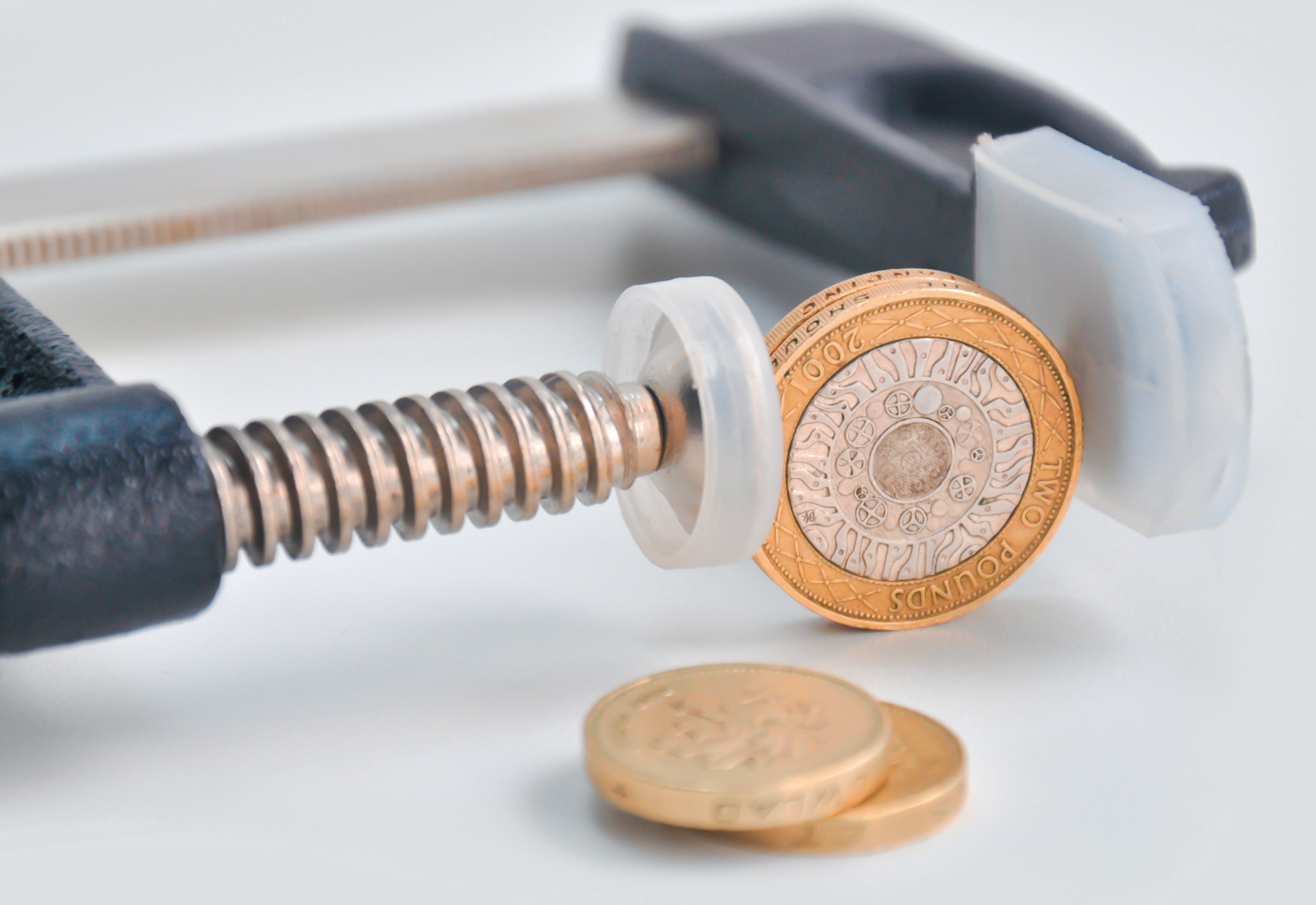
moneyworks

The essential consumer guide to making your money work harder.

Spring 2017



Lifetime ISAs

We report on the new ISA which is launched in April and whether it is the right option for you.

What does 2017 hold for investors?

A look at the global markets and why there's every reason to be cheerful.

The self-employed "pension crisis"

With less than a third of self-employed people saving anything into a pension, we look at the dangers of neglecting to do so.

The Big Squeeze

As the cost of living looks set to soar over the coming year, we look at how to stay one step ahead of rising inflation.

anderson sinclair & CO LLP

Welcome

The year 2016 saw the world of politics shaken up like never before and the financial aftershocks are undoubtedly going to be felt for some time to come.

