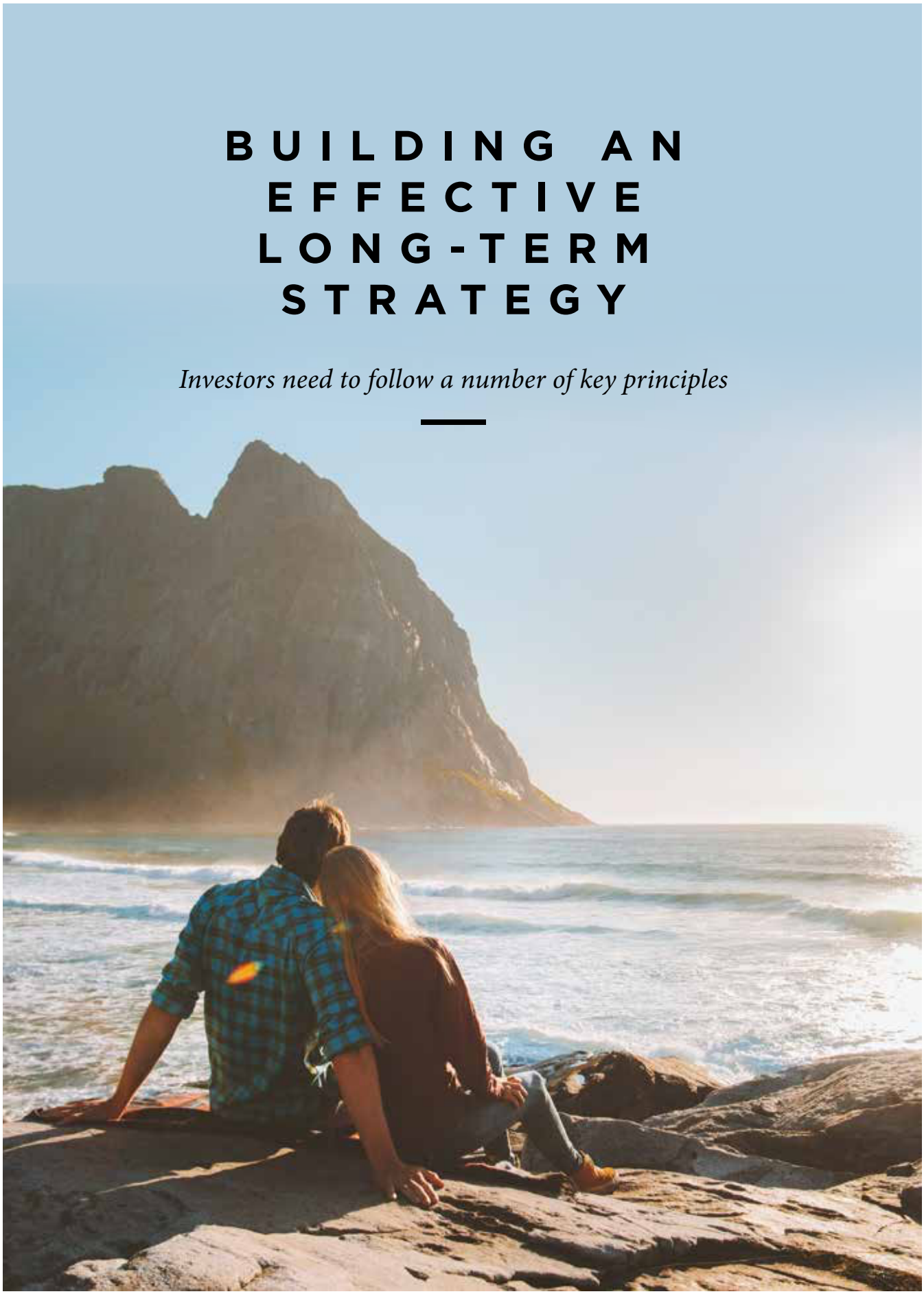
In the tax year 2022/23, the annual tax-free allowance is £12,300, meaning you can make gains up to this amount and pay no CGT. After that, the rate is dependent on whether the gain, when added to your income, falls wholly or partly above the basic rate band or not. Losses can be offset against gains but unused allowances cannot be carried forward.

With news in last year's Autumn Statement that this exemption will be cut to £6,000 in 2023/24 and £3,000 in 2024/25, now is the time to take action if you want to protect your tax-free allowance.

If you're married or in a registered civil partnership, you can each currently use your own CGT allowance. This means that a couple could potentially exempt up to £24,600 of gains from tax in the tax year 2022/23. ●

# BUILDING AN EFFECTIVE LONG-TERM STRATEGY

*Investors need to follow a number of key principles*



It's not surprising that the world of investing can seem complex, especially in the current global economic climate. Investors face an endless supply of market news, many investment choices and often-changing market conditions.

There are a number of key principles that every investor should follow with the aim of building an effective long-term strategy designed to achieve their financial goals.

## HERE'S OUR RUNDOWN OF THE 10 PRINCIPLES THAT EVERY INVESTOR NEEDS TO KNOW:

**1. Set investment goals**

- It's important that you set yourself investment goals – this will help you stay focused and on track to achieving your financial objectives. With a well-structured plan in place, you can confidently stay committed to it.
- There are a number of factors to consider when setting your goals, such as your age, investment timeframe and risk tolerance.

**2. Plan on living a long time, and saving more for it**

- In 2021, in the UK the median age at death was 82.3 years for males and 85.8 years for females[1].
- Investors should start early, invest with discipline and have a plan for their future.

**3. Cash is rarely king, and inflation eats away at your purchasing power**

- Cash is a popular asset class, but it's important to remember that it is not always king – inflation can erode the purchasing power of your cash, making it a less attractive option in the long run.
- When inflation is taken into account, cash typically lags behind other asset classes such as stocks and bonds, which can mean that over time, cash will generally be worth less in terms of purchasing power.

**4. Start early and re-invest income – compounding works miracles**

- Compounding is often called the eighth wonder of the world – by starting to invest early and reinvesting your income, you can take advantage of compounding to build your wealth over time.
- The power of compounding is so great that delaying investing by even just a few years, or choosing not to reinvest income, can make an enormous difference to your eventual returns.

**5. Returns and risks generally go hand in hand, so be realistic about your objectives and what you can achieve**

- Of course, you always want to aim for the highest possible return while taking on the least amount of risk. But in reality, there is usually a trade-off involved – the higher the potential return, the higher the risk. And vice versa.
- Therefore, if you want to target a higher level of return, you have to be willing, and able, to tolerate larger swings in the value of your investments along the way.

