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YOUR WINDOW ON FINANCIAL ISSUES

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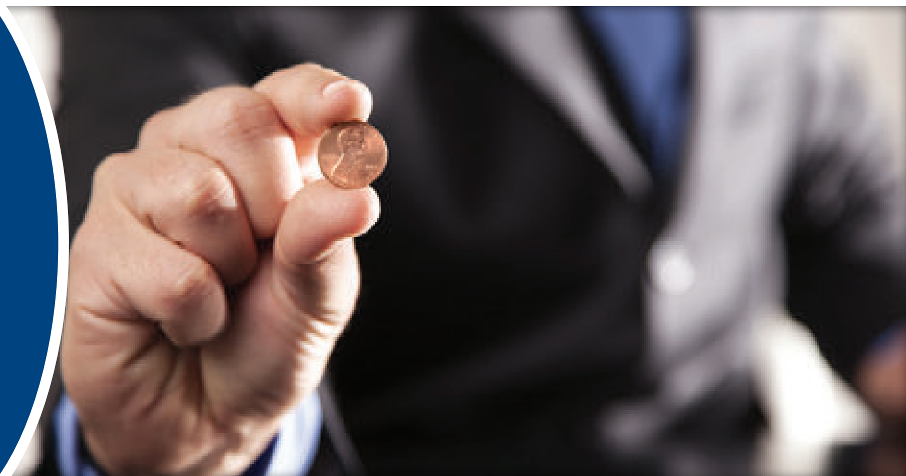


PLANNING ON LEAVING YOUR MONEY TO THE TAXMAN?

Inheritance tax – once known as Estate Duty – used to be something that only troubled the seriously rich. Now, with house prices rising in line with a recovering economy, many more people are starting to find that the taxman will take a share of their legacy before their loved ones. But there are steps you can take to help ensure your wealth goes where you want.

The Inheritance tax (IHT) net is catching out more and more people, thanks to recovering house prices meaning that many more of us have estates worth above the threshold value of £325,000 – or £650,000 for married couples and civil partners. According to official figures, IHT receipts have climbed for the third year in a row.

With assets beyond the IHT threshold taxed at 40% it can mean a substantial loss. However, inheritance tax liabilities can be reduced or even avoided altogether – if you make estate planning part of a long term financial strategy. Your financial adviser should be able to suggest some effective solutions.

The most obvious way to reduce potential IHT is to give money away before you die. You can give £3,000 away every year. You can give an unlimited number of small gifts of up to £250 per person and larger gifts to a couple on their marriage. It may seem a simple solution – but you may need to start your generosity early. Beyond these allowances (or 'regular payments made from income without affecting your standard of living'), money given away in the seven years before you die may be counted as part of your estate and therefore subject to IHT.

However, although gifting cash is easy enough, for most of us, property is our main asset, and the reason why our estates fall into the scope of inheritance tax in the first place. Obviously, you can't gift small parts of your home – but there are some measures which can take your property outside the IHT threshold. Downsizing is one answer, but there are some financial measures your financial adviser could discuss with you.

Other alternatives include whole of life insurance policies with enough cover to take care of the IHT liabilities. There are also certain classes of investments which can provide some measure of exemption for your heirs – while still providing you with the potential for income while you can still enjoy it.

Estate planning and tax advice is not regulated by the Financial Conduct Authority

KEY FACTS

You can give an unlimited number of small gifts of up to £250 per person

Certain classes of investments can provide some measure of exemption for your heirs

WHO NEEDS LIFE INSURANCE?

The idea of life insurance goes back to at least as far as the ancient Romans. You may never live to enjoy the benefits (unless you opt for a policy with a savings element) but for those you leave behind the financial security is essential. So why are as many as 30% of Britons not using life insurance to protect their loved ones?

People give plenty of reasons why they don't need, or can't afford life insurance. We look at some of the most common – and why those reasons don't make much sense.

I CAN'T AFFORD LIFE INSURANCE

We are just coming out of recession – and with budgets still tight some of us are putting off buying life insurance. It's a false economy – those we leave behind will still need financial security, whether the economy is up or down.

Life insurance is not as expensive as you might think. To put it in context, insuring your mobile phone, or buying a fancy coffee once a week could well cost more than some types of cover.

