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YOUR WINDOW ON FINANCIAL MATTERS

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# BABY BOOMERS V MILLENNIALS – WHO FARES BEST?

When it comes to personal finances, which sector of the population has the best deal? The government's Work and Pensions Committee has launched an inquiry into 'intergenerational fairness'[1], to assess whether the widening gulf in intergenerational wealth is a direct result of government policy, or of wider economic and demographic trends.

The inquiry will look at whether the current generation of people in or approaching retirement will, over the course of their lifetimes, have enjoyed and accumulated more housing and financial wealth, and welfare and pension entitlements, than more recent generations can hope to receive.

## BONES OF CONTENTION

Last October, the Equality and Human Rights Commission review stated that today's young people are suffering the *"worst economic prospects for several generations"*. Millennials often face repaying student debt and difficulties getting onto the housing ladder.

Meanwhile, Baby Boomers are perceived to live in big houses, enjoying huge pensions and reaping the rewards of free university education. Baby Boomers however regard themselves as having worked hard for what they have, having endured economic downturns and periods of high interest rates and inflation.

The annual Intergenerational Index report[2] reveals a 10% deterioration in the prospects of younger generations relative to older generations between 2010 and 2015 and highlights the decline in the affordability of housing for the under 30s. Exacerbated by a stagnation of incomes, the report concludes that the dream of a home of one's own is now even further beyond the reach of many young people.

## A SKIP IN THE MIDDLE?

A recent Social Market Foundation study[3] provided evidence on the choices that older and younger people make as they balance their own future financial requirements with the needs of their families.

Their report identified various groups: a 'skipped middle' group consisting of parents in their 50s who see their inheritances diminishing as their older parents help grandchildren meet costs such as education and housing; 'in-betweeners' consist of grandparents aged 60–70 who face the pressure of caring for elderly parents and grandchildren, whilst retaining their place in the labour market; 'under-pressure retirees' are challenged with providing for their own financial security whilst offering support to future generations.

These findings highlight a variety of financial problems that confront families; if you face similar issues, a financial review could help you put plans in place for the benefit of both older and younger generations.

[1] Intergenerational Fairness Inquiry, 2016

[2] Intergenerational Fairness Index, 2015

[3] Longer Lives, Stronger Families, Social Market Foundation, 2016

## BUDGET UPDATE

- New 'Lifetime' ISA available from April 2017
- ISA allowance increase to £20,000 from April 2017
- Capital Gains Tax reduced to 20% for higher rate taxpayers and 10% for basic-rate tax payers from 6 April 2016 (exclusions apply)
- Personal allowance to rise from £11,000 in 2016–17 to £11,500 in April 2017
- Higher rate tax threshold to rise from £43,000 (2016–17) to £45,000 from April 2017, except in Scotland (inflation linkage proposed)
- Insurance premium tax increase to 10%
- Class 2 National Insurance contributions to be abolished from April 2018
- Reduction in Corporation Tax to 17% by 2020

# WORLD STOCK MARKETS – SEPARATING THE DRAMA FROM THE DATA

With the world's stock markets showing volatility, concerns continuing about the Chinese economy, and the recent fall in oil prices, some investors could be forgiven for wondering if we're about to see a rerun of the financial crisis of 2008.

However, many commentators are encouraging us to read the data and not be swept along by the drama.

## MARKET CORRECTIONS HAPPEN

US stock markets suffered their largest peacetime one-day fall on 19 October 1987. On what was dubbed Black Monday, the Dow Jones Industrial Average Index dropped by 508 points or 23% of its value; European and Japanese markets followed suit. This fall was ultimately short-lived, and markets recovered and resumed their upward path.

## BELIEVE THE DATA NOT THE DRAMA

With the economic data coming from Europe and Japan still showing positive signs, it is important not to become fixated on short-term market movements at the expense of economic data. The UK banks are in a better financial state than they were ahead of the crash in 2008.

## WE'RE MORE GLOBAL NOW

Chinese market performance has been a major focus for world stock markets lately. However, their economy continues to grow, but just not at the high rate it has experienced over the last few years. China is still essentially a planned and centrally-controlled economy and many believe that it can weather these blips in its progress to its own brand of capitalism. Let's not forget that less than a year ago all eyes were focused on the fortunes of Greece. At any one time, there will be concerns about the health of at least one major world economy.

## THERE WILL ALWAYS BE BUMPS IN THE ROAD

The basic principles of sound investment remain constant. It pays to have a diversified portfolio with a mix of shares, bonds, property and cash, with a good market spread.

