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INSIDE THIS ISSUE

THE INTERGENERATIONAL FAIRNESS DEBATE – PEERS MAKE RECOMMENDATIONS

The deal between young and old to support each other through life could break down because of major problems with housing, work and tax. This was the conclusion reached by the House of Lords Committee on Intergenerational Fairness and Provision following a 12-month parliamentary inquiry.

The Committee was made up of Labour, Conservative, Liberal Democrat and crossbench peers and made recommendations across a wide range of topics. It believes that major reforms are needed both to 'retain the supportive relationship between generations' and to plan for the '100-year life' that younger people can expect to become the norm.

THE PERCEIVED CAUSES OF UNFAIRNESS

In the Committee's view, the growth of the gig economy, soaring housing costs and financial giveaways for older people are driving a wedge between generations in Britain. In order to redress the balance, policy changes will need to be introduced. 'Outdated' age-specific benefits for older people should be replaced with support for the young to 'deliver a fairer society'.

The Committee's report[2] included changes that risk angering older voters, including delaying winter fuel payments and bus passes until they have been retired for five years, and removing the triple lock on the State Pension that guarantees inflation-linked annual increases. It also recommends that those who continue to work after their normal retirement date should pay National Insurance Contributions whilst they are working.

Commenting on the proposals put forward by the Committee, its Chairman Lord True said that the connections between the generations could be undermined if the government didn't get to grips with the key issues of housing, secure employment and fairness in tax and benefits.

OPPOSING VIEWS PERSIST

The peers' study cited research from Age UK that shows people are more likely to view older people as friendly and warm than competent, while the peers' own panel of younger people said they were treated badly by older people who considered them 'trouble' or 'soft'.

[2]Select Committee on Intergenerational Fairness & Provision, April 2019

PENSIONERS ADOPTING A PRUDENT APPROACH

Back in April 2015, when the new pension rules were introduced, fears were expressed in some quarters that pensioners would empty their pension pots and splurge their cash on extravagant luxuries such as Lamborghinis.

However, this simply didn't happen to any great degree. Whilst the total value of pension withdrawals made since April 2015 is over £25bn, the average withdrawal made between July and September 2018 was £7,597, the lowest level recorded by HMRC since their records began four years ago[1].

TAX AND MARKET VOLATILITY

This prudent approach may be based in practicalities. Taking large amounts of cash out of a pension can give rise to a hefty tax bill, so many were probably deterred by the thought that they would end up in a higher tax bracket. In addition, market volatility may have made pensioners more cautious and anxious to preserve their savings; after all, we would all like to think that our wealth will last as long as we do. Taking decisions about pensions can be difficult; professional advice will help you maximise the benefits of the current pension rules.

[1]HMRC, April 2019

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.

IN THE NEWS...

BEWARE OF CLONED ISAs

Savers hunting for better ISA rates have been warned to look out for cloned sites operated by fraudsters. These sites typically offer very high rates of return and purport to come from some of the big names in financial services. The Financial Conduct Authority issued 228 warnings about clone accounts in 2018. If in doubt, please get in touch.

CALL FOR STAMP DUTY BREAKS FOR DOWNSIZERS

Saga has called on the government to exempt downsizers from Stamp Duty, in an effort to free up more homes for growing families. Its research shows that a quarter of potential downsizers were deterred from making their move by the high costs associated with moving home including Stamp Duty[3].

RETIREES SEE INCOME TAX BILLS RISE 13% IN FIVE YEARS

Data analysed from HMRC shows there are now 6.6m taxpayers of pensionable age, and the average annual amount of tax paid is £3,400, on income derived from work, self-employment, investments and pensions. This figure has risen over the last few years as more people choose to work on past their normal retirement age and highlights the need to plan retirement income as tax-efficiently as possible.

[3]Saga, April 2019

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TRUSTS – AN EFFECTIVE WAY TO TRANSFER WEALTH

Trusts can play an important role in helping families achieve their financial goals and provide an effective way of passing money down the generations.

WHAT IS A TRUST?

A trust is a legal arrangement which allows assets, usually property, investments or money, to be looked after by a trustee for the good of one or more beneficiaries. Those beneficiaries can be named individuals, such as your children, or can be people who are yet to be born. Trusts can be set up during your lifetime or in conjunction with a Will and can be used for several purposes.

WHY SET UP A TRUST?

They can have a variety of uses such as:

- Protecting the financial interests of a young beneficiary by retaining control of the assets until they reach the age of 18 (16 in Scotland)
- Looking after the interests of somebody who can't handle their own financial affairs through incapacity
- Providing for a husband or wife, while keeping the assets intact for the benefit of children
- Reducing Inheritance Tax liability (IHT) by taking assets out of an estate so reducing the amount on which IHT might otherwise be due
- Ensuring that the proceeds from a life insurance policy go to the beneficiary without waiting for probate, and don't form part of the estate for IHT purposes.

SETTING UP A TRUST

You will need to appoint trustees to look after the assets in the trust on behalf of the beneficiaries. They will have the power to make, manage and review investments and to make payments from the trust as set out in the trust deed.

There are several types of trust, and the one that's right for you will depend on who the beneficiaries are, what the assets are, and how and when you want them distributed. You will need to take expert advice as to what type of trust will work best for your particular circumstances.

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

HOW WEALTH GETS HANDED DOWN THE GENERATIONS

The rise of the Bank of Mum and Dad shows how the younger generation increasingly needs to rely on financial support when they face major expenses such as buying a property or raising a family.

