Financial Landscape

Spring Issue 2019 Carpenter Rees Ltd

Wealth protection

Planning your legacy

Unforeseen life events and circumstances can potentially impact your finances in a number of ways. Believe it or not, you have an estate. In fact, nearly everyone does.

Your estate is comprised of everything you own – your car, home, savings accounts, investments, life insurance, furniture, personal possessions – the list goes on. No matter how large or how modest, everyone has an estate and therefore shares something in common – you can't take it with you when you die.

ENSURE YOUR WISHES ARE CARRIED OUT

When that happens, you probably want to control how these things are given to the people or organisations you care most about. To ensure your wishes are carried out, you need to provide instructions stating whom you want to receive something of yours, what you want them to receive, and when they are to receive it. You will, of course, want this to happen with the least amount paid in taxes, legal fees and court costs.

An estate plan differs considerably from a Will. A Will is quite a simple document about the distribution of your assets and, potentially, instructions for the care of your children. An estate plan, however, goes much further than a Will, and aims to help your heirs pay substantially less in taxes and fees.

Let's consider some key parts of an estate plan.

YOUR CURRENT CIRCUMSTANCES

There are a number of key documents that together build a clear picture of your current circumstances. Aside from the Will, some key documents within an estate plan could include:

- A lasting power of attorney
- A list of all assets and liabilities
- Deeds of any trusts created
- Life policies (which should be included in an appropriate trust)
- Pension Death Benefit Nomination forms
- Records of any gifts made

BEFORE MOVING ON TO THE NEXT PART OF YOUR ESTATE PLAN

Should any of the above be required but aren't available, you should seek professional advice before moving on to the next part of your estate plan. For example, if you've made gifts from your estate but haven't kept a record of them, it's important to do so – this way, the executors of your estate have these details when administering your estate.

Key parts of an estate plan are your objectives and preferences. They could include details of whom you wish to benefit from your estate and when you'd like this to take place – either during your lifetime and/or upon your death. With Inheritance Tax (IHT) currently at 40%, many people are concerned about the amount of tax their estate may have to pay. And as anyone can access information from a probate court upon death, there could be delays, fees and a loss of privacy. You may also have a favourite charity you'd like to transfer your wealth to, or philanthropic goals you wish to include.

STRUCTURING YOUR WEALTH TAX-EFFICIENTLY

Once you have an accurate record of your estate and have clearly defined your objectives, the final part of an estate plan is to put it into place. You may need professional advice to help arrange your assets to maximise the legacy to your loved ones and minimise the impact of tax, fees and loss of privacy.

We can advise you on your options to make sure these are executed correctly. This may involve helping you invest in assets that are exempt from IHT, creating a trust for loved ones, putting a gifting strategy in place, or simply helping to structure your wealth tax-efficiently.

REVIEWING YOUR PLAN ANNUALLY IS SENSIBLE

Once the plan is in place, it's important to keep it up to date. It's usually sensible to review the plan annually or when there's a significant life event, such as a birth or death in the family, a business sale or if your objectives change over time. It can also be good to seek a review of your plan when taxation rules change.

ESTATE FACTS

- Inheritance Tax is levied at a fixed rate of 40% on all assets worth more than £325,000 per person (0% under this amount) – or £650,000 per couple if other exemptions cannot be applied
- Parents and grandparents can currently leave property worth up to £850,000 to their children without them having to pay Inheritance Tax. This figure will rise to £1 million by 2020
- The current allowance of £325,000 remains unchanged, but an additional tax-free band worth £175,000 per person on your main residence will be added to the £325,000, making it £500,000 per person. The new tax-free band was set at £125,000 in 2018, eventually rising to £175,000 in 2020

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 RULES AROUND TRUSTS ARE COMPLICATED SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

NEED SOMEONE TO TALK TO ABOUT YOUR ESTATE PLAN?

If you want to be sure your wishes will be met after you die, then an estate plan is vital. Whatever your circumstances, we are there to talk things through with and guide you in an appropriate direction. If you require more information or would like to discuss your situation, please contact us.

