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Money & Wealth

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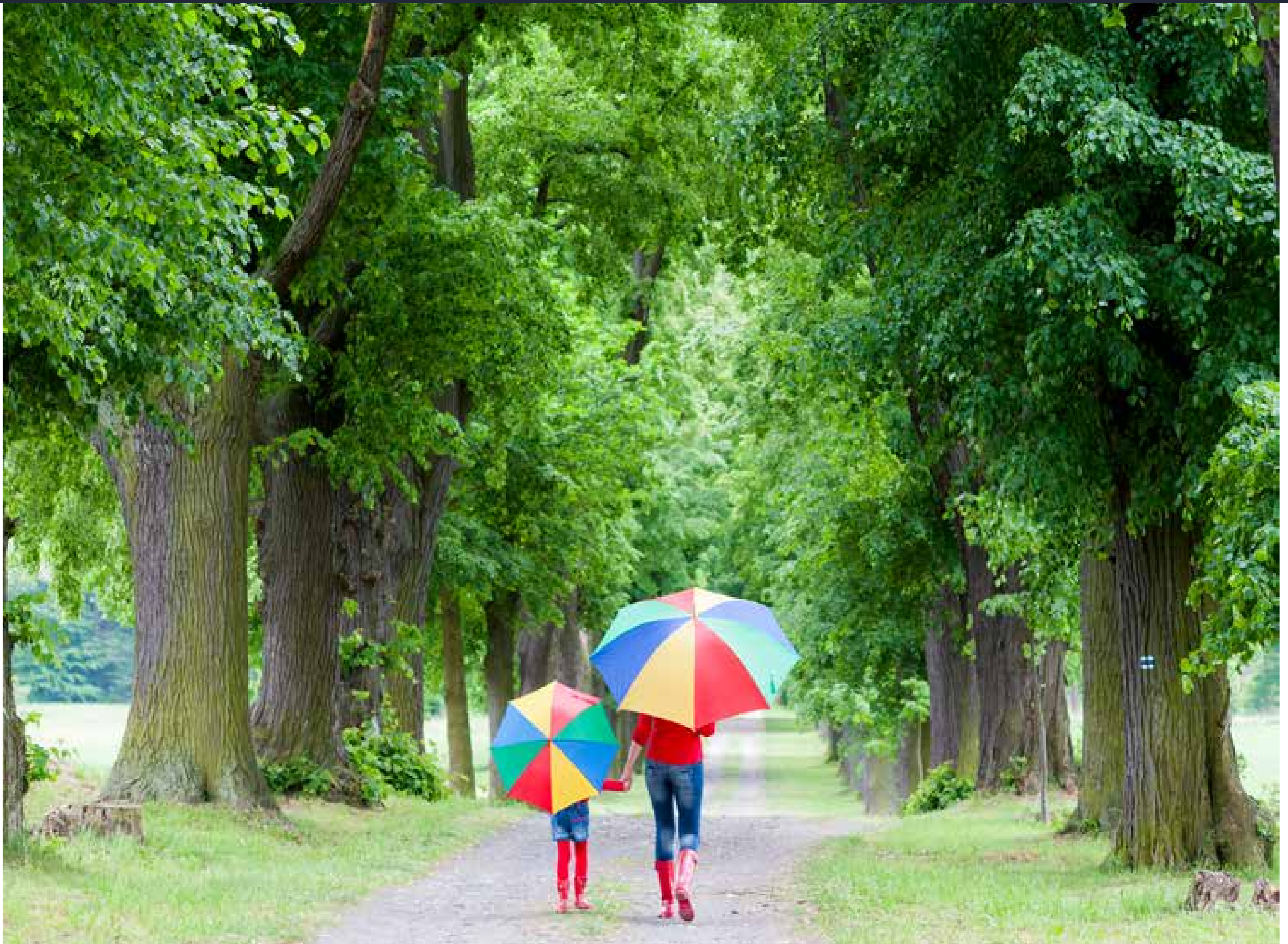

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Savers have mislaid over £400m in old pension pots – don't lose track of yours

If you've changed jobs during your career, you may find yourself with several pension pots with different employers or pension providers. It's obviously very important to track down all the different pension schemes you've paid into, as you'll want to be sure that when it comes to retirement you're claiming everything you're entitled to.

