HICKS
CHARTERED ACCOUNTANTS
AUDIT & TAX SPECIALISTS

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Perspective

INSIDE THIS ISSUE

Welcome to the latest issue of *Perspective* from Hicks Chartered Accountants. Increasingly, more and more pensioners are keeping much of their pension invested after they retire. This means they're faced with two very different risks when deciding what to do with their savings in retirement in a world of 'pension freedoms'. Since April 2015, people who reach retirement have had much greater flexibility over how they use their pension funds to pay for their later years. In this issue, we look at a recent report that has identified that many savers in retirement are either taking 'too little' risk (the 'risk averse' retiree) or taking 'the wrong sort' of risk (the 'reckless' retiree).

Without professional advice and careful financial planning, HM Revenue & Customs can become the single largest beneficiary of your estate following your death. In the article opposite, we consider the findings of a recent survey about Inheritance Tax that shows many wealthy Britons over the age of 45 are either ignoring estate planning solutions or they have forgotten about the benefits these can provide.

We hope you enjoy the articles. To discuss any of the articles featured in this issue, please contact us on 01582 766677 or email newleads@hicks.co.uk – we look forward to hearing from you.

WEALTH PRESERVATION

Reducing Inheritance Tax means taking action now

Without professional advice and careful financial planning, HM Revenue & Customs (HMRC) can become the single largest beneficiary of your estate following your death. A recent survey about Inheritance Tax (IHT)[1] shows that wealthy Britons over the age of 45 are either ignoring estate planning solutions or they have forgotten about the benefits these can provide. Only 27% of those surveyed have taken financial advice on IHT planning, despite all of them having a potential IHT liability.

60% of people surveyed want to leave assets to their spouse or registered civil partner, and 29% would like to leave an inheritance to younger relatives such as nieces, nephews and grandchildren, but the largest single beneficiary from people's estates is still HMRC. To highlight this point, HMRC revealed they received IHT payments to the value of £4,670,000,000 (that's £4.67 billion) in the 2015/16 tax year alone.

HOW MUCH COULD YOUR ESTATE PAY?

The level of IHT your estate will pay depends on the amount your estate is worth and the tax allowances in place at the time. The current IHT allowance of £325,000 is set to remain level until 5 April 2021. Your estate will normally pay IHT on anything above that at 40%. If you leave any assets to your spouse or registered civil partner, they won't have to pay IHT – it can be added to their estate and settled on their death. In the event your full IHT allowance isn't used on your death, the remaining proportion will pass to your spouse or registered civil partner to increase their IHT allowance.

From 6 April 2017, on top of the £325,000 allowance, a new allowance was introduced for people owning their own home. This Residence Nil Rate Band (RNRB) provides an additional £100,000 allowance to be applied

against the deceased's main residence, as long as it is left to a direct descendant and the estate is valued at less than £2,000,000. Beyond that figure, the RNRB (and any transferred RNRB) will be gradually withdrawn. Like the main nil rate band, any unused proportion can be taken on by the surviving spouse or registered civil partner.

REDUCE IHT AND MAXIMISE THE WEALTH YOU PASS ON

MAKE A WILL

Having a Will is arguably one of the most important things you can do for yourself and your family. Not only can a Will legally protect your spouse, children and assets, but it can also spell out exactly how you would like things handled after you have passed on.

If your estate is worth more than the current IHT threshold, when you die and it passes to a non-exempt beneficiary (such as a child) or doesn't qualify for relief as an agricultural or business asset, then IHT at currently 40% will have to be paid on the excess.

APPRAISE YOUR ASSETS

IHT is a tax payable on the value of your assets when you die. It covers your estate, which can include your home, savings and investments, jewellery, cars, art, other properties (including holiday homes abroad), and proceeds from life insurance policies not written in an appropriate trust.

POTENTIALLY EXEMPT TRANSFERS

If you're in reasonably good health, you could think about making an outright gift to someone you love. If you live for seven years after making the gift, it will usually be free of IHT.

THINK ABOUT GIVING

You can give away up to £3,000 each year as either a single gift or several small amounts. If you haven't used this in any tax year, you can carry it forward for one year. This will give you an annual exemption of £6,000 in the next tax year. For a couple, this could add up to £12,000 in one tax year, all free of IHT.

