ISSUE 8 ■ WINTER 2017

INDEPENDENT NEWS

KELLANDS
CHARTERED FINANCIAL PLANNERS

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INSIDE THIS ISSUE

Welcome to the final issue for 2017, featuring news, opinion, insights and analysis to help you navigate the complexities of today's financial world.

Inside this issue, we talk about estate planning, which is an extremely emotional subject as people generally don't like talking about money or death. On page 10, we comment on new research that shows some people would like to talk about this subject but haven't found the right time or just don't know where to start. This is worrying considering Inheritance Tax receipts increased by 22.9% in the first quarter of this tax year, according to data from the Office for National Statistics.

If you're still working, what kind of life would you like to lead when you've said goodbye to the 9-to-5? On page 04, we look at the importance of saving for retirement and how to turbocharge your pension if you want the financial freedom to enjoy your later years. After all, you'll still want to do all the things you love now – and probably a few others too.

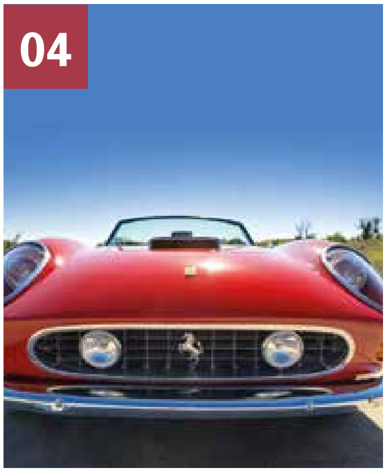
As part of Budget 2017, Chancellor Philip Hammond announced an extra £2 billion of funding for social care and paved the way for major changes to how people pay for it. But people in the UK are still underestimating the cost of elderly care every year, according to new research. Turn to page 06 to read the full article.

The full list of the articles featured in this issue appears on page 02.

To ensure your wealth is working for you or to discuss any of the articles featured inside this issue, please contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.



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The Kellands Team

WELCOME TO OUR CHRISTMAS NEWSLETTER

'An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today' – a quote from Evan Esar.

This last year has again outwitted the forecasters with the continued ongoing uncertainty and chat about Brexit and the Trump presidency seeming to dominate any other newsworthy events of 2017.

Despite all the negative commentary around today's uncertain economic times, I am pleased to report yet another very successful set of results for all our investment strategies. World growth has been underpinned by an almost unstoppable US stock market, and this backdrop has clearly played its part in the overall results. However, I would like to say a special well done to the Kellands internal investment committee, who through their rigorous due diligence process have yet again identified and selected investment strategies that continue to deliver these excellent investment returns.

Over the last 29 years, we have always tried to improve the service and quality of advice that we deliver, and again I am pleased to report that my team received the Winners Moneyfacts 2017 award for the best tax and estate planning firm, superseding our runners-up position of 2016. I would like to again thank our fantastic and loyal clients that have continued to work with us. Also, a special thank you to those of you who were kind enough to provide testimonials to help us on our way to being awarded this very prestigious Moneyfacts award!

I am hopeful that this award will also help demonstrate how passionate the whole team are in our commitment to helping all our clients achieve their personal, professional and financial goals. The financial purse is important, but I hope our service goes beyond this, as the greatest returns are when you grow more than just wealth.

Lastly, thank you to my fantastic team for their hard work and charitable fundraising activities this year, such as filled 'shoe boxes' and Christmas gift collections for under-privileged children in the UK, sponsorship of children's education programmes, and various individual sponsorship fund raisers. Please note in lieu of sending out Christmas cards, we will, as normal, be making a donation to Cancer Research.

I hope you enjoy our newsletter and wish you all a wonderful festive period and super New Year.

Kindest regards

Guy Kelland and the team at Kellands
Managing Director

Turbocharge your pension

Will you be able to afford the retirement lifestyle you want?

IF YOU'RE STILL WORKING, WHAT KIND OF LIFE WOULD YOU LIKE TO LEAD WHEN YOU'VE SAID GOODBYE TO THE 9-TO-5? SAVING FOR YOUR RETIREMENT IS ESSENTIAL IF YOU WANT THE FINANCIAL FREEDOM TO ENJOY YOUR LATER YEARS. AFTER ALL, YOU'LL STILL WANT TO DO ALL THE THINGS YOU LOVE NOW – AND PROBABLY A FEW OTHERS TOO.

With that in mind, it's a good idea to consider how big an income you'll actually need. But at the heart of today's challenge is rising longevity. UK life expectancy continues to rise, and a longer retirement means your savings will have to stretch further.

Pensions and Individual Savings Accounts are popular ways of saving tax-efficiently, but they are very different from each other – particularly in how they are taxed.

Pensions – crucial, but curtailed

Pensions should play an important part in everyone's long-term financial planning, so ensure that you make the most of any employer's contributions. Your own contributions are typically also tax-free on the way in, making them a very tax-efficient way to save.

However, when planning long-term savings, savers with big aspirations for their retirement need to bear in mind the lifetime allowance and annual allowance.

Lifetime allowance – if your pension pot is valued above £1 million (2017/18), a tax charge can apply on accessing the monies which exceed this threshold. The tax rate on savings above your lifetime allowance will be either 55% if you take it as a lump sum, or 25% otherwise. The pension funds will also be tested against the lifetime allowance at age 75.

Annual allowance – if you contribute more than a given amount to your pension pot in any year, you usually have to pay tax on the extra amount. This cap is currently £40,000 a year for most people, but is lower for higher earners. The annual allowance is reduced by £1 for every £2 earned above £150,000. For anyone earning £210,000 or more, the allowance is £10,000 a year.

These allowances may sound higher than they are, considering that both include an employer's contribution. Remember that it is the value of your pension pot – not the amount that you contributed – that counts towards your lifetime allowance, and so investment growth over time could push you over this threshold.

