4 SHIRES

ASSET MANAGEMENT

MAY/JUNE 2024

ENHANCING PENSION CONTRIBUTIONS FOR A BRIGHTER FUTURE

NEW TAX YEAR, NEW YOU? MAXIMISE YOUR PENSION SAVINGS THIS NEW TAX YEAR



CHANGES TO INDIVIDUAL SAVINGS ACCOUNTS IN 2024
Why savers and investors now have a more flexible approach

COSTS OF LATER-LIFE CARE
Establishing a thorough wealth strategy is key to ensuring financial readiness

NAVIGATING INHERITANCE TAX
How to pass on assets to the next generation to secure their future for tomorrow

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INSIDE **THIS ISSUE**

Welcome to our latest issue. As we embark on the new tax year, on page 08, we consider why reviewing your pension savings strategy presents an opportune moment, setting a solid foundation for future financial stability. Early attention to your private pension at the onset of the fiscal year is not just about cultivating beneficial saving habits; it's also about ensuring you take advantage of the benefits and allowances available to you.

Individual Savings Accounts (ISAs) offer a versatile and tax-efficient way to save for the future, whether for yourself, your children or grandchildren. Now that we have entered the new financial year, significant changes to ISAs have been introduced. From 6 April, savers and investors now have a more flexible approach to using their ISA allowance. For the first time, individuals can open multiple accounts of the same type of ISA within a single tax year, from 6 April one year to 5 April the next, provided they do not exceed the annual ISA limit. Read the full article on page 06.

The financial implications of care in later life are often underestimated, leaving many unprepared for the substantial costs associated with care homes. On page 05, we look at why establishing a thorough wealth strategy is key to ensuring financial readiness for long-term care needs.

Inheritance Tax (IHT) represents a significant consideration for anyone looking to pass on assets to the next generation. With the IHT threshold frozen until at least April 2028, understanding how to manage your estate's potential IHT liability is more crucial than ever. Turn to page 10 to read more.
A complete list of the articles featured in this issue appears opposite.

SAFEGUARDING, EXPANDING AND CULTIVATING YOUR WEALTH

Make wise choices with expert guidance. Secure the potential for a prosperous future through our personalised financial planning services. We're here to assist in safeguarding, expanding and cultivating your wealth. For an in-depth conversation about your needs or to learn more, get in touch with us.

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INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

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BRITONS PROCRASTINATE **ON MAKING A WILL**

RESEARCH IDENTIFIES THAT OVER HALF OF ADULTS DO NOT HAVE A WILL

Recent research has uncovered that a staggering 51% of adults in the UK have neither penned a Will nor are they in the process of doing so[1]. This statistic encompasses 13% of individuals affirmatively declaring no future plans to undertake this task.

Alarmingly, a significant portion of the older demographic, with 30% of those aged 55 and above, also finds themselves without a Will, including 9% who have decisively chosen not to create one. The primary deterrent for many is the perception of insufficient assets or wealth, cited by 26% of respondents, indicating a widespread misconception about the necessity of a Will.

COMMON MISCONCEPTIONS AND FEARS

A considerable number of Britons, 23%, procrastinate on making a Will under the assumption that there is ample time to address this matter. Additionally, the subject of Wills, intertwined with the discomfort of contemplating mortality, deters 15% of the population. Others express reluctance to engage with legal professionals (8%) or incur the costs of drafting a Will (14%).

The apprehensions surrounding the absence of a Will are significant; 27% fear leaving behind a cumbersome amount of paperwork for their loved ones, while 23% worry about the misallocation of their estate.

IMPACT OF NOT HAVING A WILL

The repercussions of not having a Will extend beyond mere inconvenience. Many express concerns over the potential for lengthy resolution processes (18%) and fears of familial disputes (15%). Interestingly, a sizeable 41% of respondents claim to harbour no worries regarding the lack of a Will.

Among those who have taken the step to create a Will, 55% employed the services of a solicitor. By contrast, a smaller fraction, 16%, opted for a DIY approach, including handwritten attempts and online services. Despite the autonomy of creating one's own Will, 61% did not seek legal or financial counsel during the process.

