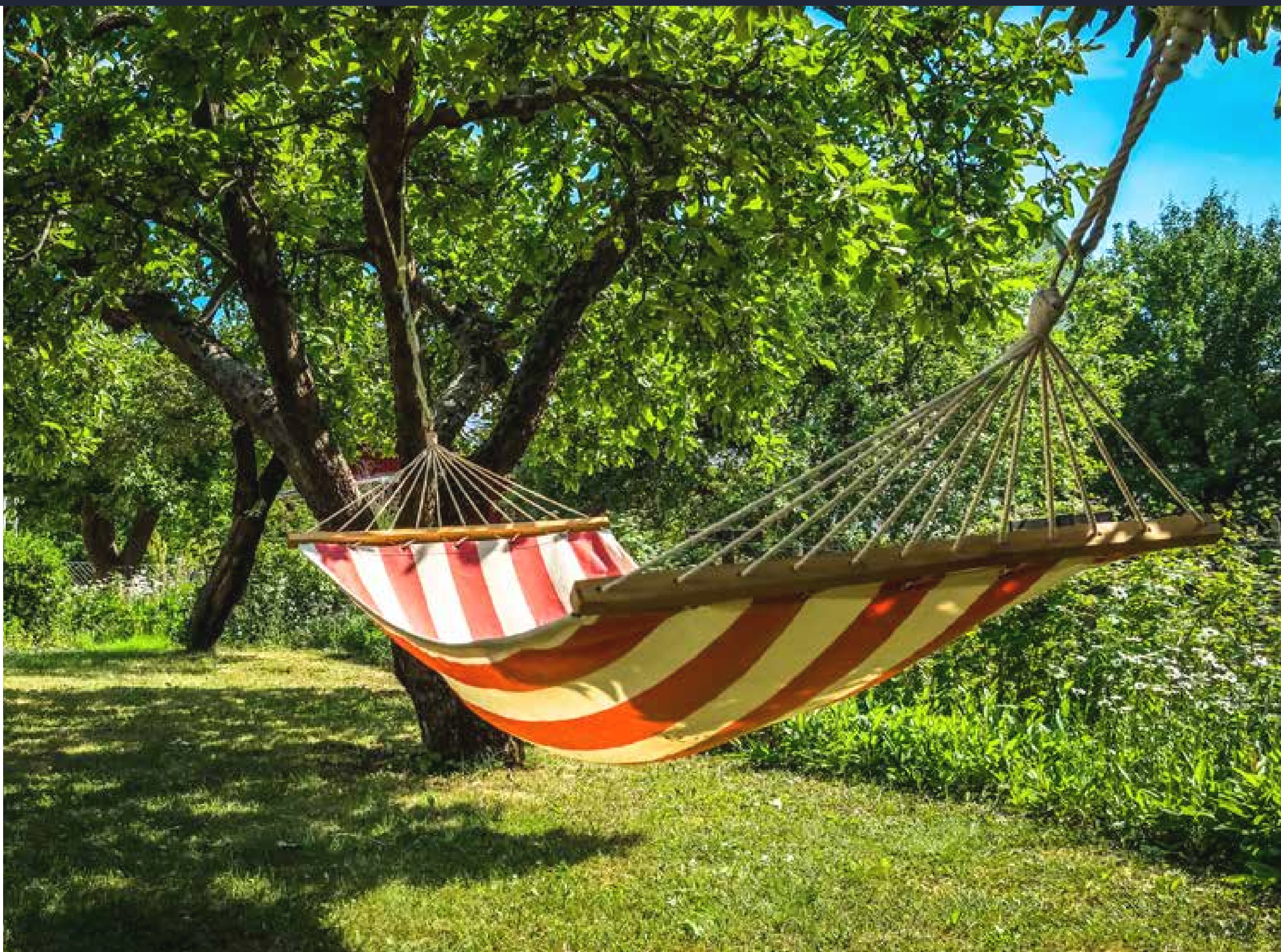
Chrysalis Wealth Management Ltd
4 St Georges House
Vernon Gate
Derby
DE1 1UQ

Telephone: 03333 449 321
Email: info@chrysaliswealth.com
Website: www.chrysaliswealth.com
Facebook: www.facebook.com/chrysaliswealth

