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YOUR WEALTH WINTER 2015

SPARE YOUR HEIRS FROM IHT

WHY IT PAYS TO DIVERSIFY YOUR INVESTMENTS

TRUSTS AREN'T JUST FOR THE SUPER-RICH

PRE-RETIREMENT CHECKLIST

WELCOME TO THE NEW PENSIONS ERA

2014 will be remembered as the year when everything we'd all thought was sacrosanct about pensions was turned on its head. Few would have predicted before the March Budget that, by the end of the year, the pension landscape would have witnessed such far-reaching and fundamental changes.

The government introduced these measures in the belief that individuals who have worked hard and saved responsibly throughout their adult life could be trusted to make their own decisions with their pension savings.

All this new freedom brings with it added personal responsibility. Life expectancy is increasing and those reaching 65 today might easily expect to spend around 20 years in retirement. Professional advice and guidance has never been more important to ensure that pension pots are used wisely and continue to provide for changing financial needs. The pensions industry is actively engaged in developing new products to complement the new rules.

FAR-REACHING CHANGES

Those with defined contribution pensions are, from April 2015, given new freedom of choice from 55. They can also decide how much they take from their pension pots on retirement. The restrictions that were generally perceived to be onerous or unreasonable have been swept away. No-one will be required to purchase an annuity at any age. In addition, the 55% tax charge on death has been removed, meaning that some beneficiaries will inherit more than was previously the case. The main changes include:

- Flexible access to pensions from age 55 (57 from 2028)
- 25% tax-free amount will no longer have to be taken at once on retirement; smaller amounts can be taken over time, each with 25% tax free
- Pension drawdown restrictions relaxed
- Final salary pensions can be switched to defined contribution (but transfers from unfunded public sector schemes not allowed)
- Death benefits paid to beneficiaries on death before age 75 will be completely tax free
- Death benefits after death over 75 subject to 45% income tax in 2015-2016 and beneficiary's marginal rate thereafter
- Income on an ongoing joint-life annuity paid tax free to a spouse or civil partner on death before age 75.

Whatever age you are, however near or far away from retirement you may presently be, you are strongly advised to keep your plans under regular review and to contribute as much as possible to your pension throughout your working life.

If your retirement is imminent, it's vital to have an understanding of what these major changes in financial legislation mean for you, what new options are available to you, and how best to structure your finances to ensure a financially-comfortable retirement.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.

SPARE YOUR HEIRS FROM IHT

Inheritance Tax (IHT) can cost your loved ones thousands of pounds in the event of your death

Families were charged £3.4bn in IHT in 2013-14, a six-year high according to HM Revenue & Customs. The 2014-2015 IHT threshold is £325,000 per person, doubling to £650,000 for a married couple. Above this nil rate band, tax is payable at 40%.

With the recent property price rises, many more people are calculating the value of their estates and finding they have a greater liability to IHT than they'd first thought. The good news is that expert planning can legitimately mitigate this tax, allowing you to pass on your assets as you intended.

You can of course give your assets away, and if you survive for seven years, they will not be considered for IHT purposes. You can take out life insurance to pay the inheritance tax that would be due if you don't live for seven years.

Husbands, wives and civil partners (but not unmarried couples) can pass wealth between themselves tax-free while they are alive, and can also inherit each other's nil rate band on death. This increases the allowance to £650,000 after the surviving spouse dies.

If you want to pass money to the next generation, you can set up a discretionary will trust to protect money for your children, rather than giving it straight to the surviving spouse – so it won't count as part of the estate. The appointed trustee will control the assets and can arrange for the spouse to receive income from it if needed.

OTHER EXEMPTIONS

You can make gifts of up £3,000 (in total, not per recipient) plus any number of gifts up to £250 per other recipient during each financial year.

Weddings represent another opportunity to hand money on. Before the wedding day, each parent of a bride or groom can give up to £5,000; grandparents or other relatives can give up to £2,500 and any well-wisher can give £1,000.

If you're in the fortunate position to be able to do so, consider making regular gifts under the 'surplus income exemption'. This enables you to make a series of gifts from your spare income free of IHT.

Everyone's circumstances are unique and tax planning is a highly complex area; it's essential to take professional advice.

Will writing and taxation and trust advice are not regulated by the Financial Conduct Authority.

WHY IT PAYS TO DIVERSIFY YOUR INVESTMENTS

When it comes to investing, the old maxims are often the best. It seems that 'don't put all your eggs in one basket' is one that is worth heeding after all. It makes sense to hedge your bets and spread your money around different types of asset so that a poorly-performing investment doesn't greatly damage your returns.

Diversification is a commonly-used technique that helps to reduce risk by allocating investments amongst various sectors, markets and economies. It's an investment strategy which aims to protect against some of the risks widely associated with economic fluctuations and stock market peaks and troughs. It means spreading the investments in your portfolio so that when one part of the market isn't performing well, it's balanced out by another part of the market that's doing better.

Financial advisers regularly advocate this strategy and recommend investment in a range of assets alongside shares, such as bonds, property, and cash, so that the risk is effectively spread over a range of different companies, markets and economies, giving your money the best opportunity for growth.

Each of these types of assets has different characteristics and their performance will vary from year to year. The combination of these assets that will be right for your circumstances is likely to alter over time, as will your appetite for risk.

HOW MUCH RISK IS RIGHT FOR YOU?

In theory, the higher the investment risk you are prepared to accept, the greater your potential returns. However, a higher return from higher risk is not a certainty; if it were, there would be no risk. While the process of building a portfolio includes strategies to reduce risk, it cannot be eliminated altogether.