IMPORTANCE OF CREATING AND UPDATING YOUR WILL

The hesitancy to draft a Will often stems from various reasons, including perceived time abundance, misconceptions about wealth requirement and apprehensions regarding costs or equitable estate division.

Nonetheless, the importance of drafting a Will transcends these short-term concerns, offering long-term peace for your loved ones by mitigating potential burdens in unforeseen circumstances. For those who have taken the proactive step of creating a Will, it is crucial to periodically review and update it, particularly following significant life events such as divorce, to reflect current wishes accurately. ◀

TIME TO TAKE THE NEXT STEP TOWARDS PEACE OF MIND?

Preparing or updating your Will is crucial in securing your legacy and ensuring your wishes are honoured. If you have any questions, need further information or require professional assistance with drafting or revising your Will, we're here to help. We look forward to assisting you every step of the way. Don't leave your future to chance.

Source data:

[1] The survey conducted by Opinium among a national representative sample of 2,000 UK adults between 23–27 February 2024.

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PRUDENCE OF **PERSEVERANCE IN INVESTING**

MAINTAINING AN INVESTMENT STANCE CENTRED ON THE POTENTIAL FOR LONG-TERM GROWTH

For investors, the perennial question of whether to 'stick or twist' with their current investments or pivot towards the perceived safety of cash is fundamental. Numerous factors influence this decision, which plays a pivotal role in the journey towards financial prosperity.

The appeal of cash, particularly in uncertain times, is clear; however, a judicious choice to remain invested frequently emerges as the more astute strategy.

THE CASE FOR LONG-TERM INVESTMENT

The argument for maintaining an investment stance centres on the potential for long-term growth. Historically, investment options such as stocks have consistently outperformed inflation and delivered significant returns over prolonged periods.

The magic of compound interest, where your investments earn returns that, in turn, generate their own earnings, can dramatically increase the value of your initial stake, potentially leading to exponential growth over time.

THE FUTILITY OF MARKET TIMING

The endeavour to time the market, shifting to cash in downturns and returning in upswings, is beset with difficulty. Even the most experienced professionals often fail to make consistently accurate timing decisions – a fact highlighted by Warren Buffett, who attributes his success to a mere dozen 'truly good' investment choices.

Predicting market movements can be challenging, especially in bull markets - when the prices of stocks or other assets generally rise over a sustained period of time, usually accompanied by optimism and confidence among investors. It's like a market on the rise, where people expect good things to continue happening. Investors may sell at low points and miss subsequent recoveries or remain in cash during bull markets, thereby forfeiting potential gains. This underscores the principle that 'time in the market, not timing the market' is a more reliable pathway to capturing long-term growth.

DIVERSIFICATION AS A RISK MANAGEMENT TOOL

Diversification is a key tenet of sound investing. By allocating resources across a variety of asset classes, sectors and themes, investors can mitigate the risks associated with specific market segments.

Staying invested allows for the upkeep of a diversified portfolio, which serves as a buffer against market volatility. Such portfolios often experience smoother performance trajectories, as positive returns from certain assets can help offset losses in others. This proves particularly beneficial during economic slumps when specific sectors might lag.

HIDDEN COSTS OF HOLDING CASH

Holding cash may seem like a prudent financial safety net, offering immediate liquidity and a sense of security. However, this approach has drawbacks, as it effectively sidelines the potential for higher returns from other investment avenues.

Embracing a long-term investment strategy is key to preserving and enhancing the real value of your wealth over time, navigating past the limitations imposed by cash holdings.

EMOTIONAL TURBULENCE IN INVESTING

The investing journey can be fraught with emotional upheaval, particularly during market volatility. By committing to a long-term investment stance, investors are better equipped to sidestep the behavioural pitfalls of fear and greed, which often precipitate rash decisions.

A robust investment strategy, centred around long-term objectives, can help instil confidence that enables investors to endure the tempests of market fluctuations with composure.

MITIGATING TAX IMPACTS ON INVESTMENTS

The influence of taxation on investment outcomes cannot be overstated. Liquidating assets could trigger a Capital Gains Tax payment, potentially carving a significant slice from your profits. A commitment to remain invested, deferring the realisation of these gains, offers an avenue to mitigate tax liabilities, thereby bolstering the efficiency of your investment portfolio.

