Capital Financial Services
Argyle House
Third Floor Suite 3K
Joel Street
Northwood Hills
Middlesex HA6 1NW

T: 01923 842282 F: 01923 840882
E: colin@capitalfs.co.uk
www.capitalfs.co.uk

YOUR WEALTH AUTUMN 2017

INSIDE THIS ISSUE

TREASURY CONFIRMS LIFETIME ALLOWANCE WILL GO UP IN LINE WITH INFLATION

The Treasury has confirmed that the pensions Lifetime Allowance (LTA) will increase by inflation from 2018.

Since the announcement by the then Chancellor George Osborne in his 2015 Budget that the LTA for pension contributions would be reduced from £1.25m to £1m from April 2016, and that the LTA would be indexed by inflation from April 2018, there has been a change of government. This meant that there had been doubt in some quarters as to whether the Treasury would implement both these changes, but now they have confirmed that they will.

A Treasury spokeswoman announced that the increase will be based on the rise in the Consumer Prices Index in the year to the previous September, and where this is not a multiple of £100, it will be rounded to the next £100.

So, although this increase is unlikely to be substantial, for those people who are currently on the threshold of exceeding their LTA, it will bring some relief. If you'd like advice on any aspect of your pension and retirement planning, then do get in touch.

HOW MUCH WILL YOUR SPENDING CHANGE IN RETIREMENT?

The simple answer is that some expenditure will go up, some will stay the same, and some will go down or disappear altogether. There's a widely held view that you'll need between half and two-thirds of your final salary, after tax, to maintain your lifestyle in retirement.

The best way to work out what your annual expenditure is likely to be is to draw up a budget showing your potential spend under various headings, putting down a realistic figure for each category.

LIVING EXPENSES

This heading covers all your likely regular expenditure and running costs. If you've paid off your mortgage, then your housing costs will obviously be lower. However, you'll still need to budget for maintenance costs, repairs and refurbishments. If you're renting, and more and more retirees are, you'll clearly need to factor this in.

Many people find their utility bills rise as they are likely to be spending more time at home – heating bills, for instance, will be more expensive. Travel costs often go down dramatically, as you won't have to budget for the expense of getting to work. However, you may want to factor in more days out and trips to see family and friends.

SECURITY NET

Typically, expenditure under this heading would include health and later-life care costs, and any emergency financial help you might need for yourself or your family.

FREE TIME

Under this heading most people include the likely cost of enjoying all those things that they never had enough time for when they were working. So, that can include longer foreign holidays, weekends away, eating out and spending money on hobbies and entertainment.

LEGACY FUND

This is the amount of money you may want to pass onto your children and grandchildren during your lifetime. This could include helping to pay for their education or a deposit on a property.

Consumer magazine Which? recently surveyed thousands of its retired members to see where their money was being spent. Their research showed households spend on average just under £2,200 a month or around £26,000 a year. This expenditure covered all the usual basics and provided for a few luxuries such as European holidays, hobbies and meals out. They estimated that if long-haul trips and the purchase of a new car every five years were to be included, the figure would increase to around £39,000.

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HOW TO MANAGE DRAWDOWN

A drawdown pension is basically a product that allows you to continue to keep your pension invested in the stock market after you have retired, but gives you the ability to withdraw money from it when you need to.

According to information from the Financial Conduct Authority, before the introduction of the pension freedoms, 5% of drawdown plans were bought without seeking advice, but since the introduction of the new rules, this figure has risen to 30%.

Drawdown can be complex in its operation, so taking advice that takes full account of your financial circumstances can help ensure that you make the right decisions about your retirement income. After all, today's pensioners can look forward to several decades in retirement, and no-one wants to face the prospect of running out of money later in life.

STRIKING THE RIGHT BALANCE

One of the main issues faced by those in drawdown is that there is always the chance that stock markets can fall and reduce the amount of capital they have. Then you need to decide how much money you can safely withdraw without depleting your capital. It's decisions like this that we can help you resolve. Our advice will help you decide the appropriate level of withdrawals and ensure the remaining assets are invested and managed properly.

