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Brexit triggers saving

Current affairs have a significant impact on how people feel about the economy

People who feel pessimistic about the UK economy or their own personal finances are more likely to plan to save more over the next 12 months to ensure they have a financial safety net, according to a Zurich survey of over 4,000 adults across the UK.

The findings suggest that current affairs have a significant impact on how people feel about the economy, with the two sides of the Brexit argument currently feeling very different about the future. Six in ten (60%) remain voters said they felt pessimistic about the economic outlook of the UK, compared to just over one in five (22%) of those who chose to leave.

HOW PEOPLE VIEW THEIR OWN FINANCES

This negative attitude is also having an effect on how people view their own finances and how they plan to save. When asked about their personal financial situation, 32% of remain voters feel pessimistic compared to 27% of leave voters. Over a quarter (26%) of remain voters expect to save more money in the coming year. Meanwhile, less than one in five (19%) leave voters said they planned to save more, while 27% expect to save less in the next year.

Further to this, younger people appear more likely to feel pessimistic about the economy and therefore intend to increase their savings. As such, just under half (49%) of 18–24 year olds say that they are aiming to save more money in the next 12 months, compared to just 13% of 50–64 year olds.

HOW OPTIMISTIC DO THESE AGE GROUPS FEEL ABOUT THE ECONOMIC OUTLOOK OF THE UK?

- 18–24 year olds: 19%
- 50–64 year olds: 28%
- Over-65s: 36%

EFFECT OF EMOTIONS ON SAVINGS

The survey conducted by You Gov on behalf of Zurich support the findings of a unique experiment from neuroscience specialists Mindlab. The Savings in Mind research tested 900 participants to measure the effect of emotions on savings. It revealed that people exposed to negative messages are more likely to consider the importance of savings than those who only experience positive messages, showing the importance of truly understanding savings behaviour and motivations in order to encourage and support saving for the long term.

Behavioural change is often triggered by a negative stimulus, and the research shows this can prompt people to save more. Clearly, those who voted to remain in the EU are less confident in the economy than their 'leave' counterparts, and it seems the younger generation are taking action by choosing to put more money to one side. Consumer spending is also a key driver for economic growth – and if people are pessimistic and saving more, this could have repercussions for the wider economy. ■

PLANNING FOR YOUR GOALS ALONG LIFE'S JOURNEY

It is important that we take control of our own savings and investments rather than letting this be dictated by external factors. Whatever your goals are along life's journey, we help you keep them within sight. Want to discuss your options? Please contact us for a review.

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.

STOCKS & SHARES ISA INVESTMENTS DO NOT INCLUDE THE SAME SECURITY OF CAPITAL THAT IS AFFORDED WITH A CASH ISA.

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Inheritance Tax rule changes

Effective estate planning can safeguard your wealth for future generations

If you want to have control over what happens to your assets after your death, effective estate planning is essential. After a lifetime of hard work, you want to make sure you protect as much of your wealth as possible and pass it on to the right people. However, this does not happen automatically. If you do not plan for what happens to your assets when you die, more of your estate than necessary could be subject to Inheritance Tax.

The rules around Inheritance Tax changed from 6 April this year. The introduction of an additional nil-rate band is good news for married couples looking to pass the family home down to their children or grandchildren, but not every estate can claim it.

BEREAVED FAMILIES

This tax year, according to the Office for Budget Responsibility, more than 30,000 bereaved families will be required to pay tax on their inheritance[1]. So, it pays to think about Inheritance Tax while you can and work out how much potentially could be taken out of your estate as soon as possible – before it becomes your family's problem to deal with.

An Inheritance Tax survey conducted by Canada Life[2] shows that Britons over the age of 45 are either ignoring estate planning solutions or they have forgotten about the benefits these can provide. Only 27% of those surveyed have taken financial advice on Inheritance Tax planning, despite all of them having a potential Inheritance Tax liability.

LEAVING AN ESTATE

Every individual in the UK, regardless of marital status, is entitled to leave an estate worth up to £325,000 without having to pay any Inheritance Tax. This is known as the 'nil-rate band'. Anything above that amount is taxed at an Inheritance Tax rate of 40%. If you are married or in a registered civil partnership, then you can leave your entire estate to your spouse or partner with no Inheritance Tax liability.

The estate will be exempt from Inheritance Tax and will not use up the nil-rate band. Instead, the unused nil-rate band is transferred to your spouse or registered civil partner on their death. This means that should you and your spouse pass away, the value of your combined estate has to be valued at more than £650,000 before the estate would face an Inheritance Tax liability.

CONSIDERED 'WEALTHY'

You don't have to own a very large estate or even be considered 'wealthy' to leave behind an Inheritance Tax bill. The nil-rate band has remained frozen at £325,000 since April 2009, but the average price of a UK property has risen 33% over the same period[3].

With much of the UK population's wealth invested in their property, a growing number of families are potentially being left with a significant Inheritance Tax bill to pay.

RESIDENCE NIL-RATE BAND

If you're worried that rising house prices might have pushed the value of your estate into exceeding the nil-rate band, then the new 'residence nil-rate band' could be significant. From 6 April 2017, it can now be claimed on top of the existing nil-rate band. But claiming this new allowance is not as simple as it sounds. It can only be claimed by the estates of people on property that is, or was at some point in the past, used as their main residence and which forms part of their estate on death.

