MONEY view

Winter 2018/19

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Your Pensions, Savings, Investments and Protection newsletter from Inspire Financial Solutions Ltd

Leap into Action?

You may already feel that you have most of your financial plans in place, although for many, it might be time to take more control of investment, pension and protection needs; or perhaps the current political situation is influencing decision-making.

» We recognise that the current political and economic upheaval can be quite confusing, so it makes sense to seek advice. That advice goes way beyond simply planning for retirement, as there are numerous life stages to consider along the way, such as property purchases, the costs of raising and educating a family, general living costs, together with the special treats you deserve along the way.

As part of our advice process, we consider your requirements and financial position, mood of the financial markets, product choices, various initiatives introduced, and the tax benefits on offer.

How is 2018 turning out?

To give some perspective, the FTSE100 started off the year on 7,687, hit a high of 7,903, but by mid-December it was back down to around 6,800. Brexit jitters will have had an impact, so it's worth having a conversation. For example, will the market return to the highs of 2018, or is it on a downward path?

Another factor to consider is inflation, with CPI sitting at around 2.4%, which exceeds the 1.9% annual house price growth. Also, the Bank of England Base Rate has continued on an upward path, currently standing at 0.75%. Although, for balance, we should remember that back in July 2007, it hit 5.75%!

(Sources: Office for National Statistics, October 2018, released November 2018, Nationwide House Prices, November 2018)

The road ahead

With Brexit still dominating much of the news agenda, how will this impact on 2019? There will be a degree of uncertainty in the financial markets, but often that brings opportunities too.

Interestingly, the headline for KPMG's 2019 UK Economic Outlook is *Storm clouds gathering,* which will give you a sense of where they stand! However, they do echo the general view that business and the financial markets prefer clarity and hate uncertainty. Which may mean that once we have a better idea of the way forward with regard to Brexit, investments, for example, that have stalled, may be unlocked.

The same principles apply to the general public, who are also more likely to take action, once they too can see a path forward.

Alternatively, some may want to act now, and get ahead of the curve in order to ensure they become proactive in meeting their financial needs, rather than having to continually react to developments occurring around them.

In short, it's a pretty complex marketplace at the moment, but we are here to help you.

Please do get in touch if you would like to discuss your financial needs.

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Welcome....

to this newsletter, which covers some of the key issues of the moment that may affect your financial wealth.

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Enjoy the TAX BENEFITS

There are plenty of allowances to consider, and here are a few of the main ones...

Pensions

Taxpayers are able to claim relief on their pension contributions (either at source, or via their self-assessment return). In general, the standard rule is that you'll receive tax relief on your pension contributions up to 100% of your earnings, or the £40,000 annual allowance, whichever is lower. Although some on higher incomes will face a reduced annual allowance.

- A Basic Rate Taxpayer will receive 20% tax relief (normally received automatically at source), which means it costs:

80p to save £1 into the pension pot.

- A Higher Rate Taxpayer will receive 40% tax relief, which means it costs:

60p to save £1 into the pension pot.

- An Additional Rate Taxpayer will receive 45% tax relief, which means it costs:

55p to save £1 into the pension pot.

This is designed to help encourage you to build up your pension pot, to hopefully provide a more comfortable retirement vs. the likelihood of less State support.

Individual Savings Accounts (ISAs)

An ISA is basically a tax-saving 'wrapper' into which you can place cash or stocks and shares up to a certain limit each year.

According to HM Revenue & Customs in the 2017/18 tax year the cost of tax relief on ISAs for just that year alone amounted to a sizeable £2.9bn. So, if you have not done so already, do consider taking advantage of this product.

In the run up to the end of tax year on 5th April, there's an individual limit of £20,000 for the 2018/19 period, which means that a couple, for example, could invest up to £40,000! Any interest, income or growth that you receive within an ISA will be free from any personal liability to Income or Capital Gains Tax.

To give you a feel for what this could amount to, consider this; if someone used up all of their individual ISA allowances since its launch in 1999 (including the 2018/19 tax year), this could have added up to over £206,500 of contributions, with any growth on that amount being sheltered from tax!

But, did you know...

At death, your beneficiaries may lose this tax-efficient ISA wrapper.