CONSIDER ESTABLISHING A TRUST

Another way you can reduce your IHT is to put your money into a trust. This enables you to make a gift without losing control of the money, although care is needed if you still need to be able to access the money for yourself.

Some trusts still attract IHT but are worth considering nonetheless. There are three main types of trust that can assist you with any IHT planning you are considering. If this is the case, please speak to us or your legal representative regarding placing money under trust and how it could help you.

TAKE OUT LIFE INSURANCE

If you don't want to give your money away while you are still alive, taking out life insurance could be an option. You may be able to set up a policy to pay out an amount equal to your estimated IHT bill.

It's possible to set up the policy in the form of an appropriate trust to remain outside your estate. It will pay out to the trustees to pass on to your nominated beneficiaries, giving them the money to pay the IHT due.

GIFTS FROM MONTHLY INCOME

You can make regular gifts from your income after tax without paying IHT. This is the money you use for normal living expenses. You must make sure you only pay money from your income and not any savings or investments you have.

GIFTS TO QUALIFYING CHARITIES

One way you can instantly reduce your tax rate to 36% is by leaving at least 10% of your estate to charity.

HAVE YOU PRESERVED AND PROTECTED YOUR LEGACY?

There are many things to consider when looking to protect your family and assets. Whatever your priorities are, the sooner you start thinking about IHT planning, the more you can do. To arrange a meeting to review your situation or discuss how we can help guide you through this highly complicated area of wealth preservation, please contact us.

All gifts to qualifying charities and political parties are free of IHT.

PROTECT YOUR PENSION

Maintaining your money purchase pension pot is another way to protect your family's inheritance. Unlike Individual Savings Accounts (ISAs) and other savings vehicles, pensions are not normally subject to IHT and can be passed to loved ones on death. Spending down other taxable areas of your estate before calling on your pension makes sense.

Source data:

[1] Survey conducted by Canada Life of 1,001 UK consumers aged 45 or over with total assets exceeding the individual Inheritance Tax threshold of £325,000 carried out in September 2016.

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.

AVOIDING HIDDEN DANGERS IN RETIREMENT

Make sure you don't run out of money or face a reduced standard of living

Increasingly, more and more pensioners are keeping much of their pension invested after they retire. This means they're faced with two very different risks when deciding what to do with their savings in retirement in a world of 'pension freedoms'. Since April 2015, people who reach retirement have had much greater flexibility over how they use their pension funds to pay for their later years.

A recent report[1] identified that many savers in retirement are either taking 'too little' risk (the 'risk averse' retiree) or taking 'the wrong sort' of risk (the 'reckless' retiree). Each of these approaches increases the danger of a saver either running out of money during their retirement or having to face a reduced standard of living.

THE RISK-AVERSE RETIREE – HOW CAN YOU TAKE TOO LITTLE RISK?

An example of taking 'too little' risk is the saver who takes their tax-free cash at retirement and invests the rest in an ultra-low-risk investment such as a Cash ISA, believing this to be the safe approach. The report points out that 'investing in retirement is still long-term investing' and shows that decades of low-return saving can seriously damage the living standards of retirees.

It highlights the case of someone who retired ten years ago with an illustrative pension pot of £100,000 which they invested in cash. Assuming they withdrew money at £7,500 per year (in line with annuity rates at the time), they would now be down to £27,000 and likely to run out in around four years' time, less than fifteen years into retirement. By contrast, if the same money had been invested in UK shares, there would still be around £48,000 left in the pot, despite the 2008 stock market crash.

THE RECKLESS RETIREE – WHAT IS 'THE WRONG SORT' OF RISK?

In an era of low interest rates, some retired people may be tempted to seek out more unusual forms of investment with apparently high rates of return but accompanied by much greater risk to their capital. Examples could include peer-to-peer lending, investment in aircraft leasing or even crypto currencies such as bitcoin.

Concentrated exposure to a single, potentially volatile investment can produce very poor outcomes, particularly if bad returns come early in retirement. The pension pot in the previous example would still have £88,000 in it if the bad year for UK shares had happened at the end of the ten-year period we looked at and not at the start.

"Increasingly, more and more pensioners are keeping much of their pension invested after they retire. This means they're faced with two very different risks when deciding what to do with their savings in retirement in a world of 'pension freedoms'."

