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YOUR WINDOW ON FINANCIAL MATTERS

INSIDE THIS ISSUE

COULD YOU BE AN ISA MILLIONAIRE?

Individual Savings Accounts (ISAs) are a great way to invest free of tax on the income and any capital gains. The amount you can put in each year has gradually increased. A growing number of people are becoming 'ISA millionaires' as a result of rising stock market prices, and the steady increase in the annual ISA allowance.

GENEROUS ANNUAL LIMITS

The allowance for the 2017-18 tax year is set at £20,000, meaning that couples can put away up to £40,000. Sadly, it seems that the ISA message hasn't filtered through to everyone. HMRC has produced data that shows only two thirds of those earning more than £150,000 a year use up their ISA allowance each year.

With pension contributions subject to annual and lifetime limits, ISAs represent an excellent way of topping up retirement income, although the cash or shares could be subject to inheritance tax on death, unlike the types of pension that can be passed on to beneficiaries more tax-efficiently.

MAKING IT TO A MILLION

If you were able to invest your full ISA allowance in a stocks and shares ISA every year, the ISA limit increased by around 2% each year, and your investments made an annualised return of 5% after fees, you too could join the elite band of ISA millionaires in 22 years (purely an example for illustrative purposes). Of course, we must underline that this is not guaranteed, because stock markets can and do go down as well as up.

PLANNING FOR YOUR FUTURE

If you're planning to invest this tax year, it's a good idea to put plans in place as early as possible. The longer your money is invested, the more time it has to produce tax-free returns.

You can't carry any unused ISA allowance into the next tax year, so don't risk missing out on the valuable tax breaks available. We can help you investigate the choices on offer, and help ensure you use your allowance wisely.

GLOBAL MARKETS WERE SURPRISINGLY BULLISH

Investors found much to be cheerful about in 2017, a year which was characterised by a general upswing in the global economy. Several stock markets worldwide traded at all-time highs, European manufacturing bounced back and the Bank of England finally increased interest rates.

It's now over a year since Donald Trump was elected, and while his administration has been dogged by political scandal, all has been relatively quiet on the investment front. Just a few days after Trump's inauguration in January 2017, the Dow reached a new symbolic high of 20,000 and continued to go on rising.

It was the same picture in the UK. The shock election vote failed to dent the rise of the FTSE 100, 250 and All-Share indices which all reached record highs in the first half of 2017. The UK economy grew by a higher than expected 0.4% in the third quarter of 2017, compared with 0.3% in the first two.

Europe was one of the year's best performing markets, despite the reappearance of political tensions in the form of movements towards Catalan independence in Spain.

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.

ONE IN THREE RETIREES WILL HAVE TO RELY ON THE STATE PENSION

The Financial Conduct Authority recently carried out research[1] into the financial arrangements of just under 13,000 consumers in the UK. The results make for worrying reading. One of the findings that really stands out is that 31% of UK adults have no private pension provision, meaning they may have to rely solely on their state pension in retirement.

The report highlights that many people find pensions very confusing and have no idea what they will have to live on when they retire. The full state pension is currently £159.55 per week, but is only available to those who have a complete record of National Insurance contributions. The study also revealed that only 35% of 45 to 54-year-olds have given serious thought to how they will manage in retirement. The sad fact is that the longer people leave it before addressing their pension needs, the harder it is to achieve a reasonable level of income in retirement.

PUTTING PENSIONS INTO PERSPECTIVE

Pensions auto-enrolment has been a very positive initiative that has resulted in far more young people paying into a pension than ever before. However, if workers only put in the minimum amount, this is unlikely to be enough to build up a sizeable pension.

The self-employed often regard their business as their pension, or say that they plan to keep working as long as possible. However, this is a high-risk strategy, as they might not find a buyer when they want to sell, or may find that ill-health prevents them soldiering on.

So, if you're self-employed, an employee, work part-time, run your own business or have accumulated pension pots with past employers, we can offer you advice about saving for a pension. After all, retirement should be an enjoyable and fulfilling stage of life, not a time spent worrying about money.

[1] FCA, Financial Lives Survey, Oct 2017

WHERE WILL YOU LIVE IN RETIREMENT?

