

## YOUR WEALTH

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## WHAT BEREAVED SPOUSES NEED TO KNOW ABOUT INHERITING ISAs

Anyone whose spouse or civil partner died on or after 3 December 2014, is eligible for a one-off additional ISA allowance. This is achieved by what is called an 'Additional Permitted Subscription' (APS), and is in addition to the normal ISA allowance. The APS is equal to the value of the ISA on the date of death, if the investor died before 6 April 2018. However, if the investor died on or after 6 April 2018, their ISA will become a continuing ISA. This means the APS is equal to the higher value of the ISA on the date of the investor's death, or the value of the ISA on the date it stops being a continuing ISA (completion of estate administration / third anniversary of date of death / all funds withdrawn). The surviving spouse will therefore have the option of the highest value APS.

Research<sup>1</sup> shows that, by not claiming their APS, six out of seven bereaved partners could be paying tax unnecessarily on ISA savings they inherit.

### CLAIMING YOUR APS

You can use the allowance in one go or as separate lump sums. However, time limits do apply.

<sup>1</sup>HMRC data obtained by Zurich, Jan 2019



## ARE THE BEST THINGS IN LIFE REALLY FREE?

Fashion designer Coco Chanel is reputed to have said, *"The best things in life are free. The second-best things are very, very expensive."*

Many of life's most exciting and memorable experiences can come with a hefty price tag attached. Recent research<sup>2</sup> has calculated that going to university, buying a house, getting married, having two children, then retiring, could on average add up to more than £560,000 over the course of a lifetime.

### SETTING ACHIEVABLE GOALS

It's often said that the key to meeting financial goals is to identify what you want to get out of life. For instance, whilst you might love to eat out several times a month; saving for a holiday of a lifetime, or enjoying a comfortable retirement, might mean cutting down on these nights out.

Most of us have multiple financial goals that will span our lifetimes, and it can seem difficult to keep them all on track. This is where it pays to take financial advice. We

will be able to assist you in putting together a financial plan that addresses both your short and longer-term financial aspirations.

### SET SIMPLE OBJECTIVES

As a starting point, everyone needs to have some money put away for emergencies like an unexpected expense, and this means having some cash that can be accessed quickly. The next step can then be to think about the bigger and more exciting things in life, and have money saved that steadily builds up for the future. Accounts like ISAs can really help and offer valuable tax advantages, and you can invest lump-sums or make regular monthly contributions within annual limits.

### KEEP RETIREMENT PLANNING IN VIEW

It's all too easy to think that your retirement will take care of itself, but leaving it to chance might leave you struggling to afford much more than the basics in years to come. The more you can save early on, the longer your money has to grow.

<sup>2</sup>Royal London, 2019

## IN THE NEWS...

### UK HOUSEHOLDS WORSE OFF BY £1,500 SINCE JUNE 2016

Figures<sup>3</sup> show that it's not just businesses that have been hit hard by economic uncertainties; household incomes have fallen by around £1,500 since June 2016. The UK has experienced the sharpest slowdown in income growth of all the 36 countries monitored by the Organisation for Economic Cooperation and Development.

### THE AVERAGE FUNERAL COSTS £3,757

Whilst it's good news that the cost of funerals stabilised in 2018, the figure for the average debt taken on by those arranging them has risen to an all-time high of £1,744<sup>4</sup>. Many people feel that the Department for Work and Pensions should provide grants to cover more of the basic costs such as funeral director's fees.

