PROTECT & GROW

SPRING 2020 | ISSUE 02

2020 FINANCIAL RESOLUTIONS

what does the next decade look like to you?

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UNCONVENTIONAL WISDOM

POLICIES FIT FOR ONE PERIOD ARE NOT NECESSARILY APPROPRIATE FOR ALL PERIODS

Following the Conservative Election victory in December, Dominic Cummings advertised for ‘weirdos and misfits’ to apply for jobs as government advisers. He did this to attract mavericks who could challenge the conventional wisdom. Whether Boris Johnson’s team will prove successful in transforming establishment thinking remains unproven. One thing is for sure, however: the economy is changing sufficiently to demand that our political and economic leaders develop significantly more innovative and radical policy ideas.

The one place that you rarely see a challenge to conventional wisdom is in the Bank of England – or in any other central bank. Bankers, economists and policymakers seek safety in consensus thinking, knowing that if they are wrong, they will all be wrong together.

Conventional path

In the immediate aftermath of the financial crisis, central banks did quite a good job. This is just as well, as it was central banks who were in large part responsible for the crisis in the first place. But let’s not be too churlish and give them their due. Since the crisis, central banks have continued along a very conventional path. Interest rates have remained exceptionally low (negative in real terms for most of the period), and the vast amounts of liquidity added through quantitative easing have continued to slosh around the financial system.

Despite this, growth has remained, for the most part, very sluggish, and trends in productivity have been dire. This is not peculiar to the UK – similar tendencies are evident in most developed economies.

This presents a very problematic policy conundrum: either sluggish growth has persisted for most of a decade despite the seemingly very expansive policies followed by central banks; or, and perhaps more worryingly, sluggish growth has been caused by low interest rates and quantitative easing. Both conclusions are troubling. Central banks will, of course, say, ‘You don’t know how bad things could have been had we not followed the policy course taken over the past decade.’ This is a cheap response.

Counterproductive reductions

There is likely to be a link between low interest rates and low growth. Economists like to work with straight lines. Forget all the intricacies of hugely complex econometric models; most economic thinking is guided by a fifteen-inch ruler. That is, one that is more or less the same as that which any normal person would use, but just a little bit longer. When I studied economics (just a little bit longer ago than is polite to mention), we speculated that there might be a level of interest rates below which further reductions become counterproductive. I think we are there now and have been for a long while.

Low interest rates do not stimulate value-creating capital investment. They result in capital being locked up in poor businesses for a long time. This is good for employment, but bad for productivity, growth and profits. Low interest rates take the challenge out of the economic system and allow companies to become lazy payers of dividends. Indeed, against the backdrop of low-to-negative government bond yields, many investors are demanding of companies that they do not take investment risks, but channel their cash flow into dividend payments. If investors could get 4% to 5% from government bonds, there would be more incentive for companies to pursue growth strategies to enhance returns.

Policies fit for one period are not necessarily appropriate for all periods. I would like to see the Bank of England and Her Majesty’s Treasury throw off the threadbare cloak of policy convention and think about how to create an economic environment that fosters ideas-based growth. We have the assets; what is required is the encouragement. More mavericks please…

Richard Jeffrey
Chair of Kingswood Investment Committee

WELCOME

Welcome to our first edition of *Protect and Grow* for 2020. Last year was a transformative year for Kingswood as we welcomed a number of new clients and staff to the business across the UK, including those from WFI. This year will continue this trend, and we expect to be able to share more exciting news in the next few months on new locations and services that can benefit you. At Kingswood, we want to provide you with advice that is personal, local and relevant across all aspects of your wealth and investments.

It is a New Year and a new decade and that brings with it resolutions – perhaps to quit smoking, lose weight, eat more healthily or increase your fitness. Most of us have probably made at least one New Year's resolution, but how many of us will actually go on to achieve it (or have already given up)? We all have different financial goals and aspirations in life, yet these goals can often seem out of reach. On page 04, if your New Year's resolutions include giving your financial plans an overhaul, we've provided our financial planning tips to help you create a robust financial plan for the new decade and beyond.

