

Setting goals for retirement

Those who set tangible goals for the future could be £30,000 better off in retirement, according to new research.

The Set the Right Goals study from Zurich UK found that those who set specific goals for when they are aged 65 or over are more likely to save, putting aside approximately 7% of their salary into their pension compared to 5% for those without.

The study combined research from YouGov of UK adults from across the UK and neuroscience specialists Mindlab to measure the effect of emotions on saving.

GOAL-SETTING AND SAVING

The findings uncovered a definitive link between goal-setting and saving when it comes to pensions. Those of working age with a workplace or private pension who set goals for life when they are aged 65 or over – such as travelling more, taking up new hobbies or being in a position to financially support children and grandchildren – save 7.25% of their salary into their pension, while those who don't know what their aspirations are for the same period save just 5.36%.

DIFFERENCE IN PENSION POTS

Given that an employee with 5–9 years' experience typically earns £30,708, a 'goalless' saver earning at this level would put away just £1,646 per year into their pension, compared with £2,226 per year for those with set goals. Based on calculations from Zurich's Retirement Planner, a 28-year-old goalless person earning this typical salary could potentially have a personal pension pot of £87,600 once he/she reaches the age of 65. However, if the same person sets goals for this stage of life, they could expect to have a personal pension pot of £118,000 after the same amount of time – a potential increase of £30,400. This does not include any contributions from

employers, who can sometimes match the employee's pension contribution, meaning that the difference in pension pots could be far greater.

SOUND FINANCIAL MANAGEMENT

The research also found that 78% of those under 65 who had goals for life when they are aged 65 or over have savings and investments, as opposed to just 49% of those who are unsure of their goals for this period of their life. Meanwhile, goals such as starting a family or going travelling also affect a person's likelihood to practice sound financial management. Just 29% of those who do not have any current goals have money put aside in their current account, compared with 49% of those who are currently saving towards a specific goal.

MOST EMOTIONALLY MOTIVATED

The results found that certain goals have a greater impact on savings behaviour than others. Where people have an emotional attachment to a goal (for example, saving to support elderly relatives, have children or go on holiday), they are more likely to take positive saving action to achieve them. Saving towards retirement was identified as respondents' most important saving goal, as well as one of the most emotionally motivated.

REALISE YOUR AMBITIONS

For most of us, managing our money day to day occupies most of our attention, particularly when rising inflation puts family

budgets under ever greater strain. But this research demonstrates that thinking about what you aspire to and having goals for the immediate and long term will inspire people not only to save, but to save more. This is why it is so critical to take time out and visualise your future, so that you can then take action to financially prepare and realise your ambitions. ■

WILL YOU MAKE YOUR GOALS ACHIEVABLE?

Small steps taken early on can make a huge difference. Saving regularly into your pension or drip-feeding amounts of money into the right investments can generate an income that will make your goals achievable, whether this includes travelling more or supporting loved ones. If you would like to review your particular situation, please contact us – we look forward to hearing from you.

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

Source data:

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,073 adults. Fieldwork was undertaken between 25 and 26 October 2016.

The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

900 adult participants (19–55+) who are representative of the general population took part in the Mindlab experiment in the UK from 25–26 October 2016.

Getting your affairs in order

What you have and what you want to happen to it

Everyone should have a Will, but it is even more important if you have children, you own property, you have savings, investments or insurance policies, or you own a business.

The very act of having a Will drawn up can be beneficial in that it makes you think about what you have and what you want to happen to it. While most of us find it difficult to think about our mortality, the fact is that one day we will be gone, and we owe it to our beneficiaries to make the task of settling our affairs as easy as we can.

RULES OF INTESTACY WILL APPLY

If you do not leave a valid Will, the rules of intestacy will apply in respect of your estate (your 'estate' is defined as assets less outstanding liabilities). If your estate is very small, this may not matter, and there are circumstances in which the result might be perfectly acceptable (for example, if the value of your estate is such that it will pass wholly to a surviving spouse or children). In most cases, however, it still makes sense to have a Will drawn up. The rules of intestacy do not provide for 'common law' spouses. If you do not provide for them via a valid Will, they may be obliged to make a legal claim against your estate and could find themselves seriously short of funds in the meantime.

PROTECT CERTAIN FAMILY MEMBERS

The very act of having a Will drawn up can be beneficial in that it makes you think about what you have and what you want to happen to it. For example, whether you want to protect certain family members (such as minor children or those who will struggle to manage their affairs), whether you want certain interests to take priority (for example, giving a second spouse or

registered civil partner a right to remain in occupation of the family home for the rest of their life), whether you want children or grandchildren to benefit equally (or for any inheritance to be adjusted to reflect lifetime gifts), whether you want to benefit charities, and whether it would be appropriate to consider some tax planning.

