

# Financial Landscape

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Carpenter Rees Ltd

## Averting a later-life financial crisis

More retirees drawing pensions without LPAs

People are generally living longer these days. Increasingly, more people are living well into their 80s and 90s – and some even longer. This may mean you have a long time to budget for. That's why it is very important to consider all of your options carefully and think about what will matter to you in retirement.

You can now access your pension in more ways than ever before, after the Government introduced wide-ranging changes in April 2015. These changes give you more options, so it's important that you take time to think carefully before you decide what to do with your money.

### LATER-LIFE FINANCIAL CRISIS

Nearly 80% of retirees using the UK's pension freedoms to manage their retirement savings face a potential 'later-life financial crisis' as they have not set up a Lasting Power of Attorney (LPA), a recently published report<sup>[1]</sup> has warned. There are two types of LPA. These are the Health and Welfare Lasting Power of Attorney, and the Property and Financial Affairs Lasting Power of Attorney.

The research found that 345,265 pensioners accessing their pension pots in this way have not yet given a family member or friend the legal authority to make decisions on their behalf if they were no longer able to do so.

### RESPONSIBILITY OF MANAGING INCOME

The analysis underscores the scale of an issue that has emerged since the British Government abandoned the requirement to buy an annuity at retirement. It has come to light that twice as many people are now opting for drawdown over annuities. In effect, this puts the responsibility of managing income in retirement on the individual.

Registering an LPA has become even more important since the pension reforms. Thousands of people are now making complex decisions on their pension into

old age, when the risk of developing a sudden illness or condition such as dementia increases. Despite this, many are unprepared for a sudden health shock or a decline in their mental abilities. The time to set up an LPA is well before you need it.

### POTENTIALLY CREATING PROBLEMS

With more and more people moving into drawdown, this is potentially creating problems that could leave thousands of people facing a possible later-life financial crisis. It is vital to plan for a time when managing your pension might become hard, or even impossible, and obtaining professional financial advice is one of the best ways to do this.

The Alzheimer's Society has discovered that there are currently 850,000 people in the UK living with dementia, which could increase to over 1 million by 2025. Yet the report revealed that only 21% of retirees who have accessed funds under the new freedoms have registered an LPA.

### DISCUSSIONS WITH YOUR FAMILY OR OTHERS

An LPA can be a very important part of advance planning for a time when a person will not be able to make certain decisions for themselves. It allows you to choose someone you trust to make those decisions in your best interests. This can be reassuring, and making an LPA can start discussions with your family or others about what you want to happen in the future.

The stigma around the LPA, as with dementia, is compounded by its links to mental capacity. Some people are reluctant

to consider a future where they may not be able to make their own decisions due to the connotations they associate with this. In cases where LPAs are not in place, assets and equity may be lost, or those in a vulnerable position may be forced to make decisions they are no longer able to make. ■

### DO YOU NEED HELP? GIVE US A CALL

Whatever your plans for the future, we are here to help you take the next step. Please contact us to discuss your requirements or to answer any questions you may have.

#### Source data:

*[1] The study for Zurich UK is based on a YouGov survey of a UK sample of 742 people who have moved into drawdown since the pension freedoms were introduced in April 2015. The survey was carried out between 14 December 2017 and 24 January 2018. FCA Data Bulletin (issue 12) shows 345,265 pots moved into income drawdown between October 2015 and October 2017. Assuming the number of people moving into drawdown continued at a similar rate from November 2017 to April 2018, this would equate to a further 86,316 people in drawdown.  $345,265 + 86,316 / 5 \times 4 = 345,265$  people.  $345,265 / 2$  years of drawdown data =  $172,632 \times 10$  years = 1,726,325 people.*

PENSIONS ARE A LONG-TERM INVESTMENT.

THE RETIREMENT BENEFITS YOU RECEIVE FROM YOUR PENSION PLAN WILL DEPEND ON A NUMBER OF FACTORS INCLUDING THE VALUE OF YOUR PLAN WHEN YOU DECIDE TO TAKE YOUR BENEFITS, WHICH ISN'T GUARANTEED AND CAN GO DOWN AS WELL AS UP.