Also bear in mind that all of your pension income – including from a State Pension – is normally taxed like other income. This means that, even in retirement, annual earnings above £45,000 are subject to the higher rate of tax – currently 40%.

Ways to boost your pension in the run-up to retirement

Even if retirement isn't far away, there are steps you can take to increase your retirement income.

1. Maximise any contributions from your employer

If your employer contributes to your pension plan, they might pay in a bit more if you do too. Some employers increase the amount they contribute when you increase your contributions (which may only be up to a certain limit).

If you put an extra percent or two of your salary into your pension plan, they might pay in more as well, and in the long run you could end up better off. Ask your employer for details of whether they contribute to your pension plan, and by how much.

2. Increase your regular payments whenever you can

Another way of boosting your pension pot is to increase your monthly payments whenever you get the chance. For example, if you receive a pay rise, why not arrange to pay some of it into your pension plan? You can also take this approach any time a regular expenditure comes to an end. If you pay off a loan, for instance, you could pay the extra money into your pension plan.

Small, regular increases like this can make a big difference to what you eventually receive when you retire. Over the long term, your pension plan will have a better opportunity to grow.

3. Pay in a lump sum

In addition to making regular payments, you could also pay lump sums into your pension plan. And as with any personal payments you make into your plan, the Government will top it up with tax relief, up to a certain limit.

If you received a bonus from work and paid a personal contribution of £10,000 of it into your pension plan, the Government would add £2,500 in tax relief. The tax treatment of pensions depends on individual circumstances and may be subject to change.

Please note that contributions being paid net of basic-rate tax relate only to personal pension contributions.

4. Review your investment choices

Where your pension plan is invested can have a considerable effect on what you'll eventually receive when you retire. You should regularly review how it's invested. As you get older, it may be appropriate to consider changing your investment strategy to reduce investment risk as retirement draws closer.

Looking beyond pensions

Given the limits we've mentioned on how much you can put in and take out of your pension without paying potentially significant amounts of tax, it might be worth considering how to complement it with other savings and investments.

An important tool is the Individual Savings Account (or 'ISA') which can be used to hold any combination of cash savings and investments in stocks and shares. In the current 2017/18 tax year, up to £20,000 can be contributed towards your ISA.

Unlike a pension, while you will have paid tax on money that you save or invest into an ISA, any income that you receive and any capital gains from a rise in the value of your investments will be free from personal taxation, irrespective of any other earnings you have.

Your ISA should become part of your investment strategy, but it's important to remember that tax rules may change in the future, and the tax advantages of investing through an ISA will also depend on your personal circumstances.

Recent changes to pension rules mean you can access up to 25% of your pension pots as a tax-free lump sum from the age of 55.

While you can choose how to spend your Pension Commencement Lump Sum – better known as 'tax-free cash' – you should remember that any spending now is likely to reduce your potential income in retirement.

Depending on your circumstances, it may be prudent to consider using this lump sum to pay off any debts or perhaps reinvest it for your future. If you choose to save or invest through an ISA, remember that any gains or income will themselves be tax-free – unlike in a pension.

In the current economic and political climate, looking beyond pensions to put your money to work could give you more choices in retirement. The right solution will be unique to your goals and needs, but there are a number of investment strategies that could help grow your money in time for life after work. ◀

TALK TO US SOONER RATHER THAN LATER

Professional financial advice is important before making decisions around pension saving strategy. Whether your retirement is still some time away or it is fast approaching, it's important to get a clear view of how close you are to achieving your aims. If you don't think you'll have enough money when you retire, there are a number of approaches you could take to build a bigger pot, but you'll need to talk to us sooner rather than later. Please contact us – we look forward to hearing from you.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET THE ORIGINAL AMOUNT INVESTED.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. FLUCTUATIONS IN FUND VALUE CAN IMPACT THE PENSION BENEFITS AVAILABLE. YOUR PENSION INCOME MAY ALSO BE IMPACTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

LEVELS, BASES OF AND RELIEFS FROM TAXATION MAY BE SUBJECT TO CHANGE, AND THEIR VALUE DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE INVESTOR.

Putting money in

ISA

- 0% relief on contributions
- Annual ISA allowance for 2017/18 is £20,000
- You can invest in any combination of cash or stocks and shares

Pension

- 20% basic-rate tax relief is added to the contribution
- Higher or additional-rate tax relief can be reclaimed from HM Revenue & Customs
- Savers can obtain tax relief on up to 100% of UK earnings every year. This is subject to an annual allowance (£40,000 in 2017/18). Savers may 'carry forward' unused allowance from the three previous tax years
- Those with no earnings get tax relief on the first £2,880 of contributions they make each year

Taking money out

ISA

- 100% is available tax-efficiently

Pension

- 25% is available free
- The rest is taxed at your marginal rate, so you may pay 20%, 40% or 45% tax on your pension (or a combination)

"Pensions and Individual Savings Accounts are popular ways of saving tax-efficiently, but they are very different from each other – particularly in how they are taxed."

Growing care costs

Ageing population faces significant funding crisis

AS PART OF BUDGET 2017, CHANCELLOR PHILIP HAMMOND ANNOUNCED AN EXTRA £2 BILLION OF FUNDING FOR SOCIAL CARE AND PAVED THE WAY FOR MAJOR CHANGES TO HOW PEOPLE PAY FOR IT. BUT PEOPLE IN THE UK ARE STILL UNDERESTIMATING THE COST OF ELDERLY CARE BY £7 BILLION EVERY YEAR[1], ACCORDING TO NEW RESEARCH FROM SCOTTISH WIDOWS' INDEPENDENT THINK TANK, THE CENTRE FOR THE MODERN FAMILY.

On average, UK adults estimate that residential care would cost £549 a week – when, in reality, it costs on average £866 for a place in a nursing home – leaving a shortfall of £317 every week[2].