New figures[4] show the extent to which parents and grandparents are making gifts and loans. Recipients are commonly those aged 25 to 34, with 11% in this age bracket receiving more than £500 during the previous two years; the average across all age groups being £2,000.

INHERITANCES PEAK FROM AGE 55

At the other end of the scale, those aged 55 to 64 are most likely to receive larger inheritances, receiving on average £33,000. This figure from the Office for National Statistics shows that it's wise not to put all your retirement eggs in the inheritance basket.

Interestingly, a survey has shown that millennials may have unrealistic expectations as to when they will receive an inheritance. One in seven questioned said they expected to inherit money before they are 55, hoping to receive £130,000. However, the average inheritance across all age ranges during the previous two years was £11,000.

[4]ONS, Oct 2018

SCAMMERS IMPERSONATING HMRC

Scammers are pretending to be from HMRC and using threatening tactics to try and convince victims to part with large amounts of money or face the risk of being arrested. This is a particularly nasty scam. Victims are threatened with lawsuits, warrants for their arrest or demands for thousands of pounds of outstanding tax to be paid. In another version of the scam, automated voicemails are left saying that recipients or their solicitors must get in contact or face the legal consequences.

ELDERLY TARGETED

Those targeted are often elderly and some have felt sufficiently pressurised to make payments. HMRC say that they have received more than 60,000 reports of phone scams in the six months to January 2019, an increase of 360% compared to the previous six months. Fraudsters are also impersonating HMRC online and using SMS.

ADVICE

Don't assume that anyone who calls or contacts you out of the blue is who they say they are. HMRC will only call you in connection with a debt that they have already made you aware of in writing.

HOW TO HELP WITH A DEPOSIT ON A HOME

Gifting money is a popular choice for parents and grandparents who want to help a family member buy a property whilst at the same time reducing their IHT bill.

USE YOUR ALLOWANCES

Everyone has a yearly 'gift' allowance for IHT purposes. You can make gifts of up to £3,000 each year, and the good news is that this figure can be carried over to the following year if you don't use it, meaning a maximum allowance of £6,000. So, a couple could be able to give away £12,000.

In addition, you can make small gifts of up to £250 per person per tax year, to as many people as you like. Weddings are another opportunity to hand over cash to loved ones – parents can give children £5,000 each as wedding presents, and £2,500 to grandchildren or great-grandchildren, or £1,000 to anyone else, all free of IHT.

MAKING LARGER GIFTS

You can give away larger sums known as 'potentially exempt transfers'. However, you need to live for at least seven years after making the gift for it to be totally IHT-free. It's advisable to take professional advice if you are planning to give away significant sums.

HAPPY RETIREMENT FOR THE AVERAGE OAP

Income data from the Office for National Statistics is likely to add fuel to the intergenerational fairness debate. Retired households have seen their income surge by almost 60% in the past 13 years, far outstripping the increases received by those in work.

The average pensioner's household income was £27,283 last year, an increase of more than £10,000 or 59% since 2005-06.

By contrast, the typical working household's earnings rose by only 36% over the same period, to £36,332.

RETIREMENT: 68% MAY BE MAKING THE WRONG CHOICES BY GOING IT ALONE

Since the introduction of the pension reforms, retirees have much greater flexibility to spend and invest their pension pots as they wish. However, this means that people are faced with important decisions, both in the run-up to retirement and afterwards, that will affect their standard of living and financial outlook for years to come.

A recent report[5] shows that only 32% of retirees take professional advice. This means that many may not be fully exploring their options and aren't putting in place the best pension arrangements for their personal circumstances. Figures show that many simply take the annuity or drawdown facility that their existing provider offers them, as they aren't aware that they can shop around to get a better deal.

CONCERNS EXPRESSED

The Financial Conduct Authority has reported concerns that those who don't take advice may be in danger of making poor investment decisions, or simply withdrawing cash from their pension pot and putting it into low return cash funds where it will be eroded by inflation.

[5]Canada Life, March 2019

YOUR INVESTMENT STRATEGY – HOW WILL IT CHANGE WITH YOUR AGE?

Having the correct investment strategy when you reach the different stages of life will help ensure you achieve your financial goals.

STARTING OUT

Investing at an early age, rather than keeping all your spare cash in a bank or building society account that pays low rates of interest, can be a good long-term strategy. Taking on greater risk can offer the prospect of a bigger return. Young investors have sufficient time ahead of them to ride out the inevitable peaks and troughs in the stock market, and to recoup any temporary losses they might make.

However, if one of your financial aims is saving money for a short-term project like a house deposit, to reach this goal you may want to opt for less risky investments.

REACHING YOUR MIDDLE YEARS

These could be your peak earnings years, so building up your pension investments should be a priority. You'll probably face greater calls on your cash, such as raising a family or taking care of elderly relatives. But don't overlook your own needs whilst looking after others. Having a regular review with us can ensure you keep your investments on track. Remember, you only have so many working years left to provide for your future.

WINDING DOWN

Today, more people than ever are working on past what would once have been considered normal retirement age. So, you may want to keep investing, gradually focusing more on income-producing stocks and shares as you wind down to retirement. You may be more concerned about protecting your wealth from stock market volatility, and at this point may want to adopt a lower risk profile.

Whatever your age, getting good advice can help you make the right investment choices.

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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.