11 Ashbrook Office Park, Longstone Road, Manchester M22 5LB
T: 03330 100777 F: 03330 100888 E: hello@carpenter-rees.co.uk
www.carpenter-rees.co.uk

Carpenter Rees
Financial planning for people and business.

Retirement options

Greater responsibility on individuals to plan for financial security in old age

Deciding what to do with your pension pot is one of the most important decisions you will ever make for your future. The 'pension freedom' changes of April 2015 represented a complete shake-up of the UK's pensions system, giving people much more control over their pension savings than before.

New research[1] has revealed that the number of savers who have embraced their freedoms now exceeds one million (1.04 million). The report from HM Revenue & Customs shows that a record-breaking sum of £7.83 billion was withdrawn in 2018[2], up from £6.54 billion in 2017. It is reported that there have been 5.49 million individual withdrawals since the pension freedoms were introduced in 2015.

UNCONTROLLED 'DASH-FOR-CASH'

There is, however, currently no evidence of an uncontrolled 'dash-for-cash' that was feared by some when the freedoms were introduced. The 2018 figure of £7.83 billion needs to be seen in the context of a total private pension wealth in the UK of approximately £5,000 billion[3].

Withdrawal payments have also consistently averaged less than £4,000 since summer 2017, showing little evidence of savers rushing to buy extravagant luxury items. These freedoms are attractive to younger savers too, with recent figures released[4] finding that one third (33%) of under-35s believe this flexible access encourages them to put more money towards their pension.

FIVE TIPS TO HELP MAKE THE MOST OF THE PENSION FREEDOMS

1. UNDERSTAND YOUR STATE PENSION

The State Pension continues to be most people's biggest source of income in retirement. But the State Pension, and the age at which you are entitled to this money, is changing – www.gov.uk/check-state-pension.

2. TAKE YOUR TIME

You may have spent 40 years saving for your retirement. Take more than 40 minutes considering your options.

3. OBTAIN PROFESSIONAL FINANCIAL ADVICE ABOUT WHAT YOU CAN DO WITH YOUR PENSION POT

There are a number of different ways you can take your defined contribution pension pot. You can usually take 25% of your pot tax-free from age 55.

Your options are to:

Leave your whole pot untouched

You don't have to start taking money from your pension pot when you reach your 'selected retirement age'. If you want to build up your pension pot further, you can continue to receive tax relief on pension savings of up to £40,000 each year (tax year 2018/19), or currently 100% of your earnings if you earn less than £40,000, until age 75.

Guaranteed income (annuity)

You can use your pot to buy an insurance policy that guarantees you an income for the rest of your life – no matter how long you live. You don't have to accept the annuity that your pension provider or pension scheme offers you. The 'open market option' allows someone approaching retirement to shop around for a number of options to convert their pension pot into an annuity, rather than simply taking the default rate offered by their pension provider.

Adjustable income

This option is also known as 'flexi-access drawdown'. You move your pension pot into one or more funds that allow you to take a taxable income at times to suit you. You choose funds that match your income objectives and attitude to risk and set the income you want. The income you receive might be adjusted periodically, depending on the performance of your investments.

Take cash in lump sums

Another option is to take smaller sums of money from your pot until you run out. How much you take and when you take it is up to you. You decide how much to take and when to take it. Your 25% tax-free amount isn't paid in one lump sum – you receive it over time. Each time you take a lump sum of money, 25% is tax-free and the rest is taxable.

Take your entire pot in one go

You can cash in your entire pot – 25% is tax-free, and the rest is then taxed at your highest tax rate (by adding it to the rest of your income). However, cashing in your pension pot will not give you a secure retirement income. If you're thinking of doing this, you should first obtain professional financial advice to discuss your options.

Mix your options

You can mix different options. Usually, you would need a larger pension pot to do this.

4. CONSIDER YOUR LIFE EXPECTANCY

Pension savings are intended to last the rest of your life, yet we typically underestimate how many years we may live. Figures from the Office for National Statistics[5] show that for 2015 to 2017, a woman's life expectancy in England from birth remains 82.9 years, and for a man it is 79.2. For men and women in Scotland

and Wales, the latest figures show a slight decline by more than a month. Men in Northern Ireland have seen a similar fall.