It can be easy to lose track of paperwork over the years, or forget to update your address details with providers when you move home. If you find yourself in this situation, you aren't alone. There's estimated to be £400m in unclaimed pension savings in the UK.

If you're in this position, then there are various steps you can take. Contacting old employers for details can be a good first step, and then there's the free Pension Tracing Service provided by the Department for Work and Pensions (DWP). This service was launched back in May 2016 and has been used more than a million times by savers.

Exploring your options

You may want to consider consolidating your various pensions into just one pension pot, as this will cut down on all the paperwork. The most obvious reason for moving a pension is to improve investment performance and lower the charges to boost your retirement income. But before you make your move, there are downsides that you need to consider.

If you're in a final salary company pension, also known as a defined benefits scheme, it will often be best advice to stay put because of the guarantees attaching to your pension. Some money purchase schemes, referred to as defined contribution plans, also offer guarantees that you need to seriously consider before moving your pension savings into an alternative scheme.

A step in the right direction

It's a good idea to keep a note of all your pension pots, and seek professional advice before deciding whether to consolidate them. A pension review will help you understand how much you'll have to live on in retirement, and whether you need to top up your contributions to ensure a better level of income in your later years. Make sure you know your state pension age and get a forecast of how much you'll receive.

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.

Tax traps that the Bank of Mum and Dad need to avoid

The Bank of Mum and Dad now ranks amongst one of the largest lending institutions in the UK, so many more families may find themselves faced with a tax bill.

Income tax

If parents lend children the money, then if they pay interest, this is taxable. If the parents have borrowed the money, they are unlikely to get tax relief on the interest they pay.

Capital Gains Tax (CGT)

Parents who buy a house with their child, and don't live with them, will find when the property is sold that they could be liable for CGT. The property will not count as the parent's main residence for tax purposes, and so CGT is payable on their part of the proceeds on sale.

Additional Stamp Duty

Helping out with the deposit for a child's property may not pose a problem, but part-owning can mean additional Stamp Duty is payable. If parents buy a property for their child, are named on the deeds and already own a home, this purchase counts as a second home and may be liable to Stamp Duty at the higher rate.

Inheritance Tax (IHT)

Giving away more than your annual IHT exemption of £3,000 (that's in total, not per person) means that if you die within seven years of making the gift, the value of the gift will still be included in the estate. This could be liable for Inheritance Tax if the value of the estate, including the gift, exceeds the individual threshold of £325,000. If the estate is liable for IHT, it is payable at 40% on the excess.

However, the year your child gets married you can give them an extra £5,000. In certain circumstances, you can make gifts out of your regular income, but you'd need to show that making these gifts doesn't affect your normal standard of living, so taking professional advice is essential.

Millions set to rely on £7k in retirement – don't be one of them

The poorest pensioners are relying on the state pension for around three-quarters (78%) of their income in retirement, as reported by research carried out for the Pensions Policy Institute[1]. According to the report, the state pension is a major component of their retirement income for all savers, except for those who have been able to make their own pension arrangements.

The state pension entitlement is currently £164.35 per week, but only for those who have a complete record of National Insurance contributions, meaning that some people receive less. Many people are surprised to learn that the average state pension is only just over £7,000 a year, which equates to less than half the annual salary of a full-time working adult on the minimum wage of £7.83 per hour. On top of that, the government announced last July that the state pension age would be increased to 68 between 2037 and 2039.