Also inside this issue, we feature articles covering a number of different topics. Richard Jeffrey, the Chairman of our Investment Committee discusses why it is sometimes better to go against the grain and avoid 'groupthink'. Greta Thunberg is arguably a good example of somebody doing this to force greater attention on climate change. At Kingswood, we want to play our part in having a positive impact in what we do. Dave Winckler talks about how we invest to support positive environmental change, and we will expand on this theme in future editions of *Protect & Grow*.

We strive to provide stories and articles that are informative and inspire you to look at your financial plans and the economy in a provocative way. We value your views on this issue or any aspect of being a client of Kingswood and where we can do better. We would love to hear your thoughts, so please do contact me directly or via your usual Kingswood contact.

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INSIDE THIS ISSUE

KINGSWOOD
PROTECT AND GROW YOUR WEALTH

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2020 FINANCIAL RESOLUTIONS

WHAT DOES WEALTH LOOK LIKE TO YOU?

Whether it's stopping smoking, losing weight, eating more healthily or getting fitter, most of us have probably made at least one New Year's resolution, but how many of us will actually go on to achieve it?

We all have different financial goals and aspirations in life, yet these goals can often seem out of reach. In today's complex financial environment, achieving your financial goals may not be that straightforward.

This is where financial planning is essential. Designed to help secure your financial future, a financial plan seeks to identify your financial goals, prioritise them and then outline the exact steps that you need to take to achieve your goals.

If your New Year's resolutions include giving your financial plans an overhaul, here are our financial planning tips to help you create a robust financial plan for 2020 and beyond.

Be specific about your objectives

Any goal (let alone financial) without a clear objective is nothing more than a pipe dream, and this couldn't be more true when setting financial goals.

It is often said that saving and investing is nothing more than deferred consumption. Therefore, you need to be crystal clear about why you are doing what you're doing. This could be planning for your children's education, your retirement, that dream holiday or a property purchase.

Once the objective is clear, it's important to put a monetary value to that goal and the time frame you want to achieve it by. The important point is to list all of your goal objectives, however small they may be, that you foresee in the future and put a value to them.

Keep them realistic

It's good to be an optimistic person, but being a Pollyanna is not desirable. Similarly, while it might be a good thing to keep your financial goals a bit aggressive, being overly unrealistic can definitely impact on your chances of achieving them.

It's important to keep your goals realistic, as it will help you stay the course and keep you motivated throughout your journey until you get to your destination.

Short, medium and long-term

Now you need to plan for where you want to get to, which will likely involve looking at how much you need to save and invest to achieve your goals. The approach towards achieving every financial goal will not be the same, which is why you need to divide your goals into short, medium and long-term time horizons.

As a rule of thumb, any financial goal which is due within a five-year period should be considered short-term. Medium-term goals are typically based on a five-year to ten-year time horizon, and over ten years these goals are classed as long-term.

This division of goals into short, medium and long-term will help in choosing the right savings and investments approach to help you achieve them, and it will also make them crystal clear. This will involve looking at what large purchases you expect to make, such as purchasing property or renovating your home, as well as considering the later stages of your life and when you'll eventually retire.

Always account for inflation

It's often said that inflation is taxation without legislation. Therefore, you need to account for inflation whenever you are putting a monetary value to a financial goal that is far away in the future. It's important to know the inflation rate when you're thinking about saving and investing, since it will make a big difference to whether or not you make a profit in real terms (after inflation).

In both 2008 and 2011, inflation climbed to over 5% – not good news for savers. So always account for inflation. You could use the 'Rule of 72' to determine, at a given inflation rate, how long it will take for your money to buy half of what it can buy today. The 'Rule of 72' is a method used in finance

to quickly estimate the doubling or halving time through compound interest or inflation respectively. Simply divide 72 by the number of years to get the approximate interest rate you'd need to earn for your money to double during that time.

UTILISING YOUR TAX ALLOWANCES AND RELIEFS IS AN EFFECTIVE WAY OF REDUCING YOUR TAX LIABILITY AND MAKING CONSIDERABLE SAVINGS OVER A LIFETIME.

Risk protection plays a vital role

It's best to discuss your goals with those you're closest to and make plans together so that you are well aligned. An evaluation of your assets, liabilities, incomings and outgoings will provide you with a starting point. You'll be able to see clearly how you're doing and may find areas you can improve on.

Risk protection plays a vital role in any financial plan as it helps protect you and your family from unexpected events.