5. APPROACH FINAL SALARY PENSION TRANSFERS WITH CAUTION

If you have a final salary pension, you will need to transfer it elsewhere to access the freedoms. This is a significant decision, as you could lose important benefits. Such a decision should be approached with caution and with the guidance of professional financial advice.

The onus is now firmly on us as individuals to plan our financial security in retirement. We're now expected to take greater responsibility for funding the time in our lives when we're dependent on a lifestyle that we've spent the last 40 years saving for. ■

> "DECIDING WHAT TO DO WITH YOUR PENSION POT IS ONE OF THE MOST IMPORTANT DECISIONS YOU WILL EVER MAKE FOR YOUR FUTURE."

Source data

[1] https://www.gov.uk/government/statistics/flexible-payments-from-pensions

[2] Note: this figure underplays the total amount withdrawn as it does not include any additional amounts taken as tax-free-cash.

[3] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/wealthingreatbritainwave5/2014to2016#private-pensions-wealth

[4] Aviva 2018 survey of 1,000 UK adults: 'Would you put more money towards your pension if you were able to access the money more flexibly?'

[5] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2015to2017

IT CAN HELP TO BE FLEXIBLE

There's a lot to think about when you're planning for retirement. And don't forget that your situation may change in the future, so it can help to be flexible. If you would like to discuss your particular situation or arrange a meeting, 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.

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.

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

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

Financial planning is about making your life plan a reality

We begin by talking about you, not your money

Often, clients who have just begun working with us are surprised by how our planning process starts. We don't begin by talking about pensions, ISAs or how much you're saving. Instead, we begin by talking about you, not your money.

PUTTING YOUR LIFE BEFORE YOUR FINANCIAL PLAN

As Life-Centered Financial Planners, our process begins with understanding your life plan. We start by asking you about your family, your work, your home, your goals, and the things that you value the most.

Our job is to work with you to build a financial plan that will help you make your life plan a reality.

Of course, building wealth that will provide for your family and keep you comfortable today and in retirement is a part of that plan. So is monitoring your investments and assets and doing what we can to maximise your return on investment. But we also believe that maximising your Return on Life is just as important, if not more so. Some people feel like they will never have enough money, whilst others, who have learnt to view money as a tool, start to see a whole new world of possibilities open in front of them.

FEELING FREE

One of the most important things your money can do for you is provide a sense of freedom. If you don't feel locked into chasing after the next pound, you'll start exploring what more you can get out of life rather than just more money.

Feeling free to use your money in ways that fulfill you is going to become extremely important once you retire. After all, you're going to have to do something with the 40 hours every week you used to spend working! But you're also going to have to allow yourself to stop focusing on saving and start enjoying the life that your assets can provide.

So, having money and building wealth is a part of the plan. But it's not THE plan.

The earlier you start thinking about how you can use your money to balance your vocation with vacation, your sense of personal and professional progress with recreation and pleasure, and the demands of supporting your family with achieving your individual goals, the freer you're going to feel.

And achieving that kind of freedom with your money isn't just going to help you sleep soundly at night – it's going to make you feel excited to get out of bed the next morning.

WHAT'S COMING NEXT?

So, when does the planning process end?

If you're like most of the people we work with, the answer is 'never'.

Life-Centered Planning isn't about hitting some number with your savings, investments and assets. We're much more concerned about how your life is going than how the markets are performing. Instead, the kinds of adjustments we're going to make throughout the life of your plan will be in response to major transitions in your life.

Some transitions we'll be able to anticipate, like a child going to university, a big family holiday you've been planning for, and, for many of you, the actual date of your retirement. Other transitions, like a sudden illness or a big move for work, we'll help you adjust for as necessary.

In some cases, your life plan might change simply because you want something different out of life. You might start contemplating a career change. You might decide home doesn't feel like home anymore and start looking for a new house. You might lose yourself in a new hobby and decide to invest some time and money in perfecting it. You might decide it's time to be your own boss and start your own company.

Planning for and reacting to these moments where your life and your money intersect is what we do best. Come in and talk to us about how Life-Centered Planning can help you get the best life possible with the money you have. ■