Financial Planning Advice

Q: How can I organise my financial affairs?

A: This will depend on what stage of life you are currently at, maybe you want to make a will to ensure your children will be looked after if you were to die and start thinking about saving for higher education or a home for your children. Alternatively, you may be looking at limiting your inheritance tax and planning for your retirement.

We also offer types of protection such as life and critical illness.

Retirement Planning

It has never been more important that you have adequate pension provision. Nowadays we are living longer, expecting more of our retirement and can no longer rely on the state pension to support us once we stop working. The first step is to review your finances to ensure your income in retirement will enable you to enjoy the lifestyle you want and have worked so hard for.

Personal financial planning enables you to look objectively at your finances and devise a strategy that helps you meet your goals. It puts you in charge of your money and gives you a better chance of achieving your objectives. Our advisers can guide you through this process, so you feel more in control of your money and your plans. We will:

- Agree and prioritise your objectives
- Analyse your current investments
- Anticipate some of the events that might arise
- Agree an action plan

Making a Will

It is imperative to make a will if you have assets such as a house and/or you have people who you want to be looked after following your death. It is possible to write your own will if straightforward however you should get legal advice if this is not the case, such as having children from another partner or if you are an unmarried couple.

If you die intestate (without a will) there are strict laws about to whom and how your estate is allocated. This causes two problems. First, the money may not go where you want, and secondly, it's likely to be inefficient for inheritance tax purposes.

The legal situation is you pay 40% of any assets worth over £325,000 that you leave, so those with valuable houses or larger estates could pay a considerable amount. However, there are many legal ways you can plan to lessen this.

Individuals with direct descendants now also have an additional residence nil-rate band (RNRB) on top of the £325,000 when a residence is passed on death to a direct descendant.

This will be:

- £100,000 in 2017 to 2018
- £125,000 in 2018 to 2019
- £150,000 in 2019 to 2020
- £175,000 in 2020 to 2021

This increases in line with Consumer Prices Index (CPI) from 2021 to 2022 onwards. Any unused nil-rate band will be able to be transferred to a surviving spouse or civil partner.

The additional nil-rate band will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil-rate band, are passed on death to direct descendants.

The maximum RNRB is subject to tapered withdrawal if your estate exceeds £2m. This will be at a withdrawal rate of £1 for every £2 over the threshold. In effect, this means that the relief is unavailable once the net estate exceeds £2.35m.

The existing nil-rate band will remain at £325,000 from 2018 to 2019 until the end of 2020 to 2021.

Wealth Management

Wealth management in its simplest terms is the science of solving or enhancing your financial situation.

As wealth managers we can advise on a full range of services and products in a consultative way.

It is imperative that we meet you to understand your aims and what's important to you in order to deliver a bespoke service.

Once your objectives have been discussed we can then advise on the appropriate financial vehicles for higher investment returns.

Savings & Investment Protection

We have all worked hard to accumulate our assets and the decision to invest should not be taken lightly. The reasons to invest can vary greatly but for many people it can come down to simply wishing to maximise returns or help defend against inflation.

The most important question to ask yourself when investing is the level of risk you would be happy to accept or not. We would carry out risk questionnaires to establish this. Maybe you are looking to invest for further income, whether you are looking for a long or short-term investment we can assist and advise you with these important decisions.

Depending on the above factors we will help determine the right investment for you which could include investment bonds, NISA's, stocks and shares, unit trusts and many more.

Trusts

A trust is a legal arrangement which allows for the transfer of property or assets to a middle man, who then holds it for the benefit of a third party.

There are 3 distinct legal persons when a trust is set up:

1. the settlor is the individual who owns the assets and wants to place them in the trust
2. the trustee is the person or organisation that manages the assets placed into the trust by the settlor
3. the beneficiary is the person who is going to benefit from the trust when they receive the assets or income from the assets.

Assets such as money, insurance policies, land and property can be placed into trust. The settlor initiates the relationship between the 3 individuals by making a declaration of trust, which can be an "expression of wishes" or a more formal deed, which establishes who they want the trustee or trustees to be, what the assets of the trust are, and who the beneficiaries of the trust are.