Later-life housing is a growing market, with around 60% of projected growth in households over the next two decades set to be among those aged 65 and over[1]. Moving home at any age is almost always a stressful and emotionally-challenging time, and arguably the longer you leave it, say in your late 70s or 80s, the more challenging it is likely to become.

Many people who move into retirement housing do so reactively, perhaps because of a decline in fitness and health, rather than part of their forward planning. This has led many to the view that we should all think more carefully earlier in our lives about where we might want to live in our retirement years, and plan for this in the same way that we plan our retirement income. Some experts think consideration should commence in your 40s.

LOBBYING FOR CHANGE

It's estimated that although nine out of ten of those aged 65 to 79 live in under-occupied housing, and could free up much-needed family homes if they were happy to move to a smaller retirement unit, there are only around 515,000 units of specialist retirement and 'extra care' housing in England. This figure only equates to enough specialist housing to accommodate 5% of those aged over 65.

Being able to downsize to a smaller, easier to maintain property can allow people to remain living in their own home for longer, easing the pressures on the residential care sector. Obviously, people should be free to choose how and where they live in retirement. However, there are clearly many people who would like to downsize, but are put off both by the cost and the lack of suitable accommodation.

Policymakers are said to be actively considering various moves, like scrapping stamp duty on retirement homes, the development of purchase plans for the elderly, similar to the current Help to Buy scheme, and offering help with costs associated with moving home.

[1] International Longevity Centre UK, 2017

DON'T LEAVE YOUR LOVED ONES FACING FINANCIAL RUIN

Many people take out a life policy, perhaps when they take out a mortgage, put it away in a drawer and don't think any more about it. This can be a mistake, as the level of cover you took out a few years back may now not be enough to cover your current situation, and you could risk leaving your loved ones facing major financial difficulties if you were to die.

Figures from a major insurer show that 40% of Britons only have enough life insurance in place to cover their mortgage[1], which could result in financial strain on their families, as they would still have to meet all their other household bills and expenses.

REGULAR REVIEWS MATTER

Everyone should think about reviewing their life insurance cover on a regular basis, especially if they've experienced a major life event like starting a family. Having cover just to pay off your mortgage might have sufficed before you had the added responsibility of being a parent, but now you'll want to ensure there's sufficient insurance in place not only to pay off your mortgage, but also to provide additional funds to ensure your loved ones could continue to have a reasonable standard of living if you were to die.

When they have a growing family to provide for, many people also opt to take out critical illness insurance. This is designed to pay out a tax-free lump sum in the event of a diagnosis of a serious illness (as defined in the policy). Income protection cover can also be appropriate, as it would pay out a monthly income, tax-free, if you were unable to work due to an illness or injury.

Protection policies can safeguard your finances, your home and your family in the event of incapacity, a serious illness, accident or death. We can help make sure that as your life changes, your cover changes to match your circumstances.

[1] Direct Line, 2017

DO WE NEED TARGETS TO HELP US SAVE MORE FOR RETIREMENT?

The Pensions and Lifetime Savings Association (PLSA) has come up with a suggestion to help people keep their pension plans on track. It has called for savings targets to be put in place to help individuals save enough for a good pension for their retirement years.

According to their research[1], 13 million people haven't made sufficient pension provision and 78% of those aged between 18 and 64 don't know how to go about finding out how much pension they will receive when they retire.

The PLSA is considering developing a new set of benchmarks that will help savers by providing target figures for them to aim for. Retirement income targets are commonly used in Australia, and can help people become more informed about their pension by explaining how much they need to save to achieve different standards of living in retirement – such as minimum, modest and comfortable.

GETTING THE RIGHT ADVICE

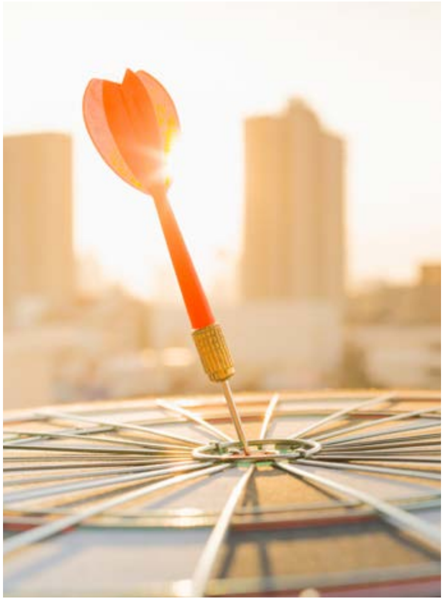
Whilst most people know that they should save regularly throughout their working lives to accumulate enough to retire on, fewer people are aware of how much they might need to live on, or whether their current pension arrangements are on track to achieve their goals.