I DON'T NEED COVER

Even those who are single with no dependants may need life insurance to cover funeral costs. These are soaring. The average funeral cost in the UK is now around £3,000 while Londoners pay an average £4,600. That's quite a burden for those you leave behind.

But there is another reason. If you are single now, this might not always be the case. The sooner you start a life insurance policy, the less it can cost. Should a family come along, you'll be able to provide financial protection for less.

GETTING COVER WON'T DO ME ANY GOOD

Of course, you will never see any return on a standard life insurance policy, although you can arrange life cover with a combined savings policy, which could mean a useful payout for you while you can still enjoy it. However, none of us knows what the future holds – and if we were to become ill, we might spend our valuable time worrying about how our dependants would manage.

MY EMPLOYER GIVES ME LIFE INSURANCE

Your employer might have some cover in place, but it's probably not as much as you would want for a partner or children who depend on you and when you leave your job, you'll leave your cover behind.

MY PARTNER IS THE BREADWINNER

The main breadwinner may need to replace the family income. But even a partner who does not go out to work still makes an economic contribution. How much would it cost to replace a homemaker, and cover costs for childcare? Both partners need cover, to protect each other and their dependants.

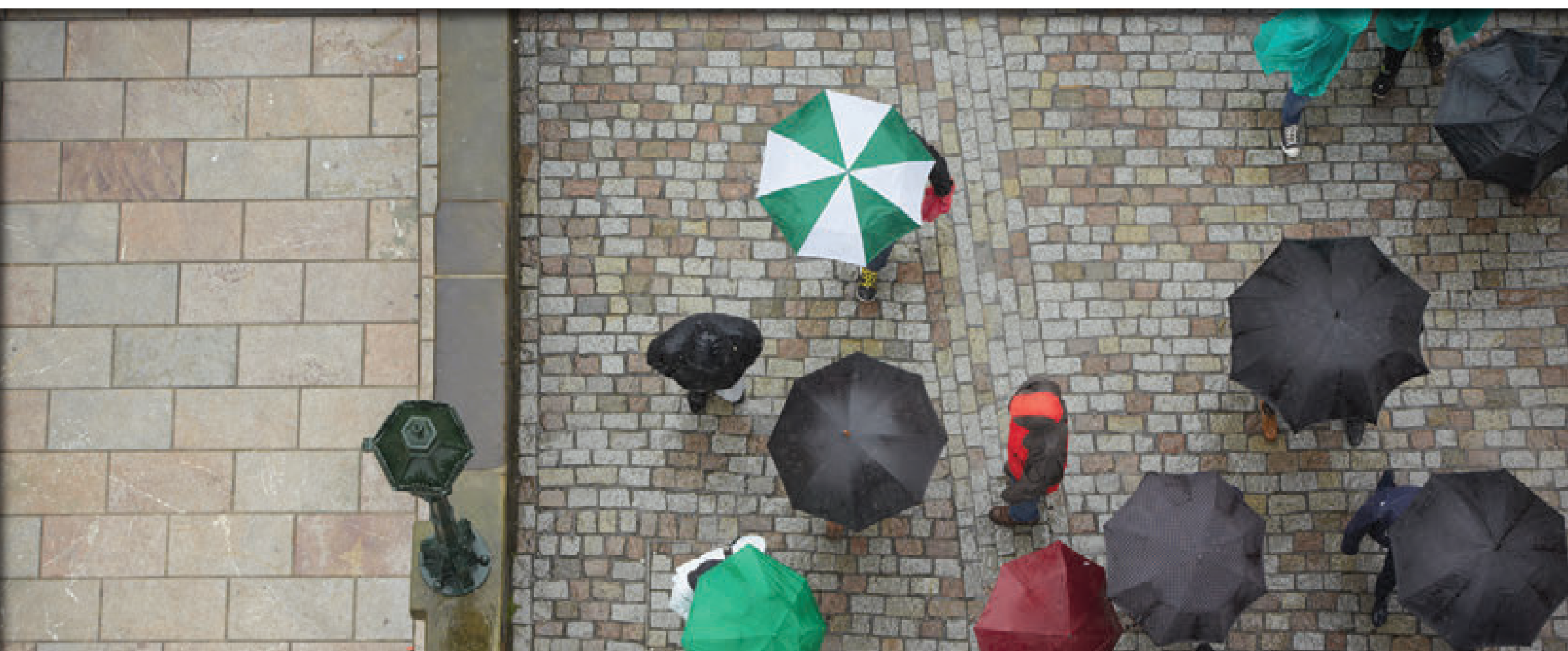
IT CAN WAIT

Actually it can't. None of us know what's round the corner – and the younger we are when we buy a policy the less it can cost.