Check you're using all of your tax allowances

With tax rules subject to constant change, it's essential that you regularly review your own and your family's tax affairs and plan accordingly. Tax planning affects all facets of your financial affairs. You may be worried about the impact that rises in property values are having on gifts or Inheritance Tax, how best to dispose of shares in a business, or the most efficient way to pass on your estate.

Utilising your tax allowances and reliefs is an effective way of reducing your tax liability and making considerable savings over a lifetime. When it comes to taxes, there's one certainty – you'll pay more tax than you need to unless you plan. The UK tax system is complex, and its legislation often changes. So it's more important than ever to be tax-efficient, particularly if you are in the top tax bracket, making sure you don't pay any more tax than necessary.

Creating your comprehensive financial plan

Creating and implementing a comprehensive financial plan will help you develop a clear picture of your current financial situation by reviewing your income, assets and liabilities. Other elements to consider will typically include putting in place a Will to protect your family, thinking about how your family will manage without your income should you fall ill or die prematurely, or creating a more efficient tax strategy.

Identifying your retirement freedoms options

Retirement is a time that many look forward to, where your hard-earned money should support you as you transition to the next stage of life. The number of options available at retirement has increased with changes to legislation, which has brought about pension freedoms over the years. The decisions you make regarding how you take your benefits may include tax-free cash, buying an annuity, drawing an income from your savings rather than pension fund, or a combination.

Beginning your retirement planning early gives you the best chance of making sure you have adequate funds to support your lifestyle. You may have several pension pots with different employers, as well as your own savings to withdraw from.

Monitoring and reviewing your financial plan

There is little point in setting goals and never returning to them. You should expect to make alterations as life changes. Set a formal yearly review at the very least to check you are on track to meeting your goals.

We will help you to monitor your plan, making adjustments as your goals, time frames or circumstances change. Discussing your goals with us will be highly beneficial, as we can provide an objective third-party view, as well as the expertise to help advise you with financial planning issues.

ADVICE EVERY STEP OF THE WAY

Setting goals marks the beginning of financial planning to help you achieve the objectives at various life stages. Goal-setting gives meaning and direction to the various financial decisions you will take during your lifetime. The start of a new year is the perfect time to review your financial strength, pore over your budget and make big plans for next year. To arrange a meeting, or for further information, please contact us.

Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits and is not suitable for everyone. You should seek advice to understand your options at retirement.

The plan will have no cash in value at any time and will cease at the end of the term. If premiums are not maintained, then cover will lapse.

Critical illness plans may not cover all the definitions of a critical illness. The definitions vary between product providers and will be described in the key features and policy document if you go ahead with a plan.

ENVIRONMENTAL CHANGE

HOW IS CLIMATE CHANGE AFFECTING YOU?

How is global warming affecting you? It is probably safe to say that in this day and age, all of us are being affected by our changing climate. We are all affected in some way or another.

You may be someone who spends a small part of their week throwing away Tesco meal deal packaging into recycling bins. On the other hand, a less fortunate person may be wondering when their next food ration from the United Nations will arrive. On the less extreme side, for me, instead of doing 'dry January', I undertook the rather challenging task of having a meat free January – I say 'challenging' because as a South African, meat products such a Biltong and Droëwors are a staple food. As I divulge unnecessary info about myself, now is probably a good time to disclose that I am indeed a millennial and supposedly my generation has strong views about this subject.

Evidence of rising temperatures

The last decade for our planet was the hottest ever recorded. Closer to home, in the UK we recorded the highest ever maximum temperature of 38.7°C on 25 July last year – which for a South African living in the UK is no bad thing. But forgetting wonderful South African weather, on the contrary, warmer temperatures and ever-changing climate conditions are negatively affecting our lives – in an increasing and more prominent manner. Despite President Trump's denial of climate change, the evidence of rising temperatures is there. Think of the devastating fires which have raged across the Amazon and consumed much of the trees that the planet so desperately needs. And the ongoing fires in Australia which have killed a staggering one BILLION animals so far.

Going forward, temperatures are going to rise. By the year 2100, research indicates the planet's temperature will be around 4.5°C warmer than today if we do nothing to rein in global emissions. However, current policies and country pledges should limit the increase in temperature to closer to 3°C, but this will still not be enough to prevent major harm to the planet.

