Whiting & Partners Wealth Management Ltd

Bulletin

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SEPT/OCT 2019

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The lasting power of peace of mind

More people are now setting up a Lasting Power of Attorney (LPA), not just those in later life.

The growing use of LPAs isn't surprising given the ageing population, but it is a mistake to think that they are just for the elderly or those in failing health. Accident or illness can occur at any time of life.

In England and Wales there are two types of LPA: one covering health and welfare, the other for property and financial affairs. You can set up either or both types, but for LPAs to be legally valid they must be signed, witnessed and registered with the Office of the Public Guardian. In Scotland, Powers of Attorney are slightly different.

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When you choose an 'attorney' you can pick a spouse, partner, relative or friend, or even a professional such as a local solicitor, although remember that they are likely to charge for this service. An attorney must be over 18 and mentally capable of making decisions for themselves. Bankrupt individuals cannot be appointed for financial LPAs.

You don't need substantial assets to benefit. At the simplest level, an LPA can allow your designated attorney to access your bank account and ensure that bills get paid. However, you have to give express permission, before an attorney can use the powers granted under a property and financial affairs LPA, or be deemed mentally incapable of making such decisions.

You may set up an LPA and never need it, but should your health fail it can provide peace of mind that a trusted friend or relative would look after your affairs.

✢ *The Financial Conduct Authority does not regulate will writing, trusts and some forms of estate planning.*

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TAX

Simplifying inheritance tax rules?

Major changes proposed to inheritance tax (IHT) could alter your estate planning.

The Office of Tax Simplification (OTS) spent 18 months looking at IHT and has now produced two linked reports. The second contains a wide range of proposals that could have a big effect on your estate planning. These include:

- You should only have to live five years – not seven, as now – before a lifetime gift ceases to be subject to IHT. The little-understood taper relief should also be abolished.
- The rules for IHT business property relief (BPR) should be aligned with those for capital gains tax (CGT), resulting in fewer businesses qualifying for the relief. The CGT rules at death should also be reformed.
- A new single 'personal gifts allowance' should replace the current £3,000 annual exemption and the marriage/civil partnership exemption (up to £5,000 for parents). Inflation-linking would have increased the exemption to around £12,000.

- The level of the small gifts exemption (still £250 as in 1980) should be reconsidered. Again, inflation-linking would have increased the amount to just over £1,000.
- The rules for normal expenditure gifts should be reformed or replaced by a higher personal gifts allowance.
- Pay-outs under term assurance policies should be free of IHT. Currently, it is necessary to write such contracts under trust to keep them out of the policyholder's estate on death.

Like most reforms, the OTS proposals would create winners and losers. To understand which category you would fall into and any pre-emptive actions that can be taken with your financial planning, please talk to us.

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PLANNING

Future-proofing your finances

The unknowns in your financial outlook can always shift, especially when you come up to retirement.

One of the best tools for looking at the future is to use long-term cash flow planning to project your likely long-term expenditure and the income required to meet it.

At this point, you may not be able or wish to continue working to shore up against future financial challenges, so you will need to think about how stopping or reducing work will impact on your lifestyle and spending habits. For example, you may have paid off your mortgage, but you might want to move to another property or settle elsewhere.

Working out what expenditure is essential (such as utility bills) and what could be dropped if the financial resources dip (such as eating out) is a useful first step. These outgoings will need to be covered by your income and capital resources, including earnings from work, state and other pensions and rental income, as well as total returns from savings and investments.

Cash flow projections pull together these possible expenditure and income outcomes to show whether you are likely to have a deficit or a surplus over your expected lifetime. A surplus could allow you to increase your expenditure, such as making gifts to your family.

A deficit forecast may mean you should reconsider your spending plans and see where you can make cost savings. If you have the choice, you might want to rethink your retirement date and focus on additional pension or other saving. It is hardly surprising that long-term cash flow modelling has grown into one of the most valuable planning tools.

✢ The value of your investments, and the income from them, can go down as well as up and you may not get back the full amount you invested.

Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.

PROTECTION

Mind the insurance gender gap

Women generally insure themselves for much smaller sums than men, although both buy life insurance and critical illness cover in roughly equal numbers.

The average level of cover for a man's life insurance policy is around £130,000, but only around £85,000 for women's policies, according to an analysis of policies by software company IRESS. The gap is even larger with critical illness policies, which pay out if you are diagnosed with one of the listed critical conditions. Here, the average cover taken out by women is around half the average cover for men.

On average, women earn less than men, by about 10% according to the latest gender pay gap figures. But that isn't enough to explain the huge difference in levels of cover, which indicate that women seem at higher risk of being under-insured than men.

Insurance experts say couples tend to buy more life insurance for the higher-earner. But both partners should have adequate protection — most families depend on two incomes and a reasonably equal share of childcare.

INVESTMENT

Taking the long view on your investments

Trade wars between the US and China, as well as Brexit and tensions in various parts of the world, have all made markets more volatile in recent months. Unsurprisingly, private investors have become more nervous.

A recent survey by leading investment house Schroders revealed that almost three-quarters of UK investors said they were influenced by political developments and market movements, and check their investments at least monthly. Nearly one in five investors said that they were waiting for the dust to settle before making investment decisions.

So is it the wisest choice to allow political uncertainties and market swings to colour your investment judgements?

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Five-year plans

Most investment experts agree that an investor should expect to hold share or bond-based funds for a minimum of five years. The longer the holding period, the more likely it is that funds invested in shares will outperform cash deposits or bonds – although there is no certainty that this will happen. Over five years or more, most of the headline-grabbing news normally fades away or is overtaken. The value of taking a longer-term approach is well illustrated in a table from the latest Barclays Equity Gilt Study.

	Number of consecutive calendar years				
	2	3	4	5	10
UK shares outperform £ cash	69%	71%	73%	76%	91%
UK shares outperform £ bonds	68%	74%	75%	72%	77%

Source: Barclays Equity Gilt Study 2019

For example, UK shares outperformed cash deposits in nearly three-quarters (73%) of four-year periods over the 118 years from 1900 to the end of 2018. Shares outperformed cash in over nine out of ten periods of ten years.


Credit: Istock/Nikada

Look back at the past five years from the start of 2014 to the end of 2018. The UK experienced two general elections, two referendums, the resignation of a prime minister and the election of Donald Trump in the US. Despite all these upheavals, investors in UK shares who stayed the course received an overall return of 22.2% against just 1.8% from cash.

Of course, stock markets can fall and sometimes they can drop very quickly. But the rebounds from falls can also happen quickly and are likewise hard to predict. A very small number of days have historically generated a surprisingly large proportion of total long-term returns. Over the last 30 years to 2018, about 0.2% of days generate roughly half of total performance.

So if you come out of the market, you could be missing out on key growth moments. Ignoring the short-term noise in favour of paying attention to longer-term developments has two other benefits: your investment turnover will be lower, reducing overall costs, and you can stop worrying unnecessarily about the daily changes in investment values.

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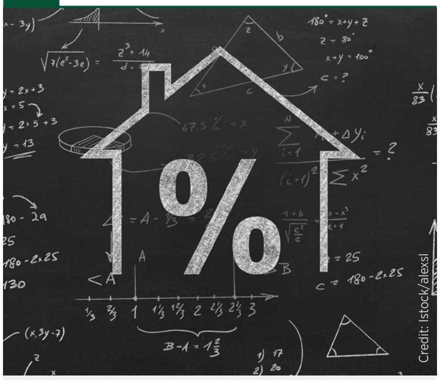
TAX


Credit: Istock/alexsl

Homing in on capital gains

Draft legislation confirms a further tightening of the rules on capital gains tax (CGT) and your home.

The government has been reforming the tax system to make investment in residential property less attractive. Actions have included increasing stamp duty land tax (mirrored in Scotland and Wales), reducing tax relief for mortgage interest and, from next tax year, creating a 30-day time limit for paying CGT on any residential property sale profits.

