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Quilter Financial Planning

Welcome to the first edition of Essentially Wealth from Quilter Financial Planning, the new name for Intrinsic.

Intrinsic was already part of the Quilter group and changed its name to Quilter Financial Planning on 1 July 2019, in order to align more closely with its parent company.

We hope you like the new look!

Let's talk about intergenerational finances

The Financial Conduct Authority (FCA) has announced its desire to start a conversation about intergenerational differences and the changing financial needs facing consumers from different age groups. While it's certainly good to talk, this is obviously an extremely complex issue and the financial narrative is not one that everybody may want to hear.

Changing distribution of wealth

The way people build and use their wealth has clearly evolved significantly over the past fifty years or so and this has had a major impact on financial circumstances across the generations. As an example of these changes, the FCA[1] released statistics showing how wealth levels for people of the same age changed between 2006/08 and 2014/16.

The data showed that, for the average 40-to 50-year-old, their total wealth was less than that compared to individuals of the same age 10 years earlier. In contrast, the average individual aged 60 to 70 was found to have significantly more in real terms.

Different groups face different challenges

However, the financial challenges facing different generational groups have clearly evolved too. For instance, increasing life expectancy means older people are living longer, resulting in the Baby Boom generation requiring new financial strategies to maintain living standards in later life.

Younger people, on the other hand, face obstacles building wealth. These include high levels of student debt, soaring house prices and a jobs market with less secure terms of employment. As a result, millennials often find it difficult, or impossible, to take their first step onto the housing ladder.

It's no bed of roses being squeezed in the middle either. Generation X are typically financially stretched, balancing the responsibility of helping older generations in later life with a growing need to support the younger generation. Setting money aside for their own financial needs, such as retirement provision, can therefore be extremely difficult.

Sound financial advice remains key

The intergenerational fairness debate clearly covers a range of difficult issues and potential solutions are unlikely to be universally popular. However, the debate reinforces the necessity for individuals of all ages to seek sound financial advice.

[1]FCA, May 2019

Retirement: two-thirds risk making the wrong choices by going it alone

Pension reforms introduced in 2015 mean there is much greater freedom, both for investors and for those wanting to access their pension pots. Despite having to make many important decisions, both in the years running up to retirement and afterwards, a recent survey[2] shows that only 32% of retirees take professional advice.

The figures reveal that many are not fully exploring their options and may not be opting for the most suitable pension arrangements to fit their individual circumstances. The study also shows that two-thirds did not shop around before buying an annuity or selecting drawdown from their pension provider, unaware that they could shop around for a better deal.

The Financial Conduct Authority has expressed concerns that the lack of advice could result in poor investment decisions, or people withdrawing cash from their pension pot and putting it into low return cash funds, where it will be eroded by inflation.

[2]Canada Life, March 2019

Happy 20th birthday ISA!

The consumer-friendly simplicity of the ISA, which benefits from no Income Tax or Capital Gains Tax, has resulted in its popularity today, with around 42%[3] of us holding one.

At launch in April 1999, the annual allowance for an ISA was just £7,000. Over the years, the limit has steadily increased, to stand at a generous £20,000. If you had invested the maximum over the last 20 years, by now you would have put around £206,000 into these tax-sheltered accounts.

Different variations of ISA have been introduced over the years, joining the cash ISA and stocks and shares ISA. There is a Help to Buy ISA designed to help first-time buyers, a Lifetime ISA which can be used to build up a deposit for a home or for longer-term retirement savings, and there is also a Junior ISA for children.

Although you have until 5 April 2020 to use your annual allowance, it makes sense to do so as soon as possible in the tax year to potentially give your money more time to grow.

[3]HMRC, Apr 2019

How’s your retirement planning coming along?

It may seem like light years away, but retirement will creep around faster than you expect. So, the sooner you engage with the topic, the sooner you’ll get your plan in place and get working towards the retirement you deserve. The earlier you start saving for retirement, the longer your money has to grow. Reinvested dividends and, even in today’s climate of low interest rates, compound interest, can play an important part in investment growth.

Keep apathy at bay

The pension landscape has undergone vast changes over the last few years. Financial provision for our retirement has seen an emphasis, from being largely the responsibility of the state to largely the responsibility of the individual. Although it can seem a long way off, the reality of the situation is that careful planning now could make a considerable difference to the amount available in your pension fund at retirement, plus (within limits) you receive tax relief on contributions too.