The annals of financial history are replete with instances of market resilience and the inevitable cycles of downturn and recovery. Although economic setbacks, such as recessions and market crashes, are inescapable, they can potentially set the stage for subsequent periods of growth. Staying the course allows investors to partake in the recovery, harvesting the rewards of economic upturns.

REMAINING INVESTED BECOMES INCONTROVERTIBLE

In light of the compelling arguments for long-term growth prospects, the psychological steadiness afforded by a consistent investment approach, tax advantages and the historical patterns of economic recovery, the logic for remaining invested becomes incontrovertible.

While maintaining a reserve of cash for emergencies or imminent expenditures is wise, the strategy of continued investment is eminently sensible if it matches your risk profile, needs and circumstances. ◀

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DO YOU WANT TO DISCUSS PLANNING OPPORTUNITIES FOR YOUR INVESTMENT PORTFOLIO?

Ensuring the alignment of your financial plan with your investment portfolio and periodically reviewing your investment strategy is key to ensuring it remains aligned with your financial aspirations and risk tolerance. To discuss how we can help you take advantage of long-term investment, please get in touch with us.

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COSTS OF **LATER-LIFE CARE**

ESTABLISHING A THOROUGH WEALTH STRATEGY IS KEY TO ENSURING FINANCIAL READINESS

The financial implications of care in later life are often underestimated, leaving many unprepared for the substantial costs associated with care homes. Establishing a thorough wealth strategy is key to ensuring financial readiness for long-term care needs.

In England, individuals with assets exceeding £23,250 are currently required to self-fund their care home expenses. However, a new government proposal aims to introduce an £86,000 lifetime cap on care fees starting from October 2025, designed to simplify care fees planning and potentially reduce the financial burden on individuals.

UNDERSTANDING THE £86,000 CAP ON CARE FEES

The proposed cap on care fees, often referred to as the 'social care' cap, intends to limit the personal financial contribution towards long-term care costs. At first glance, the cap appears to offer considerable relief; after an outlay of £86,000, further personal care costs would ostensibly be covered by one's local authority.

Yet, it's crucial to recognise that this cap exclusively pertains to personal care costs, leaving individuals responsible for additional expenses such as accommodation and living costs. Moreover, the intricacies of what expenditures count towards the cap mean that many may find themselves contributing significantly more than £86,000 for their care.

CHANGING LANDSCAPE OF SOCIAL CARE FUNDING

The government's proposal extends beyond the care fees cap and includes adjustments to the capital thresholds associated with means-tested social care funding. Key changes the government is proposing from October 2025 are introducing an £86,000 'cap' on how much an individual has to spend on personal care costs over their lifetime and increasing the upper and lower capital thresholds for means-tested social care funding to £20,000 and £100,000.

At present, the social care upper limit is £23,250, and the lower limit is £14,250 in England. If your assets are above £23,250 and you don't qualify for NHS support, you must pay full care fees. If your assets are below £14,250, then the local authority will pay for your care costs. Any income you do have will be used to pay part of your care fees.

FORWARD PLANNING FOR CARE COSTS

The thought of requiring long-term care and the financial implications that come with it is often met with apprehension. The unpredictability of needing social care in later life, coupled with potential changes in care requirements, underscores the importance of early financial planning.

Securing professional financial advice and incorporating care costs into your retirement plans can demystify the expenses involved, enabling you to address them tax-efficiently. This preparatory step clarifies cost implications and strategies for maximising tax benefits.

TAX PLANNING AND ANNUITIES FOR CARE COSTS

Addressing care home costs effectively involves a blend of strategies, including tax planning and considering annuities for care fees. Tax planning for care homes focuses on implementing measures to manage the tax implications of financing and affording care home expenses.

The goal is to optimise financial resources while ensuring necessary care is received without incurring excessive tax liabilities. Alternatively, annuities for care home fees offer a financial mechanism to cover retirement care costs, providing a regular income stream in exchange for a lump sum payment to an insurance company.