**6. Volatility is normal, so keep your head when all about you are losing theirs**

- Volatility is a normal part of the market, so don't let it rattle you – keep your head when all about you are losing theirs, and remember that the best time to invest is often when others are panicking.
- So don't panic when the markets are down. Instead, stay calm and focused on your long-term goals.

**7. Timing the market is difficult, staying invested matters**

- It's no secret that timing the stock market is difficult. In fact, it's often said that trying to time the market is a fool's errand. By staying invested you ensure that you're participating in the long-term growth of the market, which helps to mitigate the effects of volatility.
- Staying invested in the market allows you to take advantage of opportunities as they arise. By staying invested, you'll be in a position to buy when prices are low and sell when prices are high.

**8. Diversification works: don't put all your eggs in one basket**

- By spreading your money across different investments, you can minimise your risk and maximise your chances of success.
- Over time, different investments will tend to even out, so the aim is to grow your money even if some investments underperform due to market movements.

**9. Review your portfolio**

- Reviewing your investment portfolio allows you to monitor your progress and ensure that your investments are performing as expected, giving you the opportunity to make changes to your portfolio if necessary.
- It helps you stay disciplined and focused on your long-term goals.

**10. If it seems too good to be true, it usually will be**

- Promises of high returns with little or no risk are almost always too good to be true – there are a lot of scams out there, and many people looking to take advantage of unsuspecting investors.
- Before investing, consult with a financial professional to help you understand the risks involved. ●

**Source data:**

*[1] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/previousReleases*

# GETTING YOUR RETIREMENT FINANCES IN ORDER

*Ensure you have a comfortable and enjoyable retirement*

As you approach the last five years before your retirement, there will be a lot of things to consider. You'll need to think about your finances, your health, your housing situation and your plans for the future to live comfortably in retirement.

There will be lots of questions to ask: How much money will I need to have saved? What will my income sources be in retirement? What kind of lifestyle do I want in retirement? What will my health care needs be in retirement? What are my long-term care needs in retirement? What are my estate planning needs in retirement? What are my tax considerations in retirement?

There are many things to consider as you approach retirement. It's good to start by reviewing your finances to ensure your future income will allow you to enjoy the lifestyle you want. There are also a number of things to review in order to ensure you have a comfortable and enjoyable retirement.

**Here are just a few to review:**

## TRACK DOWN YOUR PENSIONS

There are a number of ways you can track down a pension in the UK. But the most straightforward is to use the government's Pension Tracing Service to help you find lost pensions – visit: https://www.gov.uk/find-pension-contact-details

The most important thing is to keep good records and to know where your pension money is invested. If you have moved jobs or changed address, update your records with your current contact details. This will help ensure that you receive any correspondence relating to your pension.

## WHEN CAN YOU ACCESS YOUR PENSION/S?

The earliest you can currently access your UK pension is age 55 (this will be changing to age 57 in 2028 unless your pension plan has a protected lower pension age). However, this does not mean you automatically receive your pension at this age – it simply means that you can start to take benefits if you wish. The exact amount

> **THERE ARE MANY BENEFITS TO CHECKING YOUR UK PENSION'S VALUE REGULARLY AS YOU APPROACH RETIREMENT. BY DOING SO, YOU CAN ENSURE THAT YOUR PENSION REMAINS ON TRACK TO PROVIDING YOU WITH THE INCOME YOU WILL EVENTUALLY WANT IN RETIREMENT.**

and how often you receive your pension payments will depend on the rules of the specific scheme you're in.

For workplace and personal pensions, there's no set retirement age, so it's down to the rules of the individual scheme. Some schemes may require you to retire at a certain age, while others may give you the flexibility to carry on working for as long as you want. The decision of when to take your pension is a personal one, and will depend on your individual circumstances.

## WHAT'S YOUR PENSION'S VALUE?

There are many benefits to checking your UK pension's value regularly as you approach retirement. By doing so, you can ensure that your pension remains on track to providing you with the income you will eventually want in retirement.

By keeping track of your pension's value, you can be sure that you are making the most of your investment and are keeping an eye on any changes in the value of your retirement fund. This is important because it will help you identify what adjustments, if any, need to be made to your retirement plans.

## GET A STATE PENSION FORECAST

A State Pension forecast gives you an estimate of the amount of money you will receive from the government once you reach retirement age. You can obtain your forecast online through the government's website, visit: https://www.gov.uk/check-state-pension. When requesting your forecast, you will need to provide personal information, such as your date of birth and National Insurance number.

Once you have received your forecast, it is important to keep in mind that the amount stated is only an estimate. The actual amount you receive may be higher or lower than what is indicated on your forecast, depending on a number of factors.

## FIND OUT THE VALUE OF YOUR OTHER INVESTMENTS

You need to obtain an accurate estimate of the value of your other investments when planning for retirement. These will play a role in how much money you'll need to withdraw from your retirement accounts each year. If you have a large investment portfolio, you may be able to withdraw less each year, which could help stretch your retirement savings further.

The value of your other investments is likely to impact on how much income you'll need to generate from them in order to meet your retirement expenses. If you have a more modest portfolio, you may need to withdraw more each year in order to cover your costs. Knowing the value will enable you to determine whether you're on track to reaching your retirement goals. If your portfolio is worth less than you had hoped, you may need to make adjustments to your savings and investment strategy in order to realign your retirement plans.

## HOW WILL YOU ACCESS YOUR PENSION?

If you have a UK Defined Contribution pension, you may be able to take some or all of your pension benefits as a lump sum from age 55 (age 57 in 2028 unless your plan has a protected lower pension age). This is known as 'crystallising' your pension. You can take up to one-quarter of your pension pot as a tax-free lump sum. The remaining balance can be used to provide an income for life or to draw on flexibly as required.

However, there are some things you should bear in mind before taking this step. Taking all of your pension benefits as a lump sum will mean that you will have less money to live on in retirement. This is because the lump sum above the 25% tax-free amount will be subject to Income Tax. Taking your pension fund as a lump sum does not affect your State Pension, but it can affect certain means-tested state benefits.

## MAKE A RETIREMENT BUDGET

It's no secret that retirement can be expensive, especially with the effects of rising inflation. In addition to the obvious costs, like housing and healthcare, there are a myriad of other expenses that can quickly add up. From travel and leisure to groceries and utilities, retirees have plenty of bills to pay. That's why it's so important to create a retirement budget. By understanding where your money is going, you can identify potential areas of improvement.