ASPECTS OF YOUR ESTATE

In addition to a Will, you can write a letter of wishes. This is not legally binding, but you can use it to deal with smaller items and more significant matters such as the factors you would want trustees for your children to consider in exercising their discretion. You might also want to guide your executors towards professional advisers who you think would be best placed to deal with particular aspects of your estate or the estate as a whole.

REFUSAL TO ACT ON YOUR WISHES

Talk about your Will to those who will be affected by it. You can name people as executors without their prior consent, but they can refuse to act when the time comes. Check that they are willing, tell them why you have chosen them and make clear why your Will says what it says and what your wishes are in respect of any matters not covered in the Will. Also, tell them where your Will is kept.

IMPACT AND THE LEGAL COSTS

If the terms of your Will are likely to lead to arguments within your family, think very

carefully about the impact and the legal costs associated with any challenge and whether it makes sense to explain things in a covering letter or face to face while you have time. Think carefully about your choice of executors. While family or friends are usually a good option, there are circumstances – for example, if you have business interests, if family conflicts are expected or if there is simply no one else appropriate – where the appointment of one or more professional executors may make sense.

KEEP IT UNDER REVIEW

If you already have a Will, make sure you keep it under review. Are your chosen executors still the right people? Are they still alive? Have your wishes changed in any way? Have your family circumstances changed? (Bear in mind that marriage usually makes a Will invalid and that divorce makes any bequests to your ex-spouse/civil partner null and void.) Minor amendments to a Will can be achieved via a codicil. More wholesale changes call for a new Will which, assuming it is valid, takes priority over your old Will.

MAKE YOUR WISHES CLEAR

You can not bind family or friends in terms of funeral arrangements or, at present, organ donation. You could sign up to the organ donor register and carry a donor card, and – most importantly of all – talk to your family about your wishes and the reasoning that lies behind them.

KEEP RELEVANT PAPERS SAFE

It is essential that Wills are kept secure, whether in a professional adviser's safe or at home in a fireproof box. Your executors, however, are going to need

access to far more. They will need to determine your assets and liabilities on death and, if Inheritance Tax (IHT) is an issue, investigate any gifts in the seven preceding years. Leave them lists, together with relevant papers, life policies and contact details.

Also leave a note of relevant contact details – your accountant, your solicitor, your bank and professional financial adviser – with details of pension and life policies.

IMMEDIATE FAMILY NEEDS

Assets that are owned jointly (including properties held as joint tenants) pass to the survivor automatically on death. Most other assets, however, will be frozen until a Grant of Probate has been obtained (a process that invariably takes several months). Ensure that your spouse or registered civil partner, or any adult child who is dependent on your support, has sufficient funds in a bank account of their own or in a joint account to meet their immediate needs.

Consider life insurance as an appropriate way of supporting your family after you are gone, and make sure that life insurance policies are ‘written in an appropriate trust’, which means that the proceeds can be released before Probate has been obtained.

SIMPLE AND TRANSPARENT FINANCES

The more complicated your financial affairs, the greater the difficulty could be

for those you leave behind. Try and make things as simple and transparent as you can. Go through your documents and either dispose of or identify those that are no longer valid. If there are matters that should have been disclosed to HM Revenue & Customs (HMRC), think seriously about disclosing now and getting everything cleared up.

INHERITANCE TAX PROVISION

In the event that your estate is likely to be subject to Inheritance Tax (IHT), it requires advance planning. If your estate passes to a surviving spouse or partner (or to charity), IHT is not likely to be an issue. On the second death, the first £325,000 (the ‘nil-rate band’) of your estate is likely to be free of tax. You may benefit from an additional £325,000 if a spouse has pre-deceased you, and those dying after 5 April 2017 may benefit from an additional exemption in respect of the family home. However, if you have remained single, have divorced and not remarried, or are in a common-law relationship, the exempt amount may be just £325,000. And, if you have made substantial lifetime gifts, this may not be available to set against your estate at death. Any value not covered by reliefs or exemptions is charged to IHT at 40% (or 36% if 10% of the net estate is left to a registered charity).

LASTING POWER OF ATTORNEY

All of the above relate to what happens when you die. There is a distinct possibility, however, that you will lose capacity to deal with your affairs well before that point. Lasting powers of attorney (LPAs) are intended to fill the gap – they are a legal document under which you appoint one or more persons to deal with either or both of your financial affairs and your health and welfare in the event that you are no longer able to deal with things yourself. An LPA is important, and it should be drawn up while you still have full capacity (they are often dealt with at the same time as a Will). Bear in mind that incapacity could be triggered by an accident or a sudden illness, rather than gradual decline. ■

NEED SOMEONE TO TALK THINGS THROUGH WITH?