STRATEGIES FOR MANAGING CARE EXPENSES

Annuities serve as a viable option for managing care home fees, offering a lifetime income following an initial lump sum payment, akin to purchasing any other annuity. The cost and subsequent income are determined by an assessment of medical records and expected lifespan, ensuring the arrangement meets the individual's needs.

Notably, if the annuity income is paid directly to a registered care provider, it may be tax-exempt, further enhancing its appeal. These financial products also afford flexibility, including provisions for spouses and adjustments for inflation, adding a layer of security to your financial planning for care. ◀

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DO YOU REQUIRE EXPERT GUIDANCE AND SUPPORT TO PLAN FOR FUTURE CARE COSTS?

We're ready to offer expert guidance and support if you require additional information or assistance in planning for future care costs. We are committed to helping you navigate the intricacies of care planning and financial management, ensuring your financial wellbeing and security in later life. Contact us today to explore how we can assist you in achieving your financial goals and providing a comfortable and secure future.

Source data:

[1] https://ukcareguide.co.uk/rise-in-care-home-costs/

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CHANGES TO INDIVIDUAL SAVINGS ACCOUNTS IN 2024

WHY SAVERS AND INVESTORS NOW HAVE A MORE FLEXIBLE APPROACH

Individual Savings Accounts (ISAs) offer a versatile and tax-efficient way to save for the future, whether for yourself, your children or grandchildren. Now that we have entered the new financial year, on 6 April 2024, significant changes to ISAs have been introduced.

Since April 6, savers and investors have had a more flexible approach to using their ISA allowance. For the first time, individuals can open multiple accounts of the same type of ISA within a single tax year, from 6 April one year to 5 April the next, provided they do not exceed the annual ISA limit. This marks a departure from previous rules, which annually restricted savers to one account per ISA type.

PARTIAL TRANSFERS AND THE BRITISH ISA

In addition to this newfound flexibility, the rules now permit partial transfers of funds from current tax year ISAs into different types of ISAs, enhancing the ability to tailor savings strategies to personal needs. Furthermore, the government has proposed a new 'British ISA' featuring a separate £5,000 allowance aimed at investments in UK-based companies on the UK stock market.

The Chancellor's announcement of the British ISA during this year's Spring Budget seeks to complement the existing £20,000 annual ISA allowance. This initiative is still under consultation, with a deadline set for 6 June, signalling a potential boost for domestic investment.

DIVERSE SPECTRUM OF ISAs

The ISA regime offers a variety of options to cater to different financial goals and risk appetites. Whether prioritising safety, growth or a mix of both, there's an ISA type to match most requirements. From Cash ISAs, known for their simplicity and tax efficiency, to Stocks & Shares ISAs, which offer the potential for higher returns albeit with increased risk, choosing the right ISA depends heavily on individual circumstances.

CASH ISAs

Cash ISAs serve as a cornerstone for risk-averse savers, providing a straightforward, tax-efficient haven for cash savings. Cash ISA products can be easy access accounts that allow immediate withdrawals or fixed rate accounts that reward savers for committing their funds for a predefined period. Although these accounts can offer both higher and lower interest rates typically offer lower interest rates than standard savings accounts, they present a valuable tax shield, especially for those who have maximised their savings allowance or anticipate doing so.

The allure of Cash ISAs lies in their tax advantages. Interest earned within these accounts does not contribute to the saver's personal savings allowance, thereby offering a tax-efficient growth environment for savings. This feature is particularly beneficial for higher rate taxpayers and those with substantial savings, making Cash ISAs an option despite potentially lower interest rates compared to non-ISA savings accounts.

STOCKS & SHARES ISAs

Stocks & Shares ISAs, sometimes referred to as 'investment ISAs', present an opportunity for individuals to diversify their investment portfolio across a broad spectrum, including collective investment funds, Exchange Traded Funds (ETFs), investment trusts, gilts, bonds, and stocks and shares. This form of investment carries an inherent risk since the value can fluctuate significantly; however, historically, the stock market has offered returns that surpass those of traditional savings accounts over extended periods.

