# ESSENTIALLY WEALTH

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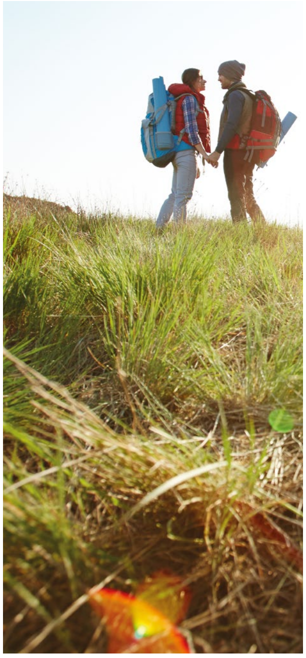

# PENSIONS – WHERE ARE WE?

The recent election result has done very little to help provide clarity regarding pension policy here in the UK. In fact it has muddied the waters even more, when we consider the differences that the Conservatives and the Democratic Unionist Party (DUP) have on several pension related issues.

### Political differences

The Conservative manifesto included the pledge to downgrade the state pension triple lock, in favour of a double lock in 2020, meaning pensions would rise by the higher of earnings and inflation (without the present 2.5% minimum guarantee). This was abandoned when securing a deal with the DUP.

The DUP have keenly expressed their support for women affected by the increases to the state pension age (SPA), whereas the Tories have shown no intent to alter their position on this. There is commitment to increase the SPA in-line with increases in life expectancy. The long-awaited John Cridland report, which reviewed the SPA and the financial sustainability of the system following improvements in life expectancy, recommended that increases in the SPA should be accelerated and rise from 67 to 68 between 2037 and 2039, seven years earlier than intended. The government have recently confirmed that they will be adopting this recommendation. Under current legislation, during the period December 2018 to October 2020 the SPA for men and women will increase to 66. It will then rise to 67 between 2026 and 2028 and to 68 between 2044 and 2046.

### Common ground

An area of pension policy that the DUP and Tories currently agree on is the continued rolling out of the workplace pension auto enrolment scheme, which is a positive.

### Where now?

There is still a lack of clarity surrounding the Budget announcements which failed to make the Finance Act 2017. It was expected that the Money Purchase Annual Allowance, affecting those who activate flexible access to their pension, was to be reduced to £4,000 in the current tax year. In the 2017 Budget, the government confirmed an intention to lower the limit from £10,000 to £4,000 from 6 April 2017. However, due to the snap election, the legislation needed to implement this is currently on hold. This may appear in the next Finance Bill.

**THE LONG-AWAITED JOHN CRIDLAND REPORT, WHICH REVIEWED THE SPA AND THE FINANCIAL SUSTAINABILITY OF THE SYSTEM FOLLOWING IMPROVEMENTS IN LIFE EXPECTANCY, RECOMMENDED THAT INCREASES IN THE SPA SHOULD BE ACCELERATED AND RISE FROM 67 TO 68 BETWEEN 2037 AND 2039, SEVEN YEARS EARLIER THAN INTENDED.**

***Tax treatment depends on individual circumstances. Tax treatment, rates and allowances are subject to change. The value of pensions and the income they produce can fall as well as rise. You may get back less than you invested.***

## COULD INTEREST RATES BE SET TO RISE?

When the Bank of England's Monetary Policy Committee (MPC) met in June, the vote to leave rates at their current level of 0.25% was passed, but it was closer than had been expected at five to three in favour.

Inflation rose to 2.9% in May, and although it fell to 2.6% in June, it is still over the 2% figure that government has targeted for the Bank to maintain.

In his June Mansion House Speech, the Governor, Mark Carney, suggested that the economy hadn't yet reached the point where rates needed to rise, saying: *"Now is not yet the time to begin that adjustment"*.

However, Andrew Sentance, a former member of the Bank's Monetary Policy Committee and a senior economic adviser at PwC, said: *"We have not necessarily passed the peak of inflation."* Speaking to BBC Radio 4's Today programme, before the inflation figures were published, he said the Bank should follow the US Federal Reserve by starting to gradually raise interest rates: *"If the Bank gradually raised interest rates that would help support the value of the pound so we would get less imported inflation and that might take some of the pressure off consumers."* Watch this space.


