moneyworks

The essential consumer guide to making your money work harder.

Autumn 2019

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Where next for inheritance tax?

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Don't neglect your pension plans

A pension could be the most important investment you ever make, but thousands of UK workers could be storing up issues by not prioritising saving into one.

Are you financially ready for retirement?

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anderson sinclair & co LLP

Welcome

Welcome to the Autumn issue of **moneyworks**, which comes at a time of immense change as we adjust to life under Boris Johnson's new Government and our impending withdrawal from the EU on October 31st.

Amidst this constantly shifting political and economic landscape, the need to keep on top of your finances has never been greater and in this issue, we look at some of the key talking points which could have a major impact on your long-term financial future.

As the confusion surrounding the current inheritance tax rules and the complications that come with it, continues to dominate the headlines, we ask what the future holds for IHT.

In July this year the Office for Tax Simplification (OTS) published its review of the unpopular tax and its proposals to simplify the process and rules surrounding inheritance. We look at what could potentially happen next, how this will impact your savings and the necessity to speak to a financial adviser now to reduce your liabilities moving forward.

We also take a look at the importance of keeping up with pension contributions after new research suggests one in three people have stopped paying into their pension pot over the past 12 months and the worrying impact this could have in later life.

Meanwhile for those nearing retirement age, we look at the ways you can best get your financial house in order for when the time comes to finally finish work and what steps you can take to ensure your savings go as far as possible.

Finally, as the future of interest rates continues to hang in the balance against a backdrop of economic uncertainty, we warn of the potential mortgage hikes for those coming to the end of a two-year fixed deal and why speaking to a financial advisor now could save you money in the long-term.

Best wishes

The **moneyworks** team

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The News in Brief

A round up of the current financial stories.

Reality check for retirees

Retiring is supposed to signify giving up working forever. But July 2019 research from Zurich has found that – since the April 2015 pension freedoms were launched – one in 10 retirees (11%) have returned to work after dipping into their pension.

One in four of these people (26%) said they did so because they were struggling financially. The pension freedoms are a positive step in giving you greater access to your pension from the age of 55. But if you use it without advice, you could run through it too quickly – and lose a large part of it in tax.

HMRC figures show over half-a-million over-55s withdrew £8.1billion in the last tax year – a 23% jump on 2017.

https://bit.ly/2MtZ2Mv (FT Adviser)
https://bit.ly/2OwznoV (Mirror)

Will your family receive a full inheritance?

Inheritance is one of the most difficult conversations to have as a family. Yet a reluctance to talk about the unthinkable is leading to billions of pounds not being passed onto loved ones.

According to June 2019 research by Farewill, £1 trillion will be inherited by beneficiaries over the next decade – but there's a further £15 billion lying in dormant financial legacies. 42% of British people do not know the full details of their parents' affairs, so aren't confident they can manage their estate.

Of those who have gone through the difficult process, one in four said they didn't manage the estate to their loved one's wishes because they didn't discuss it before they died.

https://bit.ly/2Kod0hN (What Investment)

The lost decade

Thanks to improved healthcare and living standards, our life expectancy continues to increase. But there's a downside to a longer life – you might outlive your savings.

June 2019 research by the World Economic Forum found the average UK woman will outlive her retirement savings by 12 years, while men will outlive theirs by 10 years. Whilst this can be partly attributed to a lack of adequate provisions, the report warns that people saving for retirement are too risk adverse with their investments.

Han Yik, Head of the Institutional Investors Industry, World Economic Forum, said, "As people are living longer, they must ensure they have enough retirement funds to last them through their longer lives. This requires investing with a long-term mindset earlier in life to increase total savings later on."

https://bit.ly/2Kgchh2 (World Economic Forum)

Bank of Mum and Dad are now 11th biggest mortgage lender

Young people continue to rely on family to afford to buy a home, with parents expected to pay out £6.3 billion to help their children get onto the property ladder in 2019. This compares to £5.7 billion in 2018. The average contribution is rising to £24,000, according to forecasts by Legal & General and the Centre for Economics and Business Research (CEBR).