A retirement budget doesn't have to be complicated. But it should include all of your expected sources of income, as well as all of your anticipated expenses. Once you have a clear picture of your cash flow, you can start making adjustments to ensure you can look forward to enjoying your retirement years. ●

# BOOST YOUR RETIREMENT INCOME

*Grow and protect your pension, both now and in the future*

For most, retirement will be funded in the main by a pension. It is therefore vital you have a robust plan in place that will allow you to grow and protect your pension, both now and in the future.

With ever-changing rules and regulations, we now have a pension system that is often difficult to navigate, putting many off using this as a savings vehicle.

When it comes to deciding how to use your pension pot, there's no one 'right answer'. The earliest you can start getting a Defined Contribution pension is usually when you're 55 – you should check this with your pension provider. You might be able to get your pension sooner if you're retiring due to ill health.

## WHAT ARE YOUR OPTIONS TO CONSIDER?

### LEAVE YOUR PENSION POT UNTOUCHED FOR NOW AND TAKE THE MONEY LATER

It's up to you when you take your money. You might have reached the normal retirement date under the scheme or received a pack from your pension provider, but that doesn't mean you have to take the money now. If you delay taking your pension until a later date, your pot continues to grow tax-free, potentially providing more income once you access it. If you do not take your money, we can check the investments and charges under the contract.

### RECEIVE A GUARANTEED INCOME (ANNUITY)

You can use your whole pension pot, or part of it, to buy an annuity. It typically gives you a regular and guaranteed income. You can normally withdraw up to a quarter (25%) of your pot as a one-off tax-free lump sum, then convert the rest into an annuity, providing a taxable income for life.

Some older policies may allow you to take more than 25% as tax-free cash. We can review this with your pension provider. There are different lifetime annuity options and features to choose from that affect how much income you would get.

### RECEIVE AN ADJUSTABLE INCOME (FLEXI-ACCESS DRAWDOWN)

With this option, you can normally take up to 25% (a quarter) of your pension pot, or of the amount you allocate for drawdown, as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income. You set the income you want, though this might be adjusted periodically depending on the performance of your investments. Unlike with a lifetime annuity, your income isn't guaranteed for life, so you need to manage your investments carefully.

### TAKE CASH IN LUMP SUMS (DRAWDOWN)

How much and when you take your money is up to you. You can use your existing pension pot to take cash as and when you need it and leave the rest untouched, where it can continue to grow tax-free. For each cash withdrawal, normally the first 25% (quarter) is tax-free, and the rest counts as taxable income.

There might be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year. With this option, your pension pot isn't re-invested into new funds specifically chosen to pay you a regular income, and it won't provide for a dependent after you die. There are also tax implications to consider that we can discuss with you.

### CASH IN YOUR WHOLE POT IN ONE GO

You can do this, but there are certain things you need to think about. There are clear tax implications from withdrawing all of your money from a pension. Taking your whole pot as cash could mean you end up with a large tax bill – for most people, it will be more tax-efficient to use one of the other options. Cashing in your pension pot will not give you a secure retirement income.

### MIX YOUR OPTIONS

You don't have to choose one option: you can mix them over time or over your total pot when deciding how to access your pension. You can mix and match as you like, and take cash and income at different times to suit your needs. You can also keep saving into a pension if you wish, and get tax relief up to age 75.

### FINANCIAL SITUATION AT RETIREMENT

The way you draw an income from your pension is likely to be largely determined by your financial situation at retirement. Will you, for example, still be paying off your mortgage, or do you have any other significant debts? What other income sources, aside from the State Pension, will you have at your disposal?

While an annuity can offer you the security of a guaranteed regular income, a drawdown plan gives you the chance to grow your pension and overall wealth during retirement. The latter route is likely to suit those with a stronger appetite for risk, as any significant market swings could potentially cause serious damage to your pension savings. ●

# FINANCIAL RESILIENCE

*Protecting what is important to you*

When it comes to our money and our plans, it can be hard to balance short-term wants, long-term dreams and those unexpected events that are out of our control.

But considering 'what if' is a vital part of financial planning, to ensure financial security and protection against unforeseen life-changing circumstances or events. You never know what the future may hold – so it helps to be prepared for the unexpected.

## UNEXPECTED EVENT

There are various complex risks in life that we all face, such as serious illness, an accident or death. What would happen if something were to happen to you? Would your family be able to cope financially with the impact an unexpected event might have?

These are not easy questions to ask but it is important to consider what would happen if an unexpected event or accident took place, and how you could protect your family from the financial effects of serious illness or death.

## LIFE PROTECTION

It's easy to underestimate our own value. We insure our homes, cars, valuables and pets, but often we forget about life protection and insuring our income that provides for all of the above.

Have you ever thought about how quickly your life and circumstances can change? One of the many things the past few years have highlighted is that the unexpected can happen at any time, to anyone, and that it's really important to have a financial safety net and financial resilience in place just in case.

## BEST-LAID PLANS

But financial protection – be it life cover, critical illness cover or income protection – is often overlooked. Even the best-laid plans can go off course and many outside influences could affect your financial situation. Protection can act as a capital injection at times when you need it most.

You should consider the financial implications for your family if you were to die or suffer a serious illness, especially if you are the breadwinner. Deciding what your priorities are and understanding what options you have are key parts of the protection planning process. This will help you ensure you have the financial protection most suitable for your circumstances. ●

# AN ESSENTIAL PART OF YOUR PLAN

*Financial protection for you and your family*

When you are off work due to an illness or injury, worries about how you are going to pay your bills can make an already stressful situation worse. So much so that many people are finding themselves in the very difficult position of having to put the need to earn money over their health by continuing to go to work, even when advised not to by a doctor.

Worse still, financial concerns mean some are avoiding seeing their GP altogether, even when concerned they may have a serious illness. Money worries see six in ten people go to work when they are ill, with one in three ignoring their doctor's advice due to financial concerns, even when they are worried about serious illness, according to new research[1].

## NO FINANCIAL PROTECTION IN PLACE

Three in ten people have no financial protection if they were off work should they fall ill or become injured, while 27% could financially only last for a month. The findings highlight that sick and injured Britons are forcing themselves back into work, despite doctors' advice, due to having no financial protection in place.

Nearly a third (32%) admitted to not following their doctor's advice because they couldn't afford to take time off, while 43% would put off going to the doctor due to financial concerns – even if concerned they may have a serious illness.

## NEGATIVE IMPACT ON MENTAL WELLBEING

The research also highlights that while nearly half (49%) say they would benefit from a policy that would cover their income if off work for an extended period, just 27% actually have any income protection cover in place, with 32% unaware of what such a policy is.