BUT I DON'T KNOW THE BEST WAY TO BUY LIFE INSURANCE

Buying life insurance could not be easier. Your financial adviser will have a full understanding of what's on the market and can help you find the policy that fits your needs and your budget.

> **"You may never live to enjoy the benefits but for those you leave behind the financial security is essential."**



IS IT EVER TOO LATE TO START A PENSION?

The experts say the ideal time to start putting money into a pension is as soon as you start earning. That said most of us don't live in an ideal world – so is there anything we can do if we've left things late?

We all know that paying into a pension plan is a good idea. Few of us can rely on a job-for-life employer's pension scheme, and living on a state pension is not an appealing prospect – plus there is the satisfaction of getting something back from the taxman. However, with student loans to repay, the cost of getting on the property ladder and then the expense of a family, many of us put off making the arrangements we need.

But if we find ourselves in our 40s or even 50s without a pension pot, is there anything we can do about it?

The sums are sobering. Those in their 40s would have to save 20% to 25% of their incomes to match what they could have accumulated had they put aside just 10% starting in their 20s. If they wait until their 50s to start, they would have to contribute 40% or more of their incomes.

That is simply not possible for most people. But refusing to do anything because you can't save 'enough' makes no sense at all. The fact is whatever you save will supplement your state pension and help make your golden years a little more enjoyable. So, do think twice before opting out of pension auto-enrolment when your employer is brought into the scheme and has to make contributions alongside yours.

It's not simply a matter of spending less and planning on working for a few extra years. You need to have an effective pension savings plan in place, and there are several options to consider. For example, Self Invested Personal Pensions (SIPP) or stakeholder pensions might provide a suitable alternative, depending on your needs and circumstances.

You need to talk to your financial adviser about the option that's best for you. But if you have left planning your pension late, the most important piece of advice of all is – do it today.

WHO CARES?

We are all living longer. According to current research, 50% of babies born now could live to see the grand age of 100. Unfortunately, longer life does not always mean longer independent living. More of us could need to fund long term care, for ourselves, parents or spouses.

Nursing care may be free under the NHS – but social care, the provision of homes for old people who are frail or no longer capable of looking after themselves is not, and the bills can be frightening. Even a local authority home can easily mean bills of £1,500 a month and the costs of private care can be much higher. Care fees usually increase annually, making planning ahead difficult when it is impossible to know how long someone will live.

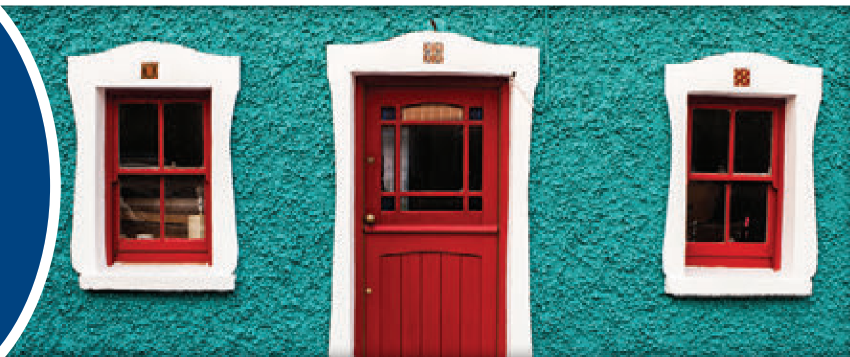
The state makes a contribution, but anyone with assets over a certain level currently receives no local authority funding (which varies across the UK). If you are theoretically eligible to be fully funded by the council but want to choose a care home which charges more than the council's 'usual rate' you may have to make up the difference. These sometimes bear no relationship to local market prices so there may be no places in an area at the council's usual rate. In these instances councils will ask for third party top-ups – which can be paid for by relatives or charities.