This total outlay means the Bank of Mum and Dad is now equivalent to the UK's 11th biggest mortgage lender. However, whilst the level of contributions is increasing, the actual number of house sales supported by family members is expected to drop by 20% this year.

https://bit.ly/2yqJGjG (Which)

Your home may be repossessed if you do not keep up the repayments on your mortgage. The value of your investment can go down as well as up and you may not get back the full amount invested. Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits and is not suitable for everyone. You should seek advice to understand your options at retirement.

Are you financially ready for retirement?

If you're expecting to take the plunge into retirement in the next decade, but don't feel prepared, you're not alone.

Retirement is a life-changing chapter and one that we should all look forward to. It's an opportunity to put yourself and your family first, by taking control of your time and accomplishing lifetime ambitions.

Yet for millions currently in the last decade of working, the idea of retirement is one that leads to concern. A survey by Close Brothers[1] found 45% of over 55s are worried about funding their later years. Women are especially struggling to feel ready, with three quarters across all age groups admitting they're unprepared for retirement, compared to just over half of a men.

With nearly a quarter of over 55s (23%) admitting they've never checked their pension savings, it's no wonder many people are fearful. So, if you're looking to retire in the next decade or so, what do you need to do to get ready?

Take a deep breath, and look at your pension savings

If you don't know how much you've saved so far, it's impossible to know if you can achieve your ambitions. Your provider can issue an up-to-date valuation of your pension. If you've changed jobs and paid into different pensions, it's important to consider them too.

You might discover your pensions are worth less than you'd hoped. But by finding out now, you may still have time to fix it. For example, you could increase your pension contributions or set up additional pensions.

Start to plan your income needs

As a useful starting point, write down your current monthly outgoings. Consider if some – like commuting expenses – will go down in retirement. Other costs might go up – such as eating out or travelling.

It's not an exact science, as your costs will change as you get older. For example, you might want provisions in case you or your partner needs long-term care. But starting a budget now will give you a rough idea of your likely retirement spending needs.

And don't forget to also budget for those extra special treats or holidays you've always dreamed of taking when you finally retire.

Plan how you will use your pension

If you've a defined contribution pension, you can begin to access it from the age of 55. But that doesn't mean it's a good idea to do so.

According to the Association of British Insurers,[2] one third (34%) of retirees who accessed their pension for the first time in 2018 didn't take financial advice. Look before you leap, or you could risk running out of money or handing over too much to the taxman.

Ask for help

There's so much at stake. By getting help from a professional, you can develop an approach that takes into account your short, medium and long-term needs.

A financial adviser can help you to consider how your pension is best invested for your needs over the final few years of working. And they can devise a strategy for you to access your pension in the right way.

The value of your investment can go down as well as up and you may not get back the full amount invested. Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits and is not suitable for everyone. You should seek advice to understand your options at retirement.

1 https://bit.ly/2XZdJgo (This is Money)
2 https://bit.ly/2Msr6Bh (FT Adviser)

Beware the mortgage hike

If your two-year fixed rate mortgage is coming to an end soon, it's wise to start assessing your options.

If you signed up for a two-year fixed rate mortgage in 2017, you'll have benefited from a favourable rate. Mortgage rates fell to a historic low level that year,[1] which was great news for finding a good deal. There have been further falls since. But as the 2017 borrowers come to the end of their two-year term, they may face a steep rise in payments.

According to July 2019 research by Moneyfacts,[2] borrowers at the end of their two-year deal could have seen their mortgage rate soar by an average of 2.64%, if they didn't remortgage. In July 2017, the average two-year rate was 2.26%. But with the July 2019 average Standard Variable Rate (SVR) standing at 4.90%, it's a big hike for borrowers who automatically move onto their lender's SVR.

Moneyfacts warned this steep hike is likely to get even bigger over the next few months, if SVR continues to remain fairly static. This is because mortgage rates fell further over the second half of 2017 – and, indeed, going into 2018. So if you have a two-year fixed rate mortgage due to end over the next six months, it's a good idea to consider your next steps.