Feeling stressed

More worryingly, the deficit could be significantly higher in reality, since one in four (25%) people admit they have no idea how they would cover these costs for themselves or a relative. Only 15% of people are saving money on a monthly basis to pay for their own care when the time comes, and almost half (49%) say they avoid thinking about the issue because it makes them feel stressed. With an ageing population and growing care costs, the nation could be facing a care funding crisis.

Instead, half (49%) of UK adults say they will have to rely on a relative to help them cover the costs. This could leave families in a difficult financial situation, particularly as more than four in ten (42%) people have £2,000 or less in life savings to fall back on, meaning they could only cover the cost of care for a maximum of two-and-a-half weeks.

Shared responsibilities

Half (50%) of UK adults believe that the responsibility of helping parents to pay for care should be shared among siblings. However, almost half (48%) of those over the age of 55 still haven't discussed who will take on this responsibility in their family. With more than nine out of ten (92%) people not saving anything to help their parents or other older relatives, this could lead to a significant shortfall in support, particularly as people estimate they could only afford to spend £69 a week on care for their parents.

A lack of understanding of the benefits system could also be problematic for many. Almost one in four people (24%) claim they would need, or expect, to rely entirely on state support, but two in five (42%) admit they don't actually understand what benefits – both practical and financial – they would be entitled to.

Family sacrifices

An over-reliance on relatives to provide financial support already has a significant impact on families. Almost one quarter (23%) of those caring for a family member say it has put a strain on their finances. One in ten (12%) have been forced to make sacrifices to cover the cost of care for themselves or a relative, with a quarter (24%) of those people making major adjustments such as remortgaging their house. A similar proportion (22%) have been forced to make a moderate sacrifice, such as taking on a second job to cover the costs.

Supporting relatives practically and financially also puts emotional strain on families. Of those providing care, four in five (80%) say it has had an effect on them, with more than a quarter (27%) admitting it has put a strain on their close relationships. Although women are more likely to say they have less time to themselves (48%) than men (34%) when caring for a relative, more men (30%) than women (23%) are likely to feel that their family relationships have been impacted.

Over-reliance

The number of people in care in the UK is set to almost double by 2035. The research shows that an over-reliance on relatives and the state could put families in serious financial difficulty. It can seem difficult to know how to prepare for the future, but to avoid a financial care crisis, we all need to have an honest discussion on later life care as early as possible so no one is left footing a bill they can't afford.

As for state provision, it's clear that many people simply don't understand the social care benefits and support system. Providing clarity and raising awareness of what is and isn't available is critical to helping people prepare for the longer-term future. ◄

It's important to know the facts

When looking into funding elderly care, you may be faced with a plethora of different options that can often be complicated to understand. So if you or a loved one needs to pay for care at home or in a care home, it's important to know the facts. To discuss your particular requirements, please contact us.

Source data:

Report based on both quantitative and qualitative inputs, including a nationally representative Opinium survey of 2,000+ UK adults (aged 18 and over). Research carried out between 14 and 20 April 2017 and between 15 and 18 July 2017.

[1] Figure calculated based on underestimated price of residential nursing care per week (£317, i.e. £866 minus £549) multiplied by current number of UK over-65s in care (421,100 according to the latest Laing & Buisson and detailed in Age UK's 'Later Life in the UK, August 2017' report) including with nursing and multiplied by 52

[2] According to regional cost figures from Laing & Buisson Care of Older People, including England, Wales, Northern Ireland and Scotland

Don’t worry, be happy

How to build a sustainable retirement income plan

IT IS IMPOSSIBLE TO CONSIDER RETIREMENT, AND OUR EXPERIENCE OF IT, WITHOUT ALSO CONSIDERING HOW WE’LL PAY FOR IT. BUT ALMOST 30% OF PEOPLE OVER THE AGE OF 55 ARE UNSURE IF THEY WILL BE ABLE TO RETIRE ON THEIR CURRENT SAVINGS, ACCORDING TO NEW RESEARCH[1].

Four out of five Britons are unhappy with the amount they are putting into their pension fund every month, while one in four people regret not starting to save for retirement earlier in life.

A Financial Conduct Authority (FCA) retirement income study has pointed to some of the issues faced by individuals with pensions who are approaching retirement.

One in four Britons regret not starting to save for retirement earlier in life

1. Take advice

As people approach retirement, it is crucial they take advice. The FCA has reported that non-advised people almost always remain with their existing pension provider instead of shopping around.

Obtaining professional financial advice will help secure the best value retirement income product to meet a retiree’s needs and help them understand a safe rate of withdrawal, balancing their income needs against life expectancy and the need to invest for income, which is very different to investing for growth.

2. Think twice before disinvesting your pension

Half of people are taking their pension savings out but not actually spending them. Instead, they are investing the proceeds into other products. This could be in cash, Individual Savings Accounts or buy-to-let properties. These actions will result in them giving up the advantages that pensions offer, such as future tax-free investment growth.

Cash is unlikely to produce good long-term returns, and illiquid assets like property present their own risks. Obtaining professional financial advice will enable people to identify the right approach to investing for their individual needs that match their financial goals in the longer term.

3. Do you need to touch your pension?

Pensions are not included in an individual’s estate on death, which means Inheritance Tax of up to 40% will not apply. They used to be subject to a separate ‘pensions death tax’ but this has been removed as part of the pension freedom reforms. Now any unused drawdown funds can be passed on and will be tax-free or taxed at the beneficiaries’ marginal rate of Income Tax.

People need to consider whether it would be more tax-efficient to leave their pension invested and use other assets first. The FCA found that 94% of people who made a full withdrawal had other sources of retirement income available to them in addition to the State Pension.

4. Can you afford to retire early?

The FCA report says 72% of pension pots are accessed before age 65, and individuals rarely consider ‘the future and any of the broader issues around how much they would need to live off’. Many people want to retire early, but it is important to ensure that won’t leave an income shortfall later on. A lot of people underestimate how long they will live for.