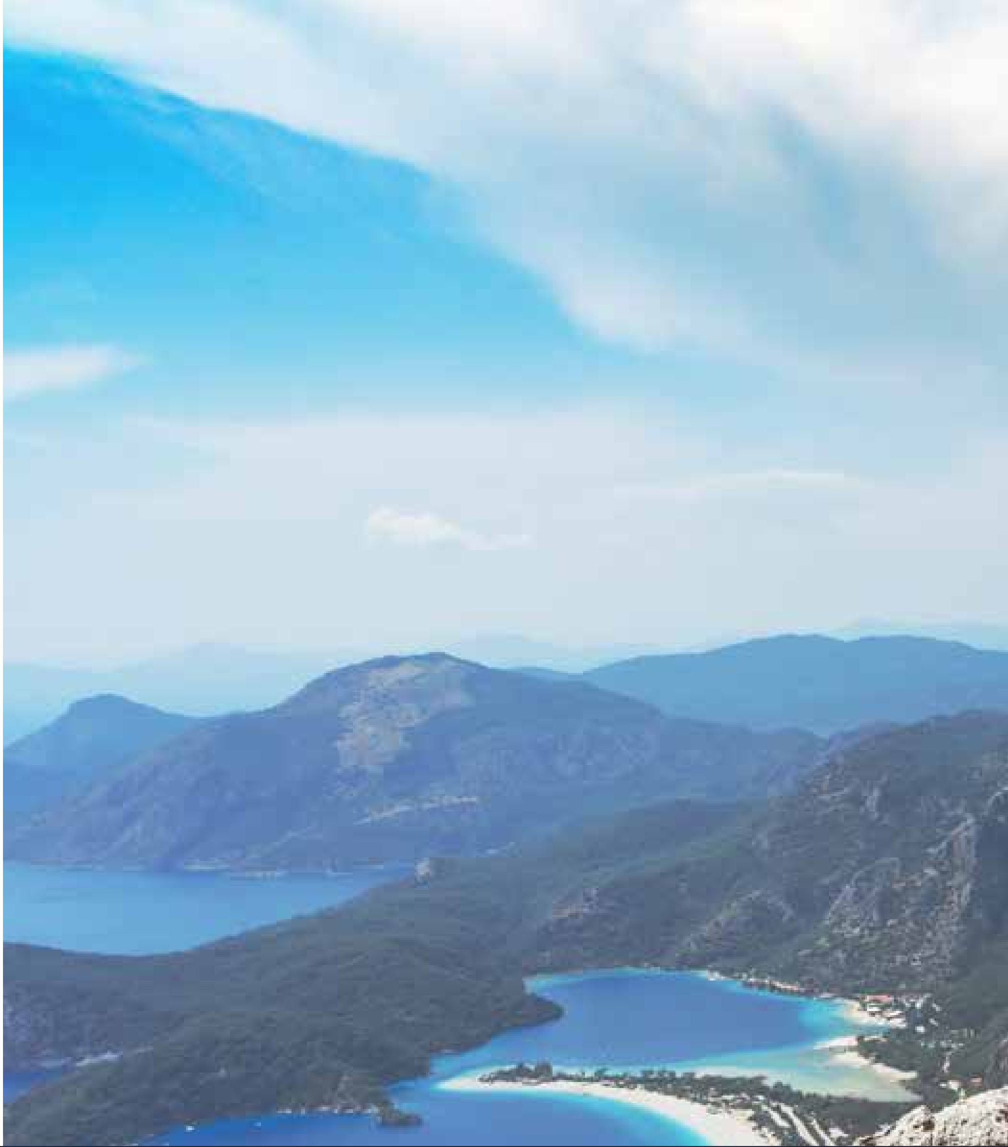
Money & Wealth

Issue 9 | Summer 2019



Inside this issue:

Contents



How goal-based investing helps people of all ages plan their wealth

What do you want your wealth to achieve for you? Most of us will have a variety of financial goals that we are keen to pursue at different points in our lives. These can often include major life events such as putting down a deposit on a property, paying for school fees, a trip of a lifetime or being able to retire at a particular age.

Defining your aims

Rather than simply viewing investing as getting the best possible return on your money, goal-based investing aims to help people meet their personal and lifestyle aims, whatever they may be, in a straightforward and simple way.

So, in order to adopt this approach, you need to think both short and long-term. For instance, for younger people, saving for a deposit is a shorter-term goal than investing for their retirement. A retired couple may be looking for an income stream to boost their pension, but want to invest their capital over the longer term to ensure they have funds available for later life care.

Being clear about your goals, and the time horizons in which you want to achieve them, is the first step in the process. By gathering this information, we can help you define the right level of savings and the most appropriate mix of funds to meet each of your needs

How the process works

Being clear about your goals and the time horizons in which you want to achieve them, is the first step in the process. By gathering this information, we can help you define the right level of savings and the most appropriate mix of funds to meet each of your needs. Risk will be a major consideration too. Each goal is likely to have a different risk tolerance and time horizon. Younger people who have several decades to go to retirement may feel comfortable with higher risks for their pension pot. Older investors who are keen to ensure their wealth lasts as long as they do, are likely to be more risk averse.