Money worries can have a negative impact on people's mental wellbeing, with nearly two-thirds (64%) of those surveyed saying they fret about how they would cope financially if they needed to take four weeks or more off work due to poor health.

## SICK AND ON A REDUCED INCOME

Three in ten (30%) surveyed have nothing in place to support them financially should they be ill or injured, while 29% would rely on Statutory Sick Pay, which at £99.35 per week for up to 28 weeks (tax year 2022/23), pays much less than many people need to cover the cost of living, which continues to rise.

If on long-term sick pay and on a reduced income, many would use their existing savings (45%), make reduced payments (33%), borrow money from family or friends (25%), or use a credit card or loan (15%). However, during the pandemic, a third (34%) of people had already dipped into their savings, meaning they may now have less to fall back on.

## LONGER-TERM FINANCIAL IMPACTS

As a result of this situation, more than half (55%) admit they could only survive for three months, while more than a quarter (27%) would struggle after just one month. The additional financial pressures of being off sick for four weeks or more could push people to prioritise their household expenditures. The top five things that the people surveyed prioritise include utilities (67%), mortgage/rent (65%), food (56%), insurance i.e. car/home/pet (15%) and internet/broadband (13%).

As well as the immediate impact of long-term sickness, many people are also concerned about the longer-term financial impacts, with almost half (49%) of those surveyed saying they worry about the impact on their ability to get credit in future. This is particularly an issue for the self-employed, where 43% worry about losing customers and just over a third (36%) worry that their business would have to fold. ●

**Source data:**

*[1] Survey conducted by Censuswide for Nationwide between 10–14 February 2022 of 2,003 people who are self-employed or employed but receive Statutory Sick Pay when off work through illness or injury.*

# COMPLEX RISKS IN LIFE THAT WE ALL FACE

*Understanding what options you have are key parts of the protection planning process*

There are various complex risks in life that we all face, such as serious illness, an accident or death. What would happen if something were to happen to you? Would your family be able to cope financially with the impact an unexpected event might have?

These are not easy questions to ask but it is important to consider what would happen if an unexpected event or accident took place, and how you could protect your family from the financial effects of serious illness or death.

## BIG PART IN OUR LIVES

Deciding what your priorities are and understanding what options you have are key parts of the protection planning process. This helps you ensure that you have the financial protection most suitable for your circumstances.

Every family is different, but they often play a big part in our lives. It's important to think about how we can protect them against the unexpected as best we can.

## PROTECTION FOR THE UNEXPECTED

## LIFE INSURANCE

Death is an unpredictable event, so it's important to make sure you have the right level of cover in place. The amount of life insurance you need will depend on your individual circumstances. There are many good reasons to take out a policy. For example, if you have dependents who rely on your income, then life insurance can provide financial security for them if you die.

There are different types of life insurance available, so choosing the right policy for your needs is key. Term life insurance provides cover for a set period of time, while whole of life insurance covers you for your entire life. You can also choose between level term insurance, which pays out a fixed amount if you die during the term of the policy, and decreasing term insurance, which pays out less as the policy progresses.

There is also a variation on the basic term assurance theme that is often worth considering as it can reduce the cost of cover. Family Income Benefit is a policy with a sum assured that reduces uniformly over time but provides regular payments of capital on the death of the breadwinner (the life assured).

If you have any debt, such as a mortgage, then it's also important to take out life insurance to make sure that this is paid off if you die. This will give your loved ones peace of mind and prevent them from being burdened with debt.

## WHAT DO I NEED TO PROTECT?

- Who are your financial dependents: your husband or wife, registered civil partner, children, brother, sister or parents?
- What kind of financial support does your family have now?
- What kind financial support will your family need in the future?
- What kind of costs will need to be covered, such as household bills, living expenses, mortgage payments, education costs, debts or loans, funeral costs?

There is no one-size-fits-all solution, and the amount of cover – as well as how long it lasts for – will vary from person to person.

**These are some events when you should consider reviewing your life insurance requirements:**

- Buying your first home with a partner
- Covering loans
- Getting married or entering into a registered civil partnership
- Starting a family
- Becoming a stay-at-home parent
- Having more children
- Moving to a bigger property
- Salary increases
- Changing your job
- Reaching retirement
- Relying on someone else to support you
- Personal guarantee for business loans

**To prevent your family from being financially disadvantaged by your premature death and to provide enough financial support to maintain their current lifestyle, there are a few more variables you should consider:**

- What are your family expenses and how would they change if you died?

- How much would the family expenditure increase on requirements such as childcare if you were to die?
- How much would your family income drop if you were to die?
- How much cover do you receive from your employer or company pension scheme and for how long?
- What existing policies do you have already and how far do they go to meeting your needs?
- How long would your existing savings last?
- What state benefits are there that could provide extra support to meet your family's needs?
- How would the return of inflation to the economy affect the amount of your cover over time?

Life insurance not only provides peace of mind to you and your loved ones but is an essential part of creating a sound financial plan.

## INCOME PROTECTION INSURANCE

There are a number of reasons why income protection insurance should be a part of your protection planning. Firstly, it can help to protect your income if you are unable to work. This could be due to an illness, injury or disability that means you are unable to work. It can help to cover the costs of your everyday living, such as your mortgage or rent, bills and food.

If you do not have sufficient protection in place this may mean you have to rely on your savings, or on the help of family and friends. Income protection insurance is especially important if you are self-employed or have a family to support. If you are unable to work, your income protection policy will provide you with a replacement income so that you can continue to meet your financial obligations.

There are different types of income protection insurance policies available, so you should obtain professional financial advice to ensure you can compare the different options and fully understand the terms and conditions of the policy.

Self-employed people are at risk of financial hardship if they don't have sufficient provision in place. Without a regular income, it can be difficult to cover expenses and also save for the future. In many cases, the self-employed are unable to claim for many of the benefits that employees are entitled to, including statutory sick pay.

Being self-employed also means you don't have the luxury of having an employer to rely on for sickness cover or health insurance, which can make you extremely vulnerable to loss of income or unexpected financial shocks.

So if you're self-employed, it's essential you're prepared for anything by having the right protection in place. Being self-employed can offer numerous benefits, such as flexible hours and the opportunity to work with a wide range of people, but self-employed workers can also face financial vulnerability.

## CRITICAL ILLNESS COVER

If you become seriously ill or are diagnosed with a specified critical illness, even if you are still able to work, critical illness cover could provide you with a financial safety net. The tax-free money can help to pay for treatment, to make adaptations to your home or lifestyle, provide an income for your family if you are unable to work or cover other costs associated with your illness.