Some authorities may contribute to care fees through a secured loan and the NHS may assist with nursing care costs – but every year, thousands of people are forced to sell their homes to pay for their care.

This is set to change. The 2013 Budget set out plans for a cap on lifetime care fees and a higher permitted level of assets before requiring personal contribution. The national lifetime care costs cap will be £72,000 and the assets threshold £118,000, but these will not come in until 2016. Even when the limits are in place, it may be necessary for family to cover a shortfall.

Planning is difficult – but there are solutions available. One possible answer is a lump-sum purchase of an immediate care annuity to cover fees for the rest of your life. This can be costly, and the sooner you talk to your financial adviser about the possibilities the more affordable it may be.

MORTGAGE FUNDS FLOW AS MARKET PICKS UP



The housing market seems to be on the road to recovery, with greater consumer confidence helping push up turnover and prices. This is excellent news for anyone on the housing ladder and, with more mortgages around, first time buyers can celebrate too. In a fast-moving marketplace, expert help with finding the right mortgage is crucial.

The UK housing market, in the doldrums during the recession, is on the rise again. Key sources disagree on the exact figures; the Nationwide sees property prices up by 3.5% compared with a year ago, the Halifax suggests 4.6 % and the Land Registry just 1.3%. Nationwide chief economist Robert Gardner sets out the background: *"Demand for homes has been supported by further modest gains in employment, as well as an improvement in the availability and a reduction in the cost of credit, partly as a result of policy measures."*

The emergence of different figures from lenders and the Land Registry is unsurprising. This is a complex market and difficult to measure nationally, as homes are about as far from being a homogeneous product as you can get, but the trend is clear. Your home, depending where you live as there are regional variations, could be an appreciating asset again, so if you are not already climbing the housing ladder, it could be time to start.

Fortunately, the mortgage market is coming back to life too – a situation with something of the chicken and the egg about it, as a healthy property market is clearly dependent on a healthy mortgage market, and vice versa. The Council of Mortgage Lenders (CML) reported that loans to first-time buyers, frozen out of the market in recent years, hit 68,200 in the second quarter of 2013, the highest level since the financial crisis began in 2007.

Government initiatives, Funding for Lending and Help to Buy, are playing their part; and, with entry-level borrowing up, the rest of the market is starting to discover it is possible to move onwards and upwards once more. This new demand, which the government says will not inflate a price bubble, has brought mortgage providers back to the market, and some current deals look very attractive.

The brighter picture was reaffirmed by CML chief executive Paul Smee after a meeting with Chancellor George Osborne. Mr Smee said: *"The mortgage market is open for business, and it is clear that government support has helped to create more favourable market conditions for home-buyers. Lenders, whether they choose to participate in the Help to Buy guarantee scheme or stay outside, will continue to do their utmost to meet households' needs for mortgages, but always in a way that is responsible."*

Interest rates on home loans have recently seen all-time lows and forward guidance from the Bank of England suggests its 0.5% base rate will be around for a while yet, unless rampant inflation or financial instability loom. With an abundance of fixed rate, tracker and other variable rate products to choose from and government schemes to navigate, it pays to have an expert to guide you.

NEWS BITES

In a further encouragingly bullish statement, the Bank of England's Monetary Policy Committee has revised upwards their forecast for the UK's Q3 Gross Domestic Product to +0.7%, as opposed to the previous figure of +0.5%.

The Council of Mortgage Lenders reported increasing competition in the market place. July alone saw £16.6bn of new mortgages made available. There are now 11.3 million mortgages in the UK worth a staggering £1.2 trillion.

The Office for National Statistics reported that UK unemployment dipped to 7.7% (May-July) from 7.8%. The number of people claiming Jobseekers Allowance also fell by 32,600 to 1.402 million. 29.84 million people are in employment.

It is important to take professional advice before making any decision relating to your personal finances. This publication represents our understanding of law and HM Revenue and Customs practice as at the date of publication. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up the repayments on your mortgage. A fee may apply for mortgage advice and, if applicable, you must ask your adviser for details before making any decision relating to a new mortgage as the actual amount will depend on your personal circumstances, but the typical amount is 1% of the loan value (on a typical £100,000 mortgage, this would be £1,000).