SIMPLYWEALTH

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YOUR WINDOW ON FINANCIAL MATTERS

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WHAT'S YOUR FINANCIAL GAME PLAN FOR 2017?

The New Year is a good time to review your finances and set goals for the coming 12 months. With the tax year end in April approaching, it makes sense to ensure you're making the most of the various tax allowances available to you.

SAVE AS TAX-EFFECTIVELY AS POSSIBLE

Don't forget to use this year's Individual Savings Account (ISA) allowance before 5th April. You can contribute up to £15,240 in this tax year. If you're looking to save for children, the Junior ISA allowance is £4,080 for 2016–17.

MAKE PENSION AND RETIREMENT PLANNING A KEY OBJECTIVE

At every stage of your working life, you should save as much as possible into your pension. Consider topping up your pension whenever financial circumstances allow – there's valuable tax relief on contributions within HMRC annual and lifetime allowances. Make sure you know your state pension age and get a forecast of how much you'll receive. Speak to your adviser about arranging a regular review to ensure your retirement plans remain on track; if you're nearing retirement, then their advice on how to manage your cash flow can help ensure you don't run out of money in your later years.

PROTECT YOUR FAMILY'S FUTURE

Your life cover needs change as you reach different stages of your life. So, if you've moved to a bigger house, had more children, changed jobs or are planning to retire, then your insurance plans might need revising. Don't forget you can take out cover to protect your income and insure against critical illness and unemployment too.

It's also important to have an up-to-date Will in place to ensure family members are provided for in the event of your death.

THINK ABOUT YOUR INHERITANCE TAX POSITION

With property prices remaining high, many more people will find that their estate falls within the scope of Inheritance Tax (IHT), so planning to minimise the incidence of the tax makes good financial sense. With more and more parents and grandparents looking to pass on wealth to family members during their lifetime, it's important to be aware that these gifts of money can potentially attract IHT.

Like many other families, you might benefit from professional advice about how best to use your IHT allowances and structure your finances to ensure that your wealth will be passed on as tax-efficiently as possible.

So, why not make 2017 the year you review your finances and ensure you have the right plans in place for the future?

Wrap up in an ISA

The 2016–17 allowance is a generous

£15,240

As it can't be carried forward, it makes sense to take advantage of this savings opportunity as soon as possible, rather than risk losing your entitlement if you miss the tax year-end deadline.

The 2017–18 allowance increases to £20,000

The ISA deadline is **5 April 2017**

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.
Not all Inheritance Tax Planning solutions are authorised and regulated by the Financial Conduct Authority.

GEN O STRUGGLING TO SAVE

The 'Ostrich Generation', or Gen O for short (16-34 year olds), have got their heads in the sand when it comes to how they choose to spend and especially save their money. A recent survey[1] revealed that over half of Gen O regularly treat themselves whenever they want.

Choosing to spend more money in the present is having a huge impact on their ability to save for the future. When questioned about what would motivate them to save money, just one third said that saving for their pension or retirement would motivate them. The majority would be more driven to spend their savings on items or experiences to live for the moment. When questioned about how their finances make them feel, the survey reveals that Gen O experience a range of negative emotions when considering their financial affairs.

Of those who do save, a massive 41% of Gen O spend it on buying things they want but don't need, like the latest technological devices. This spending on items which provide short term gratification again highlights a disregard for longer term financial security.

KEEPING UP APPEARANCES

Embedded into daily life, social media has bred a culture where millennials have a fear of missing out (FOMO for short), choosing to prioritise this over long term thinking. This fear is amplified by people continuously advertising their lives online, providing a constant reminder about experiences and events, triggering other people to spend money just to ensure they are involved too. A generation focussed on their appearance and likely to take 25,000 selfies during their lifetime, over a third of Gen O (35%) want more control over their appearance, many choosing to live beyond their means to strive for physical perfection – a far cry from older generations.

Not only are social and cultural pressures resulting in higher spending but short-term thinking practised by many Gen Os, combined with an overriding avoidance of investing or saving, will undoubtedly affect their future savings. An increase in spending facilitated by the rise in contactless payments and online money transfers, also impacts people's ability to save.