Some retirees choose to opt for a mix-and-match approach to their pensions. This could involve using some of your fund to buy an annuity to cover your fixed living costs, whilst leaving the rest invested. Or you could decide to buy an annuity later, as rates improve as you get older, though such improvement may be undermined if interest rates generally are on a sharply declining trend at the time (as they were during and after 2007).

One course of action to avoid is taking too much from your drawdown fund and putting it into a bank or building society account. This will mean that your money will be eroded by inflation, and with interest rates low, you are likely to get a poor return.

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INHERITANCE TAX: GOVERNMENT RECEIPTS REACH RECORD HIGHS

Inheritance Tax receipts pulled in a staggering £4.9 billion for the taxman in the 2016–17 tax year. In the current tax year, receipts have already increased by 22%, and it is widely predicted that the final figure for the year is likely to reach a new high.

Controversially, the threshold at which Inheritance Tax (IHT) applies has been fixed at £325,000 for eight years now. Meanwhile, stock market investments, cash savings, inflation and crucially house prices, have continued to rise sharply, meaning that more families than ever before have found themselves liable to IHT.

RESIDENTIAL NIL RATE BAND

From April 2017, a new allowance was introduced that will come to the aid of homeowners. This additional allowance can now be used to reduce the IHT paid on a main home, enabling homeowners to pass on more wealth to their direct descendants. Referred to as the 'main residence nil rate band', it is being introduced in stages over four years, with a limit of £100,000 applying from April 2017, rising each tax year until it reaches £175,000 per person in 2020. This is in addition to the individual allowance for IHT of £325,000. Whilst the introduction of the RNRB is obviously good news for many families, if the net value of the deceased's estate (after liabilities have been deducted but before reliefs and deductions are applied) is above £2m, the RNRB is subject to tapering at the rate of £1 for every £2 by which the net value exceeds this amount.

MAKING USE OF YOUR ANNUAL ALLOWANCES

Don't forget that each financial year you can make use of your IHT exemption limits. So, you can make gifts of up to £3,000 (in total, not per recipient) and if you don't use this in one tax year, but not beyond, you can carry it over to the next year, which means you could give away £6,000.

Gifts of £250 per recipient per tax year to any number of people are exempt. 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. Gifts to registered charities and political parties are also exempt.

Every family's circumstances are different, so taking bespoke professional advice is essential in planning your estate.

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.

DIVORCE IN YOUR 60s – COPING FINANCIALLY

Statistics show the number of people over 60 divorcing increased by 85% between 1990 and 2012. The International Longevity Centre calculates that by 2037, almost one in ten people divorcing will be aged over 60. It can be traumatic at any age, however for a couple married for a long time, their finances can be more complicated to deal with.

DIVIDING THE ASSETS

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

Deciding what to do with the family home can be difficult, and it's often impossible for either spouse to be able to afford to stay put. At this age, pensions can be a major source of income, so any divorcing couple will need to decide how these should be handled. Many people think that a pension solely belongs to the party who is named on the policy, but that's not the case. Any pension must be considered in the division of assets.

Pension assets can be apportioned in various ways, by:

- offsetting the value of one spouse's fund by transferring a lump sum, or other assets to the other spouse
- splitting the pension fund into two separate pensions
- arranging that when a pension comes to be paid, a portion goes to the other spouse.

MAKING A FRESH START

Post-divorce, it makes sense to discuss your change in circumstances with your financial adviser. You'll need to reconsider your financial goals, and any mortgage, life insurance, savings and investment needs you may now have. You should remake your will. Reorganising your finances is an essential step in moving forward to a new life.

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WILL YOUR PENSION GO TO THE RIGHT PERSON ON YOUR DEATH?

One of the most important changes arising from the pension freedoms that came into operation in April 2015 was the treatment of pension funds on death. If you die before the age of 75, you can now pass your pension fund on to any nominated beneficiary(ies) free of tax. Even after age 75, the death benefit rules are more generous than they were previously, with income tax only becoming payable when your beneficiaries start to withdraw the money.