The trustee can be anyone (as long as they are an adult) that the settlor chooses, from friends and family to financial advisers and professional trustees, even the beneficiary themselves, although this could present a conflict of interest. It is also quite common for a settlor to act as the trustee themselves.

Trusts are not solely related to death and are often used and set up outside of wills. Beneficiaries can receive their assets immediately after the trust term or purpose ends (usually with the death of the settlor or when the beneficiary reaches a certain age) without the long probate process. Trusts are private and unlike wills, the ongoing management of a trust does not generate a public record.

Trusts also allow the settlor to:

- transfer assets in a tax-efficient way
- protect children who are too young to handle their own affairs
- protect people who can't handle their affairs because they do not have the capacity to do so
- allow income and capital to be used in a planned, protected way
- protect their estate, particularly with regards to inheritance tax planning.

Types of trusts:

Discretionary trusts. The trustees are the legal owners of the assets and are responsible for administering the trust. They can use their discretion, within the range of powers set out in the trust deed, about how to use the trust's income or how to distribute the capital. This type of trust is useful for Trustees have a degree of flexibility to use the assets in a way that will benefit each beneficiary the most. Examples include paying for school fees when children are young, or a deposit for a house when they are older or paying for care for a sibling that needs more support than others.

Accumulation and maintenance trusts. The trustees are allowed to accumulate income within the trust and add it to the trust capital, or can use their discretion to make maintenance payments to a beneficiary. These type of trusts are useful for keeping capital and growth intact until a beneficiary comes of age or otherwise becomes legally entitled to the trust assets, or for paying for maintenance costs (e.g. education) for a child until they come of age.

Interest in possession trusts. The trustees pass on the income from the trust to the beneficiary as it arises for the beneficiary's lifetime, but not the capital, which passes to another named individual known as the 'remainderman'. These types of trusts are useful for providing a lifetime income for a beneficiary whilst keeping the assets out of their estate.

Bare trusts. Assets in a bare trust, sometimes called a simple trust, are held in the name of a trustee. However, the beneficiary has the right to all of the capital and income of the trust at any time if they're 18 or over (in England and Wales), or 16 or over (in Scotland). These types of trusts are useful for keeping assets and income safe until children or grandchildren reach the above ages. In some circumstances, they can also be used to reduce inheritance tax for the full amount, as long as the person making the transfer survives for 7 years after making the transfer.

Other types of trust include:

- settlor-interested trusts
- mixed trusts
- parental trusts for children
- non-resident trusts
- trusts for vulnerable people.

Lifetime trusts. While most trusts can be set up while the settlor is still alive, there is another type which is specially designed for those who want to make use of their assets while they are alive.

These lifetime trusts, also known as property protection trusts or asset protection trusts, are designed to allow you to gift your home to the trust, so you effectively don't own it anymore, which takes it out of your estate, but you remain living in it. However, it is possible that this type of trust can be viewed by local authorities as deliberate deprivation of assets (reducing assets in order to lower the amount a person will be charged for care and support), and they may refuse the fund care home fees as a result.

Anyone who has life insurance should consider getting their policy 'written in trust'. The benefit of this is twofold: any pay-out is paid directly to beneficiaries, rather than included in the estate, which may affect the tax due, and secondly, the payout won't normally have to go through probate, so your beneficiaries won't have to wait so long before they receive the money.

Long Term Care Planning

The aim is to maximise your income for meeting care costs whilst, as far as possible, preserving your original capital.

Options to Long Term Care Planning

1. Immediate needs annuity works

An immediate needs annuity is designed to cover the shortfall between your income and the cost of your care for the rest of your life. The price of a plan is based on how much income you need and the insurance company's assessment of how long you're likely to need it for.

How much you pay upfront will depend on:

- Your age
- Current annuity rates
- The level of income you need

Your health and life expectancy (the poorer your health or shorter your life expectancy, the cheaper the plan will be)

The income from the plan is tax free if it is paid directly to the care provider.

If you're worried about future fee price increases, you can build the cost of covering them into your care plan.