There will be two further new changes from April next year:

- A reduction in the 'final period exemption'. This is the period in which no CGT applies to a former main residence, and it will be halved to nine months in most circumstances – a problem if you buy your new home before selling your old one.
- Letting relief, which exempts up to £40,000 of gain from tax, will only be available if the owner remains in shared occupancy with the tenant. So it won't apply where the owner moves out.

The government's explanatory note says that "These changes are intended to make private residence relief fairer and...better targets...reliefs at owner occupiers, in line with broader tax strategy to promote home ownership".

If you are thinking of moving home but retaining your current property, both measures provide food for thought.

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EDUCATION

Time for a university fees shake-up?

A review of post-18 education in England has put student financing under the spotlight yet again – and could be the subject of another bout of reform.

The review suggested several major reforms in response to growing criticism of the level of university tuition fees. While these reforms focused on the system in England, they could prompt a response from other parts of the UK as well. The main proposals were:

- The cap on university tuition fees should be reduced from £9,250 to £7,500 a year by 2021/22, frozen for 2022/23 and inflation-linked from 2023/24.
- For new students from 2021/22, the annual income threshold at which loans start to be repaid should be cut from £25,000 to £23,000 (in 2018/19 values). The loan repayment rate should remain at 9% of income above the threshold.
- The maximum repayment term for these new students would be extended from the current 30 years to 40 years.
- Means-tested maintenance grants should be reintroduced and the eligibility thresholds revalued in line with inflation.

A surprising consequence of the proposals would be that the total repaid by the highest-earning graduates would be less than under the current rules. But those on 'middle of the range' graduate earnings could end up paying a lot more as a result of the ten-year extension of the repayment term.

These proposals would change important aspects of student financing, but most graduates would still start their working lives with a substantial amount of inflation-linked

debt. Some will end their working lives 40 years' later in a similar situation.

If you have children or grandchildren heading for university in the coming years, you should factor their education costs into your planning.

PENSIONS

Workplace pensions – a good start but not enough

This October marks the seventh anniversary of the start of workplace pension auto-enrolment, perhaps proving that some grand government schemes can be a success.

Auto-enrolment has hugely increased the number of people in workplace pensions. By April 2018, nearly nine out of ten eligible employees were workplace pension members (85% in the private sector, 93% in the public sector), according to recently issued figures from the Department for Work and Pensions (DWP).

Pension contributions for employees are still too low, however, and need to be increased, as the government acknowledged in a review issued late in 2017. The review suggested that around 12 million people were "under-saving for their retirement", with most of those under-savers earning more than £25,000 a year. Higher earners are more likely to be not contributing enough because there is no longer any earnings-related element to the state pension.

One sector of the working population has been left untouched by auto-enrolment – the self-employed. Their numbers have been growing rapidly, but their pension participation has seen a continuous decline from 27% in 2008/09 to just 15% in 2017/18.

The government will probably find some mechanism to raise minimum contributions again, although this may not happen until the middle of the next decade. In the meantime:

- *If you are an employer,* remember that every three years you must re-enrol any employees who have left your pension scheme.
- *If you are an employee,* talk to us about whether you need to pre-empt that contribution increase to meet your retirement goals.
- *If you are self-employed,* make sure that you are not among the 85% making no pension contributions.

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INVESTMENT

Goodbye, Help to Buy ISA

The Help to Buy ISA (HTBISA) will be closed to new savers after 30 November 2019. Existing savers will be able to continue making contributions for a further ten years.

Nearly 220,000 homes have been bought using the HTBISA since its launch in 2015. The demise of this type of ISA is due to the launch in April 2017 of the Lifetime ISA (LISA), which also incorporates a tax incentive for homebuyers.

The LISA is usually a more attractive option than the HTBISA, but there are circumstances where the HTBISA is the winner. If you, your children or grandchildren have not bought a first home, check with us whether you or they should start a HTBISA before December arrives.

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