Following Brexit and Donald Trump's US election victory, an air of uncertainty hangs over the markets and the impact it could have on your savings is still unknown.

However in this edition of **moneyworks**, we attempt to smooth the path by highlighting some of the big financial issues and what they mean to you and your money.

As the cost of living is set to rise over the coming year, we look at ways which could help you stay one step ahead of inflation and the key factors to consider before investing your money outside of savings accounts.

We report on the new Lifetime ISAs which come into force this April and how they will support people saving for a new home or building their pension fund, and we also look at the importance of saving into a pension pot if you are self-employed and the dangers of not doing so.

While on a more positive note, we look at the global markets, and why despite such political uncertainty, there is every reason to be optimistic about their performance over the coming year.

Here's wishing you a very happy and prosperous 2017 and we look forward to bringing you regular financial updates over the coming year.

Best wishes

The **moneyworks** team

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The News in Brief

A round up of the current financial stories.

Why billions of pounds could disappear from the UK savings pot

Rising inflation and low interest rates are having a dramatic impact on savers' ability to grow their money and the latest research from Wealthify suggests it could wipe £6.6 billion off the value of our pots, every single year.

After calculating the impact of FCA figures on interest rates – and assuming annual inflation of 1.2% – Wealthify concluded that British savers' pots are shrinking by nearly 1% a year. This is because the return many people are getting is lower than the rate the cost of living is actually rising by, meaning the future spending power of this money is decreasing.

With the pessimistic outlook for savers on interest rates and inflation, it might be a good idea to look at alternatives for growing savings ear-marked for your long-term financial needs.

(Source: http://moneyfacts.co.uk/news/savings/66bn-could-disappear-from-the-uks-savings-pot/)

UK savers have least knowledge of pension charges

Almost one in two of UK consumers don't understand the charges they are paying on their pension, according to a November 2016 study by Coventry University. Meanwhile, only seven in ten of us check our pension statements on an annual basis.

The study showed we are far less knowledgeable about our own pensions than our compatriots in the USA, India and China. Just 52% of UK consumers understand the costs associated with their pensions, compared to 70% of people in the USA and nearly 90% in India.

The report concludes that, "In the UK, despite plain English standards, greater clarity is needed regarding the cost of a pension and specifically how much a person in the UK contributes to their pension, after administration charges are deducted."

(Source: https://www.moneymarketing.co.uk/uk-savers-least-knowledge-pension-charges-study-finds/?cmpid=amalert_2835378&utm_medium=email&utm_source=newsletter&utm_campaign=mm_daily_news)

Three quarters of wealthy people are unaware of inheritance tax rules

If you're concerned about the strength of the legacy you want to leave behind for your family, new rules around inheritance tax could boost you. Yet December 2016 research by Canada Life has found that 75% of wealthy people are unaware of what they are.

Among UK adults aged over 45 with assets in excess of the £325,000 single person inheritance tax threshold, the majority don't know that a new main residence nil rate band will be introduced in April, which will eventually be worth £175,000 per person. With the right planning, you and your partner could have an estate worth up to £1 million – and your loved ones won't have to pay a 40% inheritance tax bill when you die.

Inheritance tax applies if the value of your estate is above your threshold, and 2015/16 figures show a record breaking amount of revenue was raised by this tax. If you think you might be affected, it's worth finding out if the new rules could help you to plan for it.

(Sources: https://www.moneymarketing.co.uk/canada-life-annual-iht-survey-results/
http://www.yourmoney.com/retirement/hmrc-raked-record-4-7bn-inheritance-tax-receipts-cut-bill)

Big spending UK households top the charts

PWC's Global Economy Watch has found that the UK has the highest level of household spending in Europe. On average, each UK household spends £50,000 every year, which is notably above Ireland (£41,000) and France (£35,000).

50% of UK household spending goes on essential items like housing, energy bills and food. Only France has a higher essential cost spend (60% of their annual spend). After deducting essential items, the UK spends around £27,000 per item on treats like eating out, holidays and entertainment – which again is the highest amount in Europe.

Yet when it comes to saving for the future, the UK trails behind. Just 2% of the average UK household's disposable income is put away for the future. This is more than three times lower than in Germany (7.1%) and France (6.8%).

(Source: http://pwc.blogs.com/press_room/2016/12/uk-households-are-the-biggest-spenders-in-europe.html)

The Financial Conduct Authority does not regulate Taxation and Trust advice.

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.

The Big Squeeze

The cost of living has remained relatively flat over the last few years, but our wallets are starting to feel the squeeze again. We look at ways which could help you stay one step ahead of rising inflation.

Ever since the UK decided to leave the EU in June 2016, inflation has climbed almost month-on-month and in December last year, it reached 1.6% – the highest level since July 2014.