What's the outlook for mortgages?

In 2017, when mortgage rates were falling, the Bank of England base rate stood at the historic low level of 0.25% in the wake of the 2016 EU Referendum. Since that point, base rate has twice been increased, standing at 0.75% right now, and rates on fixed rate mortgages have increased too.

According to July 2019 figures from Moneyfacts, the average two-year fixed rate mortgage stands at 2.49%.[3] An increase on two years ago, but not as big of a rise for borrowers compared to going onto your lender's SVR.

The eternal question is whether it's better to fix your mortgage rate for at least another two years, or to go onto an SVR for a period at least, to see what direction interest rates take. The Bank of England has in recent weeks talked about gradual interest rate hikes[4] if a Brexit deal is agreed, but reducing base rate if we leave the EU with no deal.[5] The ongoing trade wars between the US and China could also have an impact.

In other words, the future of interest rates hangs in the balance. Against a backdrop of economic uncertainty, you might appreciate the stability of knowing what your regular monthly mortgage payment will be.

Considering your options

If your current fixed rate mortgage deal is due to come to an end in the near future now could be the ideal time to assess your next steps.

For this reason, it could really pay off to speak to an expert adviser. They can consider your situation and future goals, and use their extensive knowledge of the mortgage market to help you make informed decisions. This saves you from having to shop around yourself, and potentially risk remortgaging onto a product that isn't necessarily as suitable for your situation compared to other options.

Your home may be repossessed if you do not keep up repayments on your mortgage.

1 https://bit.ly/2SSpn85 (Which)
2 https://bit.ly/2KcLzG1 (What Mortgage)
3 https://bit.ly/2Ysq5y7 (Moneyfacts)
4 https://bit.ly/2K7TfKY (FX Street)
5 https://bit.ly/2YaVx4q (The Guardian)

Where next for inheritance tax?

As confusion over the rules of inheritance continues, the government is exploring ways to reform the unpopular tax.[1]

80% of over 45s believe the current inheritance tax rules are too complicated, up from 77% the year before.[2] Given the potential financial shocks that could arise from your family having to pay inheritance tax, the confusion has led to government action.

Only 5% of estates have inheritance tax duties to pay,[3] but 10 times as many have to complete and submit lengthy tax forms. This responsibility falls on the executor of your estate – usually a family member. It's time-consuming and potentially expensive. If you don't have suitable plans in place, your loved ones could pay 40% tax on everything above your threshold.

Back in January 2018,[4] the chancellor Philip Hammond ordered a review of inheritance tax. And in July 2019, the Office for Tax Simplification (OTS) published its conclusions.[5]

What are the OTS recommendations?

The late Roy Jenkins once famously said, "Inheritance tax is a voluntary levy."[6] This is because there are ways you can avoid leaving a liability. However, it's complicated. This is what the OTS has looked at.

For example, you can give money away to your loved ones whilst you're alive, to reduce the size of your estate. It's known as a 'potentially exempt transfer' or PET. But you need to live at least seven years after the gift for it to be fully exempt from inheritance tax. During those seven years, the amount still liable for inheritance tax is gradually tapered down.

The OTS proposes reducing the seven-year rule to five, and scrapping the tapering approach which it argues is ineffective. It also wants the government to change other gift allowances we all have – replacing it with one overall annual allowance that's easy to understand. Other rule changes proposed cover inheriting businesses and the life insurance rules surrounding trusts.

What happens next?

With the Conservative government's leadership change and the ongoing Brexit saga, there might be other priorities that see inheritance tax reform delayed. We're likely to find out if the OTS' recommendations are taken up in the Autumn Budget.