[1] Aviva, Meet Gen O: 'The Ostrich Generation', 2016

INVESTMENT RISK – WHERE ARE YOU ON THE SPECTRUM?

All investing involves risk in the pursuit of potential gains. However, our attitude to risk and the amount of risk we're happy to assume can vary markedly from person to person. It can also change with age.

An important part of working with your financial adviser will be to establish how much risk you're comfortable with and the impact that has on the rate of return you can realistically expect to earn. You should bear in mind that the level of return can vary from year to year and that past performance is not a guide or a guarantee of future returns.

Each asset class – shares, bonds, cash or property has its own risk profile. During your younger years, you may want to invest in assets with a higher potential for growth but greater risk because you have the time to benefit from their long-term growth. As you get closer to retirement your appetite for risk may well change; then you may want to choose more conservative investments that are steadier in both risk and return.

ASSESSING YOUR RISK PROFILE

In order to determine where you fall on the spectrum of risk tolerance, it's important to think about what your attitude would be to the possibility that you could lose money on your investments if markets were to fall sharply. Your time horizon is important too; it's often easier to adopt a more aggressive approach to risk if you still have many years before you need to access your cash.

Typically, you could position yourself anywhere on the spectrum from a conservative investor looking for low-risk near-cash investments that can potentially produce a steady but unspectacular return, through to an aggressive investor who's happy to acquire riskier investments in less-mature markets that could produce potentially higher but less certain returns. Unsurprisingly, many people position themselves somewhere in between, as moderate investors willing to take some risk, but anxious not to face the prospect of losing too much capital.

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.

SELF-EMPLOYMENT BOOMS AMONGST WOMEN – BUT PENSIONS SUFFER

More and more women are taking the plunge and becoming self-employed according to research from a leading insurer. The number of women working for themselves has hit an all-time high of 1.5m[1].

According to research from charity Citizens Advice[2], many of these self-employed women work part time. Two thirds of people who work for themselves on a part-time basis are women, compared with just one in five who are full time self-employed. Examples of women working part-time self-employed include a bookkeeper who works three hours a day while her children are at school, or a graphic designer who takes on work she can fit around caring for her elderly parents.

SAVING FOR THE FUTURE

However, when it comes to saving for a pension, self-employed women are missing out. According to Prudential's research[1], just 12% contribute to a personal pension compared with 59% cent of employed women who pay into schemes operated by their employer.

If you're self-employed, saving into a pension can be a more difficult habit to develop than it is for those in employment. Irregular income patterns can make regular saving difficult. But there are plans available that can give you the flexibility you need, and the good news is that your contributions are topped up by income tax relief from HM Revenue & Customs. If you're a basic-rate taxpayer, for every £100 you pay into your pension, HMRC will add an extra £25.

How much should you aim to put aside to ensure you build up an adequate pension pot? The simple answer is probably as much as you can reasonably afford. If you were in an employer scheme, your employer might typically contribute 4% and you might be contributing a further 3% yourself. So it makes sense to discuss with your financial adviser the level of contributions you can make and the likely returns they would produce for you.

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

[1] Prudential, Self-employment booms among women, April 2016

[2] Citizens Advice, Women and parents driving growth in part time self-employment, April 2016

PENSION SCAMS – MORE STOLEN THAN FIRST THOUGHT

Pension scams have been in the spotlight since new freedoms have provided an attractive target for fraudsters.

Scammers are becoming increasingly sophisticated, frequently targeting potential victims through emails, online banking systems, text messages and online transactions. Recently hackers stole money from 9,000 Tesco Bank current accounts, highlighting how vulnerable we all are.

Data indicates the post-freedoms pension fraud spike was worse than previously anticipated. According to The Telegraph, there were 250m scam calls last year, resulting in pension fraud totalling £19m.

DON'T BE CAUGHT OFF GUARD BY COLD CALLERS

Many pension scams start with an unsolicited phone call, text or email which usually offers a free pension review. The increase in calls from abroad is particularly alarming. A well-publicised recent scam involves an attempt to convince people to move their pension into an unregulated overseas investment such as a hotel, vineyard or overseas building project. Never agree to invest your money overseas in unregulated projects.

In a positive attempt to clamp down on pension fraud and take meaningful action to deter scammers, the government will shortly publish a consultation document, likely to include the recommendation to ban any cold calling in relation to pension products and develop greater powers for providers to block suspicious fund transfers.