The choice of potential investments is vast. The difficulty comes with choosing the right spread of investments to meet your investment needs. This is where your financial adviser comes in; they will be able to review your financial goals and help you choose the right mix to match your circumstances.

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TRUSTS AREN'T JUST FOR THE SUPER-RICH

If you've heard of trusts, but don't know what they are or how they work, you're not alone. There's a popular misconception that they're really only used by the ultra-wealthy. Simply put, a trust can be a flexible and effective way to make a gift.

A trust is a legal arrangement which allows assets, usually property or money, to be looked after by a trustee for the good of one or more beneficiaries. Beneficiaries can be named individuals, such as children, and can include people who are yet to be born. Usually set up in conjunction with a will, they can be used for several purposes such as

- Looking after the financial interests of a young person by retaining control of the assets until they reach a certain age
- Protecting the interests of those who can't handle their own financial affairs through incapacity
- Making provision for a husband or wife, while keeping the assets intact for the benefit of children
- Reducing inheritance tax liability (IHT) by taking assets out of an estate so reducing the amount on which IHT might otherwise be due
- Potentially protecting the family home from being sold for residential care
- Ensuring that the proceeds from a life insurance policy go to the beneficiary without waiting for probate, and don't form part of the estate for IHT purposes.

HOW IS IT DONE?

Placing a life insurance policy in trust is very simple; in other cases, trustees will need to be appointed to administer the trust's assets on behalf of the beneficiaries. They have the power to make, manage and review investments and make payments from the trust in accordance with the trust deed.

The type of trust that's right for your needs will depend upon who the beneficiaries are, what the assets are, and how and when you want them distributed; you will need to take expert advice as to what type would work best for your circumstances.

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HOW PLANNING TAKES THE FEAR OUT OF FINANCE

Many of us worry about money, and whilst it might be justified in some circumstances, the actual worrying won't solve any problems and, worse still, it can be bad for your physical and mental health. According to the Institute of Financial Planning, 38% of people worry about money most of the time, yet only 4% of those polled had taken steps to put a comprehensive financial plan in place.

So, if you want to reduce your stress levels, you need to get to grips with your money, understand the numbers and get a financial plan in place.

Here are some questions you might like to consider

What are my short and longer-term financial goals? Depending on your age, these will vary; buying a house, providing for your family, funding your child's education or retiring comfortably. Whatever your aspirations, they will undoubtedly involve financial outlay.

How much money will I need to fulfil my goals? Some will have more obvious price tags than others. Whilst the cost of buying a property is comparatively easy to calculate, the amount you'll need for a comfortable retirement is more difficult to assess because of the variable factors involved. That's where a review with a financial adviser can help you get a better understanding of the figures and how much you'll need to save regularly to turn your plans into reality.

TIME TO TAKE STOCK

It makes sense to do a regular financial stock-take. Are your tax affairs up-to-date? Is your tax code correct? How much are you currently saving or investing? Could you save more? Are you putting as much as possible into your pension? Are your investment plans still relevant to your needs? Have you made your will? Do you need to plan for Inheritance Tax?

Armed with this information, you and your adviser can develop the right strategy to safeguard your future and reduce your financial worries.

PRE-RETIREMENT CHECKLIST...

HOW'S YOUR PLANNING COMING ALONG?

Some of us embrace it enthusiastically, others view its approach with trepidation, but few of us escape retirement. No matter how you feel about it, you need to take some steps to make sure you have the mental and monetary resources to make this next stage of your life a happy and financially-secure one.

When should you start to plan for your retirement? Most of us only really apply our minds to our plans once the date is on the horizon. (Arguably, we should all start planning from the moment we receive our first pay slip.) In the years leading up to your retirement, there are some important issues you should consider.

WHAT DO YOU WANT TO GET OUT OF YOUR RETIREMENT?

Research has shown that people who have a sense of purpose and set themselves goals experience a greater sense of contentment in retirement. With rising life expectancy, a 65 year old retiring today can expect to enjoy a retirement of around 20 years. Increasingly, people are opting for a phased retirement from work, giving themselves time to get used to additional leisure time and the opportunity to save more for the future.

DRAW UP A COMPREHENSIVE BUDGET

This is a big question and one that you should address as early as possible. Inevitably, some costs will come down but others will go up. Whilst you won't have the expense of commuting, you may want to spend much more on enjoying your hobbies or taking holidays. You'll need to factor into your plans issues such as future healthcare provision too.

Drawing up a detailed budget will help you arrive at the amount you'll need to enjoy a comfortable lifestyle.

KNOW YOUR PENSION NUMBERS

Get a forecast for both your state pension and your private pension(s). If you've had several jobs over your career, make sure that you have details of all the benefits you are entitled to. Can you afford to make additional pension contributions in the time left before your retirement? With the pension rules set to change in April 2015, this could be a good time to revisit your pension strategy with your adviser.

REVIEW YOUR SAVINGS AND INVESTMENTS

It makes sense to take stock of your savings and investments to ensure they're still meeting your financial goals and are as tax-efficient as possible. You may, for instance, want to review your investment strategy as you may want your portfolio to produce more income to supplement your pension.

REVIEW YOUR LIFE COVER

Whilst you may have paid your mortgage off and no longer need to support your children, you may still want to have life cover in place for the benefit of your spouse.

PAY DOWN YOUR DEBTS

Many more people retire with mortgages still in place. It makes sense to try and reduce the amount of debt you have as you may have less income available. There may be alternative deals that might be more cost-effective, or you could opt to use your pension lump-sum to clear your remaining debts.

Talking to your adviser will help you keep your retirement plans firmly on track.

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