Investors can choose investment funds within a Stocks & Shares ISA, where funds are amalgamated with those of other investors and managed by a professional fund manager, diluting the risk associated with individual investments failing.

> **INVESTORS CAN CHOOSE INVESTMENT FUNDS WITHIN A STOCKS & SHARES ISA, WHERE FUNDS ARE AMALGAMATED WITH THOSE OF OTHER INVESTORS AND MANAGED BY A PROFESSIONAL FUND MANAGER, DILUTING THE RISK ASSOCIATED WITH INDIVIDUAL INVESTMENTS FAILING.**

Proceeds from Stocks & Shares ISAs are tax efficient. This encompasses both capital gains and dividends derived from the investments within the ISA. The convenience of not having to report these investments on a tax return simplifies the investment process, making Stocks & Shares ISAs an appealing starting point for newcomers to the investment world.

LIFETIME ISAs

The Lifetime Individual Savings Account (ISA) presents a unique opportunity for individuals aged between 18 and 40, potentially benefiting your children or grandchildren. For each pound deposited into the account, the government offers an additional 25p, tax-free. With an annual contribution limit of £4,000, savers can receive a maximum bonus of £1,000 per year.

This fund can be used to purchase a first home worth up to £450,000 or for retirement savings, functioning similarly to a pension scheme. It is important to note that funds can be freely accessed after the age of 60 to supplement retirement income. However, early withdrawals for other purposes incur a 25% penalty.

The Lifetime ISA is available in two forms: Cash ISA and Stocks & Shares ISA. The market for Cash ISAs within this category is limited, with only a handful of providers. The £4,000 contribution towards a Lifetime ISA is counted within the broader £20,000 annual ISA allowance.

JUNIOR ISAs

Turning our attention to Junior ISAs (JISA), these are designed for individuals under the age of 18. This financial year allows for an investment of up to £9,000 in either cash or stocks and shares. Access to the funds is restricted until the beneficiary turns 18, at which point full control over the account is granted. From the age of 16, they can manage the account, making it an ideal option for those looking to foster financial independence in their youth. From the start of the 2024/25 tax year, the minimum age to open a Cash ISA increased to 18.

ISA TRANSFERS

The flexibility to transfer across different ISA providers and types (from cash to stocks and shares or vice versa) enhances the appeal of ISAs. However, verifying transfer policies with your chosen providers is critical, as not all permit transfers. Direct withdrawals and transfers should be avoided to maintain the funds' tax-efficient status. Instead, the recommended approach involves initiating the transfer through the receiving provider, who will manage the process on your behalf through a straightforward form.

ISAs AND SPOUSAL INHERITANCE

When it comes to managing the financial aftermath of a loved one's passing, understanding the nuances of how Individual Savings Accounts (ISAs) can be inherited is key. An ISA can be transferred to a surviving spouse while retaining its coveted tax-free status, offering a silver lining during such difficult times.

However, it's important to note that no further contributions can be made to the ISA once the original owner has passed away. Nevertheless, any increase in account value during the probate period remains exempt from tax. For the surviving spouse, this transfer includes an additional ISA allowance, which is calculated based on the higher of two values: the cash or investments inherited or the market value of the ISA at the time of the original holder's death.

NON-SPOUSAL BENEFICIARIES

The situation becomes markedly different when ISAs are bequeathed to beneficiaries other than the spouse. In these instances, the value of the ISA may fall within the scope of Inheritance Tax (IHT), which is levied at a rate of 40% on portions of the estate exceeding the current £325,000 (2024/25) IHT threshold. This significant tax implication underscores the importance of proactive estate planning to effectively navigate the potential fiscal impact. ◀

ARE YOU CONTEMPLATING OPENING AN ISA OR TRANSFERRING BETWEEN ACCOUNTS?

From the growth-focused Lifetime ISA to the foundational Junior ISA, understanding the nuances and options available is crucial for maximising benefits. Please get in touch with us if you're contemplating opening an ISA or transferring between accounts and require further guidance. We can assist you in navigating these options to secure your financial future.