The bad news is that it could be the beginning of a longer-term trend, with the Bank of England predicting that inflation will reach 2.7% by the end of 2017 and others suggesting it will climb higher.

The National Institute for Economic and Social Research (NIESR) predict the UK's CPI could nearly quadruple to about 4% in the second half of 2017, meaning the cost of most goods and services in the UK could rise by 4% over this calendar year.

But as well as a significant impact on our day-to-day spending, inflation could also hurt our long-term financial ambitions.

Staying ahead of inflation

If you have money stored in savings accounts, you'll already be dealing with the issue of record low interest rates offered by banks and building societies. Last August, the Bank of England reduced the base rate to 0.25%, and – according to Moneyfacts – average rates on some savings accounts have fallen by as much as 0.65%.

In order to truly grow your money, it needs to be earning a rate of interest that is higher than the rate of inflation, otherwise the future buying power of your savings will be reduced.

Yet with inflation at 1.6% at the end of 2016, Moneyfacts research found that – out of 669 available bank and building society savings accounts – just 44 offered a higher rate. And as inflation is forecasted to rise significantly, it's highly likely this situation will worsen.

What are your options?

It's always a good idea to have a pot of money stored in savings accounts for short-term or emergency use. Say an unexpected bill was to crop up – you'd want to know you have savings that are easily accessible, to cover it.

However, when it comes to your long-term financial ambitions and needs, the combination of low interest rates and rising inflation could mean you need to look for alternatives beyond savings, otherwise you run the risk of failing to achieve your goals.

Investing your money instead could prove a more rewarding option. It requires patience, commitment and an acceptance of some risk. At a minimum, you need to commit your savings for at least five years. Whilst there are no guarantees, investing opens up the possibility of achieving higher returns on your money, realising your goals and staying ahead of inflation.

As investing can be complex, it's important to consider obtaining financial advice from an expert. They'll be able to help you assess your feelings towards risk, and provide you with recommendations you'll be comfortable considering.

Key factors to consider before investing:

Financial Fitness

Before you consider an investment account, do a fitness check on your finances. It doesn't make sense to invest money if your living expenses are jeopardised.

Risk Tolerance

Different types of investments have different levels of risk. Investing in individual companies could pay off handsomely or help you lose money. If you are worried about the thought of losing any of your investment then consider a low risk investment strategy.

Goals

Determine your goals. How much can you invest each month and what do you hope your investment portfolio will total at the end of one year, two years, five years and 10 years? Consider that as your life changes your goals may change.

Diversification

All your eggs in one basket is a bad investment strategy. Diversify your investment portfolio, so that if one investment crashes, the others won't be affected.

Time and Knowledge

Getting up to speed on what to invest in takes time and knowledge, so make sure you speak to your financial planner or adviser to get the best advice.

[Sources: http://www.bbc.co.uk/news/business-38649676
http://www.independent.co.uk/news/business/news/bank-of-england-record-inflation-2017-hard-brexit-latest-a7395256.html
http://www.bbc.co.uk/news/business-37838087
http://www.thisismoney.co.uk/money/news/article-2928285/Economy-tables-GDP-rates-inflation-history-unemployment.html
http://moneyfacts.co.uk/news/savings/2016-a-year-of-misery-for-savers/
http://moneyfacts.co.uk/news/savings/just-44-savings-accounts-beat-inflation/]

The value of your investment can go down as well as up and you may not get back the full amount invested.

Is the Lifetime ISA for you?

The government is rolling out a new type of ISA from this April, aimed at supporting people buying a house or saving for retirement – but is it a good option?

Buying a house and building your pension are arguably the two biggest financial challenges of the modern era. With house prices having shot up over the last two decades, getting on the property ladder is a real challenge for first time buyers, while further on in life, achieving a comfortable retirement is becoming even more difficult.

Before Brexit and the great political shake-up within the Government, last April the now ex-Chancellor George Osborne unveiled his latest idea to address these concerns. The Lifetime ISA was born, and from this April people will be able to start using it to save for the future.

What is the Lifetime ISA?

If you're aged between 18 and 39, the Lifetime ISA will allow you to save up to £4,000 a year tax-free and receive a government bonus worth 25% of your contribution – up to £1,000 a year – until you reach 50. Lifetime ISA savings can be used to buy a first home, or accessed from the age of 60 to help fund your retirement. In the unfortunate event that a terminal illness strikes, you can also use the savings to support you.