Planning ahead

We'd all like to enjoy a comfortable retirement, but unfortunately many people rely just on their state pension, and don't realise until they reach retirement age that this isn't a generous amount of money to live on. Increasingly, it's up to all of us to think about our retirement as early as possible during our working lives and make adequate provision for our later years.

Whatever stage of your working life you've reached there are various steps you can take. The longer you have before retirement, the more time you'll have to boost your pension pot. If you're employed, and haven't joined your workplace scheme, you should think about doing so. By the end of 2018, all employers will have to provide a pension that they, as well as you, contribute to. If you're already a member of a scheme, you could consider increasing your contributions to improve your pension outlook, or take out a personal pension plan.

It pays to make time to check up on how much pension entitlement you'll receive. If there's likely to be a shortfall in your savings, the earlier you spot it, the easier it should be to fix.

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[1]Pensions Policy Institute, 2018

Inheritance Tax – know your numbers

IHT is a tax payable on money, savings or any other assets in your estate, and potentially on some gifts you make during your lifetime. If the estate is liable for IHT, it is payable at 40% on assets above a set threshold.

The current individual threshold is £325,000, and any unused nil rate band can be passed to the surviving spouse or civil partner on death. In addition, there's a residential nil rate band that applies (£125,000 in tax year 2018–19 rising to £175,000 in April 2020) if you want to pass your main residence to a direct descendant, like a child or grandchild.

In the 2016–17 tax year, HMRC raised a hefty £4.84bn in IHT, brought about largely by rising property and prices that are seeing more and more families drawn into the tax net, despite doing nothing more than owning their own home.

Give money away

To reduce the amount of IHT payable, families can consider giving assets away during their lifetime. Such gifts are called 'potentially exempt transfers'. For these gifts not to be counted as part of your estate on your death, you must outlive the gift by seven years. If you die within seven years and the gift was in excess of the nil rate band, taper relief applies, reducing the tax payable, the longer you survive.

Make gifts that are exempt from IHT

Each financial year you can make gifts of up to £3,000 (in total, not per recipient) and you can carry any unused allowance over to the next year, which means you could give away up to £6,000. Gifts of £250 per recipient per tax year to any number of people are exempt.

Weddings are another opportunity to make tax-free gifts. Each parent of a bride or groom can give up to £5,000; grandparents or other relatives can give up to £2,500 and any well-wisher can give £1,000.

Changes may lie ahead

Many families will be encouraged to hear that the Chancellor, Philip Hammond, has written to the Office of Tax Simplification (OTS) asking them to put forward proposals for the reform of IHT "to ensure that the system is fit for purpose and makes the experience of those who interact with it as smooth as possible."

His letter asked the OTS to look at the technical and administrative aspects of IHT and the process of submitting returns and paying the tax. He also called for a review of the issues surrounding estate planning, and whether the current framework causes 'distortions' to taxpayers' decisions regarding investments and transfers.

Take professional advice

These days, many more estates are likely to be subject to IHT, so taking expert advice could save your beneficiaries substantial amounts of tax.

Information is based on our understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from, taxation are subject to change. Tax treatment is based on individual circumstances and may be subject to change in the future.

Your children and money – where to start?

Children today are growing up in a world where the money landscape is dominated by financial issues such as austerity and cut backs, the struggles of home buyers to find affordable housing, and the proliferation of online financial frauds and scams. Against that background, parents can help children by teaching them how to save for the future, budget, and guard their financial and personal information when using the web.

Financial literacy isn't something we're born with. Learning how to manage money effectively requires acquiring a few important life lessons that parents can share with their children from a young age.