### UK DIVIDENDS REACHED NEW HEIGHTS IN 2018

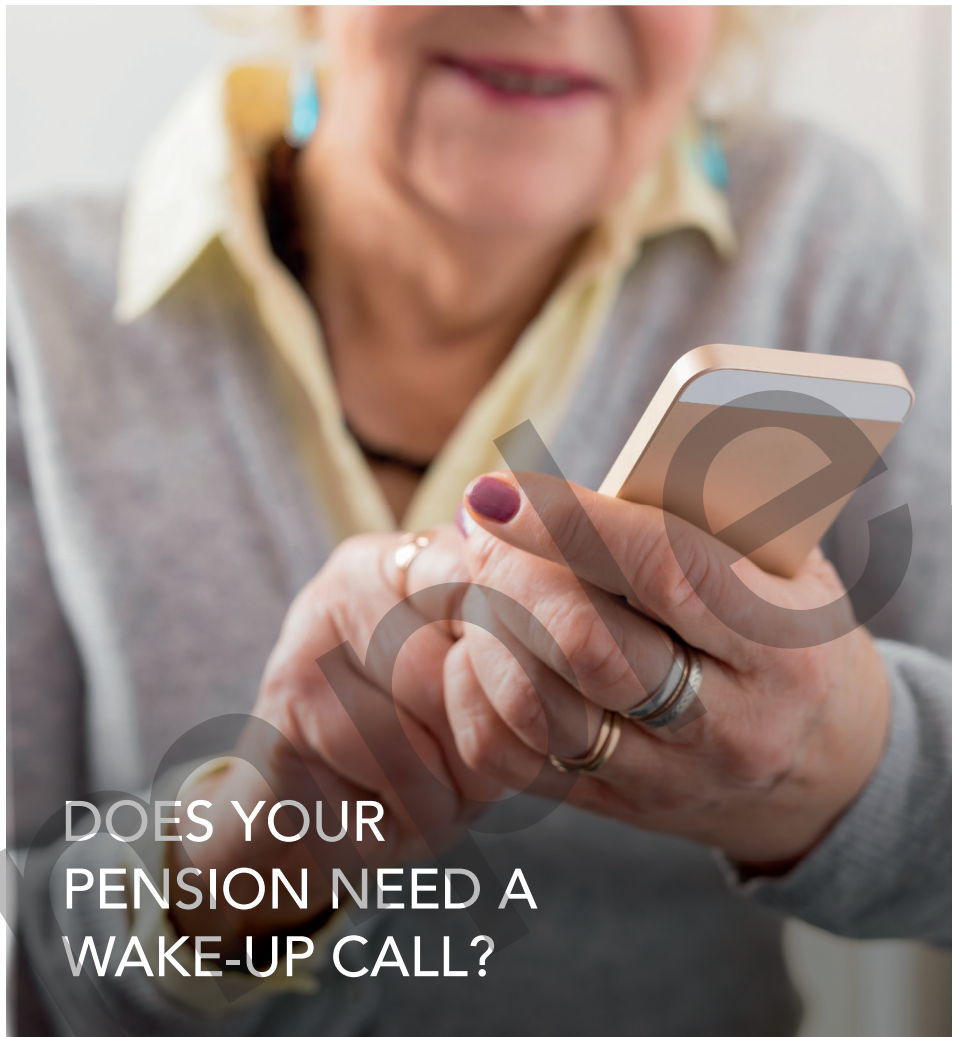
Although 2018 may have been a disappointing year for growth, investors enjoyed record dividends<sup>5</sup>. The all-time high was driven by a rise in profits, better than expected special dividend payments and the effects of currency exchange rates. UK companies' earnings in foreign currencies including the US dollar were worth more when changed into sterling.



<sup>3</sup>Resolution Foundation, Feb 2019

<sup>4</sup>Royal London, 2018

<sup>5</sup>Forbes, UK Dividend Monitor, 2019



## DOES YOUR PENSION NEED A WAKE-UP CALL?

Whilst many people know that they should save more for their retirement, they manage to keep putting it off and don't check what level of income they are likely to receive when they stop working.

Some people could be sleepwalking their way towards a retirement where money could be tight. A recent survey conducted by Aegon<sup>6</sup> found that less than a fifth of adults aged 55-64 have more than £300,000 in their pensions – the average amount widely considered to be necessary for someone to maintain their current lifestyle.

### GET A PLAN IN PLACE

Drawing up a budget that covers your likely spend and setting that against the income you can expect to receive from your pension(s), savings and investments is a good place to begin your retirement plan.

You need to think about the income you're likely to need during the first few years of your

retirement, but also plan for a time when you might need to pay for help or care.

### THE STEPS WE ALL NEED TO TAKE

It seems that people often put off finding out how much they have saved in their pension because they fear it will be bad news. However, there are some simple, practical steps that can really help, like topping up your contributions whenever your financial circumstances allow, as within limits they attract valuable tax relief. Make sure you know your State Pension age and get a forecast of how much you'll receive.

Carrying out a reality check and scheduling a review with your financial adviser is the best way to keep your retirement plan on track.

<sup>6</sup>Aegon, 2018

**A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.**

**The value of investments and income from them may go down. You may not get back the original amount invested.**

## STAY OUT OF THE DOG HOUSE

From time to time you may have seen reports in the financial pages of the newspapers mentioning 'dog' funds. You may have wondered what the term means and be concerned about what you should do if you find you're invested in one of these funds.

### WHAT A DOG TAG MEANS

Put simply, a 'dog' fund is one that is deemed to be poorly performing. All investment funds fall into sectors – for example, UK smaller companies or global emerging markets. Classifying them under these headings means that it's easier to make meaningful comparisons. They can be compared both against each other and against the average performance for all the funds in that sector. If a fund is consistently showing as being 10% below the sector average, then it can earn the 'dog' tag.

Keeping a close eye on the performance of your assets will mean that under-performing funds can be identified quickly and monitored. If necessary, changes will be made to your portfolio.