Let's say you're 29 and save up £4,000 a year in a Lifetime ISA for the next 20 years; when you reach 49, you'll have saved £80,000 yourself – with the government contributing a further £20,000 on top. Any growth your £100,000 pot of money achieves will be completely tax-free, and this approach could go a long way to funding your desired retirement lifestyle.

What's the catch?

There are a few, and it's very important to be aware of what they are before committing down this route.

Firstly, if you're using a Lifetime ISA to save for retirement instead of a workplace pension, you'll miss out on employer pension contributions. If you are paying a sizeable part of your salary into a pension and your employer is matching it, this could work out better than the government's 25% bonus paid in the Lifetime ISA.

And then there are the exit penalties. If you need to use your Lifetime ISA before you reach the age of 60 other than to buy a first home or to fund retirement, you'll lose 25% of your savings. And 25% isn't just the government bonus you've received, it can be applied to any growth your savings have achieved.

Finally, on using the Lifetime ISA to buy a first home, you can only use it for a property worth up to £450,000. That might sound like a lot, but May 2016 research by Emoov suggests the average UK home could reach £457,433 by 2030. And within areas like London and the South East, this average could prove to be significantly higher.

What should you do?

There is no doubt that the tax incentives offered by Lifetime ISAs make them an attractive option. This approach to saving for the future could be right for many people, but on its own it might not offer the full solution.

Certainly – when it comes to retirement – it might not be time to abandon saving into a pension all together. As with all long-term financial planning, it can really make a difference to sit down with a financial adviser and discuss your options. They can help you to devise a strategy that's right for your situation and ambitions, including making the most of the tax planning opportunities that are available to you.

[Source: http://www.dailymail.co.uk/property/article-3594671/How-house-worth-2030-Map-UK-house-price-forecasts.html]

The value of your investment can go down as well as up and you may not get back the full amount invested.

What does 2017 hold for investors?

We live in far from certain political times, but that doesn't mean your own financial future has to be hazy.

It's fair to say 2016 was a year that won't be forgotten quickly. From Brexit to Donald Trump's US election victory, the world of politics has been shaken up and the aftershocks are set to be felt in 2017 and beyond.

But with many unexpected twists and turns, 2016 and the early days of 2017 have proven to be surprisingly smooth for global stock markets.

Typically, markets don't react well to uncertainty, but the news of Brexit and Trump prompted little more than short-term blips.

In fact, the final few weeks of 2016 – and early days of 2017 – saw the UK FTSE 100TM and leading US markets set record highs. In Europe, the outcome of the EU Referendum clearly had a negative impact in the immediate aftermath; but from July and to the end of the year, the Eurozone ZEW Economic Sentiment Index had climbed by 30 points.

The currency boost

If you have holdings in funds that have the ability to hold global assets, the dramatic change in fortunes of UK Sterling – which reached a 31-year low in October – has had a big effect.

This is because the slump in the pound has made foreign profits even better. When these gains have been converted back into Sterling, the more favourable exchange rate means they've been worth more in pounds.

Even if you have UK-based holdings, the fall in Sterling isn't all bad news. UK companies who export to foreign countries have benefited, as foreign buyers need less money to buy goods and services. This in turn can boost the profits of the UK company.

Oil helps to drive inflation

Oil prices are on the way back up. After starting 2016 at less than $28 a barrel, by the end of the year they were recovering and stayed above $50 a barrel consistently.

In November 2016, the Organisation of the Petroleum Exporting Countries (OPEC) reached an agreement to cut oil production by around 4.5%. Limiting supply has already started to see prices go up. Bad news when it comes to paying at the pump, but a clear boost for the energy sector and those companies in the supply chain.

Last September, the Telegraph quoted Russ Mould of AJ Bell who stated that in some ways the higher the oil price the better it is for the FTSE 100.

Property slowdown

Not surprisingly, the Brexit uncertainty had a negative effect on UK Commercial Property during the summer. Some property funds even had to be closed up to prevent investors from withdrawing their capital, although many have since reopened.

> "In some ways the higher the oil price goes the better it is for the FTSE 100"

The December 2016 RICS UK Residential Market Survey points to sales activity slowing down after signs of progress over the Autumn. It added rental demand continues to exceed supply, and this trend is set to continue over the next five years – which will boost rental levels and, with it, landlords.

The ongoing Brexit-related speculation could continue to slow down property in the near-term; but as an asset class it could continue to play a role in a balanced portfolio.

Reasons to be optimistic

For investors, the key challenge in 2017 is that the long-term repercussions of Brexit and Trump are yet to be known, and major European elections due to take place over the year could prove unpredictable. So there could be some bumps along the way. However, when judged against the events of the last decade, these are relatively minor issues for markets. If you have long-term ambitions – or currently have investments, but have not reviewed them for some time – it might pay off to speak to a financial adviser to assess your plans.