Serious concern

Enough of the bad news. The good news is that this global warming problem is now widely recognised as a serious concern. A big turning point was when the 17 Sustainable Development Goals (SDGs) were set out by the United Nations and signed by 193 nations in 2015. Their objective is to bring an end to poverty, hunger and worldwide inequality. Following this, firms have started aligning their investment decisions with the SDGs by signing the Principles of Responsible Investment (PRI) – which now at 7,000 signatories.

Even so, most global companies have until recently been slow to move and align their businesses towards having a positive impact on society and the environment. This is why we've seen mass climate change protests around the world and environmental activists such as Greta Thunberg (now 17 years old) gaining serious international attention.

All of a sudden, specifically in the last year, the largest companies in the world are recognising the need to change. Blackrock has put climate-related strategies at the forefront of their $7 trillion strategy. Microsoft is actually aiming to become net carbon negative. JP Morgan said the biggest structural change affecting the investment landscape will be climate change – not over the next decade, but in 2020!

Future power needs

Companies are actually starting to address global environmental and social issues. Firms are already cutting down on their emissions or at least pledging to reduce them in the future. Mining companies, oil producers, etc. are looking to use renewable energies to support our future power needs. Companies such as Tesla are re-inventing the wheel – or the car/batteries in this case – to give people access to transport and power which is environmentally friendly.

We think there are two opportunities stemming from this. The first is the possibility to invest in exciting companies which contribute to improving our planet. Secondly, to potentially benefit financially from superior returns, these companies are likely to make over the longer term. For example, think of the Tesla. It is essentially a win-win situation for millennials like myself – if I had invested in the stock six months ago, I would have made handsome returns in excess of 150%, while also supporting the growth of a business that is environmentally friendly.

Ethical mandate

At our last Investment Policy Committee meeting, we unanimously decided to invest in an Environmental Change strategy to be used in all client portfolios, except those with a very low risk tolerance. There are many ways to access this opportunity. We think the Pictet Global Environmental Opportunities equity fund is the best route to benefit from this structural change and should generate superior long-term returns.

We also run models which have an explicit 'Ethical' mandate. We use the word 'ethical' because this area of investing is a grey area where everyone has their own view of what is deemed 'ethical. These portfolios as a result include a variety of strategies (ESG, SRI, etc.) which may range from excluding certain companies (like oil producers) to investing only in firms positively impacting society or the environment (Tesla).

To conclude, Kingswood wholeheartedly believes that climate change will become ever more important in the investment world. We want our clients to be at the forefront of this structural shift and to understand that good investment performance can go hand in hand with having a positive impact on the global environment and our society.