Income requirements are thought to follow a ‘U shape’ in retirement, with the first phase being the most exciting and therefore the immediate focus. This is where people start to enjoy retirement, and the risk is that they get carried away with their spending. Spending then tends to fall as people become a little less active and slow down, but costs may then go up in later life due to health issues, and care may be required.

People should have a plan in place to see them all the way through retirement, not just focusing on the now.

5. Don’t rule out an annuity purchase

Drawdown has surged in popularity versus annuities. However, before going into drawdown, people should consider which option best suits their needs. For instance, if they cannot afford for their pension to run out, considering an annuity may be more appropriate. Or they may decide to combine drawdown with an annuity to balance flexibility with security.

6. Consider your housing wealth

Many people have a good deal of their wealth tied up in their home. Relying on their home in retirement is difficult, and accessing it isn’t always simple. However, it is possible to access that wealth through equity release schemes or downsizing. ◂

Stepping off the corporate treadmill

If you’re planning to step off the corporate treadmill in your 50s or early 60s and maintain your standard of living, talk to us so we can assess your existing plans and advise on any necessary changes required to achieve this goal. To discuss your retirement plans, please contact us – we look forward to hearing from you.

Source data:
[1] Pension Geeks

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

YOUR HOME OR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

Market sentiment

Reaching your long-term investment goals

IT IS IMPOSSIBLE FOR INVESTORS TO PREDICT THE FUTURE. SHORT-TERM LOSSES CAN BE UNSETTLING, BUT HOLDING STEADY THROUGH THE UPS AND DOWNS IS THE BEST WAY TO REACH YOUR LONG-TERM INVESTMENT GOALS. A KEY TO SUCCESSFUL INVESTING IS TO REMAIN FOCUSED ON YOUR LONG-TERM OBJECTIVES AND NOT LET SHORT-TERM TRENDS DISTRACT YOU. HOLDING ONTO YOUR INVESTMENTS WHEN TIMES GET TOUGH IS A PROVEN STRATEGY FOR STAYING ON TRACK.

Volatility in the market is normal, and feeling uneasy about a lower portfolio value is normal too. If you want to give your investments the best chance of earning a return, then it's a good idea to cultivate the art of patience. The best returns tend to come from sticking with a long-term commitment to your investments.

The longer you're prepared to stay invested, the greater the chance your investments will yield positive returns. That means holding your investments for no less than five years, but preferably much longer. During any long-term investment period, it is vital not to be distracted by the daily performance of individual investments. Instead, stay focused on the bigger picture.

Focusing on long-term investment goals

The stock market recovery since the financial crisis over the previous decade is an example of one case where focusing on long-term investment goals and avoiding knee-jerk reactions in response to the impact of any event, whether political or economic, worked well.

Maintaining a long-term view of at least five years (but preferably longer) may also help you resist the temptation to attempt to time the market. Typically, the longer you are prepared to stay invested in the stock market, the greater the chance of your investments producing positive returns. Selling your investments when markets take a downturn means you are turning paper losses into realised ones.

In it for the long term

Success in the stock market is all about time and patience. However, it's understandable that when you put your money into the market, you will be tempted to check up on how your investments are performing on a regular basis.

Seeing investment prices fall, sometimes with alarming speed, can be enough to spook even the most experienced of investors. But remember that the reasons why you identified a particular fund or share as a sound investment in the first place should hopefully not have changed. The fall could just be down to market conditions as much as anything the individual company or fund manager has done, and in many cases, given enough time, investments should hopefully recover their value.

Developing a buy-and-hold strategy for the long term

Whatever happens in the markets, in all probability your reasons for investing won't have changed. For example, your aim may still be to cover education costs for your children or grandchildren, or saving for retirement. A buy-and-hold investment strategy is likely to serve you best for these long-term goals.

Bear in mind, too, the benefits of so-called 'pound-cost averaging' during periods of market volatility. Essentially, if you are investing on a regular basis, your contributions will buy more shares when prices are low and fewer when they are expensive. Over the long run, this should help smooth out your returns, though there is no guarantee of this.

When the time is right, rebalance for stronger diversification

For all investors, there will come a time when the portfolio needs to be rebalanced. A major reason for a realignment is when the actual allocation of your assets – be that shares, government bonds, corporate bonds or cash – no longer matches your risk profile. Alternatively, it may be because your investment horizons have shortened. Perhaps, for example, your retirement date is getting closer. These are solid reasons for selling some assets and buying new ones to keep your investments appropriately diversified.

It may also be tempting to spend any income generated by your investments, but if you don't need it in the short term, it makes sense to reinvest it back into your portfolio. When you reinvest dividends, you can dramatically increase your annual returns and total wealth. When you invest in companies that pay out some of their income in the form of dividends, you should reinvest the dividends to maximise returns until it comes time to let your dividend stocks be part of your spendable income. ◂

Getting advice on investing

Whether you're an experienced investor or just starting out, we can discuss the different investment options to help you make the most of your money. To review your situation, please contact us.