THE VALUE OF YOUR PLAN COULD FALL BELOW THE AMOUNT(S) PAID IN.

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# Back to the future

## Uncovering what really matters to you is the key to the planning process

Have you ever thought about writing a letter to yourself to describe your ideal future life, long-term life goals and the process of how to plan for them? Imagining what you want your life to be like in the long term when you retire will help you think much further ahead than you might have done before. Research conducted for a new campaign<sup>[1]</sup> shows that over half (54%) of people plan their lives only days (31%) or weeks (23%) ahead.

The participants were asked to look deep into their future lives in a bid to uncover what really matters to them. When asked to write a letter to describe their ideal future lives, people were very good at imagining it. But many didn't know how they were going to achieve it or how to take the next step to build a bridge from now to that future self by putting a plan in place to get there.

### KEY WELL-BEING ASPIRATIONS

The writing exercise uncovered how people really envisage their life in the future. The letters illustrate that well-being in old age pivots on simple hopes (family, health and happiness) rather than extravagant financial ambitions. A well-balanced life was a key aspiration for many respondents. The letters confirm a clear hierarchy of needs and aspirations

in life that many of us would have expected: family/partner, followed by career and financial security, followed by hobbies and interests, including friends.

While a handful of the respondents hope for lottery wins or gold medal glory, the overwhelming majority express their desire to remain healthy and active in old age and to live 'comfortably' with some degree of financial security. The letters revealed a nation aspiring to much more grounded ambitions: the centrality of family, a desire to travel, to learn throughout life, and to have fulfilling but balanced careers with a good work/life balance.

### FAMILY, HEALTH AND HAPPINESS

It's not surprising that family, health and happiness are central pillars for people's well-being. What is surprising is how

unprepared most people are to achieve the dreams they have described. The letters are wonderfully optimistic, but there is a reality check. The findings showed that people underestimate their required size of pensions pots by up to £550,000, while many people who have the capacity to save aren't doing so.

By using the letter as a catalyst, once you know what your goals are, the next step is to plan for them. To support the letter writing campaign, a study was also commissioned to gauge people's current well-being and life goals<sup>[2]</sup>. The survey indicates a fundamental disconnect between the life people aspire to and their life now.

### PREVENTION BARRIERS

The study found over half (54%) of people plan their lives only days (31%) or weeks





(23%) ahead. While 14% of respondents said they plan for years ahead, very few (4%) plan for future decades. This may explain why only 11% of UK adults with life goals know how they will achieve them.

When it comes to life goals for the future, travel is a primary ambition for over two in five people (44%), followed by eating well (40%), getting fit (39%), more time with friends and family (36%) and better work/life balance (20%). Money is the main thing (33%) preventing people from achieving their goals, then motivation (28%), followed by energy and time as barriers in equal measure (26%).

### PATH TO FINANCIAL FREEDOM

When it comes to financial goals, one in five people (20%) have none whatsoever. Among those with goals in mind, the same percentage of people (20%) have not worked out a strategy and don't know how they will achieve their specific goals. The top financial goals are: save for a rainy day (43%); earn more money (32%); save for a special occasion (21%); reduce or clear debts (19%); and buy property and pay off mortgage (both 17%).

Your finances touch just about every aspect of your life. Your personal life and

your financial life are not separate – they intertwine with each other. Your path to financial freedom means identifying and harnessing your dreams and bringing them alive. We can help you find an answer. Whatever stage of life you're at, we can guide you through the opportunities and challenges you face. ■

### START PLANNING DECADES AHEAD

We all want to fulfil our life plans, so the earlier you know where you want to get to, the better chance you have of getting there. Ideally, it's essential to start planning decades ahead to map out the life you want for yourself and your family. The process of writing the letter should prompt that thinking and planning and hopefully that conversation with your partner and family. To discuss your situation or to arrange a meeting, please contact us – we look forward to hearing from you.