THE RATIONAL RETIREE – WHAT IS THE BEST WAY TO HANDLE RISK IN RETIREMENT?

Rather than invest in an ultra-low-risk way or chase individual high-risk investments, the report identifies a 'third way' of spreading risk across a range of assets, including company shares, bonds and property, both at home and abroad. This multi-asset approach can be expected to provide better returns over retirement than cautious investing in cash but also helps to smooth the ups and downs of individual investments.

Pension freedoms open up new possibilities for people in retirement, but they create new dangers as well. There is the danger of being too cautious and not making your money work hard enough – investing in retirement is still long-term investing. There is also the danger of taking the wrong sort of risk, seeking high returns but putting your capital at risk. Spreading money across a range of asset classes and in different markets at home and abroad is likely to deliver better returns in retirement – and a more sustainable income – than remaining in cash, without exposing you to the capital risks that can come from chasing after more exotic or risky types of investment.

These investments do not include the same security of capital which is afforded with a deposit account. You may get back less than the amount invested.

Source data:
[1] Research report published 13 January 2018 by mutual insurer Royal London

THESE INVESTMENTS DO NOT INCLUDE THE SAME SECURITY OF CAPITAL WHICH IS AFFORDED WITH A DEPOSIT ACCOUNT. YOU MAY GET BACK LESS THAN THE AMOUNT INVESTED.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

HELPING YOU GROW YOUR WEALTH

We are committed to helping you build a goal-based financial plan that reflects what's most important to you and your future plans. When it comes to building an investment portfolio, you may have specific goals that reflect your risk tolerance, time horizon or asset class preferences. Whatever your needs, we can help you develop an investment strategy that works for you. You can call us to arrange an appointment or ask a question.

LIFE **EVENTS**

What will influence your retirement income needs?

Retirement is a time for you to do the things you've always wanted. When considering your retirement income needs, you need to consider the types of events you would like to happen after you retire that may impact your budget. Thinking about these early could help you when you're deciding the best way to take your pension savings.

Perhaps you're looking forward to having more time to explore faraway places. Or maybe you dream of simply waking up each day and doing whatever takes your fancy. However you see your future, retirement is a time for you to do the things you've always wanted to do.

CONCEPT OF RETIREMENT

The very concept of retirement has changed. 'Phased retirement' is becoming more common; the way we access our pension is now a lot more flexible, and in the UK we're living longer than ever before. A longer retirement and more choice over how you take your pension require planning ahead to help ensure you're on track to a financially secure future.

WORKING HABITS

Although you may have retired from full-time employment, perhaps you may wish to earn money from part-time work. Besides the State Pension, consider any other income sources you'll have when you finish working full-time and find out when they commence.

SUPPORTING YOUR FAMILY

Perhaps you have children or grandchildren that you plan to help through further education. How will you provide this financial support once you've retired? Some people intend to help their children onto the property ladder. Have you made a plan for how you'll afford this?

HEALTH

Leading a healthy lifestyle can help ensure you'll be fighting fit during your retirement. However, ill health can strike at any time. And although you may not like to think about it, it's important to factor things like medical costs into your financial planning.

In the longer term, you may also need to pay for residential care for yourself, your partner or your parents.

SAVINGS AND PROPERTY

The amount you have in savings may influence what you'll need from your pension. Is this enough to live on?

If you own a home, you may have decided that you'll sell your home and move somewhere that better suits your lifestyle needs. You'll also need to think about how you would pay for a new property, and factor in any repair costs to a new or existing home.

HOW YOU CHOOSE TO TAKE YOUR PENSION

The way you choose to take your pension can impact things like your tax position or pension allowances. If you choose to move provider, you may lose any guarantees that you may have with your existing pension provider. You should also think about the impact of taking any tax-free cash, income or lump sums may have on any means-tested benefits you currently receive.

THE EFFECTS OF INFLATION

The effects of inflation may reduce the buying power of your savings and investments in the future, so think about how you'll maintain your lifestyle if your money doesn't stretch as far.

WHAT TO DO WITH YOUR PENSION IS A BIG DECISION

The ways that you can take your pension savings changed in April 2015, giving you greater choice over how you can access and use the money you've saved up. Deciding what to do with your pension is a big decision. If you're looking for further information or want to review your options, we can help. Please contact us.

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