We will, it seems, have to weather more market volatility and be realistic about likely investment returns. As ever, the old saying that it's 'time in the market' rather than 'timing the market' continues to hold true. Viewing investment as a medium to long-term strategy will help to iron out the inevitable peaks and troughs that markets experience.

# INHERITING AN ISA ALLOWANCE FROM YOUR SPOUSE

Under changes in the rules introduced in April 2015, you can inherit an Individual Savings Account (ISA) from your spouse and retain the tax benefits. Approximately 150,000 married ISA holders die each year so this change will benefit spouses or civil partners by increasing the amount that they can save by extending the tax advantages of an ISA wrapper.

ISAs have always been promoted as tax-efficient savings vehicles, but prior to this change in legislation, automatically lost this status on death. Many people diligently used each year's tax-free ISA allowance to build up their savings, and in many cases the amount saved was considerable.

## HOW THE NEW RULES WORK IN PRACTICE

The change in the rules means that the surviving spouse or civil partner is entitled to an additional allowance, an Additional Permitted Subscription (APS) limited to the value of the deceased's ISA at the date of death.

So for example, in the 2016–17 tax year, if the deceased had an ISA worth £50,000 on their death, the surviving spouse will be able to make an APS to their own ISA up to £50,000, in addition to their own ISA allowance for the year of £15,240, totalling £65,240. Even if the ISA is left according to the deceased's Will to someone else to inherit, the surviving spouse is still entitled to an APS of £50,000, although they would need to use their own money to fund it.

As bereavement is such a difficult time, this allowance is available for three years from the date of death, or 180 days after the completion of the administration of the estate, if longer, giving you time to rearrange your finances. Anyone whose spouse or civil partner died after 3 December 2014 is eligible. The APS allowance can be added to a cash ISA and/or stocks and shares ISA, and this can be with the original ISA provider or an alternative provider who accepts APS subscriptions.

If you haven't subscribed to an ISA yet this tax year, it's worth remembering that the individual allowance for 2016–17 stands at £15,240 and will increase to £20,000 from 6 April 2017.

# INCOME NEEDS IN RETIREMENT

It's often said that retirement can seem as big a challenge as starting your first job. To enjoy a comfortable old age means doing some in-depth thinking well in advance, asking yourself what your goals are and how much money you want to have at your disposal when the time comes.

So how should you approach creating a robust financial plan?

## A NEW SLANT ON MASLOW'S PYRAMID

Many people find it helpful to think in terms of Abraham Maslow's famous Hierarchy of Needs. His pyramid diagram contained various levels of need that human motivations generally move through, starting with the physical requirements for human survival, and ending with mankind's highest aspirations.

Adapting this approach to personal finance was pioneered by US money guru, Mitch Anthony. Using this hierarchical approach in a personal finance context can be a useful aid in deciding how to plan your income in retirement.

## SURVIVAL INCOME

This is the base of the pyramid and consists of the income you need to pay all your basic household expenses. In effect, it means drawing up a budget that covers all your likely regular bills and running costs.

## SAFETY INCOME

The next layer up, this is the amount you might need to meet life's unexpected events. Typically, this would include health and later-life care costs, loss of income and any emergency financial help you might want to give your family.

## FREEDOM INCOME

This layer is all about assessing the likely cost of doing and enjoying all those things that you never had time to do before you retired. So if you're planning a trip, a major purchase or want to indulge yourself in other ways, this is the amount you feel you'll need.

## TOPPING OFF THE PYRAMID

Many people add a gift layer representing money they want to pass onto children and grandchildren during their lifetime, and some add a dream layer, their ultimate 'bucket list', to the very top.

By viewing your finances in this way, you can gain a clear picture of how much you need to have saved by the time you reach retirement. With these amounts in mind, you can build up a comprehensive plan to help ensure that you can enjoy the sort of retirement you've always wanted.

# EVERY DAY IS FATHER'S DAY

Sunday 19 June this year will be widely celebrated around the world as Father's Day, a time to honour all those great dads who contribute so much to the lives of their families.

Of course, a dad's contribution is not just for one day a year. If you add up all the things that dads do for their families, from child minding to chauffeuring, gardening to DIY, a major insurer estimates the value of all this unpaid work would add up to around £21,601* a year.

## PROTECTING YOUR FAMILY FROM UNEXPECTED EVENTS

So how would your family cope if dad wasn't around? It pays to think about how life assurance could help fill the financial void that would be left behind.