Your goals are likely to change over time, so it makes sense to have regular reviews with us so that we can ensure your investments continue to meet your needs.

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.

IN THE NEWS...

Divorced Brits count the financial cost

A recent survey[1] shows many find themselves struggling financially after divorce and some report regretting their decision to go it alone. Nearly half found themselves needing to work longer hours and some faced mounting debt.

Around 100,000 people divorce every year in England and Wales. According to the survey, 36% said they found managing their finances 'harder or more stressful' on their own.

Pension withdrawal down on 2016 levels

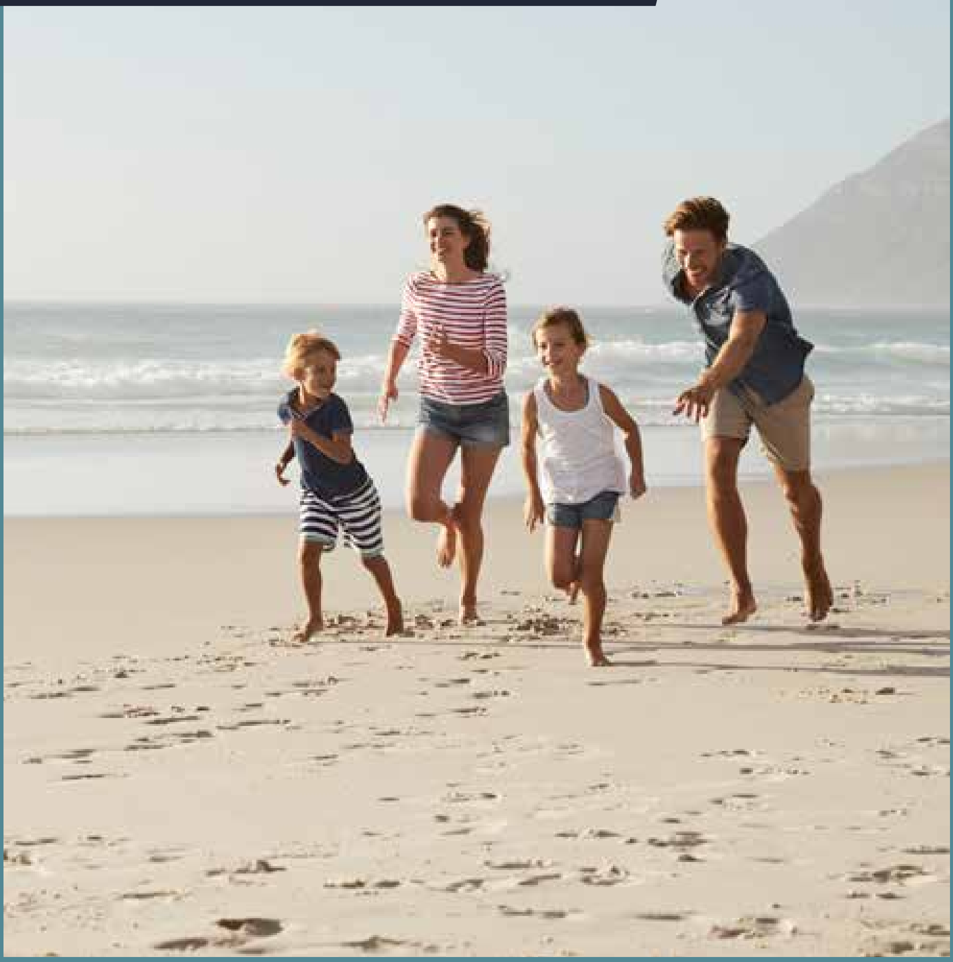
UK pensioners have withdrawn £25bn from their retirement savings under pension freedoms since April 2015, figures from HMRC reveal. However, average pension freedoms withdrawals per person were £7,254 in Q1 2019, a slight decrease from £7,644 a year ago, but a significant drop from £11,081 in Q1 2016.

Generation X heads the pension savings league

Those aged 43 to 54, often referred to as Generation X, accounted for 43% of the UK's personal pension contributions, according to HMRC data for the 2015–16 tax year, the latest year for which figures are available. But will it be enough? Although their average pension wealth was £70,400, experts estimate the figure should be around £187,400 at this stage in their working lives.

[1]Royal London, May 2019

The intergenerational fairness debate – peers make recommendations



The deal between young and old to support each other through life could break down because of major problems with housing, work and tax. This was the conclusion reached by the House of Lords Committee on Intergenerational Fairness and Provision, following a 12-month parliamentary inquiry.

