Your

# Finance Matters

Financial Magazine

Vegan Mortgage Adviser

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# IS YOUR FAMILY FINANCIALLY-SAVVY?

**Do you discuss financial matters with your children? In the UK, we can be very reticent when it comes to having family conversations about money. But as our children grow, they need to know the financial basics in order that one day they can successfully manage their own money.**

So, knowing how to draw up a budget and what should go into it, how interest rates affect the amount of money you pay back on a loan or mortgage, and how compound interest can help savings grow, are all good life skills to learn at an early age.

### Starting the conversation

Data suggests 58%[1] of parents report finding it difficult to talk to their children about financial matters. One of the main reasons parents give is that they feel children shouldn't be burdened with adult responsibilities, like concerns about money. It can in fact be very empowering to give your children the skills and confidence they need, so that they don't face money worries in the future.

With so many financial transactions now carried out by the swipe of a card, gone are the days when parents could use a shopping trip as a chance for children to learn about how much things cost. So, it's more important than ever that children understand from a young age that money is finite and sometimes hard choices have to be made in order to keep within a sensible spending limit.

However, there are practical ways to encourage children to save, such as a Junior ISA, which gives children the opportunity to see how a savings account operates, and how their money can grow over the years. Explaining how much family treats such as holidays cost, and how they are budgeted for, will give a child an understanding of the rudiments of money management. When interest rates rise, explaining to a child what the implications are for your mortgage and the family budget will help prepare them for the day when they take their first steps on the housing ladder.

[1]The Money Advice Service

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### A majority of Britons are 'trend spenders'

A recent survey[2] shows that many of us spend with our hearts rather than our heads. 'Trend spenders' don't feel overly worried about splashing out and are keen to maintain their lifestyle, and are the largest group among the financial personality types. By contrast, less of us are defined as 'Skilled savers' and 'Budget gurus'.

### One million Child Trust Funds lost but can be traced

Child Trust Funds were put in place for all children born between 1 September 2002 and 2 January 2011 and kick started by a £250 payment from the government. It's estimated that one million of these have been overlooked[3] and a new campaign is looking to reunite them with their owners. For more information visit www.shares4schools.co.uk/useful-resources/find-ctf/

### Pension scam losses jump 70%

About £51m was lost to fraudsters through pension scams reported to the City of London Police from April to June this year, with the average age of the victim being 57 and the average amount £91,000[4]. Frauds often begin with an email, phone call, text message or social media contact, and end with people being lured into parting with their pension savings through bogus schemes offering outlandish returns that never materialise. Don't get caught out, take professional advice before moving your pension.

[2]HSBC, 2018
[3]The Share Centre, 2018
[4]City of London Police, 2018

# The average person needs at least £260,000 for retirement

**According to recent research[5], the amount needed to fund a comfortable retirement, when someone opts to stop work at 65 and decides to buy a single-life annuity with inflation protection, has now reached £260,000. The report points out that for those who don't make it onto the housing ladder and so will need to pay rent during their retirement years, the figure will be even higher at £445,000. In arriving at these figures, the research assumed average earnings of £27,000 a year, and a full state pension of just over £8,500.**

### Saving for a comfortable retirement

The sooner you start your pension plan, the longer your money will have in which to grow. Even in today's climate of low interest rates, compound interest and reinvested share dividends can play an important part in investment growth.

One of the most attractive features of pension saving is the tax relief. If you make contributions to a pension, or if your employer deducts your payments from your salary, you automatically get 20% tax relief as an additional deposit into your pension pot. If you are a higher-rate taxpayer you can claim an extra 20%, while those paying additional-rate tax can claim back an extra 25%. When you retire, you can usually take 25% of your savings as a tax-free lump sum.

If you save into a workplace pension, your employer should match some or all of your contributions, providing a welcome boost to your pension.

### Getting the right advice

So, if you're self-employed, an employee, work part-time, run your own business or have accumulated pension pots with past employers, we can offer you the advice you need to make sure you have the right pension plan in place. After all, we'd all like our retirement to be an enjoyable and fulfilling stage of life, not a time spent worrying about money.

[5]Royal London, 2018

## ONE IN SEVEN WILL BE PAYING THEIR MORTGAGE AT 70

**With more people getting onto the housing ladder later in life, many homeowners are facing the prospect of paying their mortgage out of their retirement income or continuing to work into their old age. Recent research indicates than one in seven will still be paying their mortgage at the age of 70[6].**

With more lenders providing a greater choice of later life mortgages, older borrowers could find that there is a better mortgage option available to them, so taking professional advice makes sense.