EXPRESSING YOUR WISHES

This means that it is very important for pension policyholders to ensure that they have nominated the right person(s) to receive their pension benefits. Who gets your pension savings depends on who you nominated when you were asked to complete an 'expression of wishes' form by your pension provider. The form can be updated at any time.

An expression of wishes form, although not binding on the pension scheme administrator, helps guide them when deciding who should receive the benefits. As it isn't compulsory to provide beneficiary details and return the form, some people can overlook this important step. Without this key document in place, there can sometimes be a considerable delay in the payment of pension benefits to dependants.

It's important to be aware that problems could arise if, for instance, you nominated a previous spouse to receive your pension benefits but subsequently remarried and didn't update the form. This could mean that your ex-spouse would receive the benefits under your pension, and that any children and stepchildren might not be provided for.

LEAVING CLEAR INSTRUCTIONS

When completing the nomination form, it's a good idea to provide the full names of all your beneficiaries. Rather than just nominating 'your children', for example, it makes sense to name each one individually.

If your circumstances have changed, you may want to update your nomination form, and keep a copy with your will and other important documents.

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WHAT LIES AHEAD FOR INVESTORS?

Just over ten years since the start of the global financial crisis, the global economy is now in recovery mode. Investors were hit hard, with UK and global equities falling by 46% and 38% respectively in the aftermath. Aggressive policy stimulus implemented by central banks and governments was instrumental in reducing the depth and length of the recession.

WHAT DO THE LAST FEW MONTHS OF THE YEAR HAVE IN STORE FOR INVESTORS?

2017 has been an interesting year. Recent political events have clearly illustrated the difficulty of investing on the basis of prediction. We have all become much better at expecting the unexpected, experience has certainly taught us that. Many investors are getting used to a variety of political, financial and economic factors and hopefully learning to look through the 'noise'. What we do know is that market volatility will continue and areas of value exist, which makes asset allocation a key tool when planning your portfolio.

ON THE CUSP OF CHANGE

Investors started the year confidently as the 'Trump reflation rally' continued from the tail end of 2016. Although fading a little more recently, global equity markets hit all-time highs in the summer with over $10 trillion added to their value in the first half of the year, exemplifying a healthy investor appetite. With the global economy faring better, the changing stance of central banks is evident as the need for emergency policy stimulus is receding, even if the situations in the UK, US and the euro area are different.

DOMESTIC FOCUS

With a backdrop of modest global growth at home, there are mixed signals of growth for the UK economy. We have the added complication of ongoing Brexit negotiations to contend with. Weaker sterling has been the key driver of UK blue chip companies with high overseas earnings, nudging the FTSE100 higher. The weaker currency has particularly benefitted those industries which export services and goods. Despite inflation remaining above target, many economists do not expect UK interest rates to rise until 2019.

THE PROSPECT OF NORMALISING ECONOMIC POLICY

The past year has shown the benefits of staying globally diversified. Portfolio diversity holds the key to approaching your investments and managing risk. It is important to think about longer-term timescales instead of focussing too intently on short-term events and market fluctuations. What is clear is that financial advice is essential to help position your portfolio in-line with your objectives and attitude to risk.

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

RETIRED HOUSEHOLDS FORK OUT £7,400 TO THE TAXMAN

Retired households typically paid tax of around £7,400 in the 2015–16 tax year. According to analysis from the Office for National Statistics this figure is equivalent to almost one third of their annual income.

The tax bills of retired households comprise direct taxes, including income tax and council tax, and indirect taxes such as VAT, vehicle excise duty and insurance premium tax. When compared with the total tax bill of the average working family (34%), the retired household bill was around four percentage points lower.

PLANNING FOR TAX IN RETIREMENT

No longer working doesn't mean that you are no longer paying tax, and illustrates clearly that retired people need to consider their tax bills when planning their budgets in retirement. It also means that saving as much as possible as early as possible during their working lives will help people plan for their later-life expenditure with more confidence.

With more people choosing to work longer into their retirement years, the amount of tax raised from older people looks likely to continue to rise over the years to come.