The Committee was made up of Labour, Conservative, Liberal Democrat and crossbench peers and made recommendations across a wide range of topics. It believes that major reforms are needed, both to 'retain the supportive relationship between generations' and to plan for the '100-year life' that younger people can expect to become the norm.

The perceived causes of unfairness

In the Committee's view, the growth of the gig economy, soaring housing costs and financial giveaways for older people are driving a wedge between generations in Britain. In order to redress the balance, policy changes will need to be introduced. 'Outdated' age-specific benefits for older people should be replaced with support for the young to 'deliver a fairer society'.

The Committee's report[2] included changes that risk angering older voters, such as delaying winter fuel payments and bus passes until they have been retired for five years, and removing the triple lock on the State Pension that guarantees inflation-linked annual increases. It also recommends that those who continue to work after their normal retirement date should pay National Insurance Contributions whilst they are working.

Commenting on the proposals put forward by the Committee, its Chairman, Lord True, said that the connections between the generations could be undermined if the government didn't get to grips with the key issues of housing, secure employment and fairness in tax and benefits.

Opposing views persist

The peers' study cited research from Age UK that shows people are more likely to view older people as friendly and warm than competent, while the peers' own panel of younger people said they were treated badly by older people who considered them 'trouble' or 'soft'.

[2]Select Committee on Intergenerational Fairness & Provision, April 2019

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

Happy 20th Birthday to the ISA

Over the years, an ISA has had a key role to play in financial planning, providing a welcome opportunity to save or invest tax-efficiently every year. It's estimated that around 42% of adults[3] have one.

At launch in April 1999, the annual allowance for an ISA was just £7,000. It's risen steadily over the intervening years and today stands at a generous £20,000. Those who were early adopters and maximised each year's allowance, could by now have put around £206,000 into these tax-sheltered accounts.

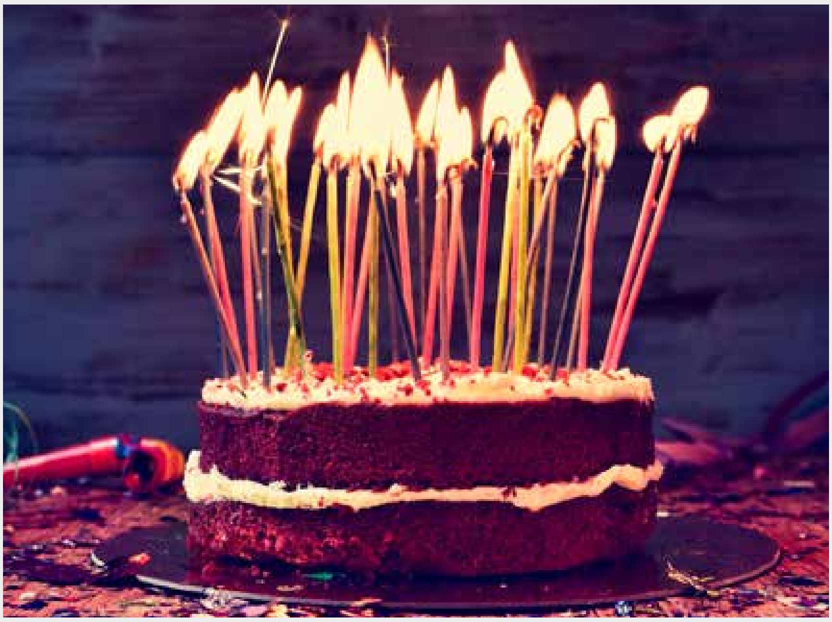
More choice on offer

At launch, you could choose a cash ISA or a stocks and shares ISA, amongst other variations. Since then, more types of ISA have been added. There's a Junior ISA for children, the Help to Buy ISA designed to help first-time buyers, and the Lifetime ISA which can be used to build up a deposit for a home, or as a longer-term savings vehicle that can help provide funds in retirement.

Don't delay, save today

If you're planning to use your ISA allowance this tax year, it makes sense to start as soon as possible to potentially give your money more time to grow.

[3]ONS, April 2019



ARE YOU LEAVING YOUR PENSION TO THE RIGHT PEOPLE?

When you take out a pension plan, you will be asked who should receive your pension benefits in the event of your death.

A pension nomination form allows anyone in a pension scheme to stipulate who they want to inherit their pension on their death; it's often referred to as a 'pension will'. If it isn't completed, or you don't update it if your personal circumstances change, there's a risk your pension could be paid to the wrong person, for example an ex-partner.