For an extra cost, you can also put in a 'capital protection' clause. This allows your family to get some of the lump sum payment back if you were to die early

2. Downsizing

Selling your existing home and buying a smaller, less expensive one instead could free up money to pay for your care costs.

It could also provide you with the opportunity to live somewhere that might better cater for your needs now and in the future.

Apart from a smaller house you could consider other options, for example a bungalow, retirement property or sheltered and extra care housing.

3. Equity Release

It is important to always get financial advice before committing to an equity release scheme. Your individual circumstances need to be assessed and this is why financial advice is a must in the process and a regulatory requirement. An adviser will explain what is involved, discuss the options and alternatives available to you and any implications regarding state benefits, local authority support and tax obligations.

4. Investment bonds

These are medium- to long-term investments that are designed to produce capital growth. Depending on the size of your investment, the returns could also be used to provide a regular income to pay for care fees.

Powers of Attorney

A lasting power of attorney is a legal document which gives someone the control to make decisions for you.

This someone is usually a relative or someone whom you trust completely.

There are two types of powers of attorney:

- Health & Welfare – the attorney would make decisions regarding your personal welfare such as medical care or moving into a care home
- Property & Financial affairs – the attorney would make decisions regarding your money and property such as paying bills, collecting your pension or selling your home

Having a lasting power of attorney in place may give you the peace of mind knowing that someone is always acting in your best interests.

Inheritance Tax Planning

If your assets, including your home, are worth £325,000 or over, you should consider planning for inheritance tax. Although changes in legislation have helped remove many families from the IHT bracket.

It makes little sense to save throughout your life to then pay nearly half to the tax man. The current allowance is that no inheritance tax is charged on the first £325,000 (per person) of their estate, above this figure the tax charge is 40%. However, there are certain actions you can take throughout your life to plan for this such as putting assets into a trust or gifting your assets.

With the recent introduction of the residence nil rate band, in 2020, the tax-free amount will rise to £1 million for couples (made up of £325,000 nil rate band x 2 plus £175,000 residence nil rate band x 2) and £500,000 for singles (made up of £325,000 plus £175,000), as the main residence allowance rises. On properties worth between £1 million and £2 million, inheritance tax will be paid as normal on the amount above the tax-free amount. On properties worth £2 million or more, homeowners will lose £1 of the 'main residence' allowance for every £2 of value above £2 million. So for a couple, properties worth £2,350,000 or more will get no additional allowance.

Options for reducing your inheritance tax:

1. Make a gift to your partner

If you're married or in a civil partnership, you can give anything you own to your spouse or civil partner (unless your spouse was born outside the UK, in which case the amount you can give away might be limited) The rules are very complicated so make sure you take advice before doing anything. Married couples and civil partners are allowed to pass their estate to their spouse tax-free when they die

2. Give to family members or friends

You can gift assets to family members or friends, however you must gift the asset outright, so that you have no benefit to it and survive 7 years for the asset to be completely out of your estate.

You also have an exemption of up to £3,000 a year and you can give away money to your children and grandchildren when they get married.

3. Put things into a trust

If you put some of your assets into a trust, which you, your spouse and none of your children under 18 years can benefit from, they're no longer part of your estate for Inheritance Tax purposes.

Some types of trusts are subject to their own tax regimes and the trust might have to pay Inheritance Tax themselves.

Also, trustees are likely to be liable for Income Tax at a rate of 45% and capital gains tax at 28%.

The rules around trusts are complicated so you must take advice from an expert.

4. Leave something to charity

Anything you leave to charity is free of Inheritance Tax so it can be a useful way of reducing your Inheritance Tax bill, while benefiting a good cause. If you leave at least 10% of your estate to charity,

it will cut how much Inheritance Tax is due on the rest. The rate at which Inheritance Tax is calculated is 36% rather than 40%.

5. Take out some life insurance

If you take out a life insurance policy, it won't reduce the amount of Inheritance Tax due on your estate. However, the payout might make it easier for your surviving family to pay the bill. It could mean that they are able to prevent the family home from being sold. It is important that the life cover is written within a trust.