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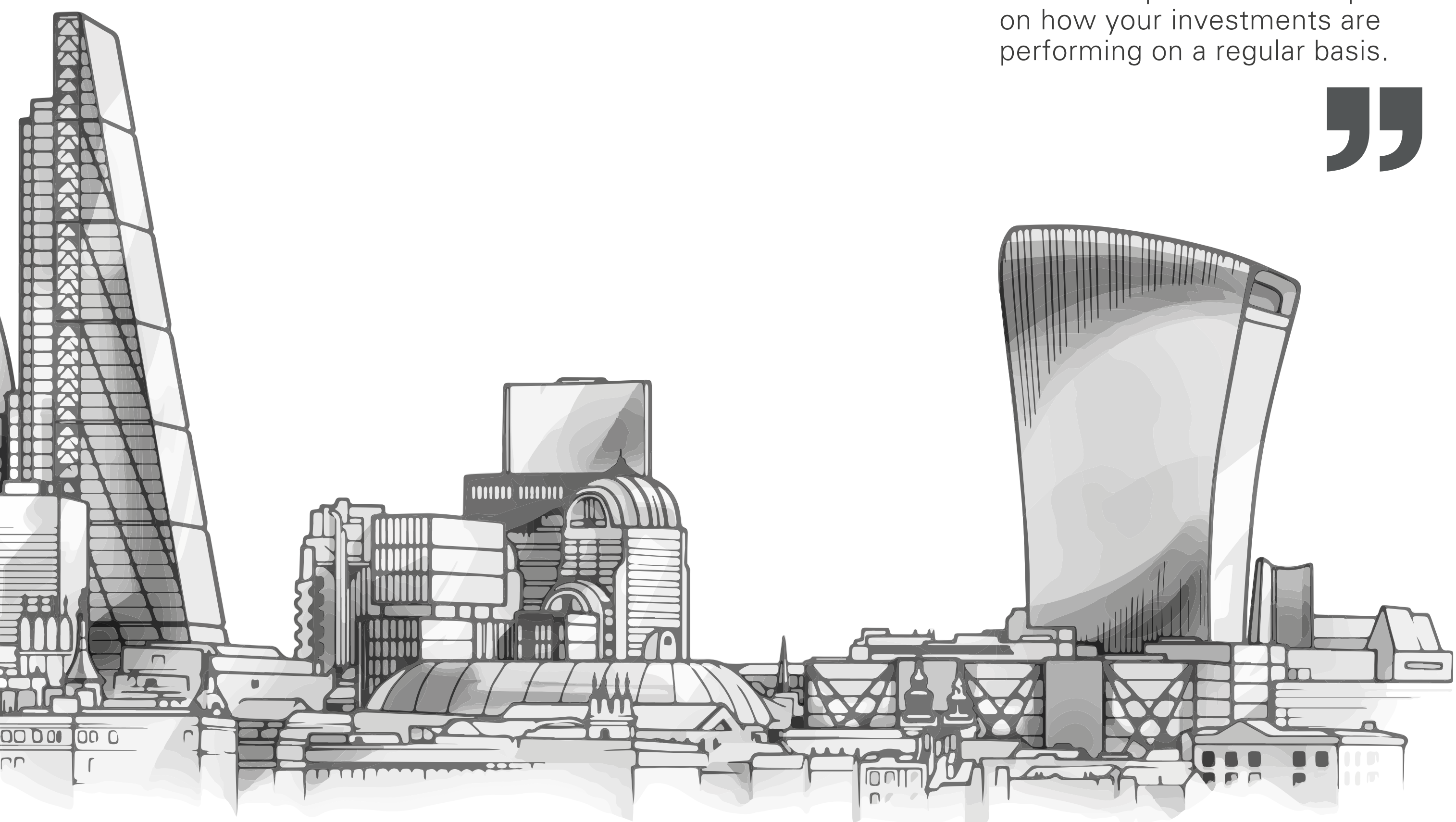
“Success in the stock market is all about time and patience. However, it's understandable that when you put your money into the market, you will be tempted to check up on how your investments are performing on a regular basis.”



Your wealth. Your legacy

Families shying away from difficult conversations

IF YOU HAVE SIGNIFICANT ASSETS, YOU MAY BE WONDERING WHETHER INHERITANCE TAX (IHT) AFFECTS YOU. WORRYINGLY, SOME FAMILIES APPEAR TO BE SHYING AWAY FROM DIFFICULT CONVERSATIONS, AS ALMOST HALF (47%) OF UK ADULTS SAY THEY HAVE NEVER DISCUSSED INHERITANCE MATTERS, ACCORDING TO NEW RESEARCH[1].

IHT receipts increased by 22.9% in the first quarter of this tax year, according to data from the Office for National Statistics. The figures show that more than £2 billion has been taken from people's estates in IHT since March.

Extremely emotional subject

Talking about estate planning is an extremely emotional subject, as people generally don't like talking about money or death. However, the research shows that around one in ten people would like to talk about it but haven't found the right time, and some people just don't know where to start (7%).

When someone dies, the value of their estate becomes liable for IHT. Everyone is entitled to pass on assets of up to £325,000 IHT-free. This is called the 'nil-rate band'. It hasn't changed since 2009 and will remain frozen until 2021. Any excess above £325,000 is taxed at 40%.

Residence nil-rate band

The new £100,000 residence nil-rate band was introduced in April 2017. It will increase in steps to £175,000 in April 2020, so married couples or registered civil partners with children will be able to pass on up to £1 million IHT-free. The residence nil rate band is only available when passing on the family home, or the value from the sale of it, to a direct descendent, so it is important to consider structuring your estate to make the most of these allowances.

The research of 4,000 UK adults shows that a quarter (26%) of people say they haven't discussed the subject with loved ones because they're not old, so it's not a priority. However, age isn't the only factor preventing people from talking about inheritance, as one in seven (14%) say they don't like talking about death, and one in ten (11%) say they avoid it because it's a morbid subject.

Talking to loved ones

While more than a third (36%) of people say they don't feel comfortable talking about their legacy, there are some life events that may prompt people to talk to loved ones about this important subject, such as a health scare (52%), a near-death experience (46%) and getting older (46%).

There are also some people who hold the key to unlocking inheritance conversations. After their partner or spouse (32%), people feel most comfortable talking to their mum (8%) or a financial adviser (8%) in the first instance.

Passing on wealth

Of those who have broached the subject, most (36%) have talked about passing on wealth when they die, a quarter (26%) have discussed Will writing, and one in five (18%) have discussed passing on personal items such as jewellery and photos. One in ten (10%) say they have talked about which belongings they want to give to loved ones while alive.