AUTO-ENROLMENT – GOOD NEWS FOR EMPLOYEES OF SMALLER FIRMS

The Institute for Fiscal Studies (IFS)[4] has been reviewing the pensions landscape and drawn some interesting conclusions about how auto-enrolment has changed the number of people saving into a pension. The scheme has been hailed an *"extraordinary success"*, by Minister for Pensions and Financial Inclusion, Guy Opperman.

The IFS estimates that before the advent of auto-enrolment, the number of small business employees saving for retirement was fewer than one in six; that figure has subsequently increased to seven in ten. With over a quarter of UK private sector employees working for a small business, this increase in participation really shows how the scheme is improving the pension prospects for millions.

[4]IFS, Mar 2019

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation, are subject to change.

HOW YOU COULD GIVE YOUR CHILD A RETIREMENT WINDFALL

Setting up a pension plan for your child and putting £2,880 in each year will help give them a wealthier retirement. Current pension rules allow a parent to contribute up to £2,880 for a child under 18. Tax relief means that this figure is topped up to £3,600.

If the parent starts making annual contributions when the child is born and continues until they are aged 18, then this would add up to £52,000, and under current rules this would be topped up by around £13,000 in tax relief.

Other savings options

For parents who want to give their offspring money earlier, they can save up to £4,368 tax-free in a Junior ISA in the 2019-20 tax year. Invested in a medium-risk fund, this could be worth up to £110,000[5] by the time they reach 18, if you paid in £364 a month for 18 years, although as the value of investments fluctuates, this may not be the case. Income and gains on the money saved are tax-free. If you're unable to afford the full subscription each tax year, small regular sums build up over time too.

Assuming growth in investments over the period, your child could have a sizable pension pot and ISA fund to draw upon, the spending power of which will depend on the passage of inflation over the intervening years.

[5]Which?, 2019

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation. 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.

Investment: don't be put off by the jargon

You aren't alone if you find it difficult to get to grips with some of the words and phrases that are often used to describe different aspects of investment. Here we look at a few terms that might be new to you.

Asset allocation: This is the process of apportioning your portfolio across different investment categories. There are four main types of assets – cash, equities, bonds and property. The theory is that by diversifying, having a mix of these asset classes, an investor can lessen their risk, which in simple terms means they'll do better by not putting all their eggs in one basket.

Dividends: These are payments made by companies to their shareholders and represent the shareholder's portion of the company's annual profits. People buy equities or shares in companies not just in the hope of making a return by selling them at a higher price in the future, but also because they receive a regular income from them, though a company may reduce or even suspend its dividends if under financial pressure.

Emerging markets: These are economies in developing countries around the world that experts predict have good growth prospects for the future. Brazil, China, India, Mexico, South Africa and Russia are examples of emerging or developing markets.

Portfolio rebalancing: Over time, certain investments in your portfolio are likely to perform better than others, which could mean that it's no longer suitably apportioned to meet your needs. Rebalancing is the process of reviewing your portfolio and adjusting it in line with your investment goals and the level of risk you are comfortable with.

Simple lifestyle changes could help millennials save £10.5bn

With millennials often finding it hard to save, Barclays[6] has come up with some suggestions that could help them meet their financial goals.

Those who fear that this could mean giving up on nights out or regular treats, will be pleased to know that the solution could lie in making just a few simple swaps.

Spending patterns

The survey outlined that millennials spend on average £3,312.72 a year on socialising with friends, eating out and takeaways. Three quarters of those who took part in the survey said they would be willing to make a few lifestyle changes if it would help them reach their financial goals, like a deposit for a home.

Small swaps

Suggested swaps included replacing every fifth takeaway with a home-cooked meal, having a regular night in rather than always going out, avoiding the coffee shop once in a while, and joining a local running club rather than paying for gym membership. It's estimated that these simple tactics could add up to a saving of around £600 a year or even more.

Money management

Developing a savings habit and sticking to it requires discipline. That's why many people find that if they adopt the principle of 'paying themselves first' they manage much better. When they get paid, money is automatically transferred into their savings account on the same day, helping to remove the temptation to spend.

Thinking long and hard before making purchases can also work. Asking yourself questions such as *"Do I really need it? What impact will it have on my savings goal? Can I get the same thing much cheaper by shopping around or buying second-hand?"* can all act as a wake-up call that will help keep expenditure under control.

The benefits of ISAs

For those looking to save and get tax breaks, ISAs are a great solution. The annual allowance is £20,000. Contributions into a pension attract tax relief too.

[6]Barclays, Feb 2019

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.

Trusts – an effective way to transfer wealth

Trusts can play an important role in helping families achieve their financial goals and provide an effective way of passing money down the generations.

What is a trust?