Family Financial Planning

As much as raising a family is rewarding it can prove to be demanding and financially stressful. There will be many financial commitments on parents however with our help it's very achievable to balance your family's short- and long-term financial goals. We can help with areas such as junior ISA's, trusts, saving for university etc.

Once we have recommended several financial options we will continue to monitor and make changes as we understand family life can be changeable and we can then act accordingly.

Planning Your Children's Future

Financing Higher Education

The good news is that you have up to 18 years during which to save a university nest egg. The bad news is that some experts claim that nothing less than a pot of £60,000 will be enough to see a child through higher education.

The better the interest rate or return you earn, the less you will need to put away per month. If you saved £170 per month over 18 years with an annual return of 5% on your savings, you would generate a pot of around £60,000 (before any costs or tax). The same monthly investment at an annual rate of return of 6% would result in a pot of £66,000 after 18 years.

But £170 per month is an unrealistic sum for many families. Monthly savings of £25 at an annual rate of return of 5% would generate around £8,700 after 18 years.

Investment experts claim that if anyone is looking to save for 10 years or more, they should consider a stock market-based investment of some sort. These have historically produced better returns over longer periods than high-street bank or building society savings accounts.

Children's Savings

A junior ISA is a tax-free way to save for your child. You must be under 18 to have a junior ISA. You can convert child trust funds to junior ISAs. The maximum you can put in each year is currently £4,260 (tax year 2018/19).

Helping Children Buy Homes

Although there have been a few changes in legislation such as the exemption on stamp duty for properties up to £300,000 and the Lifetime ISA many parents and grandparents wish to help their children or grandchildren get on the property ladder. You may want to gift a deposit which will also reduce your IHT. The most important thing to remember is to ensure that you can comfortably afford to help your children buy a property...

The Lifetime ISA allows savers aged 18-39 to stash away up to £4,000 a year and bag a 25% top-up from the Government. The money must be withdrawn for a buyer's first house, up to the value of £450,000. It can also be used for retirement. If the cash is used for something else, you'll be charged a 25% penalty fee.

School Fee Planning

Private school fees continue to rise much faster than inflation or average earnings, making it more important than ever for parents considering taking this route to plan ahead.

The cost of sending children to private school has increased by more than a fifth over the past five years, according to new research from Lloyds Bank. Average annual day school fees now stand at £13,000, equivalent to around 39% of earnings for parents on an average UK salary of £35,148.

The total cost of a private school education from reception to year 13 costs an average of nearly £153,000. Costs are highest for parents living in the capital, where average private school fees from reception to the age of 18 is £176,301. Parents in the North pay the lowest school fees, totalling an average of £123,447, around £53,000 less than in London.

Despite soaring costs, according to the Independent Schools Council (ISC) there are a record number of pupils at private school. Nearly 523,000 pupils currently attend 1,301 ISC member schools, the highest level since records began in 1974.

Given paltry savings returns in today's low interest rate environment, parents who are willing to accept a level of risk may want to consider investing in stocks and shares rather than cash, as over long-term periods, historically returns from equities have far outperformed cash.

However, it's important to remember that past performance should not be seen as a guide to the future, and there are no guarantees that this pattern will continue. Choosing which funds to invest in isn't always easy, so if you're unsure, seek professional advice on the options which are likely to work best for you. Remember too that tax rules could change in the future and the value of any favourable tax treatment to you will depend on your individual circumstances.

Family Inheritance

Coming into money is not something that happens often but it does happen. You could win the lottery, a wealthy aunt could pass away and leave you with a generous cash sum in inheritance, you could be recipient of a larger than expected work bonus or you earn some money from the sale of a company.

Before you commit yourself to spending, investing, giving gifts or even giving up your job, it makes sense to take some time to consider your financial situation and your options. Remember, long-term financial planning starts with knowing where you stand with your money. So here are some tips on making your windfall work for you in the long run.

Make a plan

The shock of a sudden windfall can set off a litany of irrational behaviours, such as giving all the money away, becoming a recluse, spending the money lavishly, or hiding or hoarding the money.

First, stop, take a deep breath and picture how you would like your life to look in five, ten, and maybe even 20 or 30 years. Where are you living? Are you retired? Travelling the world? Still working, but with less financial stress? Jot down your visions so you can keep that picture clear.