[6]Aegon,2018

**As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.**

# PENSION WITHDRAWALS HIT £2.3BN

**There's growing evidence that pensioners are treating their pension pots more like bank accounts. In the second quarter of this year, savers withdrew £2.3bn, according to data produced by HM Revenue and Customs, an increase of 35% on the first quarter.**

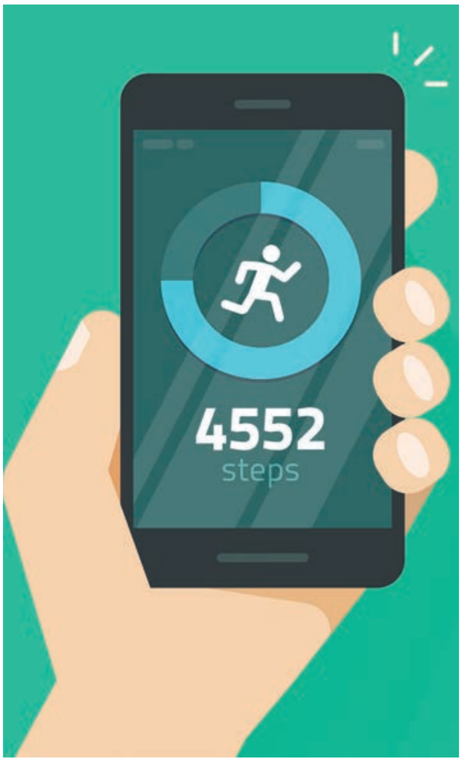
The money withdrawn represented full or partial withdrawals, flexible drawdown or the purchase of a flexible annuity, with more younger people accessing their pensions, often before state pension age.

## How cashflow planning can help

Planning your likely cashflow can help you identify how much you can sustainably withdraw from your pension, without jeopardising your future financial security and wellbeing.

Cashflow planning is a key part of establishing a retirement plan and entails taking an in-depth look at your finances. It takes into consideration income, outgoings, assets and liabilities, and helps you plan effectively both for current needs and future requirements, like care in old age. It can also help you take decisions like whether you should downsize at retirement, or how much you can afford to give to family members during your lifetime.

Planning your likely cashflow can help you identify how much you can sustainably withdraw from your pension without jeopardising your future financial security and wellbeing.




## MORE TAKING OUT PROTECTION POLICIES AS HEALTH CONSCIOUSNESS RISES

**Life is full of twists and turns, some of them good, others not so good. Protection policies are one of the best ways of ensuring your family is provided for financially, if unexpected and unwelcome events should happen. Policies can pay out lump-sums or provide an income to ease the financial burden at a difficult time.**

It seems that the message that it's important to have the right type of protection policy in place is being listened to. Recent data from financial software company IRESS, shows a positive trend in the sale of protection products in the first six months of 2018. Life term insurance and Income Protection saw the largest year on year increase in new business, up 35.1% in the first half of 2018 compared with the first half of 2017[7].

Insurers believe that this rise is due, in part, to greater health consciousness and a better understanding of the part that protection policies can play in keeping a roof over a family's head and ensuring that household bills can still be paid if death or illness were to strike.

If you'd like advice on choosing the right insurance cover, do get in touch.

[7]IRESS, 2018

## WHAT'S IN STORE FOR THE GLOBAL ECONOMY?

**The last few months have seen the release of positive economic reports and grounds for optimism remain with regards to future growth rates, certainly in terms of the US economy. However, while no one is currently predicting the onset of a sharp slowdown or recession, there are signs that the global economy may be starting to lose momentum.**

The OECD* composite leading indicator, which covers advanced economies plus China, India, Russia, Brazil, Indonesia and South Africa, has been in decline since peaking in January and slipped below trend in both May and June. This led the OECD to concede that its lead indicators are: *"pointing tentatively to easing growth momentum"*.

There are a number of potential issues that could act to restrain the pace of growth across the latter half of the year. Top of the list remains the re-emergence of protectionist policies and the continuing trade tensions between the US and the rest of the world. In addition, the prospect of a no-deal Brexit and the impact of monetary tightening in the form of interest rate rises, also have the potential to precipitate a softening in global growth over the coming months.

### Deal or no deal?

Perhaps the principal area of concern in relation to global economic growth prospects, remains the spectre of a full-blown trade war. Such a possibility has been evident since Donald Trump was elected US President on a protectionist agenda nearly two years ago and still looms large.

The prospect of a no-deal Brexit did seem to increase during the summer months. Although the full ramifications are difficult to predict, it would seem safe to assume that such a scenario will have negative economic consequences for the UK, as well as causing economic upheaval across the rest of the EU.

While the UK government continues to suggest that securing a deal remains *"the most likely outcome"*, it recently started publishing a series of technical notices designed to prepare businesses, citizens and public bodies for the possibility of a no-deal Brexit. This new volume of literature will sit alongside the 68 technical notices that the EU has already produced on such an eventuality.