It would be no surprise though if you felt that ISA investments could be passed on to future generations tax-free, as a survey showed that even amongst the over 45s, over half (51%) thought the same.

(Source: Canada Life IHT survey, March 2018)

Initially though, you may be fine if you have a surviving spouse or civil partner, as the tax-wrapper can now be passed on intact to them. The surviving partner is then able to invest as much into their own ISA as their spouse/civil partner had at death, on top of their usual allowance.

The tax issue occurs if you're the remaining spouse, or civil partner, and then you pass away. It's at this point that your tax-efficient ISA investment could be included within the value of your estate for IHT calculations, unless you take action.

Options do exist though, as per below.

A stocks and shares ISA is a medium to long-term investment, which aims to increase the value of the money you invest for growth or income or both.

The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested.

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The Financial Conduct Authority does not regulate taxation advice.

Business Relief...

The **Alternative Investment Market** (AIM) is a sub-market of the London Stock Exchange. You can invest in companies listed on AIM within an ISA, and provided that the companies qualify for Business Relief (BR), the ISA can be passed onto beneficiaries tax-free after two years.

For those that have built up an extensive ISA portfolio over the years, and are now starting to think about estate planning, transferring some of the holdings to BR qualifying shares may make sense.

You could even decide to opt for this when still with your spouse, or civil partner, in which case if you die within the two-year period, then your ISA transfers across to them, without re-setting the clock on the two-year business relief qualification period.

However, these products are not suitable for everyone, and tax-planning should not be your sole consideration. With an AIM investment, your capital is at risk, plus AIM shares may be more volatile than comparable FTSE100 stocks, and could prove to be harder to sell.

You may take a view that this is a risk worth taking if you're able to protect 40% of the value of your ISA holding that may be exposed to IHT.

Either way, it's important to have a discussion with us so that we can highlight the issues, and also where the government stands with regard to use of BR.

From feeling fine... to Breadline

1 in 4 Brits say they'd face financial ruin if they were out of work for only 4 weeks.

(Source: Drewberry, Protection Insurance Survey 2018)

The good news is that there are **Protection products** out there to deliver a degree of financial support (and comfort) should the unexpected occur, and you're unable to work due to ill-health, injury, or worse still, death.

Understandably, these are not topics that most people are keen to consider or discuss. And if they do, then protection plans can often be a reluctant purchase, where you're expected to commit money to something you hope will either never happen, or would not occur for many, many years.

Yet, sadly it does. According to research from Drewberry, **1 in 8 of all current healthy 35-year-olds will die before the age of 65!**

(Source: Drewberry, Protection Insurance Survey 2018)

As worrying as that figure may be, it is probably more likely that they would face long-term ill-health, injury or a serious illness across the same period. However, if a suitable policy is in place, it may ensure the bereaved family keeps a roof over their head, or that the planholder is able to fully focus their energies on recovery.

What's on Offer?

There isn't really a one-size fits all type of product offering, but broadly there are three main areas to consider:

- **Life Cover,** that pays out a lump sum when you die.
- **Critical Illness Cover,** that pays out a lump sum when you have a specified serious illness.
- **Income Protection,** that pays you a percentage of your monthly income when you can't work due to illness or injury.

Of course, it's far more complex than that, when you're faced with a multitude of insurers, with varying plans, numerous options and added-value benefits. Also, do consider what your employer provides, and how extensive (or limited) that may be.

Consumer take-up Concerns

■ *"It's too expensive"*

Let's consider an Income Protection plan. In general, if you meet the conditions when off work through illness or injury, this will pay out until you're well enough to return to work; have retired; the policy ends; or upon your death. Whichever happens first.

To keep a control on costs, let's look at a limited payment term plan that pays out for up to two years, if unable to work due to illness or injury. Analysis by Zurich, an insurer, set out that Income Protection cover for a 35-year-old professional earning the average salary of £27,000, and wanting to protect 50% of their net income may only cost the equivalent of **one takeaway coffee a week** across the course of each month.

(Source: Zurich, Cost of Resilience report, August 2018)

Of course, premiums will be dependent on your own set of circumstances.