Setting some goals drives your decisions about what to do with your windfall. With a direction in mind, you can plan more effectively. Consider working with an expert; whether that's a financial adviser, accountant or tax expert. You want the right type of professional for your situation. Depending on the size or complexity of your windfall, you may even need a team of experts.

Pay off debts and possibly your mortgage

The interest rate on your credit card is likely to be significantly higher than anything you earn in a savings account or by investing that money instead. You may not want to pay off all your debts with your windfall, but if you can it's important to deal with any high interest debt.

Making an extra mortgage payment or two will mean you end up paying less interest in the long run. However bear in mind that once you have used your capital, you will no longer have access to this money. If the interest rate on your mortgage is very low, you might be better off investing the money for capital growth instead.

It is very important that you check the terms of your mortgage before you make a large overpayment. Many providers will charge you for early repayments.

Bulk up your emergency fund

Before you start investing, it is important to establish a rainy day fund in an easy access savings account to cover emergencies or unexpected costs. You'll thank yourself if you unexpectedly experience a job loss or health setback.

As a generally accepted rule of thumb, aim to build up your rainy day savings to the equivalent of one of the following:

- Three months' income, or
- Three to six months' household expenses

The exact amount you need depends on what your needs and financial responsibilities are.

Think about your children

It is not hard to be fearful for youngsters today. Governments will be increasingly stretched, final salary pension schemes are already difficult to find and the property market is getting ever further out of reach.

Even with a relatively modest windfall it is possible to leave a legacy for a young person. Junior Isa's are a good choice if you would like to fund university costs because they allow access at age 18. If you would like to help with a deposit for a first property then the new Lifetime Isa might be more suitable – but beware, there is not much flexibility with this product. If you are thinking about giving away bigger sums you can use a discretionary trust to retain some control over the money. Giving 18 year olds access to large sums of money is not always wise.

Do not leave it all in the bank

Once you have a rainy day fund, start saving for the future by putting your money to work. The stock market offers the best chance of protecting your wealth from inflation, albeit with some level of risk.

In the current market environment bank savings rates (e.g. rates on cash Isa's) are significantly lower than inflation. You can make the comparison yourself online by visiting the Office of National Statistics' website and comparing the Consumer Price Index with the deals offered by your bank.

With rates as they currently stand, money left in the bank will steadily lose value (in real terms) over time.

Use your tax-efficient ISA allowance

If you are lucky enough to have a significant windfall, start by putting the maximum £20,000 inside this year's Isa allowance. This can be cash, stocks and shares, the new Lifetime Isa, the Innovative Finance Isa or a mixture of them all. Invest at the beginning of each tax year (6 April) to get the maximum benefit. You can continue to add to your Isa each year, using your new Isa allowance.

Invest in a pension

Pensions have great tax benefits but those who invest in these product would not be able to access the pot until after the age of 55. Pensions also offer valuable tax benefits and have tax relief added in by the Government. If you are in danger of paying tax on your windfall then pensions are a brilliant way to claw back some of that cash.

25 per cent of your pension fund is available as a tax-free lump sum after age 55. Pension funds can also be used to pass on wealth to your chosen beneficiaries, in some cases entirely free from tax.

Invest in property

If your windfall will stretch to it, then buying a buy-to-let can be a good investment. With a sizeable windfall to put down as a deposit, arranging a mortgage should pose no problem. If you can get enough rent to cover your expenses you are effectively getting someone else to buy the property for you.

Buying property to rent out can be a good way of spending surplus cash but recent changes introduced by the government has made this mode of investing less attractive. With the availability of low-cost, interest-only mortgages, buy-to-let will remain a popular choice for many. However, recent measures introduced by the Government mean for some investors, buy-to-let will no longer deliver the returns it once did.

Rental yields may look enticing, but they are often unrealistic once you have factored in stamp duty and maintenance costs.

Buy an investment you can forget about

There are a range products on the market that you can wrap in an Isa or pension. Do not start by investing money into a single company even if you are convinced it is got great prospects. You can choose ready-made portfolios that invest in shares, bonds and other assets across a range of countries and regions – helping to dilute risk whilst improving the chances of investing in the right places.