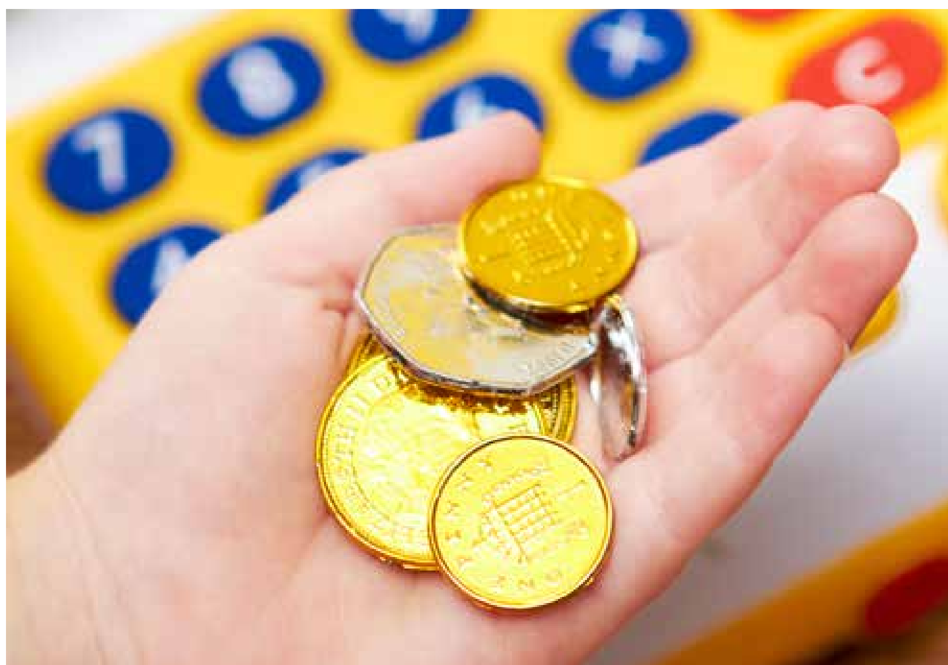
Getting the savings habit

Getting children used to money by earning their pocket money will help them recognise its value. Parents can explain to young children how, by putting aside some of their pocket money on a regular basis, they'll be able to save enough money to buy a new toy or book with their own money.

Understanding what budgeting means

By the time they're ready to leave home, teenagers need to know how to handle their money responsibly. They'll need to understand how credit cards work, and how interest and charges are calculated, and how they can mount up if the balance on the card isn't cleared each month.

When it comes to borrowing money, they'll need to be aware that there are many different types of loan available and that it's important to understand how to compare charges and interest rates, and shop around for the most appropriate and cost-effective deal.



It's also worth explaining to older children the value of having a good credit score, and how this can improve their financial chances when the time comes to enter into life's major transactions such as applying for their first mortgage.

Learning to save

Junior Individual Savings Accounts (JISAs) are a good way for children to learn about the benefits of accumulating money for the future, and develop good savings habits that will stand them in good stead throughout their lives. Your child can have a cash JISA, or a stocks and shares JISA, or a mixture of the two.

The advantage of a JISA is that they are tax-free, and once the account has been opened by the parent or guardian, anyone can make contributions, including grandparents, friends and family. The savings limit for the 2018–19 tax year is £4,260 per child.

Children gain control of their JISA at age 16, but the money cannot be withdrawn until they are 18. At that point, the account is automatically rolled over into an adult ISA, a valuable facility for teenagers who want to continue saving or investing tax-efficiently.

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

Financial literacy isn't something we're born with. Learning how to manage money effectively requires acquiring a few important life lessons that parents can share with their children from a young age.

Tax-free savings for individuals

2018 – 2019

ISA Allowance

£20,000

Junior ISA allowance

£4,260

Lifetime ISA

£4,000

(counts against £20,000 ISA Allowance)

Help to Buy ISA

£2,400

(monthly contributions of £200*)

*Up to an additional £1,000 in first month when account is opened

Why diversification matters

Diversification is the process of spreading your money around different types of investments, so that your exposure to any one of them is limited. Allocating your money around the different asset classes, including cash, equities, bonds and property – helps reduce your exposure to risk and volatility.