The research suggests that as people live longer and have healthier lives, many may be torn between the desire to help loved ones while also maintaining their own financial independence. Those who have a plan estimate that 65% of their wealth will be needed to cover their 'cost of living', leaving them able to pass on a quarter (25%) to loved ones in a Will and to share 10% with their family as a 'living legacy' while they are alive.

Retirement or later-life care

Gifting wealth – whether it is money, property or family heirlooms – is important to Britons, with half (45%) hoping to pass on a legacy to loved ones. The research shows that the most common reason over-50s choose to pass on wealth after they have died is because they are worried their loved ones won't have enough money to fund retirement or later-life care (52%). Other reasons include wanting to help family members even if they're not here to see them receive it (47%), and leaving younger family members something to remember them by (26%).

Those over 50 opting for a living legacy are motivated by the thought of being around to watch loved ones benefit from their wealth (49%) and thinking that younger family members need the money more than they do (23%). One in eight (12%) also see the financial benefits of gifting money while they're alive and plan to do so for tax reasons.

Providing financial support

In fact, more people are stepping in and providing financial support to family members this year, compared to last year. For instance, 59% intend to fund family weddings and deposits for first homes in 2017, compared to 52% of people in 2016[2].

5 conversational topics about inheritance to have with your loved ones

1. The importance of an up-to-date Will

When you are making a Will, this is a good time to talk to your family about your wishes. The research found just four in ten (40%) of over-55s have an up-to-date and valid Will.

2. Take advantage of the gift allowance

You can give away £3,000 each year, and this will not be subject to IHT. In addition, parents can gift £5,000 to each child as a wedding gift, while grandparents can give £2,500. However, the research shows one in three people don't know how much you can gift each year without having to pay IHT.

Gifting money regularly throughout the year can be a great way to financially help loved ones, and it can also reduce your IHT liability. Some people will find it hard asking for money, so try and speak to your children and grandchildren to find out if you can help them with something specific, such as a new car or school fees.

3. Let life events help you start a conversation

The research shows that some life events, such as a health scare, could prompt people to talk to their loved ones about inheritance matters. However, there are some positive events, like a birth in the family or getting married, that can also make people evaluate their plans. Use these opportunities as a way of talking to relatives about how you would like to pass on your wealth.

4. Talk about later-life care

Social care is a much-talked-about topic, and many people are worried about how they will pay for care when they get older. As a result, people may be starting to plan for this earlier than previous generations. It's important to

talk to your family about the care you want so they stay true to your wishes. This could be the perfect time to introduce the subject of inheritance, as estate planning and later-life care go hand in hand.

5. Talk about family heirlooms
If you find it hard to approach the subject of estate planning with your family, then a good place to start could be talking about family heirlooms. People love to hear stories about older relatives, even if they never had the chance to meet them. Talking about items that are important to you or were important to other family members can be a great way to start a conversation about estate planning. ◀

Looking to secure more of your wealth for your loved ones?

Planning for what will happen after your death can make the lives of your loved ones much easier. To discuss putting in place an estate plan to reduce or mitigate Inheritance Tax, please contact us – don't leave it to chance.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

Source data:
[1] Brewin Dolphin
[2] YouGov surveyed 10,951 UK adults online between 10 and 16 August 2016

Key Action Points

Joint tenants or tenants in common?

- How you own your property can have a significant impact on the legacy you leave and the IHT your heirs have to pay. Joint tenants own equal shares in a property. If you die, the other owner automatically inherits your share of the property. This overrides anything you say in your Will, so you cannot leave your share of the property to anyone else
- If you want to be able to leave your share of joint asset to someone else, you should seek professional advice on whether tenants in common is appropriate, and the alternative options for your estate if not

Pensions as an estate planning tool

- Pensions are one of the most tax-efficient ways to pass on your wealth
- If you die before the age of 75, benefits left in a money purchase pension can be paid as a lump sum or income to any beneficiaries, with absolutely no tax to pay. After age 75, benefits will be taxed at the beneficiaries' marginal Income Tax rate
- Your beneficiaries get to choose how they take the benefits
- You should seek advice to make sure you are making use of the allowances available to pay money into a pension. Alternatively, you should consider and seek advice on the best ways to structure your retirement plans so that you can preserve the IHT-friendly pension funds

More complicated planning

Once you have explored simpler forms of planning, you may want to consider more complex schemes that can be very effective in reducing an IHT bill:

- Using trusts as a tool to pass wealth down the generations
- Using life insurance as a cost-effective IHT planning tool
- Investing in small companies* – tax relief is available to encourage investment in certain small and growing unquoted UK enterprises, but such businesses are extremely high risk

**These are generally considered higher-risk investments and may not be considered suitable for all types of investors. You could lose some or all of your capital.*

Pension v ISA v LISA

So, ISA or Pension?

Pensions provide a raft of tax planning opportunities that ISAs simply cannot compete with:

- Income Tax relief on contributions, worth between 20% and 45%
- Corporation Tax relief for the employer
- NIC savings are also possible if a salary sacrifice scheme is in place
- A pension does not sit on your estate for IHT purposes

Whilst both these tax wrappers will grow tax-free, the pension will enjoy cumulative growth from a higher starting point and therefore will be worth proportionately more in years to come.

When taking benefits, 25% is available tax-free from a pension, and the rest is subject to Income Tax, thus reducing the net benefit.

ISAs are less complex and start to look more attractive when it comes to taking benefits; the ability to draw tax-free sums whenever you choose is a big plus. Pensions require you to tie up your funds until your mid–late 50s (depending on your age).

An important point we consider is the tax rates of our clients at each stage. Someone receiving higher-rate tax relief when funding the pension, who is then able withdraw funds as a basic-rate taxpayer, will have benefited greatly from the pension.