## YOUR FINANCIAL CHECKLIST FOR 2017, HOW'S IT LOOKING?

Did you make some New Year resolutions about your finances, if so are you sticking to them? As we pass the halfway point this year, here are a few thoughts about actions you may want to take to keep your finances in good order.

**I will get my pension reviewed**
The tax incentives offered by pensions are too good to pass up; because of tax relief on contributions, it costs the basic rate taxpayer only £80 to make a £100 contribution to their pension, while a higher-rate taxpayer only pays £60 for the same effect. If it's been a while since you looked at your pension, get in touch to arrange a review.

**I'll make sure my Will is up to date and write a Power of Attorney**
A Will written a few years ago might not reflect your current wishes about how your wealth should be apportioned on your death. So, you may want to review and update its provisions.

Everyone should plan for a time when they might not be able to handle their own financial affairs, or deal with decisions about their care. Creating a Lasting Power of Attorney enables you to nominate the person or people who would legally be able to take charge of making important decisions about your money and welfare if there comes a time when you are not able to do this yourself.

**I will save as tax-effectively as possible**
With the Individual Savings Account (ISA) limit for 2017-18 set at £20,000 it makes sense to shelter as much money as you can in these accounts. In an ISA, you don't pay tax on income or capital gains and the Help to Buy and Lifetime ISA accounts offer attractive government bonuses too.

***If you're making plans for your retirement and would like some professional advice, then please get in touch.***

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# FINANCES ON BEREAVEMENT – WHAT FAMILIES NEED TO KNOW

Dealing with a bereavement is always a very sad and difficult time. Managing money matters may not be the first thing on your mind when you have lost someone close to you, however you may need to make some financial arrangements to pay expenses such as funeral costs.

If you are married or in a registered civil partnership and your partner dies, there are government bereavement benefits available to help ease the financial burden.

**The new bereavement benefits system**

Under the new rules that were introduced in April, if you were to lose your spouse or civil partner, you could be entitled to a Bereavement Support Payment, a tax-free lump sum of £2,500 if there are no children, or £3,500 if there are. You could be eligible if your partner paid National Insurance contributions of at least 25 weeks, or died because of an accident at work or a disease caused by work, and they were under State Pension age when they died, and were living in the UK. It's important to note that you can't claim bereavement benefits if you were living together but weren't married or in a civil partnership.

In addition, a monthly tax-free payment of £100 will go to those without children, whilst those with dependent children will receive £350 per month as a tax-free payment. In both cases, this is payable for 18 months. Families that need longer-term support will be moved onto the new Universal Credit benefits system.

**Funeral costs**

Sometimes, the person who has died will already have paid for their funeral, or will have money in their estate to cover it. If they left a Will, the executor of the estate will take care of paying the funeral costs. However, there is a government scheme that provides a Funeral Payment for people on a low income who are receiving certain benefits to help them pay for the funeral. It won't cover the whole cost of the funeral, but does help with burial or cremation fees and provides up to £700 towards a funeral director's fees.

If the person's estate consisted of just personal belongings and a home that they share with a surviving spouse or civil partner, then the government doesn't claim this payment back. However, if there is money in the estate, then the money will need to be repaid.

**IF YOU ARE MARRIED OR IN A REGISTERED CIVIL PARTNERSHIP AND YOUR PARTNER DIES, THERE ARE GOVERNMENT BEREAVEMENT BENEFITS AVAILABLE TO HELP EASE THE FINANCIAL BURDEN.**

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# ACTING YOUR INVESTOR AGE

As we mature our priorities and goals can change, as well as our circumstances, and we may need to revisit our investment strategy to reflect all of the different stages of our lives. Age may just be a number but it's important to grow up and act your investor age!

**What should I be doing in my 20s?**

It's likely that in your **20s** you are starting your career, you may be paying back student loans or saving for the deposit on your first home. Rather than keeping any spare cash in an account that pays a low rate of interest, investing as early as possible can be a good long-term strategy. A benefit of investing early is that there is plenty of time to ride out any short-term fluctuations in the stock market. You can also make use of your annual ISA allowance, meaning your investments will be free of income and capital gains tax. You may also be interested in looking into the Lifetime and Help-to-Buy ISAs.

**What should I be doing in my 30s?**

In your **30s**, it is likely that you will have more financial obligations, such as a home and a family. Despite all of these challenges, it's important not to lose sight of future financial objectives, like investing for a child's education or building up a healthy retirement fund. Try to keep adding to these pots.