There is no guarantee that you will not experience a critical illness during your lifetime, so it is important to have this type of cover in place. It will give you the peace of mind of knowing that you and your family are financially protected if the worst were to happen. Critical illness cover is not a substitute for health insurance. ●

# LONG-TERM CARE

*Face the future with confidence*

As we get older, many of us will need help looking after ourselves. But what are the options when it comes to paying for long-term care?

Oscar Wilde once said: 'The tragedy of old age is not that one is old, but that one is young.' But the good news of rising life expectancy also brings with it the challenge of how we fund our future care costs. Who is responsible for looking after us if we need care in old age?

Medical advances and changes in our jobs and lifestyles have contributed to a big increase in the number of people who'll live to a ripe old age. But in those later years, many of us will need help looking after ourselves, either in our own home or perhaps eventually in a residential or nursing home.

Long-term care can refer to a variety of needs and care settings, such as living independently at home, adult day programmes and other community resources, assisted living facilities and skilled nursing facilities.

## PROVIDING FINANCIAL SUPPORT

Long-term care insurance provides the financial support you need if you have to pay for care assistance for yourself or a loved one. Long-term care insurance can cover the cost of assistance for those who need help to perform the basic activities of daily life, such as getting out of bed, dressing, washing and going to the toilet.

You can receive long-term care in your own home or in a residential or nursing home. Regardless of where you receive care, paying for care in old age is a growing issue.

Government state benefits can provide some help, but may not be enough or may not pay for the full cost of long-term care.The level of state support you receive can be different depending on whether you live in England, Wales, Scotland or Northern Ireland.

## TYPES OF LONG-TERM CARE PLAN

**Immediate needs annuities** – pay a guaranteed income for life to help cover the cost of care fees in exchange for a one-off lump sum payment, if you have care needs now.

**Pre-funded care plans** – gave you the option of insuring your future care needs before they developed (these plans are no longer available to purchase).

## OTHER OPTIONS

**Enhanced annuities** – you can use your pension to buy an enhanced annuity (also known as an impaired life annuity) if you have a health problem, a long-term illness, if you are overweight or if you smoke. Annuity providers use full medical underwriting to get a more accurate individual price. People with medical conditions including Parkinson's disease and multiple sclerosis, or those who have had a major organ transplant, are likely to be eligible for an enhanced annuity.

**Equity release plans** – give you the ability to receive a cash lump sum as a loan secured on your home. These can be used if you are looking to fund a care plan now or in the near future.

**Savings and investments** – give you the opportunity to plan ahead and ensure your savings and assets are in place for your care needs.

If you are already retired or nearing retirement, it makes good sense to take professional financial advice to ensure that your affairs are in order – for example, arranging your Will or a power of attorney. It also makes sense to ensure your savings, investments and other assets are in order in case you or your spouse or registered civil partner may need long-term care in the future.

**When planning for your future care needs, think about:**

- who (in your family) most needs long-term care and for how long
- whether you need a care plan now
- whether you should be planning ahead for yourself or a loved one
- whether you have the money to pay for long-term care
- how long you might need to pay for a care plan
- whether home care or a nursing home is required
- what kinds of things would be required of the help. For example, help with dressing, using the toilet, feeding or mobility
- whether you find that your home requires additional features, such as a stair lift, an opening and closing bath or a bath chair, and/or home help

## MAKING DECISIONS AT WHAT CAN BE AN EMOTIONAL TIME

Life expectancy has increased, which in turn puts a greater strain on the standard of care that state support can provide. Many people don't consider the issue of care at all and it falls to their families to make long-term – often very expensive – decisions at what can be an emotional time.

However, when an individual reaches the stage that they require long-term care, this does not necessarily mean that their life expectancy becomes reduced. The required care could last for 15 years or more, and therefore incurs considerable costs. ●

# MANAGING YOUR ESTATE AND ASSETS

*Key part of putting your affairs in order later in life*

This is an important part of wealth management, no matter how much wealth you have built up. It's the process of making a plan for how your assets will be distributed upon your death or incapacitation.

This subject doesn't only affect the very wealthy. Inheritance Tax in particular is becoming more of an issue for many of us due to rising house prices and complex family situations. Making provision for your loved ones is an essential part of managing your estate and assets.

Estate planning sits alongside making your Will as a key part of putting your affairs in order later in life. Working out the best ways to leave money in a Will before you pass away can help to make the lives of your loved ones easier when you're no longer around. It can also help protect your estate for the beneficiaries named in your Will and reduce the impact of Inheritance Tax.

When you have spent an entire lifetime building up your personal wealth, you'll want the comfort of knowing that upon your death your estate will pass into the hands of your chosen beneficiaries and not into the hands of the government.

If you do not plan properly, a significant portion of your wealth could be paid over to the government in Inheritance Tax. With professional financial advice and the correct estate preservation planning we can help ensure that your loved ones are provided for after you die. Without a proper plan, your family could be left with nothing but debts and expenses.

Estate preservation planning gives you peace of mind knowing that your affairs are in order and that your loved ones will be taken care of after you are gone especially important for those who have a significant amount of assets.

Unfortunately, some people leave this planning until it's too late. So the sooner you start, the more provisions you can put in place during the course of your lifetime. Planning can also help you to ensure that your assets go to the people that you want them to go to. If you do not have a plan in place, your assets may be distributed according to the laws of intestacy.

This could mean that your assets do not go to the people that you want them to go to. However, if you have the right plan in place, you can specify who you want your assets to go to. Have you considered what will happen to your estate when you're gone?

Wealth transfer has become an important issue for many families today. The fact is, many of us should be preparing for the eventual transfer of our assets, regardless of any tax or legal consequences. The process of estate preservation becomes more important as you age, though, because there is an increased risk of something happening to you as you get older.

Having said that, estate preservation is actually important at all ages of life. As soon as you start to build your wealth, you need to make sure you have structured ownership correctly to reduce risk of loss. You also need to ensure you have the right insurance coverage and an incapacity plan in place in case something unexpected happens to you. ●

# PROTECT YOUR LEGACY

*A better chance of passing on assets tax-efficiently*

If you want to pass wealth on to your children and grandchildren, it's wise to contemplate when it might be best to make that gift. Should you transfer wealth during your lifetime — or after?

Some people may find compelling reasons to avoid giving away wealth during their lives. They think that transferring substantial portions could mean they might not have enough to maintain their lifestyles; their beneficiaries might not use the wealth wisely, or at least in a way they'd want it used; and wealth might end up outside the family because of a child's divorce or other misfortune.