[Sources: http://www.telegraph.co.uk/business/2017/01/09/ftse-100-set-match-longest-record-setting-streak-33-year-history/
http://www.reuters.com/article/us-usa-stocks-idUSKBN1491G5
http://marketrealist.com/2016/12/eurozone-zew-indicator-economic-sentiment-gradually-improving/
http://www.telegraph.co.uk/business/2016/10/04/sterling-is-at-a-31-year-low---can-it-fall-further/
http://www.telegraph.co.uk/investing/funds/how-can-investors-benefit-from-an-oil-price-recovery/
http://www.cityam.com/249339/fears-uk-commercial-property-market-overblown-]
http://www.rics.org/uk/knowledge/market-analysis/rics-residential-market-survey/]

The value of your investment can go down as well as up and you may not get back the full amount invested.

The self-employed pension crisis

A record number of UK people are self-employed, but less than a third are saving anything into a pension.

The former Government Pensions Minister, Steve Webb, didn't mince his words. In a report he published last April, he stated that self-employed workers are heading for old-age poverty in their droves.

A month later, the Federation of Small Businesses published figures showing that only 31% of self-employed people are paying into a pension, and that 15% don't have any retirement savings of any kind.

If you are one of the 4.7 million UK people who run your own business, the focus that comes with it could understandably mean you haven't started to adequately consider your own financial future. It might be tempting also to prioritise ploughing all of your savings into growing your business. But when it comes to deciding when you want to retire, you could be storing up some big problems.

Without an employer helping you to set up and contribute into a pension, you may be lacking provisions to fund retirement.

The value of pensions

There are significant tax advantages available from saving up via a pension as opposed to, for example, a regular deposit-savings account. If you're still years away from retiring, it might be time to address any lack of pension provisions by arranging one now.

Although most self-employed people have the disadvantage of no employer making additional contributions into their pension, you can still benefit from income tax relief.

If, for example, you are a basic rate taxpayer who is charged 20% tax on your earnings, your pension provider will claim this back. What this means is that, for every £80 you pay into your pension, you end up with £100 in your pension pot. Higher rate and additional rate taxpayers could benefit even further.

These pensions do not include the same security of capital which is afforded with a bank or building society savings account.

The role of state pension

The basic state pension is a weekly income that everyone starts receiving when they reach a certain age – although the amount you are entitled to will depend on your National Insurance contributions.

It currently pays a maximum of £155.65 per week, which works out at less than £9,000 a year. The state pension will certainly help support you in retirement, but on its own this level of income might not be enough.

The future of your business

Many self-employed people will consider the business they own to be their retirement nest egg – but this still needs careful planning.

You may, for example, be looking to sell your business or pass it down the family. Others retire but remain the owner – or at least one of the owners – of the business. The potential advantages of doing so include receiving regular company dividend payments, which you can use as an income.

What you do with your business is a huge decision – both for you and your family. The sooner you start to consider its long-term future, the more time you will have to implement suitable plans towards a smooth transition.

Ask for help

Being self-employed is no picnic. Many people miss out on regular employee benefits such as sick or holiday pay; others find themselves working extremely long hours or getting by on an inconsistent level of income.

Dealing with these pressures for many years, a happy and contented retirement should be your reward for your blood, sweat and tears. By speaking to a financial adviser about your future, you can start to assess if you are set to have the provisions you need for a happy retirement – and if there is more you could be doing.

[Sources: http://www.thisismoney.co.uk/money/diyinvesting/article-3553784/Steve-Webb-Millions-self-employed-heading-old-age-poverty.html#ixzz4WF49tC9x
https://www.theguardian.com/small-business-network/2016/may/19/pension-advice-self-employed-how-plan-retirement/]

And finally....

Kids are quids in over pocket money

The average UK child received £180.44 in pocket money over 2016 – working out at £3.47 a week. This annual amount was also topped up with an average additional £47 in spending money over Christmas.

The survey of 4 to 14-year-olds, published in January 2017 by RoosterMoney, found that – after Christmas – birthdays were the biggest source of funds, with an average of £30.54 gifted in cash.

Grandparents contributed an average of £12.44 over the year, closely followed by aunts and uncles giving £11.07.

The weekly average of money received increases as children get older. The average 4-year-old received £2.36 a week over 2016 – while 14-year-olds got more than double, £5.41. The best money-spinning chores are tidying their bedroom (£1.44), washing the dishes (£1.43) and hoovering (£1.36).

(Source: http://moneyfacts.co.uk/news/money/kids-got-180-in-pocket-money-in-2016/)

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