So from a tax perspective, it's hard to better a pension. Of course, there are many other things to consider, and first and foremost is time horizon and cash flow. Can you commit monies for the time period required for a pension? Many young people will be saving towards housing deposits or needing to fund other shorter-term costs, in which case an ISA is a better call.

Finally, not to be forgotten is the LISA (Lifetime ISA). This provides a tax-incentivised savings wrapper for those under 40, with less restrictions than a pension.
To achieve the most from your money, Kellands always encourage any investor to talk to their trusted adviser or thoroughly research their options first. As you can see, there are many considerations with what seems the most straightforward of investments. ◀

Free Friday consultations

Kellands are holding our drop-in half-hour morning review to go through any questions you may have. Please book-in, call, email or simply pop in for a coffee.

IHT rules

What can I do to help reduce my Inheritance Tax Liability?

Our Friday morning complementary advice clinic in the Hale office has proved very popular this year. Many of the questions have focused on explaining the current Inheritance Tax (IHT) rules and then recommending an appropriate mitigation strategy. Having recently won the Moneyfacts National Tax and Estate Planning Firm for 2017, we are well placed to help.

There are many ways in which you can legitimately reduce the IHT due on your estate – but make sure any arrangements don't leave you unable to maintain your lifestyle.

These are some broad options:

Spend it or give it away: always popular with your children or beneficiaries and is often the simplest and easiest choice, as long as a) you don't give absolutely everything away, and b) you survive for seven years after making the gift.

Regularly give away your excess income: you can distribute any unspent income that otherwise simply increases your estate. You could also use this to pay for life assurance (see next paragraph).

Take out life cover: this is another simple way to reduce the impact of IHT. The premium and amount of cover will normally be fixed, giving you control of your estate, rather than having to make substantial gifts. You can use your annual allowance or unspent income to fund the cost of cover.

Make use of trusts: this is ideal if you don't want to lose control of your capital. Some trusts will pay a fixed level of income, while others offer your beneficiaries additional benefits, such as protection from divorce or bankruptcy.

Look into specialist investments: there are a range of permitted UK companies where your investment can achieve IHT exemption after only two years, rather than seven. There are even investment strategies that offer investors immediate IHT mitigation by combining a short-term life contract with two-year qualifying assets. This is a higher-risk approach when compared to other options, but it does offer a more immediate solution: you don't have to give any assets away, and you have ongoing access to capital.

If you hold an ISA portfolio, it is possible to change investment strategy to qualify for IHT relief after just two years. Please call Kellands for any queries you may have, or you are very welcome to drop in. ◀

A memorable date for the mortgage market

Does the latest interest rate rise signal the beginning of further rises?

AS A MORTGAGE SPECIALIST AT KELLANDS, 2 NOVEMBER 2017 WILL ALWAYS BE A MEMORABLE DATE FOR ME. IT IS THE FIRST TIME DURING MY CAREER THAT I HAVE WITNESSED THE BANK OF ENGLAND RAISE BASE RATES – THE LAST TIME BEING OVER TEN YEARS AGO IN JULY 2007.

This is important as it will directly affect an estimated 3.7 million people holding variable rate or tracker mortgages in the UK. Although the rise was only a modest 0.25%, research from UK Finance concluded that the average borrower with a loan of £89,000 would have an increase in their monthly repayments of £12.

For me, as a mortgage adviser, it also throws up a number of other important questions and considerations when advising individuals and families on their future house purchases. The first is the serious question of future affordability – it is too easy to fall in love with a property and want to purchase it at all costs. It is important to not only look at the financial position today but to factor in both possible personal changes to circumstances, as well as the impact of future rises in borrowing costs.

Does this latest rate rise signal the beginning of further interest rate rises? Well if you listen to Mark Carney at the Bank of England, his prediction is pointing that way. How this will affect UK property values over the next few years is unknown, but it does affect investor confidence.

As you would expect, the mortgage market has reacted quickly to the recent change, with over 40 lenders recently increasing their fixed rates. It is possible that the recent supply of fixed-rate mortgages will not be available again as the cycle of interest rates rise. There have been some fabulously low rates which clients have benefited from.

Another interesting figure released by the Bank of England was that they estimated that the overall cost to borrowers from raising interest rates would be £82.8 million in extra interest payments on their mortgages. Obviously bad news for the wider economy, as there will be less in the family budget to spend on other consumer items, but one should not forget that savers will benefit from the rate rise as well as anyone taking an annuity.

For those individuals who have chosen a variable or tracker rate mortgage, they will have experienced a steady decline in the level of their monthly repayments since 2007. Many people may now be considering whether it is time to change their current deal to a fixed rate. This is a good question and will depend on a number of personal factors, as well as the deal you are looking at. I mention this as I am still staggered at the number of people that do not properly research the lending market before taking out a mortgage loan. This can be a very costly mistake and can easily happen with borrowers often just approaching their personal bank or building society. This situation has been further highlighted in a recent survey carried out by Legal and General in which 48% of respondents said they went with their bank or building society because they believed they offered them a good deal.

Even more worrying is the fact that one in seven thought their bank or building society would be able to offer them the same impartial advice an independent mortgage adviser would.

19% of respondents couldn't see the value that an advisor would add, and 15% thought their bank would be able to offer the same deals.

So why is this research important?

If you select a mortgage deal from any source which has not been thoroughly researched, it would be highly likely that you will be paying monthly repayments greater than necessary. As most mortgages are repayable over 25 years, this could be very costly. Selecting a fixed-rate or variable-rate mortgage will always be a tough decision, and making the correct choice will have a significant future bearing on your family finances. However, good and impartial advice from a professional that has access to the very best whole of market mortgage deals will help guide you in selecting the type of mortgage that best suits you and your family. It will also provide you the peace of mind that you are not wasting your hard-earned money on an uncompetitive interest rate.