**What should I be doing in my 40s?**

By the time you reach your **40s**, retirement can still seem a long way off, but this is the time you are likely to be in your peak earnings years, so maximising your pension contributions and taking advantage of your tax-free ISA allowance are both good ways of investing for your future.

**What should I be doing in my 50s?**

Pension changes introduced a couple of years ago mean that many people in their **50s** could be considering retiring at age 55, even though the state pension age is rising. If this is something you wish to consider, you also need to think about the available investment options; you may change your investment strategy from one that is focused on producing income, to one that concentrates on growth.

**What should I be doing in my 60s?**

Reaching your 60s often used to be the end of your working life, but nowadays many more people work well into their **60s** or **70s**. This is the time to revisit your attitude to risk as it's likely that you will now be more concerned than you were in your younger days about protecting your funds from stock market movements and may decide to opt for lower risk investments.

You may be in the fortunate position of having enough funds in retirement for your own use and choose to invest part of your assets for the benefit of younger family members.

Whatever your age, we can offer advice that's tailored to your circumstances.

***If you're making plans for your retirement and would like some professional advice, then please get in touch. Tax treatment depends on individual circumstances. Tax treatment, rates and allowance are subject to change. The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.***

# BREXIT – WHERE ARE WE NOW?

Nearly a year to the day since the referendum vote, the negotiations for the UK's departure from the EU started on Monday 19th June. Discussions began in Brussels between Britain's lead negotiator David Davis and the EU's Michel Barnier.

As Philip Hammond was quick to point out in his Mansion House speech, when the British people voted to leave the EU, they did not vote to become poorer or less secure. He confirmed that jobs and living standards are a priority for the government in its negotiations with Europe.

It was always anticipated that Brexit uncertainty would give rise to increased volatility and this has proved to be the case, both for the value of sterling and the stock market. With inflation rising, the Bank of England is under more pressure than it was a few months ago, to consider the prospect of raising interest rates.

As the pound has lost ground, buying goods or services from other countries will become more expensive and prices will rise. However, on a brighter note, our exports become cheaper and therefore more attractive to overseas buyers.

The Treasury under former Chancellor George Osborne forecast last year that house prices could fall by between 10 and 18% over the next few years, compared with where they would have been if Brexit hadn't intervened. If this happens it could spell better news for first-time buyers, although it's not so good for those who are already homeowners. However, given that there is a housing shortage across the UK, prices look likely to remain relatively high, at least in the short term.

It's important not to lose sight of the fact that the UK will remain a member of the EU for at least another 18 months or so. Predicting the future of the economy over that timeframe is no easy task.

## DON'T FORGET TO USE YOUR ISA ALLOWANCE

The good news is that since 6th April you can use this year's ISA savings allowance to put your hard-earned cash to work in a tax-efficient way. The 2017-18 allowance is a generous £20,000 and as it can't be carried forward, it makes sense to take advantage of this savings opportunity as soon as possible in the year, rather than risk losing your entitlement if you miss the tax year-end deadline.

### The longer your money is in your ISA, the more opportunity for interest and growth

If you're planning to make use of your ISA allowance this tax year, it's a good idea put your money in as early as possible. The longer your money is saved or invested, the more time it will have to produce tax-free returns.

If you're thinking of putting your ISA subscription into the stock market, but are worried that there might be more volatility ahead for the economy, then you can always choose to make contributions on a regular monthly basis. This is referred to as 'pound cost averaging' and means that you don't have to worry about getting the timing of your investment exactly right, and there's no need to constantly watch markets and stock prices to invest at the right moment.

### Making the right choice

If you have cash that you don't need to access in the short term, then you may want to think about using your ISA allowance now. You only get one ISA allowance each year, so don't risk missing out on the valuable tax relief available.

When it comes to choosing the most appropriate account or fund, there is a wide choice available, so why not contact us for advice on choosing the one that's right for you?

***The value of investments and the income they produce can fall as well as rise. You may get back less than you invested.***

# NEARING RETIREMENT? HERE'S WHAT YOU NEED TO THINK ABOUT

It may be approaching on the horizon, the prospect of a long, happy retirement, after years of working hard. For many, retirement means spending more time with family and friends, or pursuing hobbies and interests, travelling the world or maybe even starting a new career or enjoying your garden. Whatever you want your retirement to be, here are some tips to help you plan your finances to make the most of your later years.