Research[2] has shown that the average person in the UK thinks that they will need an income of £29,700 a year when they retire; what they are often not so clear about is that to achieve this level of income, they would need to have accumulated a pension pot of around £364,000 on top of a full state pension.

This is where getting advice can really help. We can provide valuable insight into how much your current pension savings are worth, what level of income you can expect to retire on, and what steps you can take to improve your standard of living in your later years.

[1] Pensions and Lifetime Savings Association, Nov 2017

[2] One Family, Nov 2017



ADDRESSING YOUR PERSONAL FINANCE WEAK SPOTS

No matter what age you are it's likely you have a financial weak spot. In fact, it's pretty much inevitable, no one's financial armour is infallible. What steps can you take to shore up your defences?

MONEY'S TOO TIGHT TO MENTION

Younger people are often struggling to save, let alone contribute towards a pension, whilst trying to afford a foot on the housing ladder and possibly paying off student debt. The repercussions of the financial crash, staggeringly high house prices and pay stagnation, are just some of the pressures this demographic has to contend with.

Classic weak spots for millennials tend to include budgeting and saving, mortgage affordability and debt. A recent study[1] delved into millennials' attitudes and behaviours around saving for retirement. The research found that only 8% ranked pension savings in their top two savings priorities.

Top tips include spending time working on budgeting skills, start small and often with savings and pension contributions, you'll be surprised how quickly they add up. Don't opt out of a workplace pension, look to maximise contributions, if possible. Work hard to reduce any debt, this is key to a successful mortgage application.

SQUEEZED MIDDLE

For the squeezed sandwich generation, struggling with the pressures of caring for children and possibly elderly parents, weak spots can include credit card debt, protection insurance and mortgage debt, plus retirement planning.

Debt levels are usually high, combined with high living expenses, often stifling savings opportunities. Retirement planning is a low priority and some mortgage holders are financially stretched with little protection if their income falls.

The best approach here is to take advice – by taking an holistic view of your finances, including your mortgage, savings, insurance, investments, pensions, and savings and protection, you are able to take control of your finances in one; an ultra-efficient approach.

Also work on building savings, paying off debt, rediscover small pension pots you may have left behind when you switched jobs and consider consolidation. If you haven't started a pension, it's better late than never.

OVER 55 AND BEYOND

With the ability to access your pension from age 55, confronted with a range of options, you become the prime target for scammers. Often with healthy funds available, as time progresses financial vulnerability can creep in. Weak spots therefore include confusion regarding pension options, scams and losing confidence.

It's really important to take time to understand the different options for withdrawing a pension by taking professional advice, never underestimate the value of advice. Be scam savvy, never respond to unsolicited approaches regarding your pension.

SELF-EMPLOYED

Not to be overlooked, the self-employed can belong to any generation. The UK now has a record number of self-employed workers, 4.86 million, representing more than one-in-seven of all in employment[2]. Recent HMRC figures reported that personal pension saving amongst self-employed workers has fallen to an all-time-low of just 350,000. Pension saving for the self-employed is clearly a weak spot which needs prioritising.

[1] Royal London, The Millennial Mosaic, Nov 2017

[2] Aviva, Oct 2017

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.

HIGHLIGHTS FROM THE AUTUMN BUDGET 2017

- Stamp duty abolished immediately for first-time buyers purchasing properties worth up to £300,000
- To help those in expensive areas, the first £300,000 of the cost of a maximum £500,000 purchase will be exempt from stamp duty, with the excess of up to £200,000 incurring 5% duty
- Not applicable in Scotland unless Scottish government decides to follow suit
- Pension lifetime allowance to increase in April 2018 to £1,030,000
- Higher-rate tax threshold to increase to £46,350 from April 2018 (Scotland may differ)
- ISA limit for 2018/19 to remain at £20,000
- JISA and CTF allowance will be uprated in line with CPI to £4,260 in 2018/19

IF YOU WOULD LIKE ANY ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.