Never too early to think about your pension

Ideally you should start planning your pension from the day you start work. No one wants to worry about money in their later years, and the way to help prevent that happening is to save regularly into a pension throughout your working life.

In simple terms, there are three main types of pensions: workplace, personal and the State Pension.

Whatever type of pension you hold, you get tax relief at the highest rate of income tax you pay, on all contributions you make, subject to annual and lifetime allowances.

At age 55, you can withdraw 25% of a defined contribution pension tax-free, which means the scheme is ‘crystallised’. You can keep the rest of the fund invested in an income drawdown plan, buy an annuity, or cash in your entire pension, subject to tax; or a pick and mix approach of all three.

If you save into a workplace pension, your employer should make contributions alongside yours, providing a welcome boost to your pension.

You need more than a safety net

Although the full new State Pension has increased to £168.60 per week, not everyone will get this amount as it will depend on their contribution record. The state retirement age is set to increase too, so if you were born after 6 April 1978 you won’t be entitled to receive your state pension until you’re 68 years old.

Something for everyone

If you’re self-employed, an employee, work part-time, run your own business or have accumulated pension pots with past employers, we can offer you advice; retirement should be an enjoyable and fulfilling stage of life, not a time spent worrying about money.

Steps to take

- *Make pension saving a priority*
- *Consider topping up your contributions whenever your financial circumstances allow*
- *Speak to us about arranging a regular review to ensure your retirement plans remain on track*
- *Know your State Pension age and get a forecast from gov.uk to show you how much you’ll receive.*

Trust in trusts

The last decade has witnessed a number of legal reforms aimed at cracking down on the use of trusts as a potential means of tax avoidance. However, despite these changes, trusts can still provide an effective way to transfer wealth and thereby help families achieve their financial goals.

What is a trust?

A trust is a legal arrangement which allows assets, usually property, investments or money, to be managed by a trustee for the good of one or more beneficiaries. These beneficiaries can be named individuals, such as your children, and people who are yet to be born.

There are many different types of trusts with the main ones being: bare trusts, interest in possession trusts, discretionary trusts, accumulation trusts, mixed trusts, settlor-interested trusts and non-resident trusts. The type of trust that is right for you will depend upon your objectives and personal circumstances.

Advantages of establishing a trust

Trusts can be set up for a variety of purposes with one of the main reasons as a tax planning tool in order to mitigate a potential Inheritance Tax liability. They are also commonly used to set aside money or assets for dependants who are either young or mentally incapacitated, and also to protect family assets particularly so they cannot be sold to pay for residential care fees.

In order to set up a trust, you will need to appoint trustees to look after the assets in the trust on behalf of the beneficiaries. A key aspect when creating or maintaining a trust will be ensuring ongoing compliance with current tax law. This will inevitably require professional advice in order to ensure the trust meets all of its tax obligations.

High numbers unaware of IHT gifting rules

Recent research[4] has revealed that just 45% of people looking to gift money are aware of the rules and exemptions surrounding Inheritance Tax (IHT).

Only a quarter (25%) of respondents admitted to possessing a 'working knowledge' of the rules surrounding gifting.

The rules relating to gifts can appear confusing and if you're unsure of the tax implications then it is always best to seek advice.

[4]IFS and the National Centre for Social Research (NCSR), May 2019

Banking on an inheritance?

Various patterns seem to be emerging in how wealth is transferred down the generations. It comes as no surprise that gifts and loans are more commonly made to a younger demographic. Parents are stepping in to help their offspring with times of major expense, like buying a house or getting married. Research has shown that in the last two years, 11% of those aged between 25–34, received over £500, with the average across all age groups totalling £2,000[5].

Inheritances coming later

Across all age ranges, the average inheritance during the previous two years was £11,000. Those aged between 55 and 64 are most likely to receive larger inheritances, receiving £33,000 on average. The average amount inherited by those aged 65 and over was £20,000; this money was invested or saved by 49% of recipients.

Stand on your own two feet

With gifts often made earlier in life, inheritances could be smaller in the coming years. The research highlights that people who are dependent on receiving an inheritance instead of putting pension provision in place might find they've reached retirement before they inherit, so don't neglect your own retirement plans.

[5]ONS, Oct 2018

Giving family a helping hand

The growing need to provide financial assistance to the younger generation is a recurring theme in today's society. How can parents or grandparents help younger family members and are there any potential pitfalls when doing so?