It's only available to homeowners who plan on leaving their residence to 'direct descendants', such as children or grandchildren or step children. If you don't have any direct descendants, or you wish to leave your home to someone else, the new allowance can't be claimed.

TAPERING EFFECT

Anyone without a property worth at least £175,000 per person, or £350,000 per couple (in 2020/21), will only partially benefit. And, because the new allowance

was intended to help 'middle England' and those who weren't especially wealthy, the residence nil-rate band reduces for estates worth more than £2 million by £1 for every £2 above the taper threshold. Because of this tapering effect, there is a point at which claiming the allowance is ruled out completely.

Your estate may still be able to claim the residence nil-rate allowance even if you've already sold your home, for example, because you are in residential care or living with your children. If your home was sold after 8 July 2015 and you plan on leaving the proceeds to your direct descendants, then there are provisions in place that will allow your estate to claim the new allowance. However, this doesn't apply to homes sold before 9 July 2015.

PLANNING AHEAD

If you plan ahead, certain gifts made during your lifetime could reduce the amount of Inheritance Tax payable on your death. In addition, the proceeds payable from any life insurance policies written in an appropriate trust will not form part of your estate and so will not further add to a potential Inheritance Tax bill.

Estate planning will enable you to maximise your wealth and minimise Inheritance Tax. Is it time for you to have a comprehensive review of all your assets and objectives and consider the tax-efficient solutions? ■

WHAT ARE YOUR REQUIREMENTS AND MOTIVATIONS?

The rules around Inheritance Tax are complex, and when reviewing your particular situation you should always obtain professional advice. Everyone has different requirements and motivations – the right solutions for you are the ones that suit your personal circumstances. We can work with you to discover what these are. To discuss all the options available to you, please contact us.

Source data:
[1] Office of Budget Responsibility, November 2016.
[2] Survey of 1,001 UK consumers aged 45 or over with total assets exceeding the individual Inheritance Tax threshold of £325,000 carried out in September 2016.
[3] Nationwide report: UK house prices since 1952.

Working 9 to 5

Almost three quarters of employees expect to work beyond the traditional retirement age

The proportion of UK employees who say they will work beyond the age of 65 is at an all-time high. The findings from Canada Life identified that almost three quarters (73%) of employees expect to work beyond the traditional retirement age, up from 67% in 2016 and 61% in 2015.

Younger workers are particularly likely to expect to work past the age of 65, rising to more than four in five (84%) of 25–34 year olds.

HISTORIC DEFAULT RETIREMENT

More than a third (37%) of those who intend to work beyond the age of 65 say they could be older than 70 before they eventually retire. 10% expect to be at least the age of 85 when they retire, if they can retire at all – twenty years older than the historic default retirement.

Eight years of low interest rates has taken its toll on UK employees' savings. Almost a third (31%) of UK workers – ten million people – say they will work past the age of 65 because of low interest on savings. This is up from 23% in 2016, with an additional three million people delaying their retirement plans in the past year.

LACK OF PENSION SAVINGS

Poor pension planning is another reason UK employees expect to have to work past the age of 65. More than a third (36%) say their pension will not be sufficient so they will need to continue earning a wage.

However, not all reasons for delaying retirement are negative: 34% say they enjoy their job and would like to work for as long as possible. Millennials aged 18–24 are most likely to agree with this (44%), with job satisfaction dipping to 25% among 45–54 year olds but picking back up to 39% of 55–64 year olds.

TOO STRESSFUL JOBS

Tellingly, UK employees believe that established workers aged 41–60 are one of the types of employees most likely to suffer from workplace stress (23%), suggesting workers of this age could be less inclined to want to work for longer because they find their jobs too stressful.

When asked about the biggest challenges facing those working beyond the age of 65, UK workers believe health (57%) and energy levels (48%) to be the biggest issues. Older workers closest to the traditional retirement age are notably more likely to believe health concerns will impact their ability to work beyond 65 (64% of 55–64 year olds compared to 53% of 25–34 year olds), potentially because they have already suffered bouts of ill health.

TECHNOLOGY CHALLENGES

Other challenges include keeping up with new technology (21%), coping with the daily commute (19%) and still being engaged in their job or company (18%).

Older workers are statistically more likely to develop certain health conditions, such as cancer, a stroke and diabetes. As a result, employee benefits designed to support workers through periods of ill health and workplace-based support will become even more important as the UK workforce ages.

EARNING FOR LONGER

Savers have suffered from very low returns ever since interest rates fell to 0.5% eight years ago, and this has had a direct impact on UK workers' retirement plans, with many forced to work longer than they would have hoped to. As inflation continues to rise, eating into the purchasing power of UK savings, this problem will only become more pronounced. Insufficient pension savings are another key cause, with recent reforms prompting many to realise they will need to continue earning for longer to fund a decent retirement.

However, it's not all bad news, with others working longer because they have high job satisfaction – and this older workforce brings with it a range of skills and experience to business. ■

NAVIGATING THROUGH THE MAZE OF JARGON

Retirement planning is all about working out how much to save now, so you can live how you want later. We can help you navigate through the maze of jargon and help your make the most of your money for the retirement you deserve. To review your situation, please contact us.

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.

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.