A trust is a legal arrangement which allows assets, usually property, investments or money, to be looked after by a trustee for the good of one or more beneficiaries. Those beneficiaries can be named individuals, such as your children, or can be people who are yet to be born. Trusts can be set up during your lifetime or in conjunction with a Will and can be used for several purposes.

Why set up a trust?

They can have a variety of uses such as:

- Protecting the financial interests of a young beneficiary by retaining control of the assets until they reach the age of 18 (16 in Scotland)
- Looking after the interests of somebody who can't handle their own financial affairs through incapacity
- Providing for a husband or wife, while keeping the assets intact for the benefit of children
- Reducing Inheritance Tax liability (IHT) by taking assets out of an estate so reducing the amount on which IHT might otherwise be due
- Ensuring that the proceeds from a life insurance policy go to the beneficiary without waiting for probate, and don't form part of the estate for IHT purposes.

Setting up a trust

You will need to appoint trustees to look after the assets in the trust on behalf of the beneficiaries. They will have the power to make, manage and review investments and to make payments from the trust as set out in the trust deed.

There are several types of trust, and the one that's right for you will depend on who the beneficiaries are, what the assets are, and how and when you want them distributed. You will need to take expert advice as to what type of trust will work best for your particular circumstances.

How to help with a deposit on a home

Gifting money is a popular choice for parents and grandparents who want to help a family member buy a property whilst at the same time reducing their IHT bill.

Use your allowances

Everyone has a yearly 'gift' allowance for IHT purposes. You can make gifts of up to £3,000 each year, and the good news is that this figure can be carried over to the following year if you don't use it, meaning a maximum allowance of £6,000. So, a couple could be able to give away £12,000.

In addition, you can make small gifts of up to £250 per person per tax year, to as many people as you like. Weddings are another opportunity to hand over cash to loved ones – parents can give children £5,000 each as wedding presents, £2,500 to grandchildren or great-grandchildren, and £1,000 to anyone else, all free of IHT.

Making larger gifts

You can give away larger sums known as 'potentially exempt transfers'. However, you need to live for at least seven years after making the gift for it to be totally IHT-free. It's advisable to take professional advice if you are planning to give away significant sums.

SCAMMERS IMPERSONATING HMRC

Scammers are pretending to be from HMRC and using threatening tactics to try and convince victims to part with large amounts of money or face the risk of being arrested.This is a particularly nasty scam. Victims are threatened with lawsuits, warrants for their arrest or demands for thousands of pounds of outstanding tax to be paid. In another version of the scam, automated voicemails are left saying that recipients or their solicitors must get in contact or face the legal consequences.

Elderly targeted

Those targeted are often elderly and some have felt sufficiently pressurised to make payments. HMRC say that they have received more than 60,000 reports of phone scams in the six months to January 2019, an increase of 360% compared to the previous six months. Fraudsters are also impersonating HMRC online and using SMS.

Advice

Don't assume that anyone who calls or contacts you out of the blue is who they say they are. HMRC will only call you in connection with a debt that they have already made you aware of in writing.

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation, are subject to change.

Pensioners adopting a prudent approach

Back in April 2015, when the new pension rules were introduced, fears were expressed in some quarters that pensioners would empty their pension pots and splurge their cash on extravagant luxuries such as Lamborghinis.

However, this simply didn't happen to any great degree. Whilst the total value of pension withdrawals made since April 2015 is over £25bn, the average withdrawal made between July and September 2018 was £7,597, the lowest level recorded by HMRC since their records began four years ago[7].

Tax and market volatility

This prudent approach may be based in practicalities. Taking large amounts of cash out of a pension can give rise to a hefty tax bill, so many were probably deterred by the thought that they would end up in a higher tax bracket. In addition, market volatility may have made pensioners more cautious and anxious to preserve their savings; after all, we would all like to think that our wealth will last as long as we do. Taking decisions about pensions can be difficult; professional advice will help you maximise the benefits of the current pension rules.

[7]HMRC, April 2019

YOUR INVESTMENT STRATEGY – HOW WILL IT CHANGE WITH YOUR AGE?

Having the correct investment strategy when you reach the different stages of life will help ensure you achieve your financial goals.

Starting out

Investing at an early age, rather than keeping all your spare cash in a bank or building society account that pays low rates of interest, can be a good long-term strategy. Taking on greater risk can offer the prospect of a bigger return. Young investors have sufficient time ahead of them to ride out the inevitable peaks and troughs in the stock market, and to recoup any temporary losses they might make.

However, if one of your financial aims is saving money for a short-term project like a house deposit, to reach this goal you may want to opt for less risky investments.