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## CIVIL PARTNERSHIP BILL MAKES PROGRESS

Last June, the Supreme Court ruled that laws banning opposite-sex couples from civil partnerships were in breach of the European Convention on Human Rights.

So, for couples who dislike the idea of traditional marriage but would like full legal recognition of their relationship, the news that opposite-sex couples will soon be able to enter into civil partnerships will be welcomed. This move will address the imbalance that allows same-sex couples to choose, but not mixed-sex couples.

Although no date has been fixed yet, the government is expected to introduce the change during this year as The Civil Partnerships, Marriages and Deaths Bill has passed through the committee stage in the House of Lords. When this private member's bill becomes enacted, it will grant opposite-sex couples the right to form civil partnerships.

### WHAT DIFFERENCE WILL IT MAKE?

One of the most significant benefits that civil partnerships bring is that the partners have the same inheritance rights as married couples. The most recent figures from the Office for National Statistics' showed that in the UK the fastest-growing family type was cohabiting couples. There were 3.3 million cohabiting families in 2017, more than double the figure in 1996.

Mistakenly, some cohabiting couples believe they have the same rights as married couples or civil partners. However, whilst marriages and civil partnerships give couples statutory legal protections and responsibilities to each other, the situation isn't the same for those who cohabit, especially when it comes to things like property, Inheritance Tax and pensions. For example, even if a Will is made in favour of a cohabitant, they aren't entitled to the spouse exemptions from Inheritance Tax.

<sup>7</sup>ONS, 2017

## IS IT TIME TO TALK TO YOUR FAMILY ABOUT MONEY?

Being open about wealth and discussing matters with those close to you can seem a step too far for many families. However, these days family finances can often be closely intertwined. The rise of the Bank of Mum and Dad has shown that many parents and grandparents want to pass on wealth during their lifetimes, rather than waiting until they die.

For the older generation, talking to us about big financial decisions such as whether to downsize or remortgage, how much support to give children towards their education or the deposit for a property, can help ensure the right financial plans are in place to safeguard each generation's financial interests.

### OVERCOMING THE TABOOS

It's not uncommon even today for married couples not to know how much money their spouse earns. Wealthy parents can sometimes shy away from letting their children know too much about their wealth, in an effort to prevent them becoming complacent about what they might inherit in the years to come, and losing their work ethic. Naturally older people don't always want to dwell too much on the future, finding it difficult and distressing to raise issues like death and inheritance with their loved ones.

However, discussing wealth matters with your family and your financial adviser can help establish priorities, clarify goals and ensure that plans are put in place to support each generation according to their financial needs.

We are increasingly being asked to help plan family wealth holistically, not least because we offer sound practical advice in an objective way. If you'd like us to help your family, then please do get in touch.

## MORE THAN A MILLION OVER 55s FACE TOUGHER PENSION RESTRICTIONS

Those dipping into their pensions using the pension freedoms introduced in 2015 need to be aware of the taxation implications of doing so if they also want to continue to save into a pension. An increasing number of individuals have been reported to be breaching the allowance. In the 2015-16 tax year, 8,890 individuals breached the allowance and paid £19,933 in average excess. By the following tax year, this figure doubled to 18,930 reported cases paying an average charge of £29,635<sup>8</sup>.

Although tax relief is normally available on pension contributions up to £40,000 a year, once a pension saver makes a flexible withdrawal, the Money Purchase Annual Allowance is restricted to £4,000. Keeping up to date with pension rules and limits can seem complex and time-consuming, so do ask us for advice.

<sup>8</sup>HMRC, FOIA request



## WOMEN AND PENSIONS

As from November 2018, the State Pension age for women rose to 65, matching the retirement age for men for the first time. This equalisation of the State Pension age at 65 is the first step towards a rise to 66 for both sexes in October 2020.

Many campaigners feel that the accelerated timetable for equalising State Pension age has hit many women hard. The campaign group, Women Against State Pension Inequality (WASPI) has protested outside parliament on numerous occasions.

### PREPARING FOR THE FUTURE

A recent survey<sup>9</sup> has shown that just 54% of women were saving adequately for retirement, with around 18% not saving at all. The report showed that at every stage of life, men outpaced women in the amount they had saved. In around 85% of households, it's the norm for women to take care of the finances and budget

for the important things in family life. However, it seems that they aren't always as focused as they should be on building up their pension for the future.

<sup>9</sup>Scottish Widows, 2018

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

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The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.

Information is based on our understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation, are subject to change.

A mortgage is a loan secured against your property. Your property may be repossessed if you do not keep up the repayments on your mortgage or any other debt secured on it.

The value of investments and income from them may go down. You may not get back the original amount invested.

Tax treatment is based on individual circumstances and may be subject to change in the future.

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