The goal of a diversified strategy is not necessarily all about boosting performance, but once you've established the level of investment risk that you're comfortable with, based on your chosen investment goals and time horizon, diversification has the potential to improve returns for your preferred level of risk.

The theory behind a mix of assets

It tends to be the case that the value of different assets moves independently and for different reasons. In broad terms, the performance of equities is affected by the results and prospects of the company and the economy, bonds are influenced in part by interest rates, whilst property values are more closely aligned with economic performance.

You can further diversify by sector, and you'll find that many managed funds will have a wide spread of differing industry types in their portfolios for this reason. Geographic spread helps too, and means that you're not just affected by the economic conditions applying in one country; exchange rate fluctuations, positive or negative, may also come into play.

The benefits of a diversified approach

If one investment in your portfolio performs poorly over a certain period of time, other investments you hold may perform better over the same period, reducing the potential losses that could have arisen if you'd concentrated your capital in one type of investment. Low correlation of assets is desirable. If they were highly correlated they would move in the same way.

Not all investors are in the accumulation phase of life, some are close to or in retirement and diversification can help protect their savings. Investments don't always perform as expected, so if you're taking an income from your portfolio, by holding a spread of investments you're not relying on just one investment to provide it.

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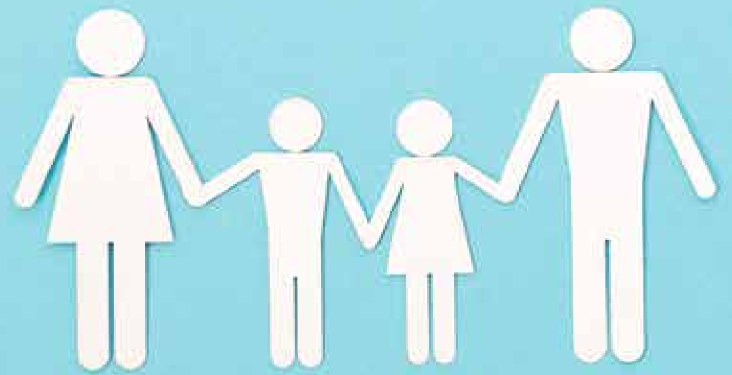
FEELING POSITIVE ABOUT YOUR PERSONAL FINANCES? YOU'RE NOT ALONE

Despite concerns about major issues such as Brexit, a poll carried out by Opinium[1] in January found that more Britons report feeling positive about their personal finances than they did last year. The survey found that workers think that their disposable incomes will increase by 3% on average, from £349 a month to £360 a month.

When asked about their spending priorities for the coming year, the list includes holidays (39%), house renovations (16%), and paying down personal debt (14%). However, savings figured too, with respondents expecting to save more at an average of £221 per month, up 13% on last year.

If you're looking for a home for your savings, an ISA is a simple, tax-free way to save or invest. The advantage of these types of account is that you don't pay tax on the interest or dividends you earn, or the increase in value of your investments. There are several different types of ISA available, designed to help you save for the important things in life like family trips, a deposit for a home, or for your retirement years.

[1]Opinium, 2018



Protection and the gig economy

Nowadays, more and more people work on a freelance or short-term contract basis, as opposed to having more traditional permanent jobs and they are often classed as self-employed. There are over 4.8m self-employed workers in the UK, according to figures from the Office for National Statistics.

The self-employed in the gig economy often miss out on valuable benefits available to employees, such as death-in-service payments or sick pay. This means that they should seriously consider putting in place policies like life insurance, critical illness cover and income protection.

Making good choices

According to research from a major insurer[1], whilst almost 80% of the self-employed consider that a mobile phone is essential, only 40% see life cover as essential. Sadly, this means that if the unexpected were to happen, then many families wouldn't have a payout from a policy to fall back on, and could face real financial hardship.