Reaching your middle years

These could be your peak earnings years, so building up your pension investments should be a priority. You'll probably face greater calls on your cash, such as raising a family or taking care of elderly relatives. But don't overlook your own needs whilst looking after others. Having a regular review with us can ensure you keep your investments on track. Remember, you only have so many working years left to provide for your future.

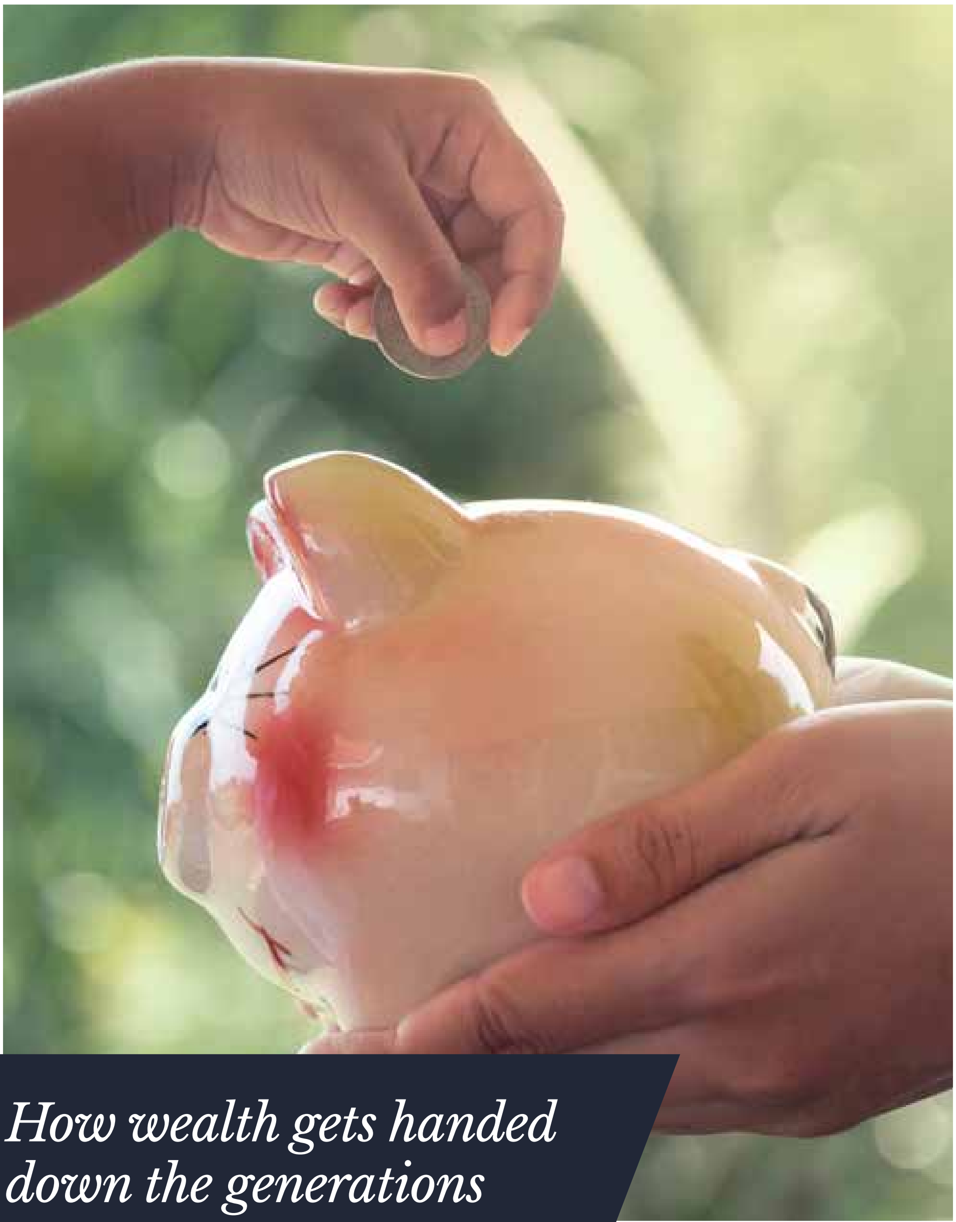
Winding down

Today, more people than ever are working on past what would once have been considered normal retirement age. So, you may want to keep investing, gradually focusing more on income-producing stocks and shares as you wind down to retirement. You may be more concerned about protecting your wealth from stock market volatility, and at this point may want to adopt a lower risk profile.

Whatever your age, getting good advice can help you make the right investment choices.

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

The value of investments and income from them may go down. You may not get back the original amount invested.



How wealth gets handed down the generations

The rise of the Bank of Mum and Dad shows how the younger generation increasingly needs to rely on financial support when they face major expenses such as buying a property or raising a family.