Reduce risk by spreading out your contributions at regular intervals. A common approach might be to split the investment into four chunks which can be invested at regular intervals over between 12 and 18 months.

Whatever you do invest in though, make sure you do your research first and do not invest in anything you do not understand.

For married couples, consider joint investments. Often it is possible to arrange your individual tax allowances to minimise income and capital taxes.

Give to charity

Giving to a cause close to your heart will benefit others and probably make you feel better about yourself. Some people who come into large sums of money feel guilty about their good fortune. Helping others is a good way to avoid this. Giving to charity is also tax efficient. Donating through Gift Aid means charities can claim an extra £25 for every £100 you give. If you pay tax at 40 per cent you can claim a further £25 tax relief through your self-assessment tax return.

If you leave 10 per cent of your net estate as a charitable legacy you may qualify for a reduction in the rate of inheritance tax from 40 per cent to 36 per cent.

Do not forget to take advice

Plotting an investment strategy is not always easy or intuitive – particularly if you have never done it before. If you are thinking of investing your windfall, consider hiring a financial adviser to help you achieve your goals.

Advice is usually invaluable as the personal recommendations made are based on your circumstances and financial goals.

Protection

Although saving for life events is important, it's also imperative to have certain protection policies in place especially if you have children.

We can advise on and set up life cover, critical illness and healthcare for your family and family income benefit.

We have access to the whole of the market making sure you have the right policy for your circumstances.

Life Insurance

What is Life Insurance?

Life insurance is a type of cover which will help protect your loved ones financially if you were to die during the length of your policy. It is not a savings plan and cash would only be paid out once a claim is made. You choose the value of the cover and how long it is required and pay your premium monthly or annually. Upon death your family would receive a lump sum which would help to pay mortgage bills, household bills and childcare costs.

Do I need life insurance?

If you are the main breadwinner in the family and your family would struggle financially if you died it is imperative to have life insurance. Also, anybody who has dependents needs to consider taking out life insurance. It would also be important to have life insurance if you have debts, loans or an outstanding mortgage.

Although a simple concept there are many types of life insurance:

- Whole of life – This type covers you for the whole of your life
- Renewable Term – This gives you the option at the end of your original term to extend the term of your policy without the need for medical underwriting
- Level Term – This protects you for a fixed term for a fixed benefit

- Increasing Term – This protects you for an increasing level of benefit for an increased premium
- Decreasing Term – This protects you for a decreasing level of benefit however the premium doesn't decrease
- Convertible Term – This gives you an option to convert it to a whole of life policy at the end of the term without the need of a medical

Private Healthcare Insurance

With the ever-increasing demand on the NHS services there is a growing need for private medical insurance.

The premiums are worked out based on the age and type of cover the person requires. Private medical insurance at its most basic level starts when you need professional treatment, or you need to go into hospital. At the higher end of the market some policies include dentistry and eye care etc.

The premiums will increase as you get older and the chance of becoming ill increases. Similar to other insurance policies most health insurances require you to pay an excess, which is the amount you must pay yourself.

Critical Illness

What is critical illness?

Critical illness cover could pay out a cash lump sum if you are diagnosed with one of the specified critical illnesses such as cancer, stroke or heart attack. Each insurance company will have a specified list of the illnesses they cover.

Critical illness can be added for an additional cost when you take out life insurance.

Do I need critical illness cover?

Similar to the reasons you would take out life insurance if your partner and/or children rely on you financially it's worth considering getting covered.

The lump sum could pay for your bills for the period you won't be working. Also, it could help towards the costs of recovery such as domestic adjustments to your home.

Family Income Benefit

Family income benefit safeguards a level of income for a fixed term. In the unfortunate event of death the amount of income chosen at the start of the policy with be paid for the rest of your plan. Most plans are to protect you until your youngest child is 18 or 21.

Family income benefit differs from other types of insurance in that rather than pay a lump sum in the event of a death it will be paid as an income. This can be paid monthly, quarterly or annually and is currently tax free.

For more information on Financial Planning Advice please contact us.