Winter 2018

Wise Words

the latest financial news from Aaron Tawny

Wishing you a Very Merry Christmas and a Prosperous 2019

Honest advice from Aaron Tawny

Half of pensioners plan to work on into retirement

Retirement is a much more fluid concept than it once was. According to a recent survey, 54% of respondents who were considering working into retirement, or who were already doing so, said they valued the opportunity to keep active in mind and body.

Around 8% of those scheduled to retire in 2018 have postponed their plans as they cannot afford to retire. Of these, nearly half blamed the rising cost of living for their decision.

These findings underline the importance of saving as much as possible as early as possible, so you can choose when you retire.

Stocks and Shares ISAs increasingly popular

Figures from HM Revenue and Customs (HMRC) have revealed that during the 2017-18 tax year, stocks and shares ISAs rose in popularity with 246,000 more accounts opened in the last tax year, compared to the previous tax year. This translates to a record inflow of £6.4 billion, bringing the total to £28.7 billion.

One in seven will be paying their mortgage at 70

With more people getting onto the housing ladder later in life, many homeowners are facing the prospect of paying their mortgage out of their retirement income or continuing to work into their old age. Recent research indicates than one in seven will still be paying their mortgage at the age of 70.

With more lenders providing a greater choice of later life mortgages, older borrowers could find that there is a better mortgage option available to them, so taking professional advice makes sense.

Pension Withdrawals hit £2.3bn

There's growing evidence that pensioners are treating their pension pots more like bank accounts. In the second quarter of this year, savers withdrew £2.3bn, according to data produced by HM Revenue and Customs, an increase of 35% on the first quarter.

The money withdrawn represented full or partial withdrawals, flexible drawdown or the purchase of a flexible annuity, with more younger people accessing their pensions, often before state pension age.

Cashflow planning can help plan your likely cashflow and can help you identify how much you can sustainably withdraw from your pension, without jeopardising your future financial security and wellbeing.

Cashflow planning is a key part of establishing a retirement plan and entails taking an in-depth look at your finances. It takes into consideration income, outgoings, assets and liabilities, and helps you plan effectively both for current needs and future requirements, like care in old age. It can also help you take decisions like whether you should downsize at retirement, or how much you can afford to give to family members during your lifetime.

Give your kids a head start with a JISA

Junior ISAs (JISAs) have continued to grow in popularity, with the number of accounts increasing from 794,000 in the 2016–17 tax year, to 907,000 during the 2017–18 tax year, figures from HM Revenue and Customs (HMRC) have revealed. The amount held in stocks and shares JISAs went up from £1.37bn to £1.85bn in 2017–18.

JISAs are held in your child's name and provide a tax-free way to save for your child until they are 18. You can contribute up to a total of £4,260 during the current tax year.

IHT – under the spotlight

According to figures from HM Revenue and Customs, Inheritance Tax (IHT) revenues are up again, with £5bn being paid in the 2017–18 tax year. This increase comes despite the introduction of the residence nil-rate band in 2017.

With more families falling into the IHT bracket, campaigners are hoping that the current review by the Office of Tax Simplification, will pave the way for a simpler and fairer system.

In the meantime, whilst we're awaiting the outcome of the review:

What assets can be passed on free of IHT?

- Everyone has a nil-rate band enabling them to pass £325,000 of assets tax-free. Most gifts made more than seven years prior to death are also free of IHT, as are gifts made between married couples and civil partners. Additionally, the residence nil-rate band rises annually, reaching £175,000 in the 2020-21 tax year.
- There's a £3,000 gifting allowance each tax year (if unused, this can be carried over for one year). Wedding and civil partnership gifts are exempt, up to £5,000 to a child, £2,500 to a grandchild, or £1,000 to anyone else. Gifts of up to £250 per beneficiary per tax year are exempt, provided the recipient hasn't received part of the £3,000 allowance.
- Regular gifts from income can be exempt in certain circumstances. There is normally no IHT payable on gifts to charities or larger political parties. Pensions are not usually counted as part of an estate for IHT purposes, though other taxes may apply in some circumstances.