Dave Winckler
Associate Director | Investment Strategy

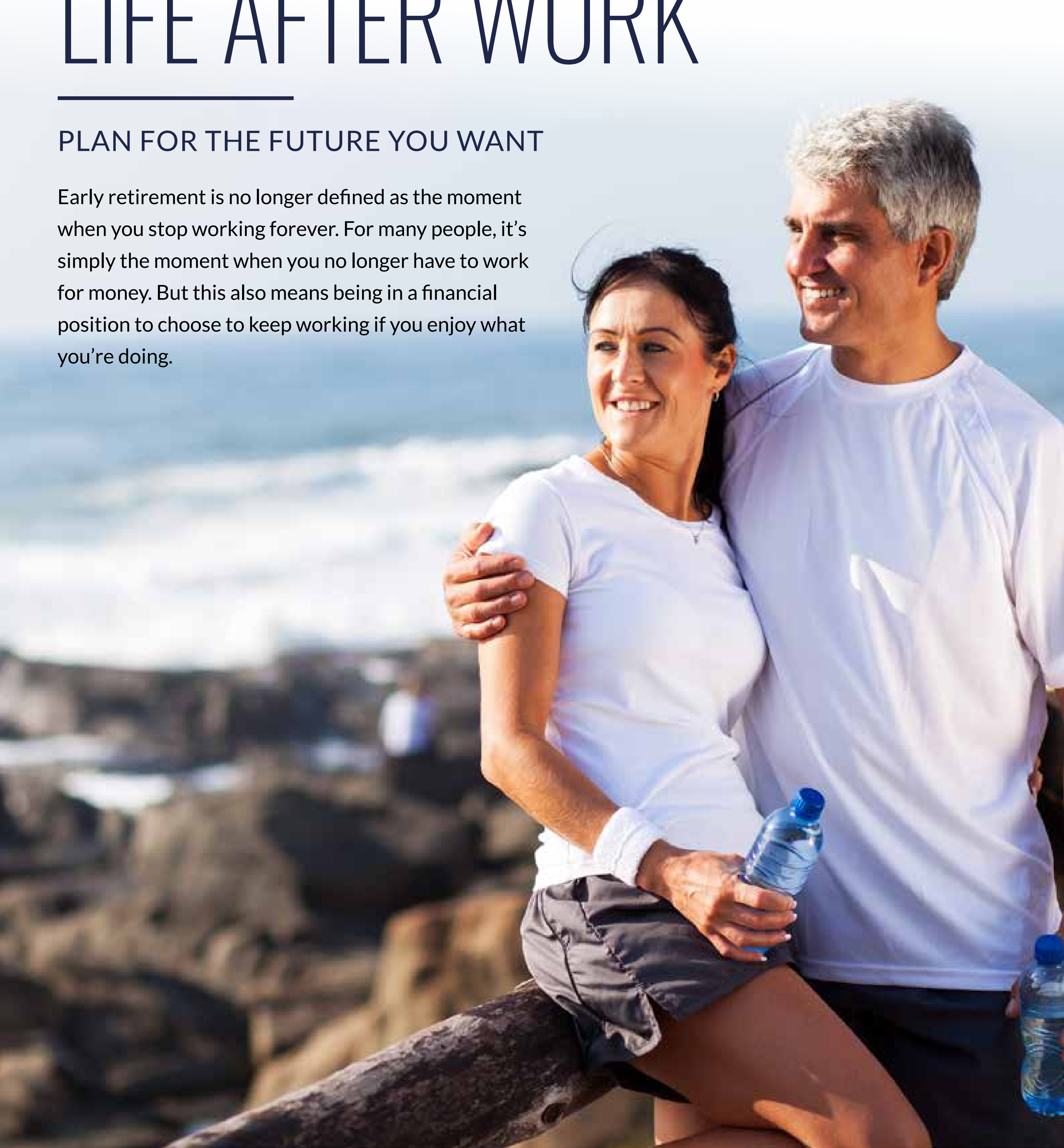
Dave is an Associate Director at Kingswood and a member of the Investment Policy Committee. He works in the investment strategy team and leads the fund selection process.

HOW CAN WE HELP?
Please feel free to speak to your Kingswood contact for more info about our offerings.

LIFE AFTER WORK

PLAN FOR THE FUTURE YOU WANT

Early retirement is no longer defined as the moment when you stop working forever. For many people, it's simply the moment when you no longer have to work for money. But this also means being in a financial position to choose to keep working if you enjoy what you're doing.



Retiring at 55 is an attainable target if you start early and develop a sound financial plan. It's worth remembering there's a big difference doing work you love or a job that you could leave if you get tired of it, because you have the financial freedom and flexibility that saving up enough money can give you.

Lifestyle and spending habits

So the question is, 'How do you know how much money is enough to last through your golden years if you want to retire early?' The answer is a highly personal one and depends on your lifestyle and spending habits.

For many people, early retirement means being able to make the shift from work they have to do to work they want to do. Taking an early retirement appeals to many people unsurprisingly, but making it a reality requires careful consideration and a well-thought-out approach to retirement planning.

Maximising your income

Working towards an early retirement strategy is built on maximising your income – how much money you're making; expenses – how much money you're spending; and saving – how much money you're saving and investing.

Can you access the State Pension, the pension you receive from the state? The answer is 'no' if you want to retire early; the age at which you can receive your State Pension is changing for both men and women depending on when you were born.

Feeling under-prepared

Your State Pension will not be available to claim at 55, so do not include this when working out your income for the first part of your retirement. In the UK, the State Pension age will rise for both men and women until it reaches 66 in October this year and 67 between 2026 and 2028. However, 46% of UK workers, according to research[1], who are currently aged 55 and over say they feel under-prepared for their retirement.

For some people who want to wave goodbye to the 9 to 5 grind and retire early, it may seem like a pipe dream. The good news is that you can usually access private pensions from the age of 55, which makes it an age often associated with retirement. However, retiring early may affect both your private or company pension.