Coping with a long-term illness or injury can be stressful enough without the added pressure of money worries. Taking out an income protection plan offers peace of mind and security for your family. Many people believe that the state will provide for them if they can't work, or worse still were to die. However, the benefits that exist represent no more than a safety net.

How income protection can help

Whilst employees can claim statutory sick pay of £92.05 per week (2018–19) for up to 28 weeks, the self-employed

The self-employed in the gig economy often miss out on valuable benefits available to employees, such as death-in-service payments or sick pay.

have to rely on the Employment and Support Allowance which is means tested. The maximum payable to those aged 25 or over during the assessment period, the first 13 weeks of their claim, is £73.10 a week.

By contrast a self-employed worker could take out an income protection policy that could provide between 50% and 70% of their gross income tax-free. Policies pay out after a deferred period, typically between four and 52 weeks, and can continue until you return to work or the policy term comes to an end.

[1]Scottish Widows, 2016

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.

Gender pay gap – women should consider their pensions

The recent revelations about equal pay at the BBC have highlighted the ongoing gender pay gap that exists across the UK. Although steps are being taken to tackle the problem, women face an earnings gap as a result of career breaks, lower rates of pay and the responsibility and cost of childcare.

Women who take maternity leave may end up earning less in the long run, whether missing out on promotion opportunities, or returning to work on a part-time or flexible basis. With the high cost of childcare, some mothers can find that it doesn't make financial sense for them to return to work full-time or at all.

It's never too early to save

All this can mean that women can miss out on saving for a pension. However, it's important to remember that starting to save for retirement as early as possible is crucial, even if you can only afford relatively small amounts to start with. Saving regularly will give your money the time it needs to grow, and with the interest or dividends earned being reinvested, you'll benefit from the compounding effect that will help your money grow.

The government's auto-enrolment pension initiative is getting more and more workers saving for retirement, and by the end of this year, all employers will need to have a scheme in place. Women who are members of a work-based pension scheme should consider upping their contributions to provide a better outcome at retirement.

Women can also consider setting up a personal pension plan, and for those who want more control over their pension pot and how it's invested, then there's the option of a Self-invested Personal Pension Plan.

Taking action

We all need to be realistic about the state pension. Getting a forecast of how much it will be and when it becomes payable is a good first step in assessing what you'll have to live on. We can help you put plans in place for the future.

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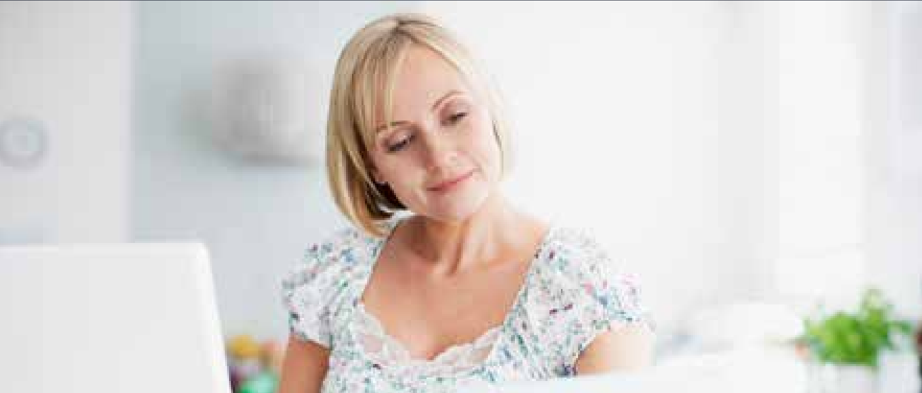
Personal finance hacks we should all follow



Being good with money isn't just about making ends meet. Knowing how to make good financial decisions can make a big difference when it comes to buying your first property, getting married, raising a family and enjoying a comfortable retirement.

Learning some financial basics means you won't miss out on tax breaks on savings accounts or pension contributions – valuable information that could make a big difference to your finances later in life.