If you want to be sure your wishes will be met after you die, then a Will is vital. Whatever your circumstances, we are there as someone 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.

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



Safeguarding wealth for future generations

New Inheritance Tax rules apply from 6 April 2017

Unforeseen life events and circumstances can potentially impact your finances in a number of ways. We can help you to safeguard your wealth for future generations.

Although often in the news, Inheritance Tax (IHT) is still not widely understood. That's worrying, because it affects thousands of families every year. If you thought IHT was just for extremely wealthy people to worry about, think again. The amount of IHT collected has doubled over the last five years[1].

MONEY AND POSSESSIONS

If your estate has an IHT liability, IHT must be paid prior to probate and therefore prior to the beneficiaries receiving their legacy. This may not be the kind of legacy most people think of leaving behind. IHT is payable on assets such as property, money and possessions that are passed on when you die. IHT is payable at 40% (or 36% if 10% of the net estate is left to a registered charity) on assets that exceed the threshold 'nil-rate band', which is currently at £325,000.

The good news is that there are things you can do – in your lifetime – to take care of a potential problem. But finding the right options for you will depend on your personal circumstances and receiving appropriate advice.

NEW IHT RULES

Under the new IHT rules, more estates are likely to pass free of IHT post-5 April 2017. By 5 April 2021, some estates worth £1 million will pass free of IHT. This is the good news, but it's far from the whole picture. For many, in particular the childless, the IHT could in fact (with the effect of inflation) be higher post-5 April 2017.

For deaths from 6 April 2017, an additional IHT-free 'residence nil-rate band' (RNRB) will be available. This will begin at £100,000 in the tax year 2017/18 and will increase by £25,000 each tax year, reaching £175,000 by tax year 2020/21. Based on the current information, from tax year 2020/21 onwards, the RNRB will increase each year in line with increases in the consumer prices index.

This RNRB is available where the deceased leaves a property (or the proceeds of sale of a property) in which they have lived at some point to their direct descendants or the spouse or civil partner of a direct descendent (children and their issue).

RESIDENCE NIL-RATE BAND

The residence nil-rate band is available on top of the existing IHT nil-rate band of £325,000, so that in 2020/21 an individual will potentially be able to leave £500,000 free of IHT. As is now the case with the standard nil-rate band, where the first of a married couple to die leaves their estate to their spouse, the IHT nil-rate band can effectively be 'passed on' to the surviving spouse.

For those with a conventional family, a modest home and savings (and subject to the rate of house price increases in the coming years), it is therefore likely that no IHT will be payable on their estate.

DOWNIZED OR SOLD UP

The new rules are designed to ensure that the elderly are not encouraged to retain family homes they would otherwise have sold. Where the deceased has downsized or sold up, it will still be possible to pass on the proceeds of the family home. The rules provide only that the deceased must have lived in the property in question at some point, and that assets of an equivalent value are passed on to direct descendants.

The additional RNRB will not be available to the most valuable estates. This is because where the value of the deceased's estate (after deducting liabilities but before deducting any reliefs and exemptions) exceeds £2 million, the RNRB will be reduced by £1 for every £2 that this £2 million threshold is exceeded. If, therefore, death was to occur in the 2020/21 tax year when the RNRB will be £175,000, this would mean that no RNRB will be available for estates with a value of £2.35 million or more

(or £2.7 million on the death of a surviving spouse where a full RNRB is available to be transferred to the survivor).

ERODED BY INFLATION

The nil-rate band of £325,000 is now frozen until at least April 2021. This means that for the unmarried, and for those who leave no children or grandchildren, the IHT-free band will continue to be eroded by inflation. A single person owning property in London, for example, is highly likely to leave an estate subject to IHT. The number of single and childless persons of even modest means who will fall within the IHT bracket will inevitably continue to increase.

The actions you need to take depend on your family's needs for capital and income, as well as your current assets and your intended beneficiaries, so it's important to speak with us for expert advice on the best options for your circumstances. ■

DON'T LEAVE LOVED ONES WITH A LARGE AND UNNECESSARY IHT BILL TO PAY

Estate planning can be complicated, and talking to us about your situation can make a real difference. Our experience is that too many people are leaving their loved ones with a large and unnecessary IHT bill to pay. To review your situation, please contact us.

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Source data:

[1] HM Revenue & Customs (HMRC) collected £4.7 billion from thousands of bereaved families in 2015/16. Source: Office for National Statistics, 2016