New figures[8] show the extent to which parents and grandparents are making gifts and loans. Recipients are commonly those aged 25 to 34, with 11% in this age bracket receiving more than £500 during the previous two years; the average across all age groups being £2,000.

Inheritances peak from age 55

At the other end of the scale, those aged 55 to 64 are most likely to receive larger inheritances, receiving on average £33,000. This figure from the Office for National Statistics shows that it's wise not to put all your retirement eggs in the inheritance basket.

Interestingly, a survey has shown that millennials may have unrealistic expectations as to when they will receive an inheritance. One in seven questioned said they expected to inherit money before they are 55, hoping to receive £130,000. However, the average inheritance across all age ranges during the previous two years was £11,000.

[8]ONS, Oct 2018

RETIREMENT: 68% MAY BE MAKING THE WRONG CHOICES BY GOING IT ALONE

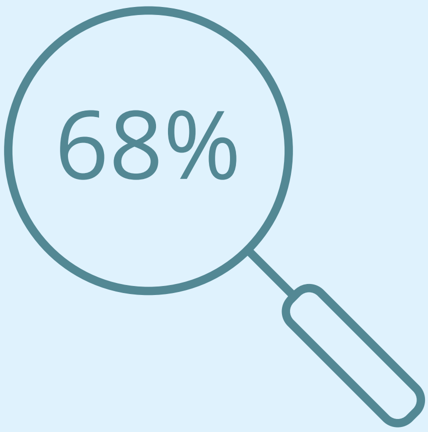
Since the introduction of the pension reforms, retirees have much greater flexibility to spend and invest their pension pots as they wish. However, this means that people are faced with important decisions, both in the run-up to retirement and afterwards, that will affect their standard of living and financial outlook for years to come.

A recent report[9] shows that only 32% of retirees take professional advice. This means that many may not be fully exploring their options and aren't putting in place the best pension arrangements for their personal circumstances. Figures show that many simply take the annuity or drawdown facility that their existing provider offers them, as they aren't aware that they can shop around to get a better deal.

Concerns expressed

The Financial Conduct Authority has reported concerns that those who don't take advice may be in danger of making poor investment decisions, or simply withdrawing cash from their pension pot and putting it into low return cash funds where it will be eroded by inflation.

[9]Canada Life, March 2019



Nudge nudge, save save

A 'nudge' is a form of psychological technique that can influence the way we all behave. A good recent example of this is the introduction of auto-enrolment pensions.

In order to increase the number of UK workers who were saving into a pension scheme, the government made it compulsory for employers to have a pension scheme that their workers were automatically placed in. Employees' contributions were to be deducted from their pay packets unless they formally requested to be exempted and thus also miss out on the employer's contribution.

This made the decision to save for retirement much easier for workers to make, and as a result pension scheme membership has been steadily nudged up to over ten million people.

Technological prompts

A recent report from the BBC shows that technology can play a role in encouraging us all to save. Apps can load up pictures of savings goals, like a car or a first home, to a user's mobile phone. Then, as you save more towards your goal, the image becomes clearer. If you withdraw money, the picture starts to disappear.

Visual prompts like this are a very effective way of helping people to save more for the future; who knows what's around the corner?

HAPPY RETIREMENT FOR THE AVERAGE OAP

Income data from the Office for National Statistics is likely to add fuel to the intergenerational fairness debate. Retired households have seen their income surge by almost 60% in the past 13 years, far outstripping the increases received by those in work.

The average pensioner's household income was £27,283 last year, an increase of more than £10,000 or 59% since 2005-06.

By contrast, the typical working household's earnings rose by only 36% over the same period, to £36,332.

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation. 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. Income protection (with no investment link) has no cash in value at any time and will cease at the end of the term. If you stop paying premiums your cover may end.

GOOD NEWS – MORE PEOPLE ARE PUTTING PROTECTION POLICIES IN PLACE

New figures from technology provider Iress[10], show income protection sales via its software increased 50% in the first quarter of the year. This is heartening news and shows that more people are aware that they need to protect their financial future by putting plans in place that could be a lifeline if the unexpected should occur.

Income protection policies

Whilst you might have enough funds to tide you over for a short time, you could soon find that paying the household bills was a struggle. These policies are designed to pay out if you're not able to work and earn money due to illness or injury, and, in some cases, forced unemployment.

The maximum amount you can claim is usually your net monthly earnings after tax, minus any state benefits you may receive. This could be around 65% of your gross earnings and it's usually tax-free.

Policies pay out following your chosen deferred period, typically between four and 52 weeks, and can continue until you return to work, or the policy expires at the end of a fixed period.

[10]Iress, 2019