## SENSITIVE TOPIC

Understandably, money can be a sensitive topic even among the closest of families. But you will have a better chance of passing on assets tax-efficiently in a way that is acceptable to all family members if you discuss and plan how to do this.

There are a number of considerations to take into account when deciding when the best time is to transfer wealth to your family. These include your age, the age of your beneficiaries, the value of your estate, the types of assets involved, tax implications and your personal circumstances.

## NEXT GENERATION

Transfers made during your lifetime may be subject to Inheritance Tax, depending on the value of the assets involved. Gifts made more than seven years before your death are usually exempt from Inheritance Tax. Also the value of assets can change over time, so it's important to consider this when making a transfer. For example, property values can go up or down, and investments can become more or less valuable.

Your personal circumstances will also play a role in deciding when to make a transfer. For example, if you need access to the money yourself, then it may not be the right time to transfer wealth to your family. Alternatively, if you're looking to pass on your business to the next generation, then you'll need to consider when is the best time for them to take over.

**Here are four important considerations that should be a part of any family wealth transfer plan:**

**Age:** One key factor to consider is your age. If you are younger, you may have more time to accumulate assets and grow your estate. However, if you are older, you may want to consider transferring wealth sooner rather than later in order to maximise the amount that can be passed on to your beneficiaries.

**Age of Beneficiaries:** Another key consideration is the age of your beneficiaries. If they are young, they may not need the money immediately and it can be used to help them further their education or buy a property. However, if they are older, they may need the money to support themselves in retirement.

**Value of Estate:** The value of your estate is another important factor to consider. If your estate is large, you may want to consider transferring wealth sooner rather than later in order to minimise Inheritance Tax liabilities. However, if your estate is small, you may not need to worry about Inheritance Tax and can afford to wait until later in life to transfer wealth.

**Types of Assets:** The types of assets involved in the transfer of wealth are also important to consider. If the assets are liquid (such as cash or investments), they can be transferred immediately. However, if the assets are illiquid (such as property), it may take longer to transfer them.

## ADHERING TO THE FAMILY'S VALUES AND VISION

Taking all of these factors into account will help you decide when the best time is for you to transfer wealth to your family, but it's important to discuss wealth transfer with them sooner rather than later to maximise your options.

Families must overcome many hurdles to ensure their wealth is protected and continues to accumulate over the generations while still adhering to the family's values and vision. ●

# PASSING WEALTH DOWN THROUGH THE GENERATIONS

*Millions of retirees help out in cost of living crisis*

The rise in the cost of living is affecting millions of people. A third of young adults (18-34) and families with young children are struggling financially. Many are turning to family and friends for help with day-to-day expenses such as utility bills, housing costs and childcare, according to new research[1].

One striking aspect is the extent to which grandparents are stepping in with thousands of pounds of support and helping grandchildren with housing deposits in addition to everyday expenses.

## OPTIONS AVAILABLE

It's understandable why grandparents want to help their family and pass wealth down through the generations. When doing this, there are a number of options available, each with different advantages and disadvantages.

Gifting money early can reduce Inheritance Tax liabilities and a grandparent can gift up to £3,000 a year without this being added to the value of their estate. Currently, a couple could therefore gift £6,000 a year. If some or all of it was invested in a pension it would receive tax relief.

## GIFTING MONEY

Grandparents interested in helping a grandchild save for a house could also consider saving into a Lifetime ISA (LISA). Only the child/grandchild, as the account holder, can open and manage their LISA but it's possible to gift money to an account holder to pay into their LISA.

Those helping grandchildren, the research highlighted, gave £15,000 on average, while 10% gave over £50,000. The main reasons grandparents helped out grandchildren financially were to help with day-to-day costs (43%) and help with bills (37%). One in four (24%) grandparents gave money to help their grandchildren buy a house.

## SAVING FOR A CHILD OR GRANDCHILD

Parents and grandparents have several options when saving for a child or grandchild. Choosing the right one can make a big difference.

## CONTRIBUTING TO A PENSION

Although most people won't set up a pension until they reach working age, a Junior Self-Invested Personal Pension (SIPP) can be started as soon as someone is born. In addition, any contributions made by a parent or grandparent, which can be made directly to the plan as 'third-party contributions', will be treated for tax relief purposes as if they were made by the beneficiary themselves.

This means that contributions paid to a 'relief at source' scheme will currently receive tax relief of 20% (£20 for every £80 net contribution) as long as the gross contributions do not exceed the beneficiary's relevant UK earnings for the tax year or £3,600 if more.

In addition, where a beneficiary has paid Income Tax at a higher rate, they will be able to claim the difference directly from HM Revenue & Customs through self-assessment, so a further 20% for a higher

rate (40%) tax payer on some or all of the contributions.

Although a child under the age of 18 is unlikely to have relevant UK earnings, total contributions up to the 'basic amount' of £2,880 net (£3,600 gross) can be made each year and will still benefit from tax relief.

Pension contributions can be one of the more tax-efficient ways to gift money to a child or grandchild, but the money is likely to be inaccessible until they reach age 57 (normal minimum pension age is rising from 55 to 57 in April 2028).

## LIFETIME ISAS (LISAS)

If the child or grandchild is aged between 18 to 40, helping them save into a lifetime ISA (LISA) can be beneficial, especially if they are trying to raise a deposit for a first home. This is because the government will add a 25% bonus to subscriptions of up to £4,000 a year (i.e. £20 for every £80 subscribed).

However, if withdrawals are made for any purpose other than purchasing a first home, a tax penalty of 25% (i.e. £25 on a withdrawal of £100) will apply unless the individual is terminally ill or aged 60 or above. Since the tax penalty exceeds the initial bonus, it is normally not the most tax-efficient investment if the penalty is likely to be incurred.

Only the child or grandchild, as the account holder, can open and manage their LISA but it's possible to gift money to an account holder to pay into their LISA.

## TRUSTS

For those who want more control over how money is spent, setting up a trust can help ensure any investment is used appropriately. There are a wide variety of trusts that can be used to meet individual requirements. ●

**Source data:**

*[1] Research from LV= highlights how millions of people have helped friends and family financially in the past six months. The LV= Wealth and Wellbeing Monitor – a quarterly survey of 4,000 UK adults – reveals that many people struggling with everyday living costs are turning to family and friends for support 23/08/22.*

# PREPARING YOUR FINANCES

*Make plans so your loved ones can get the most from the estate you intend to leave behind*

You've worked to build up your wealth. But now it's time to make plans so your loved ones can get the most from the estate you intend to leave behind. If you think you might be affected by Inheritance Tax, it can be tempting to hold off making plans to do anything about it. But the truth is that it's better to plan earlier for Inheritance Tax.