Assets to produce income

The rules for private and company pensions vary, depending on who provides them. We can help you to check this to see how early retirement could affect your own situation. But if you do intend to retire at 55, you will need your assets to produce income for a longer period than someone who retires later.

It means developing an accurate projection of what you think you will spend each year. Then you can compare that to the sources of retirement income you think you'll have available to you.

Opportunity to grow

The benefit of starting a pension early on and contributing to it regularly means you're able to take advantage of the compounding effect. Compound interest causes your wealth to snowball and allows you to earn interest on top of both your savings and existing interest, and it accumulates over time, meaning the longer you save, the more your pension has the opportunity to grow.

It makes a sum of money grow at a faster rate than simple interest, because in addition to earning returns on the money you invest, you also earn returns on those returns at the end of every compounding period, which could be daily, monthly, quarterly or annually.

Comfortable lifestyle

If you're looking to retire at 55, you're much more likely to have the comfortable retirement you dream of if you started saving for it early in adult life. Otherwise, you may wish to increase the contributions into your pension pot so you can meet the level of income you will need for a comfortable lifestyle.

So how much will you need when you retire? One way of estimating how much you'll need is by referring to the widely used '70%' rule, which states that you'll require 70% of your working income to maintain the same level lifestyle.

Unexpected costs

Whilst this gives you a good idea of the amount you'll require when considering retirement, you may find that you'll need more or less. You should consider what you plan to do in retirement and account for unexpected costs, such as long-term care, as these will need to be factored in to help you estimate your retirement costs.

Creating an overall budget and living costs as well as other expenditure you'd like to plan for, such as holidays, will further help you reach a more realistic retirement target figure. If you're planning to retire early, your money will need to last longer, therefore it's important to account for the extra years.

Pension tax relief

The Government automatically adds basic-rate tax relief of 20% to pension contributions. If you pay tax at the higher rate, the tax relief percentage increases to up to 45%, depending on your income. It's important to double check that you're claiming pension tax relief. If you have a personal pension, and you're a higher or additional-rate taxpayer, you will need to complete a self-assessment tax return to receive the extra relief due.

It's worth bearing in mind that the annual allowance gives you £40,000 as the maximum amount you can pay into your pension(s) each year and get tax relief on. It's possible to use 'carry forward' to reduce your tax charge if you go over the annual allowance limit by carrying forward unused annual allowances from the last three years. There are conditions to using carry forward that need to be met, and pensions rules can change.

Withdrawing income

When and how you can withdraw from a pension will depend on the type of pension you have, your personal circumstances and your retirement goals. At 55, you can choose to take your pension as a lump sum (once or periodically), as an income (an annuity that provides guaranteed income) or as a mix of both.

How you choose to draw your income is up to you, with 25% available as a tax-free lump sum, and the rest taxed. Withdrawing your income is a crucial decision that you often cannot go back on once it's made, so be sure to only make your choices after weighing up your options carefully.

Data source:

[1] 2019 Close Brothers Financial Wellbeing Index – https://www.finder.com/uk/pension-statistics

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.

Tax rules are complicated, so you should always obtain professional advice.

A pension is a long-term investment.

The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future performance.

Pensions are not normally accessible until age 55. Your pension income could also be affected by interest rates at the time you take your benefits. The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation, which are subject to change in the future.

WANT THE CHOICE TO STOP WORK AND ENJOY RETIREMENT?

For most of us, the whole point of saving and investing is to bring closer the day when we have the choice to eventually stop work and enjoy retirement. Being able to do what you want to do, when you want to do it, requires planning. We can help you assess all of your pension options to make sure you secure the life you want during the retirement you deserve. To arrange a meeting or discuss your requirements, please contact us.

ESTATE PROTECTION

PRESERVING YOUR WEALTH AND TRANSFERRING IT EFFECTIVELY

Estate planning is an important part of wealth management, no matter how much wealth you have built up. It's the process of making a plan for how your assets will be distributed upon your death or incapacitation.

As a nation, we are reluctant to talk about inheritance. Through estate planning, however, you can ensure your assets are given to the people and organisations you care about, and you can also take steps to minimise the impact of taxes and other costs on your estate.