*Organization for Economic Cooperation and Development

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# FINANCIAL GLOSSARY

**Here we look at some terms that often crop up in financial reports and explain what they mean.**

### GDP
Gross Domestic Product (GDP) is a way of measuring the health of a country's economy and represents the total value of everything produced by the companies, including those that are foreign-owned, and the citizens of the country. It is used as a broad measurement of a nation's overall economic activity, as well as a gauge of a country's standard of living. It can be compared year on year, or with other countries, to chart progress.

### Government Bonds
This is debt issued by national governments, in short, an IOU that can be traded in the financial markets. If governments are looking to raise money, they often do so by selling bonds. In the UK, government bonds are referred to as 'gilt-edged securities' or often just 'gilts'. They are considered low risk.

### Guaranteed Income Bonds
(National Savings & Investments)
These produce a guaranteed income from a fixed-term investment – typically three to five years. The income can be paid monthly or annually. These are generally considered low-risk investments, but penalties may apply for early withdrawal.

# IHT – UNDER THE SPOTLIGHT

**According to figures from HM Revenue and Customs, Inheritance Tax (IHT) revenues are up again, with £5bn being paid in the 2017–18 tax year. This increase comes despite the introduction of the residence nil-rate band in 2017.**

With more families falling into the IHT bracket, campaigners are hoping that the current review by the Office of Tax Simplification, will pave the way for a simpler and fairer system.

### Simplification is key

With parents often looking to fund house purchases for their offspring, the 7-year rule that means transfers become exempt for IHT purposes after that time, is integral to tax planning.

The low amount of £5,000 that can be given away to children upon marriage should be a prime candidate for overhaul; so too should the annual tax-exempt gift allowance of just £3,000.

Many believe that a positive step would be to remove the overly-complicated residence nil-rate band.

In the meantime, whilst we're awaiting the outcome of the review:

### What assets can be passed on free of IHT?

Everyone has a nil-rate band enabling them to pass £325,000 of assets tax-free. Most gifts made more than seven years prior to death are also free of IHT, as are gifts made between married couples and civil partners. Additionally, the residence nil-rate band rises annually, reaching £175,000 in the 2020–21 tax year.

Gifts of up to £250 per beneficiary per tax year are exempt, provided the recipient hasn't received part of the £3,000 allowance.

There's a £3,000 gifting allowance each tax year (if unused, this can be carried over for one year). Wedding and civil partnership gifts are exempt, up to £5,000 to a child, £2,500 to a grandchild, or £1,000 to anyone else. Gifts of up to £250 per beneficiary per tax year are exempt, provided the recipient hasn't received part of the £3,000 allowance.

Regular gifts from income can be exempt in certain circumstances. There is normally no IHT payable on gifts to charities or larger political parties. Pensions are not usually counted as part of an estate for IHT purposes, though other taxes may apply in some circumstances.

Inheritance Tax is complex; professional advice is always recommended.

**The Financial Conduct Authority does not regulate some forms of taxation advice.**

## GIVE YOUR KIDS A HEAD START WITH A JISA

Junior ISAs (JISAs) have continued to grow in popularity, with the number of accounts increasing from 794,000 in the 2016–17 tax year, to 907,000 during the 2017–18 tax year, figures from HM Revenue and Customs (HMRC) have revealed. The amount held in stocks and shares JISAs went up from £1.37bn to £1.85bn in 2017–18.

JISAs are held in your child's name and provide a tax-free way to save for your child until they are 18. You can contribute up to a total of £4,260 during the current tax year.

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## BEFORE YOU TAKE MONEY OUT OF YOUR PENSION – READ ON

Many retiring today can look forward to several decades in retirement, so taking the right decisions about your pension pot is important, as you will want your money to last as long as you do.

Working out how much you will need to live on and getting a state pension forecast will show how much you need to take out of your pension pot to cover your living expenses.

We can help you work out the best way to take money from your pension pot. The Financial Conduct Authority recently reported that a third of consumers taking money from their pension were keeping it as cash, and so could be losing out in terms of the income they are likely to have to live on in retirement.

It's also important to remember that when you take money out of your pension, only 25% is tax-free. If you take out more than that, it's taxable and you might find yourself paying tax at a higher rate.

# *What are the main asset classes?*

**With investing, the old saying 'don't put all your eggs in one basket' rings true. To improve the potential for long-term gains and spread risk, the best advice is to diversify your investment across a range of companies, asset classes and geographical regions. This helps to minimise the impact a poor performing economic region or company may have on your overall portfolio.**

When it comes to choosing asset classes there are the 'traditional' asset classes – cash, equities or shares and bonds – together with commercial property and commodities.

### Cash

The advantage of cash is its liquidity. Money held in cash accounts can be accessed easily and present a low risk for the investor.