However, the uncertain political backdrop might also lead to even bigger change. Just as the OTS was completing its report, the Labour party[7] floated the idea of reducing the personal inheritance tax threshold, which could mean thousands more estates have a liability. The odds of a General Election occurring in the short-term have reduced over the summer.[8]

The need to plan

Ultimately, the latest inheritance tax headlines are simply a continuation of a political juggernaut. For example in 2007, the Conservatives had proposed increasing the threshold to £1 million, causing Gordon Brown to cancel a snap election.[9]

The point is that waiting for politicians to change inheritance tax could prove counterproductive in addressing any liability you have. If you want to plan a stronger legacy for your loved ones, it's a good idea to speak to a financial adviser now about inheritance tax.

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The Financial Conduct Authority does not regulate taxation & trust advice.

1 https://bit.ly/333JlkY (Love Money)
2 https://bit.ly/2Hd5L97 (Canada Life)
3 https://on.ft.com/2LUE5d2 (Financial Times)
4 https://bit.ly/2Yu80eR (This is Money)
5 https://bit.ly/2Yg6MbP (GOV UK)
6 https://bit.ly/2LQomN7 (What Investment)
7 https://bit.ly/314z5ae (Independent)
8 https://bit.ly/2K5aTPc (The Sun)
9 https://bit.ly/31GMSVF (Express)

Don’t neglect your pension plans

A pension could be the most important investment you ever make, but thousands of UK workers could be storing up issues by not prioritising saving into one.

In the midst of our hectic working lives, it’s understandable that saving for retirement isn’t high on the financial to-do list. But what you’re doing now – or not doing –could have a major impact on your later years.

With this in mind, research from Willis Owen[1] suggests a lot of UK workers are storing up future problems over how they will afford retirement. It found one in three (35%) have stopped paying into a pension over the past 12 months.

Of those who’ve put their pension contributions on hold, 28% say it’s because they can’t afford to keep paying in. A fifth admit they would rather use their money for other purposes. 14% say they would prefer to save towards getting on the property ladder.

Short-term gain for long-term pain?

Although prioritising more immediate, tangible goals is far from a bad idea, completely stopping saving for retirement could ultimately diminish your standard of living. Instead of enjoying a comfortable retirement lifestyle, you might be left struggling to make ends meet.

The survey shows an awareness that not saving into a pension could be a real problem. Nearly one in five claim they will never be able to stop working. 65% will be reliant on the state pension.

Currently paying a maximum income of £8,767.20 a year, the state pension is a valuable benefit but unlikely to be enough on its own to fund a fulfilling retirement. It works out at £24 a day for the 2019/20 tax year – which would be difficult to live on and it’s likely that you’re going to need alternative savings.

Save sooner, save less

The more time you give yourself to save for retirement, the easier it is to build up a sufficient pension pot.

- Let’s say someone started saving at 20, compared to someone starting at 40.
- A 20-year-old aiming to retire at 65 would have 45 years to save, compared to 25 years for a 40-year-old.
- So a 20-year-old wouldn’t need to put away as much each month to reach a certain target compared to a 40-year-old, who would need to save almost double the amount.

The longer you wait to save, the more you’ll have to sacrifice in pension contributions to build up a strong enough pension. So even if you don’t feel you can afford to save much at the moment, it’s better than saving nothing. When you also consider the tax benefits of saving into a pension, plus the employer contributions that might be available to you, it makes sense to think about your long-term now.

By speaking to a financial adviser, you could benefit from tailored advice on building a pension plan that provides you with enough to achieve your goals, including recommendations on how to invest your contributions. Pensions needn’t be difficult, and can give you the retirement lifestyle you deserve.

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

1 https://bit.ly/2X4osBY (What Investment)

And finally...

10% of UK savings paying zero interest

If you've money stored in a savings account and haven't reviewed it for several years, it might be earning nothing towards your financial future.

Research commissioned by Flagstone found there's £170 billion in UK savings earning 0% in interest – that's £1.10 of every £10 held by savers. This is partly due to savers failing to move their money when their savings account matures and the introductory interest rate falls.

Even in this low interest rate environment, it's worth making sure you're earning some interest. And if you have pots of savings ear-marked for the distant future, it might be wise to consider alternative options.

https://bit.ly/2yoolao (Telegraph)

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