Inheritance Tax is complex; professional advice is always recommended.

For more information call us on 01536 512724

National Insurance Credits:

Tens of thousands still missing out on pension perks

As many as 90,000 grandparents and family members are missing out on a little-known perk that can increase their State Pension.

National Insurance Credits for those who look after young children can be worth up to £230 a year in retirement.

Insurance firm Royal London said 90% of those eligible were failing to claim the perk, known as Adult Specified Childcare Credit.

It is for family members who look after their relatives' children.

Parents or main carers can claim National Insurance Credits under a separate scheme.

In the year to September 2017 there were 9,486 applications for the credit.

Under the rules, any family member who looks after a child under 12 can make a claim, if the child's main carer or parent is working.

They also have to be of working age. Many claimants are grandparents.

As with parents who stop work to care for children, National Insurance (NI) credits make up for gaps in contributions. Workers now need to have 35 years of NI contributions to claim the full State Pension.

"This National Insurance credit is a valuable right, and it is good news that the numbers claiming have risen so dramatically in such a short space of time," said Steve Webb, Royal London's policy director.

"But we believe that there are tens of thousands more grandparents who could be entitled to benefit, and we would encourage more of them to find out about the scheme and to make a claim."

The Department for Works and Pensions (DWP) advised people to get to know their pension, and find out what they may be entitled to.

Parents who claim Child Benefit automatically receive NI credits while they have a child under 12.

NS&I Premium Bonds:

Lower minimum investment and gifting facility

As confirmed in the Autumn Budget (29 October 2018), NS&I has announced several future enhancements to Premium Bonds, which will encourage a stronger savings habit and boost the opportunity for young people to save:

- The minimum investment for Premium Bonds will be reduced from £100 to £25
- People other than parents and grandparents will be able to purchase Premium Bonds for children under 16
- NS&I to launch new app to make saving easier

Under-30s to work into their 70s

Recently published data in October by the government actuary suggested state pension age will be 70 in the 2050s and 71 in the 2060s, meaning anyone aged 30 or below will not get their state pension until they are 70, and those age 20 or younger will have to wait until they are 71.

Is green going mainstream?

We listen very carefully to what our clients have to say about the ways they would prefer to invest. Increasingly, clients are telling us that they want their investments to help build a more sustainable future, as well as generate a financial return. That's why a range of Socially Responsible Investment (SRI) portfolios have been introduced.

The SRI portfolios aim to maximise long-term profits by investing in global businesses with real concern and respect for wider social, environmental and economic issues.

One of many SRI portfolios we have recently been studying is the Close Brothers Socially Responsible Investment portfolios. The Close SRI portfolios typically invests in forward looking companies that are creating solutions to tackle global problems.

The starting point for the Close Brothers SRI portfolios are the United Nations' Sustainable Development Goals, which promote prosperity and sustainability. Many companies have developed frameworks from these goals, and are growing their profits in alignment with them.

It's the job of the Close Brothers SRI team to translate these goals into profitable investment opportunities.

Unlocking the development potential within the United Nations Sustainable development Goals

The Close Brothers SRI portfolios mirror the UN's commitment to the promotion of prosperity and sustainability. They ensure that the companies they invest in are moving the world forward in a positive way.

- Over 60% of UK investors would like their money to make a positive contribution to society and the environment.
- 55% of people surveyed believe businesses have the power to solve many of the biggest challenges the world faces today.
- In 2013 ethical spending was £54bn, exceeding that spent on cigarettes and alcohol combined
- Circa 3 million consumers are now actively boycotting companies over their tax avoidance and other unethical policies
- 8 out of 10 investors are interested to find out more about responsible investing products. This rises to 9 out of 10 for millennials
- Two thirds of 25-34 year olds said that if an SRI fund was easily available they would invest
- 37% of millennials would invest in SRI via their pensions

The role of Lifetime Mortgages in paying for elderly care

Current market trends highlighted that increasing numbers of lifetime mortgages had been used to pay for care. In the 2016 general election the spiralling cost of home care took centre stage.