### Bonds or fixed-interest investments

These are investments that provide a fixed, regular income over a set period of time in the form of interest. Some are government-backed.

### Stocks or equities

Equities are shares of ownership issued by publicly-traded companies that are bought and sold on stock exchanges. You can potentially profit from shares through a rise in the price or by receiving dividends from them. Of course, you also risk losing your money too if the stock performs poorly.

### Property

Investing in property can be as simple as owning your own home. However when it comes to portfolio investments, typically property investments are made in commercial property. This includes warehouses, offices, industrial estates and shopping centres, often owned through pooled investment funds.

### Other asset classes

This category covers investments that don't fall into the main asset classes shown above, and can include commodities such as oil or gold, foreign currency, or even art and antiques. These are generally high risk because their value depends on conditions within a specific market.

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# SEVEN OUT OF TEN PENSION SAVERS FAVOUR RETIREMENT INCOME TARGETS

**Without professional advice, it can be very difficult to know if you're saving enough for your retirement. It's unsurprising then that many savers who took part in a survey[8] carried out by the Pensions & Lifetime Savings Association (PLSA) believe that saving and planning would be made easier by having retirement income targets available, a concept that is currently used successfully in Australia.**

The PLSA proposes three levels of target that would equate to 'minimum', 'modest', and 'comfortable' levels of income in retirement. These, it believes, would give savers a tangible target to aim for, and encourage them to keep their pension plan under regular review. Its research also highlighted a worrying finding: 51% of those surveyed wrongly thought that the auto-enrolment minimum pension contribution level represents a recommended amount of money that should be saved. However, this isn't the case and the PLSA is calling for the minimum level (8% from April 2019) to increase to what they believe is a more realistic figure of 12% of salary between 2025 and 2030.

[8]PLSA, 2018

51% of those surveyed wrongly thought that the auto-enrolment minimum pension contribution level represents a recommended amount of money that should be saved.

## THE UK HOUSEHOLD SAVINGS RATIO FALLS AGAIN

UK households collectively spent more than they earned in 2017.

This is the first time this has happened in almost 30 years,according to the Office for National Statistics.

The data shows that British households have supported their spending through a combination of reducing their saving levels and taking on higher levels of debt. On average, each UK household spent around £900 more than they received in income in 2017; amounting to almost £25bn (or about one-fifth of the annual NHS budget in England).

## WOMEN ARE BETTER SAVERS THAN MEN

Women, it seems, are heeding the message about saving for retirement and are saving more for their future than men, after adjusting for earnings. However, the fact that women are saving more as a percentage of their earnings, but still achieving lower balances in their pension plans, shows the effect that the gender pay gap continues to have.

Women also tend to be hampered in their attempts to save for a comfortable retirement by disrupted work patterns as they take time out to raise a family, or look after ageing parents.

A survey conducted by Prudential[9] showed that women's expected retirement income has hit a record high this year, but they still have an average retirement income that's likely to be around £5,000 lower than men.

[9]Prudential, 2018


# Reached your half-century? How to plan for retirement

**Once you reach 50, it's time to get serious about planning your retirement. True, it could still seem ages away, and you may not be thinking of giving up work anytime soon. However, putting a retirement plan together will help you understand what your finances will look like when you decide to take life easy.**

Retirement planning isn't just about getting your money organised, although that's vitally important. Depending on your circumstances, you may want to think about completely changing your lifestyle, moving home, travelling the world, or simply putting your feet up. And like all big projects in life, the more time you can invest in thinking it through, the better.

### Start by taking stock

Getting financial advice will help you get a true perspective on how your pension planning is shaping up. We will help you work out the value of your current plans, including your state pension entitlement. If you've lost track of pensions held with past employers, now is a good time to get them traced. If you've several pension plans, we will be able to help you work out if it would make sense to consolidate them.

And don't just think about pensions; having money in ISAs will help in planning your retirement income tax-efficiently.

### Do your sums

Don't leave it until the last minute to work out how much money you'll need to live on in retirement. Some costs will go down, like travel to work, but others like utility bills are likely to increase as you spend more time at home. Factor in the cost of the travel, holidays and hobbies you're likely to want to pursue when you have more time.

# ADULTS CARRY OUT 109 LIFE ADMIN TASKS PER YEAR

### Do you struggle with your financial 'to-do' list?

You aren't alone. A recent survey[10] shows that the average adult also has four important tasks currently pending, but doesn't have quite enough time to do them.

These admin tasks include important things like managing their mortgage and reviewing their insurance & savings.

If it's been a while since you checked out your mortgage, updated your insurance policies or looked at the progress of your pension, or any other task that's in your financial pipeline, then why not arrange a review?

[10]AAT (Association of Accounting Technicians), 2018

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