In order to establish the value of your estate, it is first necessary to calculate the total worth of all your assets. No matter how large or how modest, your estate is comprised of everything you own, including your home, cars, other properties, savings and investments, life insurance (if not written in an appropriate trust), furniture, jewellery, works of art and any other personal possessions.

Having an effective estate plan in place will not only help to ensure that those you care about the most will be taken care of when you're no longer around, but it can also help minimise Inheritance Tax (IHT) liabilities and ensure that assets are transferred in an orderly manner.

Write a Will

The reason to make a Will is to control how your estate is divided – but it isn't just about money. Your Will is also the document in which you appoint guardians to look after your children or your dependents. Almost half (44%) of over-55s have not made a Will[1], and as such, they will not have any say in what happens to their assets when they die.

Should you die without a valid Will, you will have died intestate. In these cases, your assets are distributed according to the Intestacy Rules in a set order laid down by law. This order may not reflect your wishes.

Even for those who are married or in a registered civil partnership, dying without leaving a Will may mean that your spouse or registered civil partner does not inherit the whole of your estate. Remember: life and circumstances change over time, and your Will should reflect those changes – so keep it updated.

Make a Lasting Power of Attorney

Increasingly, more people in the UK are using legal instruments that ensure their affairs are looked after when they become incapable of looking after their finances or making decisions about their health and welfare.

By arranging a Lasting Power of Attorney, you are officially naming someone to have the power to take care of your property, your financial affairs, and your health and welfare if you suffer an incapacitating illness or injury.

Plan for Inheritance Tax

IHT is calculated based on the value of the property, money and possessions of someone who has died if the total value of their assets exceeds £325,000, or £650,000 if they're married or widowed. If you plan ahead, it is usually possible to pass on more of your wealth to your chosen beneficiaries and to pay less IHT.

Since April 2017, an additional main residence nil-rate band allowance was phased in. It is currently worth £150,000, but it will rise to £175,000 per person by April this year. However, not everyone will be able to benefit from the new allowance, as you can only use it if you are passing your home to your children, grandchildren or any other lineal descendant. If you don't have any direct descendants, you won't qualify for the allowance.

The headline rate of IHT is 40%, though there are various exemptions, allowances and reliefs that mean that the effective rate paid on estates is usually lower. Those leaving some of their estate to registered charities can qualify for a reduced headline rate of 36% on the part of the estate they leave to family and friends.

Gift assets while you're alive

One thing that's important to remember when developing an estate plan is that the process isn't just about passing on your assets when you die. It's also about analysing your finances now and potentially making the most of your assets while you are still alive. By gifting assets to younger generations while you're still around, you could enjoy seeing the assets put to good use, while simultaneously reducing your IHT bill.

Make use of gift allowances

One way to pass on wealth tax-efficiently is to take advantage of gift allowances that are in place. Every person is allowed to make an IHT-free gift of up to £3,000 in any tax year, and this allowance can be carried forward one year if you don't use up all your allowance.

This means you and your partner could gift your children or grandchildren £6,000 this year (or £12,000 if your previous year's allowances weren't used up) and that gift won't incur IHT. You can continue to make this gift annually.

You are able to make small gifts of up to £250 per year to anyone you like. There is no limit to the number of recipients in one tax year, and these small gifts will also be IHT-free provided you have made no other gifts to that person during the tax year

A Potentially Exempt Transfer (PET) enables you to make gifts of unlimited value which will become exempt from inheritance tax if you survive for a period of seven years.

Gifts that are made out of surplus income can also be free of IHT, as long as detailed records are maintained.

> **YOUR PENSION IS NORMALLY FREE OF IHT, UNLIKE MANY OTHER INVESTMENTS. IT IS NOT PART OF YOUR TAXABLE ESTATE.**

IHT-exempt assets

There are a number of specialist asset classes that are exempt to IHT. Several of these exemptions stem from government efforts over the years to protect farms and businesses from large inheritance tax bills that could result in assets having to be sold off when they were passed down to the next generation.

Business relief (BR) acts to protect business owners from IHT on their business assets. It extends to include the ownership of shares in any unlisted company. It also offers partial relief for those who own majority rights in listed companies, land, buildings or business machinery, or have such assets held in a trust.

Life insurance within a trust

A life insurance policy in trust is a legal arrangement that keeps a life insurance pay-out separate from the valuation of your estate after you die. By ring-fencing the proceeds from a life insurance policy by putting it in an appropriate trust, you could protect it from IHT.