■ *"They rarely pay out"*

In fact, the opposite is true, as **97.8% of all claims were paid out** in 2017, amounting to an average payout of almost £14m a day. The highest percentage payout is applicable to Life cover (99.5%), but even with Income Protection (87.2%), and Critical Illness (92.2%), the vast majority of claims are settled.

(Source: Association of British Insurers, April 2018 release)

As with all insurance policies, terms, conditions and exclusions will apply.

PROTECTION SHORTS...

■ It's for Tenants too

A key time when people consider taking out a protection plan is at the time of a house purchase or remortgage. Yet protection is equally important for those renting, particularly as some landlords may be even less understanding than lenders!

■ Added-Value Benefits

The benefits now available across a wide range of Protection product offerings, can deliver tangible support - even if you never actually claim. This could cover areas such as remote GP services, telephone counselling, through to wearable tech to monitor your activity.

■ Place it in a Trust

A Trust is a legal arrangement that can help ensure that **life policies,** for example, are paid out speedily to the beneficiaries. This would mean that there's one less issue to worry about at a difficult time for the family. It may also assist with any inheritance tax planning, if relevant.

More recently, this process has become easier to undertake, with some insurers having online trust planning in place.

Not all protection policies should be written in Trust, so do take advice. The Financial Conduct Authority does not regulate trust or taxation advice.

Estate Planning may sound very grand, but it simply relates to managing the wealth built up through your lifetime and how you'd like it to be distributed - both ahead of death, and when you die.

Estate Planning

Inheritance Tax (IHT) is a major element of Estate Planning. This is a 40% tax that's paid if the value of your estate exceeds certain thresholds. The 40% is only applicable to the amount above the relevant threshold.

Many think it'll never apply to them, yet in the 2017-18 tax year HM Revenue & Customs (HMRC) collected £5.2bn from thousands of families, already having to cope with the loss of their loved ones. This tax take was 8% up on the previous year.

(Source: HM Revenue & Customs, Inheritance Tax Statistics, released July 2018)

Additionally, according to a survey, only 27% of wealthy Brits, over the age of 45, had taken financial advice on IHT planning, despite many of them having a potential IHT liability.

(Source: Canada Life IHT survey, March 2018 release)

And it's not just at the point of death that IHT planning can help, as it can also help ensure that you can see family and friends benefiting from gifts during your lifetime.

IHT review

The Office of Tax Simplification produced an initial report in November 2018 looking at how IHT operates and where to improve the process. A further report is expected in Spring 2019. This may have an impact on future options, so please keep in touch.

Estate Planning - it's not just for the wealthy

Even if you still think that IHT may never apply to you, there are other aspects of estate planning that would affect all of us. At the most basic level, it's about having a Will in place, yet 60% of all UK adults don't! *(Source: unbiased.co.uk, October 2017)*

A Will can mean that you ensure that the people you want to receive part of your estate, get the share you want them to have, as swiftly as is possible, and that all your wishes on death are met.

Additionally, you may find as you approach your later years that you become incapacitated and unable to make decisions about day-to-day living and financial planning, and again estate planning can help.

Of course, covering these issues is fairly morbid and many would prefer to avoid the topic altogether, wrongly assuming that if no action is taken then the State will sort it all out. It will, but it's highly unlikely that it would be in the manner that you would have wanted.

The key issues

We don't expect you to become an expert with regard to aspects such as taxation, wills, trusts, power of attorney, and so on, and that's why it makes sense to take advice. And do remember, Estate Planning isn't just an issue to consider in retirement.

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INHERITANCE TAX THRESHOLDS

	Tax
■ Individual	
Up to £325,000	0%
£325,000+	40%
■ Jointly	
(married or civil partnership)	
Up to £650,000	0%
£650,000+	40%

■ Additional Home Allowance*

2018/19 tax year, extra £125,000 per person, £250,000 per couple. Increases by £25,000 a year until 2020/2021. It then rises in line with inflation.

■ This means that by the 2020/21 tax year, it's an extra £175,000 per person, or £350,000 per couple. In total, a couple could then have a total IHT nil rate band threshold of £1m.

■ Tax is only applied to the amount above the threshold levels.

** Rules are less generous if your estate is worth £2m+.*

■ We cover pensions, savings, investments and protection products, along with a number of other financial areas, so do contact us if you'd like to discuss your financial needs:

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