Life cover is simple to arrange and comes in two main types. Whole-of-life polices, as their name suggests, provide cover that lasts a lifetime. This type of policy doesn't normally have an end date, so premiums are usually paid until you die, at which point the policy pays out.

By contrast, term life insurance policies run for a fixed period of time – such as 10 or 25 years. This type of insurance only pays out if you die during the term of the policy. There are various forms of cover to choose from, including level term insurance, where the cover remains at a constant level throughout the policy, or decreasing term insurance where the level of cover gradually reduces over the term of the policy.

## COVER FOR LIFE'S UP AND DOWNS

Sadly, death isn't the only unexpected event that could leave a family facing financial difficulties. Coping with a long-term illness or injury can be stressful enough without the added pressure of money worries. Taking out an income protection plan offers peace of mind and security for your family.

The great thing about life assurance is that it can be adapted to your changing circumstances, with plans designed to protect various aspects of your lifestyle. Your need for insurance protection will undoubtedly change over your lifetime, and we can advise you on the various types of policy that you may need as your life progresses.

*Legal & General, Protection, 2015

# STATE PENSION – CONFUSED? YOU'RE NOT ALONE

If you reach state pension age on or after 6 April 2016, you will receive the new flat-rate or 'single tier' state pension of £155.65 per week.

Many people already in retirement are unsure about what the changes might mean for them. One area of confusion surrounds who will receive this new amount. It's important to be aware that the new flat-rate pension doesn't apply to those already in receipt of their state pension.

However, there is some good news for this group. The basic state pension will increase by 2.9% to £119.30 per week from April 2016. This rise will be worth an extra £174.20 a year to someone currently in receipt of the full state pension.

## THE STATE PENSION AGE IS CHANGING

For years, everyone was clear about what their state pension age (SPA) was. Men retired when they reached 65, women at 60. Then, as the government investigated life expectancy projections, they calculated the burden on the Exchequer and saw that they needed to gradually increase the state retirement age. By 2020, both men and women's SPA will be 66, increasing to 67 between 2026 and 2028. It will then be reviewed every five years and linked to life expectancy.

The increase in age is gradual, and you can find your SPA by using the government's online calculator at Gov.UK.

## QUALIFYING YEARS

In order to receive the full amount of the new flat-rate pension, you need 35 'qualifying years' of National Insurance contributions or National Insurance credits. If you have missing years in your contribution record, then you won't qualify for the full state pension when you retire.

You can top up your National Insurance contributions to improve the amount you will receive. If you want to get an estimate of what your entitlement would be, you can do so by going to the Gov.UK website.

## FACTORS AFFECTING YOUR ENTITLEMENT

Most people reaching SPA in the first couple of decades of the new State Pension, may have been 'contracted-out' of the additional State Pension (SERPS, the state earnings related pension scheme or S2P, state second pension) at some point.

When people were contracted-out they either paid National Insurance contributions at a lower rate, or some of the National Insurance contributions they paid were used to contribute to a private pension instead of their additional state pension. They will have been contracted-out through an occupational pension scheme where their pension was linked to their salary or through an occupational or personal pension scheme where contributions were invested and the final pension was determined by the outcome of those investments, referred to as a defined contribution scheme.

## PLANNING FOR YOUR RETIREMENT

As life expectancy rises, many of us can look forward to around 45 years in employment followed by 30 years of retirement. So it makes sense at all stages of your working life to keep an eye on your pension arrangements.

Whilst the pension legislation landscape continues to change, the message remains clear; we all need to ensure we're making adequate pension provision for our futures today.

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. 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.

## NEWS IN BRIEF

**Help to Buy ISA – a spectacular success**

The Treasury reports that more than 250,000 people have taken out Help to Buy ISAs, revealing that since their launch in December 2015, they have been opened at a rate of one every 30 seconds.

**How it works**

Savers aged 16 or over can contribute a maximum of £200 each month, with the government contributing up to £50 on top. Savers can put in an initial deposit of £1,000 when the account is first opened, and, as an extra incentive, the government pays a bonus of up to £250 on the full £1,000, plus another £50 for each £200 of monthly savings made after that.

The minimum needed to qualify for the bonus is £1,600; this will attract a bonus of £400. In order to claim the government's maximum bonus of £3,000, they need to save £12,000.

Couples buying a house together can each take out a Help to Buy ISA and together get a total of £6,000 in bonuses. This boosts their maximum savings of £24,000 to £30,000.

If you open a Help to Buy ISA, you will be unable to open a cash ISA in the same tax year.