WARNING SIGNS

With millions of people receiving unsolicited contact concerning pensions, even the most clued-up investors can fall victim to the scammers. Fraudsters do not discriminate and use sophisticated techniques including convincing marketing materials and websites to deceive people. Data from a report conducted by Citizens

Advice[1] found that 90% of people missed the warning signs of a pension scam.

The old adage rings true – If it looks too good to be true, it probably is.

If you want advice about your pension speak to your adviser.

[1] Citizens Advice, Consumers missing pension scam warning signs, March 2016

IHT PLANNING FOR COUPLES – CHANGES YOU NEED TO KNOW ABOUT

From 6 April 2017, there is an important change to Inheritance Tax (IHT) that families need to be aware of so that they can plan their wealth effectively for the future. This change is often referred to as the 'family home allowance' but is more correctly referred to as the Residence Nil-rate Band (RNRB).

HOW IHT WORKS

Firstly, it helps to understand a little more about how IHT works, and how it is applied to estates on death. Everyone has a personal nil-rate band (NRB) currently set at £325,000, that is unless they have used some of it to make gifts or have inherited NRB from a spouse or civil partner who has died.

Married couples and civil partners (but not unmarried couples) are able to pass their assets to each other tax-free, and the surviving partner is allowed to use both tax-free allowances (unless of course some was used up on the first death), effectively doubling their combined NRB to £650,000. Where IHT is payable, on amounts above the deceased's total nil-rate band entitlement, it is normally at a rate of 40%.

THE RESIDENCE NIL-RATE BAND (RNRB)

The RNRB is an additional allowance that can be used where the surviving spouse dies on or after 6 April 2017 and passes their interest in a residential property to one or more direct descendants, meaning children, stepchildren, adopted children, foster children and their lineal descendants. It also includes the spouses or civil partners of lineal descendants, providing they didn't remarry before the death of the individual bequeathing the property. The maximum RNRB that a couple can have is the lower of the value of the house or two times the RNRB. The RNRB is £100,000 from April 2017, rising to £175,000 by 2020.

For a property to qualify, several criteria must be met. In the case of a couple, only the second spouse to die needs to have lived in the property. Buy-to-let properties aren't eligible if the owner didn't live there. A former main residence that is rented out would qualify. If there are several properties involved, then the executor of the estate can choose which property to nominate. In the case where the deceased downsized, if this happened on or after 8 July 2015, then RNRB on the difference in value between the old and the new property can be claimed.

Where an estate has a net value of £2m or more, the RNRB is tapered away with £1 lost for every £2 net estate value over £2m. Families that have assets of over £2m may benefit from making use of the NRB and RNRB on the first death in order to reduce the estate of the surviving spouse.

A COMPLEX SITUATION

The introduction of the RNRB gave rise to headlines saying that parents or grandparents could pass on a home worth up to £1m free of IHT; however, in practice the application of the RNRB can be complex and requires expert estate planning advice.

Not all Inheritance Tax Planning solutions are authorised and regulated by the Financial Conduct Authority.

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation, are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

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. Taxation depends on individual circumstances as well as tax law and HMRC practice which can change.

The information contained within this newsletter is for information only purposes and does not constitute financial advice. The purpose of this newsletter is to provide technical and general guidance and should not be interpreted as a personal recommendation or advice.

SIMPLY PUT

What is the natural yield on a portfolio?

You may have seen this term used in connection with taking an income from your portfolio. In simple terms, this equates to the return you get from your investments and includes stock market dividends, interest paid on cash, fixed income produced by bonds and rental income from property.

With interest rates low and dividends under pressure, it has become harder than it once was to provide an adequate income just by taking the natural yield from a portfolio, meaning that some investors may find themselves dipping into their capital earlier than they would have wished.

Many experts advocate taking the natural yield from a portfolio and using other sources to supplement their income, such as annuities and cash accounts.

With life expectancy in the UK continuing to rise, planning your retirement income is more important than ever before. Longevity brings with it an increased likelihood of needing nursing and residential care at some point in the future. Working with an adviser to plan your finances can help prevent you from running out of money in your later years.