Track where your money goes

Learning how to budget will stand you in good stead when you apply for a mortgage. Lenders operate stricter criteria these days, and before they lend, they will want to know where your money goes, how much you save, and if you can comfortably afford monthly mortgage payments. Drawing up a budget now will help you keep an eye on where your money gets spent. That way, you'll know how much your morning coffee costs you each month. The more you have as a deposit, the better rate you're likely to get on your mortgage.

Have an emergency fund

We all need an emergency fund to fall back on. If you can get into the habit of saving money each month, and making this a non-negotiable commitment, then the sooner you'll have a financial buffer against life's financial ups and downs.

Keep an eye on your credit cards

Credit cards can sabotage your budget and be your worst enemy. Resist the urge to use your credit card for purchases you can't afford, especially on items you don't really need.

Retirement planning from day one

Although it may seem decades away, whatever you do, you should start saving for your retirement as soon as you can. The younger you start saving into a pension, the better the chance you have of accumulating a reasonable pension pot when you retire. Put simply, the later you leave it, the more your pension will cost you.

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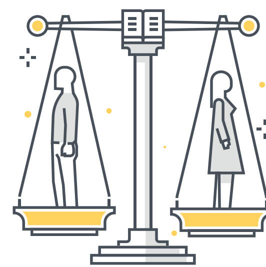
Nearly 16 million don't have contents insurance – are you one of them?

Having a home contents insurance policy in place protects your personal possessions should disaster strike. So, if you're a victim of an unpleasant incident such as a burglary, leaking pipe or a devastating fire, having a policy in place means there would be a payout to help put things right.

However, recent figures from the Financial Inclusion Commission (FIC) show that almost 16 million adults in the UK don't have any insurance in place to protect their personal possessions.

With the average value of contents in a three-bedroom family home estimated at £55,000, it's important to be fully insured at all times. The November 2017 FIC report shows that 1.2 million successful claims were made on household buildings and contents cover in 2016, with an average payment of just over £2,500 being made. For households who aren't protected by insurance, finding this amount of cash to replace lost, stolen or damaged possessions would put a strain on their finances. Home insurance brings valuable peace of mind to millions of families, so don't run the risk of being uninsured.



Finances on divorce – planning for a new life

There are no hard and fast rules governing how assets should be divided on divorce, although there is a broad starting point of 50:50. If the divorcing couple are unable to come to an agreement on the division of their financial assets, the court will decide how these should be apportioned between them – based on factors such as their age, earnings ability, property and money, and role in the relationship (e.g. breadwinner or primary carer). The needs of any children of the marriage are always paramount.

The marital home

One spouse can buy the other out and keep the house, or the property could be sold and the proceeds divided. If there are children, a parent will often want to remain there with them; in which case, any existing mortgage arrangements will need to be reviewed, especially as the other partner may wish to buy their own property. It's worth exploring all the options, especially if both parties intend to purchase a property after the divorce.

Pensions

A pension doesn't belong solely to the party named on the policy, and has to be part of the division of assets. It can be apportioned in various ways, including offsetting the value of one spouse's fund by transferring a lump sum, or other assets, to the other spouse or splitting the pension fund into two separate pensions.

Life policies

A decision will need to be reached on whether policies should be surrendered or retained. If they are retained, the name on the policy may need to be altered and the beneficiaries of any life cover may need to be changed. If maintenance is payable and funded from the income of one party, it may be appropriate to take out life insurance in case they die, or become incapacitated and are unable to continue to make payments.

Planning for the future

Post-divorce, it makes sense to get financial advice on your revised circumstances. You should consider your financial goals and review your mortgage, life insurance, savings and investment plans. You will also need to rewrite your Will – this is essential.

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Are baby boomers spending their kids' inheritance?

Well, some perhaps are, but according to recent research carried out by the Resolution Foundation[1], today's millennials are likely to receive the biggest inheritance boom in decades.

Will it come in time?