At Kellands, we regularly review all our clients' loan rates to insure they remain competitive. However, if you have taken out a mortgage loan with another provider and feel unsure whether it is competitive, please feel free to contact myself or any member of the Kellands team. ◂

James Brocklebank
Mortgage Specialist

Tax planning around redundancy payments

Assessing your future plans

HOW MANY OF US DAYDREAM ABOUT THE ‘BIG REDUNDANCY PAYMENT’ AND THE LIBERATION IT WILL BRING FROM OUR CURRENT EMPLOYMENT? WHEN THIS NEWS IS DELIVERED FROM YOUR LINE MANAGER, BOSS OR HR DEPARTMENT, WHAT IS THE REALITY WHEN WE ACTUALLY GET WHAT WE WISH FOR?

Emotions can vary from joy and relief to panic, worry, stress and perhaps even questioning self-worth. Immediate thoughts may turn to how the family expenditure will be met when the regular monthly income stops.

It is important at such a critical life event to seek the calming hand of an experienced financial adviser who can help you plan. It is essential not only to maximise what you already have, but to look at how best to structure any redundancy payments to suit you and your family’s future needs.

In most cases, there will be both income and capital needs that will need to be fulfilled, for example:

Capital needs: should you repay any short-term loans or longer-term mortgage debt?

Income needs: do you intend to return to the workplace and over what time frame? Alternatively, are retirement and releasing income from any accumulated pensions an option?

Once you have started to assess your future plans, you then need to review how your redundancy can be best used to fulfil your aims.

The first £30,000 of redundancy payment is usually tax-free, and the residue is taxable at your highest marginal rate (HMR), which could be either 20%, 40% or 45%. Any payment you receive in lieu of notice (PILON) is also taxable.

More details can be found regarding Statutory Redundancy, your rights and payments at www.gov.uk.

Under current legislation, you are also able to contribute £20,000 in tax year 2017/18 into an ISA which might also merit consideration.

If you have a substantial payment, then an area to explore would be to look at the effect of making a payment into a pension plan.

Making a payment into a pension from taxable income allows you to claim tax relief at your higher marginal rate.

Under current legislation, you have a £40,000 annual allowance which you can pay into your pension. In addition (subject to certain conditions), you are able to carry forward the previous three years’ unused pension allowance as well. The advantages of adding funds to your pension could be that you mitigate/minimise your Income Tax bill in the year you are made redundant.

When you access your pension, you are usually able to take a 25% tax-free lump sum. Assets held within a pension are usually exempt from Inheritance Tax.

With some careful thought and planning, you may be able to achieve your financial aspirations along with ensuring any payments you do receive are used in a tax-efficient manner. So on that Monday morning when you get the news that your services are no longer required, it could be just the spur you need to put your plans into action, and perhaps a change of career or lifestyle is no longer a dream but a reality.

If any of your family members or friends find themselves in this situation, please feel free to recommend us as we would be happy to help.

Loretta Mooney
Chartered Financial Planner

Protect the things that mean the most to you

Cohabiting families risking their family's financial future

THE LIFESTYLE OF OUR LOVED ONES MAY BE SERIOUSLY COMPROMISED IF WE DIE. HOWEVER, VERY WORRYINGLY, MORE THAN 2.4 MILLION COHABITING FAMILIES ACROSS THE UK – THE FASTEST-GROWING FAMILY TYPE IN THE COUNTRY – DO NOT HAVE LIFE INSURANCE, POTENTIALLY LEAVING THEIR LOVED ONES OPEN TO FINANCIAL PROBLEMS ONCE THEY PASS AWAY, ACCORDING TO NEW ANALYSIS[1].

The research found that 73% of cohabiting families – couples living as married – do not have a life insurance policy, compared to 56% of married couples. As cohabiting families do not yet enjoy the same legal rights as married couples, this is leaving thousands of families at risk should the worst happen and their partner dies.

Cohabiting families have been the fastest-growing household type over the last decade. The latest figures from the Office for National Statistics (ONS) show that the number has more than doubled from 1.5 million to 3.3 million since 1996. Furthermore, according to the latest ONS divorce and marriage statistics, the number of couples getting married has decreased by more than 6% since 2012, potentially due to the rise in couples choosing to cohabit.

Not prepared for the worst

At a regional level, cohabiting families in London, the West Midlands and the East of England are the least likely of all regions in the country to have life insurance. 87% of those living as married in London, 79% in the West Midlands and the same number in the East of England are not prepared for the worst, simply by not having a life insurance policy in place.

On the other hand, cohabiting families in Wales, the North East and Scotland are the most likely of all regions to have life insurance. Despite this, 68% of those living as married in Wales, the same number in the North East and 52% in Scotland still do not have life insurance cover. Encouragingly, the region with the most cohabiting families – the South East – also has one of the highest proportions of those having a life insurance policy in place.

Choosing cohabitation over tying the knot

The findings show that marriage may be on the cards for some, but many people are now choosing cohabitation over tying the knot, and this may well be the case for the rest of their lives. Whether we marry or live together, the needs of loved ones left behind shouldn't be overlooked. Life insurance can ensure the right money can go to the right person at the right time.

Further research found that women insure themselves for up to 30% less than men. The average level of protection that men insure themselves for stands at more than £210,000, whereas women tend to insure themselves for just under £150,000. ◂

> "As cohabiting families do not yet enjoy the same legal rights as married couples, this is leaving thousands of families at risk should the worst happen and their partner dies."

PROTECTION MATTERS

Most of us insure our cars, our homes and even our mobile phones – but what about helping to protect our loved ones? Help protect your family and give yourself peace of mind with the right level of life insurance. To review your protection needs, please contact us.

Source data:

[1] UK life insurance company, Zurich. All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,039 adults. Fieldwork was undertaken between 20 and 21 July 2017. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). ONS Data – each region multiplied by the percentage of people who do not have life insurance

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