**Get familiar with your entitlements**

Do your maths – working out how much you will have to live on and how much you'll need to spend is your first port of call. If you've had several jobs during your working life, you may have built up various pension pots, so get familiar with what you already have, plus there's your state pension to consider. It's a good idea to put together a budget that includes all your sources of income, your basic living costs, money you'll want to spend on holidays and pastimes, plus funds to cover emergencies.

**Be scammer-savvy**

It pays to be scammer-savvy. There are scammers around who are desperate to get their hands on your pension funds. They email, cold call and can even turn up unannounced on your doorstep. Very often, scams don't look like scams. They sound legitimate and come via convincing websites and glossy brochures. Don't get taken in; if an investment sounds too good to be true, then the chances are that it is. You can check out scams on the Financial Conduct Authority website (Be a ScamSmart Investor).

**Focus on the future**

Give careful consideration to making and updating your Will, also think about putting a Lasting Power of Attorney in place, so that if the time comes when you aren't able to make decisions for yourself, you have nominated someone you know and trust to act on your behalf. If you think that your estate might be subject to inheritance tax, then this could be a good time to get some professional advice as to how to plan your wealth so that more of it will go to your heirs.

**Take some sound advice**

The pension reforms that came into effect in 2015 provide greater flexibility and choice. With life expectancy continuing to rise, many people retiring today can look forward to a lengthy retirement, so it's more important than ever to make the right decisions about your finances. Financial advice can help you understand your options, make the most appropriate choices and plan your finances for the future. Get in touch today to consider your options.

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**IF YOU'VE HAD SEVERAL JOBS DURING YOUR WORKING LIFE, YOU MAY HAVE BUILT UP VARIOUS PENSION POTS, SO GET FAMILIAR WITH WHAT YOU ALREADY HAVE, PLUS THERE'S YOUR STATE PENSION TO CONSIDER.**

## PROTECT YOUR FAMILY'S INCOME

Would you be able to cope financially if you lost your job or became seriously ill? Recent research[1] has highlighted that families frequently find their finances stretched to the limit, meaning that if they were to face a health crisis, it would seriously impact their lifestyle.

The research shows that nearly a quarter of families surveyed have no savings to rely on in an emergency. Although the majority of families have some money saved, it averages out to around £2,004 compared to their likely average spend of £2,606 on their mortgage or rent, food and other household expenses. Parents are more likely to insure their pet (24% of those surveyed), or their holiday (38%), than to have a private health or critical illness policy in place (18%).

On average, 1.8 million employees suffer a long-term sickness absence of four weeks or more in a year and it's estimated that by 2030, 40% of the working age population will have a long-term health condition. If you can't work because of illness, accident or disability, you may be able to claim state benefits and your employer may provide sick pay. However, these may not be sufficient for your requirements.

It makes good financial sense to consider putting protection policies in place that could provide a payout if serious illness were to strike. Contact us for further information.

[1]Aviva, February 2017

# PERSONAL BORROWING HITS RECORD HIGH

Figures from the Bank of England show that household debt increased by a staggering £1.6bn in March. Borrowing grew by more than 10% compared with the same month a year earlier.

It seems that slow wage growth and rising inflation have led to the average household taking on unsecured debts of around £13,200, just below the figure of £13,300 seen in the lead up to the 2008 credit crunch. The TUC recently warned that they estimate that unsecured debt per household will rise to £15,000 by 2020.

In another sign that the UK's finances are getting overstretched, almost 300,000 County Court Judgment cases came to court in the first quarter of this year, the highest figure for more than 10 years.

**Bank of England raises concerns**

The Bank's Financial Policy Committee has taken steps to stop banks getting around key tests designed to stop them lending too much to consumers and has forced them to find an extra £11.4bn over the next 18 months to shore up their finances against the risk of bad loans. The Bank is bringing forward by six months the so-called "stress test" that gauges whether lenders could withstand losses on loans that are not repaid.

**35-year-olds bear the brunt**

There's evidence that those in their mid-30s are bearing the borrowing brunt. That's because they are likely to have student loans to repay, personal loans for cars and make regular use of credit and store cards.

Debt charity StepChange had a record 600,000 people approach them for help with debts last year. Their research shows more that 8.6 million people are using credit cards to cover everyday living expenses, including 1.1m who are resorting to high-cost credit.