This consideration is also reflected in the needs of clients seeking financial advice in retirement as the cost of future care can create uncertainty and challenges for clients

Whether a lifetime mortgage is part of a financial planning tool or used as a source of revenue to pay for care, it is clear that it will have a major role to play in the future.

Lifetime mortgages are used to improve clients' quality of life to varying degrees.

Our qualified advisers have helped many clients overcome the issue of paying for care with the help of a Lifetime mortgage. A perfect example of this, was highlighted recently.

Our clients are a married couple in their early 80's who have managed by themselves in their own home. Their health over recent years has started to deteriorate affecting their ability to complete their daily routines.

They did not want to leave their family home to move into residential care but were concerned that the cost of help within their home was not affordable on their current income.

We were able to secure a Lifetime mortgage which allowed the clients to initially release money from their property to fund some small alterations to their home, and also to set aside a reserve facility for the clients to withdraw from to pay for ongoing care costs as and when they needed.

Lifetime mortgages are used to improve clients' quality of life to varying degrees. For some it would reduce financial stress and struggle, for others the released money allows for a few treats and flexibility that would not normally be achievable within their day to day budgets.

Most common reasons for a Lifetime Mortgage

Through our advisory process at Aaron Tawny we have been able to identify the current most common reasons why our clients have taken out a Lifetime mortgage are:

1. Pay for care costs
2. Pay for home improvements
3. To fill an income shortfall in retirement
4. To help their family members financially
5. To repay an interest only residential mortgage
6. To repay other debt

The whole team at Aaron Tawny is now qualified to advise on all types of Equity Release schemes.

Quarter of over-55s unaware of Pension Tax

More than one in four (27%) of over-55s do not know they have to pay tax on their pension savings if they take the full amount as cash, research from Legal & General (L&G) has found.

The firm's Price of Freedom study, which surveyed more than 2,000 over-55-year-olds, also showed that 21% of people would be "shocked" to have to pay tax on their pension, while 37% who expect to get their savings tax-free think that they wouldn't have to pay any tax on a lump sum greater than the 25% threshold.

Up the Tawnys!!!!!

We are now the proud sponsors of Oadby Owls under 8s.

Andy's youngest son plays for a team called Oadby Owls, which is one of the largest football clubs in Leicestershire, with teams ranging from under 6 through to veterans, Andy is also the Manager of the team. Each age group has several teams with each team given an owl related name. The team that Andy and his son are associated with are called the Tawnys, so when the opportunity arose to support the club and become the team's sponsor, we flew at the chance!!! This is the team's first season together and after a very promising start to the league season, they continue to go from strength to strength and have recently won their first trophy.

A Little Lite Relief

The Pope was visiting a very run down area of a city to see if he could help some of the children in the area make better lives for themselves. He was asking a group of children if there was anything he could do – one boy asked if he could help with his hearing – the Pope offered to try and placed his hands on the boys head and paused for a few minutes in silence. The Pope then said to the young boy – "is that any better"? - to which the boy replied "I won't know yet as my hearing isn't until next Tuesday".

There was a man whose name was Unbelievable. He was married to a very nice woman and the 2 of them were a very contented couple. One day Unbelievable was so sick he knew he was dying. He called his wife and said to her "darling I have spent my whole life being called by this idiotic name and now that I am dying, promise me one thing – please do not put this idiotic name Unbelievable on my grave".

You can put a saying, or a picture, anything but not my name. So his wife agreed and when he sadly died she put the following saying on his grave: Here lays a faithful husband who never betrayed his wife. From that day people would pass by and read the gravestone and say "It's Unbelievable".

Christmas Donation

We have donated this year £200 to *Forget me Not* appeal at Kettering General hospital which has gone towards helping them create a courtyard garden at the hospital for dementia patients, a worthwhile charity we are sure you will agree.

We hope you find this a useful and informative read. With our constant strive for excellence in customer service we always appreciate your feedback, whether good or bad.

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