#### Source data:

[1] The Brewin Dolphin letter writing project asked 500 UK adults to write a letter to their future selves deep into old age – a letter their 'future self' may discover and read as they reflect back on life.

*Methodology: online survey completed by 500 economically active respondents aged 18–65. Fieldwork by Trajectory from 12–20 April 2018.*

[2] The survey polled over 2,000 UK adults about their life now, their well-being and attitude to money, plus also what they want in the future – personal and financial goals, and how they'll achieve them.

*Methodology: online survey was completed by 2,004 UK adults (18+). Fieldwork by Opinium from 11–14 May 2018.*

**WHILE A HANDFUL OF THE RESPONDENTS HOPE FOR LOTTERY WINS OR GOLD MEDAL GLORY, THE OVERWHELMING MAJORITY EXPRESS THEIR DESIRE TO REMAIN HEALTHY AND ACTIVE IN OLD AGE AND TO LIVE 'COMFORTABLY' WITH SOME DEGREE OF FINANCIAL SECURITY.**

# Protecting yourself from scams

Fraudsters are using sophisticated ways to part savers from their money



Pension and investment scams are on the increase in the UK. Everyday fraudsters are using sophisticated ways to part savers from their money, and the Internet and advances in digital communications mean these kinds of scams are getting more common and harder to identify. A lifetime's savings can be lost in moments.

Nearly one in ten over-55s fear they have been targeted by suspected scammers since the launch of Pension Freedoms, new research<sup>[1]</sup> shows.

## TACTICS COMMONLY USED TO DEFRAUD

The study found 9% of over-55s say they have been approached about their pension funds by people they now believe to be scammers since the rules came into effect from April 2015. Offers to unlock or transfer funds are tactics commonly used to defraud people of their retirement savings.

One in three (33%) of over-55s say the risk of being defrauded of their savings is a major concern following pension freedoms. However, nearly half (49%) of those approached say they did not report their concerns because they did not know how to or were unaware of who they could report the scammers to.

## REPORTING SUSPECTED SCAMMERS TO AUTHORITIES

Most recent pension fraud data<sup>[2]</sup> from Action Fraud, the national fraud and cybercrime reporting service, shows

991 cases have been reported since the launch of pension freedoms involving losses of more than £22.687 million.

## ALTERNATIVE INVESTMENTS SUCH AS WINE OFFERED

The research found fewer than one in five (18%) of those approached by suspected scammers had reported their fears to authorities. Nearly half (47%) said the approaches involved offers to unlock pension funds or access money early, and 44% said they involved transferring pensions.

About 28% of those targeted by suspected fraudsters were offered alternative investments such as wine, and 20% say they were offered overseas investments, while 13% say scammers had suggested investing in crypto-currencies. Around 6% believe they have been victims of frauds.

## SAFEGUARDING HARD-EARNED RETIREMENT SAVINGS

Pension freedoms, though enormously popular with consumers, have created a potentially lucrative opportunity for fraudsters,

and people need to be vigilant to safeguard their hard-earned retirement savings.

If it sounds too good to be true, then it usually is, and people should be sceptical of investments that are offering unusually high rates of return or which invest in unorthodox products which may be difficult to understand. If in any doubt, seeking professional financial advice from a regulated adviser will help ensure you don't get caught out.

Some scammers have very convincing websites and other online presence, which make them look like a legitimate company. Always check with the FCA to make sure they're registered. ■

## REPORTING SUSPECTED FRAUDS

Retirement savers can report suspected frauds on the ActionFraud helpline 0300 123 1047 or online at [https://www.actionfraud.police.uk/report\\_fraud](https://www.actionfraud.police.uk/report_fraud), and more advice is available at <http://www.thepensionsregulator.gov.uk/pension-scams.aspx> or by calling the Pensions Advisory Service on 0300 123 1047.

### Source data:

[1] Consumer Intelligence conducted an independent online survey for Prudential between 23 and 25 February 2018 among 1,000 UK adults aged 55+ including those who are working and retired

[2] <https://www.actionfraud.police.uk/fraud-az-pension-liberation-scam>