Estate planning is an essential element of preparing your finances for when you are no longer around but want to make sure that as much of your estate as possible is exempt from Inheritance Tax. The government has frozen the Inheritance Tax thresholds for two more years. As the threshold was already frozen until April 2026, it now means that the threshold is now frozen until April 2028. So it's likely more estates could trigger a 40% Inheritance Tax bill over the coming years.

## INHERITANCE TAX PLANNING OPTIONS

On your death, the first £325,000 nil-rate band (2022/23) of your estate is exempt from the 40% Inheritance Tax. However, you can also make financial gifts that will reduce the value of your estate when you die. For those who have accumulated a reasonable amount of wealth and who have children, the seven-year rule can be taken full advantage of.

This is one of the most popular, and cost-effective, Inheritance Tax planning options relating to gifting some of your wealth to loved ones before you die. The idea being that the people who matter to you most could start to benefit from some form of inheritance earlier.

## GIFT REDUCES EACH YEAR

It also reduces the value of your estate. Meaning, when it's assessed for Inheritance Tax, your potential liability could prove lower. Or, even better, you don't have one at all. In order for bigger financial gifts to be fully exempt from Inheritance Tax, you need to live for at least seven more years.

If you die within seven years of making the gift, it is still considered part of your estate and it will be included in your Inheritance Tax assessment.

If you die between three and seven years, you would still have to pay some tax on the gift if it exceeded the available nil-rate band. The amount payable on the gift reduces each year once you have survived the gift by over three years. Only after seven years is the full gift no longer part of your estate for Inheritance Tax purposes.

There are many ways you might be able to reduce (or even eliminate) a potential liability. But the longer you wait, the more expensive some of these options might prove.

It goes without saying that none of us knows when our time will come. That's why it can really help to start making plans now. Doing so could help you maximise the amount of inheritance you leave to loved ones. ●

| PERIOD OF YEARS BEFORE DEATH | % REDUCTION (TAPER RELIEF) |
|---|---|
| 0 - 3 years | Nil |
| 3 - 4 years | 20% |
| 4 - 5 years | 40% |
| 5 - 6 years | 60% |
| 6 - 7 years | 80% |
| More than 7 years | No tax |

# WHERE THERE'S A WILL THERE'S A WAY

*Control over what happens to your property, money and belongings after you die*

It's important to make sure that after you die, your assets and possessions (known as your 'estate') will go to the people and organisations (known as your 'beneficiaries') you choose, such as family members and charities you want to support.

**Your estate includes your personal possessions, as well as assets such as:**

- property (in the UK or overseas)
- savings and investments
- insurance funds
- pension funds

If you die without a valid Will, it could be difficult for your family to sort out your affairs. Your estate will be shared out according to the rules of intestacy. Under these rules, only married partners, registered civil partners and certain close relatives can inherit your estate.

If you and your partner are not married or in a registered civil partnership, your partner won't have the right to inherit – even if you're living together.

**It's important to make a Will if you:**

- own property or a business
- have children
- have savings, investments or insurance policies

## LAW WILL DECIDE

If you die with no valid Will in England or Wales the law will decide who gets what. If you have no living family members, all your property and possessions will go to the Crown.

If you make a Will you can also make sure you don't pay more Inheritance Tax than you legally need to. It's an essential part of your financial planning. Not only does it set out your wishes, but, die without a Will, and your estate will generally be divided according to the rules of intestacy, which may not reflect your wishes. Without one, the state directs who inherits, so your loved ones, relatives, friends and favourite charities may get nothing.

## SAME-SEX PARTNERS

It is particularly important to make a Will if you are not married or are not in a registered civil partnership (a legal arrangement that gives same-sex partners the same status as a married couple). This is because the law does not automatically recognise cohabitants (partners who live together) as having the same rights as husbands, wives and registered civil partners. As a result, even if you've lived together for many years, your cohabitant may be left with nothing if you have not made a Will.

A Will is also vital if you have children or dependants who may not be able to care for themselves. Without a Will, there could be uncertainty about who will look after or provide for them if you die.

## PEACE OF MIND

No one likes to think about it but death is the one certainty that we all face. Planning ahead can give you the peace of mind that your loved ones can cope financially without you and, at a difficult time, helps remove the stress that monetary worries can bring. Planning your finances in advance should help you to ensure that, when you die, everything you own goes where you want it to. Making a Will is the first step in ensuring that your estate is shared out exactly as you want it to be.

If you leave everything to your spouse or registered civil partner there'll be no Inheritance Tax to pay, because they are classed as an exempt beneficiary. Or you may decide to use your tax-free allowance to give some of your estate to someone else or to a family trust. Scottish law on inheritance differs from English law.

## REASONS TO MAKE A WILL

A Will sets out who is to benefit from your property and possessions (your estate) after your death.

**There are many reasons why you need to make a Will:**

- You can decide how your assets are shared – if you don't have a Will, the law says who gets what
- If you're an unmarried couple (whether or not it's a same-sex relationship), you can make sure your partner is provided for
- If you're divorced, you can decide whether to leave anything to your former partner
- You can make sure you don't pay more Inheritance Tax than necessary
- Several people could make a claim on your estate when you die because they depend on you financially
- You want to include a trust in your Will (perhaps to provide for young children or a disabled person, save tax or simply protect your assets in some way after you die)
- Your permanent home is not in the UK or you are not a British citizen

- You live here but you have overseas property
- You own all or part of a business

Before you write a Will, it's a good idea to think about what you want included in it.

**You should consider:**

- How much money and what property and possessions you have
- Whom you want to benefit from your Will
- Who should look after any children under 18 years of age
- Who is going to sort out your estate and carry out your wishes after your death (your executor)

## PASSING ON YOUR ESTATE

Executors are the people you name in your Will to carry out your wishes after you die. They will be responsible for all aspects of winding up your affairs after you've passed away, such as arranging your funeral, notifying people and organisations that you've died, collating information about your assets and liabilities, dealing with any tax bills, paying debts and then distributing your estate to your chosen beneficiaries.

You can make all types of different gifts in your Will – these are called 'legacies'. For example, you may want to give an item of sentimental value to a particular person, or perhaps a fixed cash amount to a friend or favourite charity. You can then decide whom you would like to receive the rest of your estate and in what proportions. Once you've made your Will, it is important to keep it in a safe place and tell your executor, close friend or relative where it is.