The House of Lords Committee on Intergenerational Fairness and Provision recently highlighted how the younger generation are increasingly being helped onto the property ladder by older family members. Quoting data from an April 2018 survey conducted by Douglas McWilliams, their report said that 27% of all UK house purchases were made with contributions from the older generation, with gifted lump sums averaging £5,000 to £6,000[6].

Tax implications

However, if you are thinking of helping a younger family member financially then you do need to consider any tax implications, particularly in relation to Inheritance Tax (IHT). Everyone has an 'annual exemption' for IHT purposes which allows them to give away up to £3,000 each tax year. If you don't use it, you can carry over any unused allowance to the following tax year meaning you could potentially gift up to £6,000 without it counting towards your estate's IHT liability; and this amount rises to £12,000 for a couple.

You can also make more substantial gifts, known as 'Potentially Exempt Transfers'. In this instance, you need to live for seven years after making the gift for it to be totally tax-free.

[6]Intergenerational Committee, 2019

Positive news as protection policy uptake increases

It seems the message is getting through to people about the importance of arranging protection policies. Recent figures from technology provider Iress[7] show that in Q1 2019 income protection sales via its software increased 50%. This is encouraging news indeed; and clearly shows that more people are aware that they need to protect their financial future by putting plans in place which could provide a lifeline if the unexpected should occur.

You may have sufficient funds to sustain you for a short period of time, but you could find that paying the bills soon becomes a problem. Protection policies are designed to pay out if you're unable to work and earn money due to injury or illness, and, in some cases, forced unemployment.

You can usually claim the maximum amount of your net monthly earnings after tax, minus any state benefits you may receive. This could be around 65% of your gross earnings and it's usually tax-free.

Following your chosen deferred period, policies will pay out, typically between four and 52 weeks, and can continue until you return to work, or the policy expires at the end of a fixed period.

[7]Iress, 2019

Changing patterns of work

Partly due to the 2011 abolition of the default retirement age and the current phased increases in State Pension age, an increasing number of people are working longer than ever before. They are conscious of the need to fill the financial void between an insufficient pension and lengthening life expectancy. Additional pressures sometimes include supporting family and thinking about covering care costs in later life.

Data from the Department for Work and Pensions[8] tells us that although both men and women are staying in the workplace for much longer, for women the change has been more rapid, influenced by the equalisation of State Pension ages for men and women.

In a dramatic reversal of the trend towards early retirement that typified the 1980s and 90s, the average departure age from the labour force for women has jumped by 3.3 years since 1998, to reach 63.9. For men, the average exit age is now 65.1 years, a rise of two years since 1998.

Just over 10% of people are working beyond 65, twice the percentage in 2000, with the number of women working past age 65 almost tripling. The employment rate for women aged 55 to 59 has increased from 52.5% in 1998 to 70.7% in 2018.

[8]DWP, Oct 2018

Why setting up an LPA should be on your financial to-do list

More people in the UK are now using legal instruments to ensure their affairs are looked after, in the event of them becoming incapable of managing their finances or making decisions about their health and welfare. In 2018, it has been reported that just over 800,000[9] Lasting Powers of Attorney (LPAs) were taken out in England and Wales — three times the number seen in 2013.

Figures[10] show that one person in the UK develops dementia every three minutes. Once you have lost capacity, it's too late to set up an LPA, as this can only be done whilst you have mental capacity to do so. If an LPA is not in place, your loved ones would need to apply through court, which can be a long and costly procedure.

The process

The first decision in setting up an LPA is whether to use a solicitor. The DIY route could save around £500 in legal fees and the government has made the whole process a lot easier through an online process. However, the LPA is a powerful legal document and it is vital that the person making the LPA understands what the forms mean. You may therefore prefer to use a solicitor, especially if there are complexities, such as business assets or overseas property, or if the family does not get on.

Once submitted to the Office of the Public Guardian, the LPA takes up to ten weeks to register. The power will be effective as soon as the LPA is registered, so the attorney will be able to start making decisions straight away if the LPA is drawn up to permit this while the donor still has mental capacity; otherwise, an attorney cannot start to act until the donor no longer has mental capacity.

In Scotland and Northern Ireland, Power of Attorney (POA) agreements apply.

[9]FT, May 2019
[10]Alzheimer's Research UK, 2018