The analysis finds that the large sums of wealth accumulated by older generations will provide a major boost to younger generations' wealth and living standards in years to come. Inheritances are set to more than double over the next two decades and peak in 2035, as the well-off baby boomers currently holding more than half of Britain's wealth progress through old age.

Booming property wealth

Fast-rising home ownership rates for the generations born before and after the war also mean that, as well as bigger total inheritances each year, a greater share of young people today are likely to benefit from inheritances than did in the past. Almost two-thirds of young adults (20-35 year olds) have parents who own property, which they might expect to receive a share of in future. By contrast, only 38% of adults born in the 1930s received an inheritance.

However, the Foundation noted that while inheritances and gifts have a large and important role to play in boosting the wealth of younger generations, they are not a silver bullet for addressing their much lower home ownership rates and ability to save for their futures.

The report points out that those who can expect a share of parental property wealth are likely to inherit it too late in life to be able to rely on it to support them in their expensive family-raising years. On average, the Foundation expects millennials will have to wait until age 61 to receive their inheritance.

If you'd like to discuss how to plan your finances in a tax-efficient way so that you enjoy your later years whilst helping family members get a good start in life, do get in touch.

[1]Resolution Foundation, 2017

Reality bites as return expectations normalise

Last year was a remarkable one for investors. Markets shrugged off rising interest rates, political events, faltering Brexit negotiations and much more besides to end the year on an upbeat note, with strong growth sending equity prices higher. This momentum carried on into the New Year, with strong gains seeing equity indices around the world soar. This run was halted at the end of January and the market subsequently witnessed a correction with indices retreating from record highs.

The generosity of returns seen in previous years is unlikely to replicate in 2018. Although many predict further growth in equity markets, they do caution that returns over the next few years are likely to be less rewarding. So the overriding message is – if you've become used to double-digit returns on your portfolio over the last decade or so, now is perhaps the right time to temper your return expectations somewhat.

Steady as she goes?

Macroeconomic conditions around the world seem to have improved in recent months. The second half of 2017 saw a pick-up in the pace of global economic growth. This improvement in economic prospects is reflected in the latest forecasts published by the International Monetary Fund (IMF) which suggest that economic activity continues to strengthen across the world. With stronger economic growth comes the prospect of higher interest rates and inflation. The expectation that monetary policy is set to be tightened at a quicker pace and to a greater extent than previously envisaged has begun to weigh on market sentiment.

Long-term game plan

Stock market performance is unpredictable and investing is all about adopting a longer-term view, diversifying risk and allowing your money time to grow. Even though political and economic concerns exist, so too do investment opportunities. The value of financial advice includes clearly outlining your financial objectives and identifying investment opportunities, with the aim of enhancing returns in line with your attitude to risk. We aim to manage the inherent volatility of markets, so your savings have the best chance of growing for the future – without giving you sleepless nights in the process and whilst ensuring you aren't taking too much, or too little, risk with your money.

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

YOUR CREDIT SCORE EXPLAINED

Your credit score can be particularly important when you apply for things like a credit card, a loan or a mortgage. There are three main credit reference agencies, Equifax, Experian and CallCredit and they all collect information about you which lenders access when considering your application.

Credit reference agencies gather information from sources such as banks, retailers and credit card companies. This includes personal details about you, information about your financial links to other people, whether you are on the electoral roll, the credit accounts that you have, and any payments you have missed or failed to pay. This provides the data that lenders use when assessing whether to lend money to you. So, your credit score represents how a lender views your creditworthiness and is a measure of how likely you are to repay what you borrow.

A higher score usually means you are seen as a lower risk; the more points you score the better the chances that you'll get credit at better rates. How your credit score is regarded can differ from one lender to another as their borrower assessment criteria may vary.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. 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. No part of this document may be reproduced in any manner without prior permission. 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. Information is based on our understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from, taxation are subject to change. Tax treatment is based on individual circumstances and may be subject to change in the future.