## REVIEW YOUR WILL

It is advisable to review your Will every five years and after any major change in your life, such as getting separated, married or divorced, having a child or moving house. Any change must be by Codicil (an addition, amendment or supplement to a Will) or by making a new Will. ●

> **“EXECUTORS ARE THE PEOPLE YOU NAME IN YOUR WILL TO CARRY OUT YOUR WISHES AFTER YOU DIE.”**

# LASTING POWER OF ATTORNEY

*Giving someone you trust authority to help you make decisions*

As someone becomes more unwell, they're likely to find it more difficult to manage money and financial affairs, and may become too unwell to make decisions about health and care. A Lasting Power of Attorney (LPA) is a legal document in which someone (the donor) gives another person (the attorney) the right to help them make decisions, or take decisions on their behalf.

An LPA is a completely separate legal document to your Will, although many people put them in place at the same time as getting their Will written as part of wanting to plan for the future. Many people find it reassuring to know that someone they trust will be able to make decisions on their behalf if they become too unwell.

## DURING YOUR LIFETIME

Once you have an LPA in place, you can have peace of mind that there is someone you trust to look after your affairs if you became unable to do so yourself during your lifetime. This may occur, for example, because of an illness, old age or an accident.

Having an LPA in place can allow your attorney to have authority to deal with your finances and property as well as make decisions about your health and welfare. Your LPA can include binding instructions together with general preferences for your attorney to consider. Your LPA should reflect your particular wishes so you know that the things that matter most would be taken care of.

## REQUIRED LEGAL CAPACITY

You can only put an LPA in place while you are capable of understanding the nature and effect of the document, for example, you have the required legal capacity. After this point, you cannot enter into a LPA and no one can do so on your behalf.

Many people don't know that their next of kin has no automatic legal right to manage their spouse's affairs without an LPA in place, so having to make decisions on their behalf can become prolonged and significantly more expensive.

In England and Wales there are two types of Lasting Power of Attorney.

**Lasting Power of Attorney for Health and Welfare can generally make decisions about matters including:**

- where you should live
- your medical care
- what you should eat
- whom you should have contact with
- what kind of social activities you should take part in

You can also give special permission for your attorney to make decisions about life-saving treatment.

**Lasting Power of Attorney for Property and Financial Affairs decisions can cover:**

- buying and selling property
- paying the mortgage
- investing money
- paying bills
- arranging repairs to property

## MANAGE YOUR AFFAIRS

Without an LPA in place there is no one with the legal authority to manage your affairs, for example, to access bank accounts or investments in your name or sell your property on your behalf. Unfortunately, many people assume that their spouse, partner or children will just be able to take care of things but the reality is that simply isn't the case.

In these circumstances, in order for someone to obtain legal authority over your affairs, that person would need to apply to the Court of Protection and the Court will decide on the person to be appointed to manage your affairs. The person chosen is appointed your 'Deputy'. This is a very different type of appointment, which is significantly more involved and costly than being appointed attorney under an LPA.

If you wish to have peace of mind that a particular person will have the legal authority to look after your affairs and you want to make matters easier for them and less expensive, then you should obtain professional advice about putting in place an LPA.

## HEALTH AND WELFARE LASTING POWER OF ATTORNEY

Allows you to name attorneys to make decisions about your healthcare, treatments and living arrangements if you lose the ability to make those decisions yourself. Unlike the Property and Financial Affairs LPA, this document will only ever become effective if you lack the mental

capacity to make decisions for yourself.

If you can't communicate your wishes, you could end up in a care home when you may have preferred to stay in your own home. You may also receive medical treatments or be put into a nursing home that you would have refused if only you had the opportunity to express yourself; and this is when your attorney, appointed by the LPA, can speak for you.

### PROPERTY AND FINANCIAL AFFAIRS LASTING POWER OF ATTORNEY

Allows you to name attorneys to deal with all your property and financial assets in England and Wales. The LPA document can be restricted so it can only be used if you were to lose mental capacity, or it can be used more widely, such as if you suffer from illness, have mobility issues or if you spend time outside the UK.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP AND YOU MAY GET BACK LESS THAN YOU INVESTED. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAXATION AND TRUST ADVICE. TRUSTS ARE A HIGHLY COMPLEX AREA OF FINANCIAL PLANNING.

INFORMATION PROVIDED AND ANY OPINIONS EXPRESSED ARE FOR GENERAL GUIDANCE ONLY AND NOT PERSONAL TO YOUR CIRCUMSTANCES, NOR ARE INTENDED TO PROVIDE SPECIFIC ADVICE.

PROFESSIONAL FINANCIAL ADVICE SHOULD BE OBTAINED BEFORE TAKING ANY ACTION.

THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR MORTGAGE IS SECURED ON YOUR HOME, WHICH YOU COULD LOSE IF YOU DO NOT KEEP UP YOUR MORTGAGE PAYMENTS.

EQUITY RELEASE MAY INVOLVE A HOME REVERSION PLAN OR LIFETIME MORTGAGE WHICH IS SECURED AGAINST YOUR PROPERTY. TO UNDERSTAND THE FEATURES AND RISKS, ASK FOR A PERSONALISED ILLUSTRATION.

EQUITY RELEASE REQUIRES PAYING OFF ANY OUTSTANDING MORTGAGE. EQUITY RELEASED, PLUS ACCRUED INTEREST, TO BE REPAID UPON DEATH OR MOVING INTO LONG-TERM CARE. EQUITY RELEASE WILL AFFECT THE AMOUNT OF INHERITANCE YOU CAN LEAVE AND MAY AFFECT YOUR ENTITLEMENT TO MEANS-TESTED BENEFITS NOW OR IN THE FUTURE. CHECK THAT THIS MORTGAGE WILL MEET YOUR NEEDS IF YOU WANT TO MOVE OR SELL YOUR HOME OR YOU WANT YOUR FAMILY TO INHERIT IT.

IF YOU ARE IN ANY DOUBT, SEEK PROFESSIONAL FINANCIAL ADVICE.

INHERITANCE TAX PLANNING IS A HIGHLY COMPLEX AREA OF FINANCIAL PLANNING. THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE INHERITANCE TAX PLANNING.

THIS GUIDE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

**A LASTING POWER OF ATTORNEY (LPA) IS A LEGAL DOCUMENT IN WHICH SOMEONE (THE DONOR) GIVES ANOTHER PERSON (THE ATTORNEY) THE RIGHT TO HELP THEM MAKE DECISIONS, OR TAKE DECISIONS ON THEIR BEHALF.**

# DO YOU NEED A FINANCIAL PLAN THAT IS TAILORED TO YOU?

We want to help you make the most of your money. Professional financial advice could help build a secure future for you and your family.

**To review your situation, please contact us – we look forward to hearing from you.**

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