The proceeds of a trust are typically overseen by a trustee(s) whom you appoint. These proceeds go to the people you've chosen, known as your 'beneficiaries'. It's the responsibility of the trustee(s) to make sure the money you've set aside goes to whom you want it to after you pass away.

Keep wealth within a pension

When you die, your pension funds may be inherited by your loved ones. But who inherits, and how much, is governed by complex rules. Money left in your pensions can be passed on to anyone you choose more tax-efficiently than ever, depending on the type of pension you have, by you nominating to whom you would like to leave your pension savings (your Will won't do this for you) and your age when you die, before or after the age of 75.

Your pension is normally free of IHT, unlike many other investments. It is not part of your taxable estate. Keeping your pension wealth within your pension fund and passing it down to future generations can be very tax-efficient estate planning.

It combines IHT-free investment returns and potentially, for some beneficiaries, tax-free withdrawals. Remember that any money you take out of your pension becomes part of your estate and could be subject to IHT. This includes any of your tax-free cash allowance which you might not have spent. Also, older style pensions may be inside your estate for IHT.

Source data:

[1] Brewin Dolphin research: Opinium surveyed 5,000 UK adults online between 30 August and 5 September 2018.

MAKE SURE WEALTH STAYS IN THE RIGHT HANDS

Estate planning is a complex area that is subject to regular regulatory change. Whatever you wish for your wealth, we can tailor a plan that reflects your priorities and particular circumstances. To find out more, or if you have any questions relating to estate planning, don't hesitate to contact us.

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.

The rules around trusts are complicated, so you should always obtain professional advice.

The value of investments and the income they produce can fall as well as rise. You may get back less than you invested.

WEALTH UPLIFT

CALCULATING THE VALUE OF FINANCIAL ADVICE

Quantifying the value of financial advice has always been a challenge because people who receive financial advice have different characteristics to those who do not.

But what if it was now possible to quantify the value of financial advice and isolate a pure 'advice effect'? This is exactly what the researchers at the International Longevity Centre – UK (ILC) have been able to calculate.

What it's worth

The new research[1], 'What it's worth: Revisiting the value of financial advice' from the ILC suggests that, holding other factors constant, those who received advice around the turn of the century were on average over £47,000 better off a decade later than those who did not.

This result comes from detailed analysis of the Government's Wealth and Assets Survey, which has tracked the wealth of thousands of people over two yearly 'waves' since 2004 to 2006. The wealth uplift from advice comprises an extra £31,000 of pension wealth and over £16,000 extra in non-pension financial wealth.

Impact of taking advice

One of the key findings from the research is that the proportionate impact of taking advice is greater for those of more modest means. For the 'affluent' group identified in the research, the uplift from taking advice is an extra 24% in financial wealth compared with 35% for the non-affluent group. On pension wealth, the uplift is 11% for the affluent group compared with 24% for the non-affluent.

An important explanation for the improved outcomes for those who take advice is that they are more likely to invest in assets which offer greater returns (though with higher risk). Across the whole sample, the impact of taking advice is to add around eight percentage points to the probability of investing in equities.

Larger pension pots

The research also found that those who were still taking advice at the end of the period had pension pots on average 50% higher than those who had only taken advice at the beginning of the period. However, this result is not controlled for other differences in characteristics, so may at least in part reflect greater engagement by those who have larger pension pots.

International Longevity Centre Director, David Sinclair, commented: 'The simple fact is that those who take advice are likely to be richer in retirement. But it is still the case that far too many people who take out investments and pensions do not use financial advice. And only a minority of the population has seen a financial adviser.'

Source data:

[1] 'What it's worth: Revisiting the value of financial advice' will be published on 28 November 2019 at http://www.ilcuk.org.uk and http://www.royallondon.com/policy-papers.

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.

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

Past performance is not a reliable indicator of future performance.

GETTING YOU CLOSER TO YOUR GOALS

Having a financial plan in action is one of the most important things you can do in life. It gives your finances direction and gets you closer to your goals. What is equally important is reviewing and revising your plan regularly. When it comes to managing your money, we can help you build wealth and secure your future and, above all else, draw up an effective plan for fulfilling your investment objectives. Please contact us for further information.

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