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ENHANCING PENSION CONTRIBUTIONS **FOR A BRIGHTER FUTURE**

NEW TAX YEAR, NEW YOU? MAXIMISE YOUR PENSION SAVINGS THIS NEW TAX YEAR

As we embark on the new tax year, it presents an opportune moment to review your pension savings strategy, setting a solid foundation for future financial stability. Early attention to your private pension at the onset of the fiscal year is not just about cultivating beneficial saving habits; it's also about ensuring you fully exploit the benefits and allowances available to you.



> **THE ANNUAL PENSION ALLOWANCE REPRESENTS THE MAXIMUM SUM THAT YOUR EMPLOYER AND ANY EXTERNAL PARTIES CAN CONTRIBUTE TO ALL YOUR PENSION SCHEMES WITHIN A TAX YEAR WITHOUT TRIGGERING A TAX CHARGE.**

Delaying until the end of the tax year might seem convenient, yet acting early and promptly in this new tax year allows your investments more time to grow. Leveraging the power of compound growth can significantly bolster your pension pot and, by extension, your retirement prospects.

MAXIMISING YOUR ANNUAL ALLOWANCE

The annual pension allowance represents the maximum sum that your employer, you as the individual and any external parties can contribute to all your pension schemes within a tax year without triggering a tax charge. As established last year, this cap is set at £60,000 or 100% of your annual earnings, depending on which is lower.

For those without earnings, the maximum tax relievable contribution would be £3,600 gross, and for individuals who have commenced withdrawals from their pension funds, they might face the Money Purchase Annual Allowance, lowering their allowance to £10,000. If your financial situation permits, maximising your pension contributions early in the tax year enables you to fully utilise the annual allowance and potentially reduce your tax liability if your earnings are equal to the annual allowance or more.

SECURING EXTRA SAVINGS THROUGH TAX RELIEF

Tax relief stands as a compelling incentive, rendering pension plans amongst the most tax-efficient vehicles for retirement savings. For the majority of UK taxpayers, this equates to a government top-up of 20% on pension contributions, effectively reducing the cost of a £100 addition to your pension to just £80 from your pocket.

Higher and additional rate taxpayers may be entitled to further relief, though claims beyond the basic rate require a self-assessment tax return. It's worth noting that some workplace pensions may apply tax relief differently, such as through salary sacrifice schemes, so it's advisable to verify the specifics with your employer.

LEVERAGING WORKPLACE PENSION SCHEMES

Workplace pension schemes significantly enhance your ability to save for retirement, with compulsory contributions from both you and your employer. A minimum total contribution of 8% of your qualifying earnings is required, including at least a 3% contribution from your employer.

Many employers are willing to match your contributions up to a certain level, potentially doubling the investment in your retirement fund. Investigating whether increasing your contributions could lead to higher employer contributions is an astute strategy for maximising your pension growth.

LEVERAGING BONUS SACRIFICE FOR PENSION ENHANCEMENT

In the realm of financial planning, particularly regarding retirement savings, the concept of bonus sacrifice stands out as a strategic manoeuvre. Employees who receive work bonuses have the opportunity to allocate a portion or the entirety of these bonuses directly into their pension schemes.

Some employers may be willing to match your contributions up to a certain level, potentially doubling the investment in your retirement fund. Investigating whether increasing your contributions could lead to higher employer contributions is an astute strategy for maximising your pension growth.

OPTIMISING TAX-FREE PERSONAL ALLOWANCE

The tax year 2024/25 offers individuals a tax-free Personal Allowance of £12,570, a crucial figure in personal finance management. However, this allowance decreases by £1 for every £2 of income above £100,000, ultimately disappearing once income surpasses £125,140.

By strategically contributing to your pension, you can lower your taxable income and potentially reclaim any lost personal allowance. This results in receiving tax relief at an effective marginal rate of 60%, a significant advantage for your pension contributions.

SECURING CHILD BENEFIT THROUGH PENSION CONTRIBUTIONS

Adjustments announced in the March 2024 Spring Budget have positively impacted the High-Income Child Benefit Charge threshold, now raised to £60,000 from 6 April 2024. With the complete cancellation threshold also increased to £80,000, fewer families will find their Child Benefit reduced or nullified.

Enhancing pension contributions can effectively diminish taxable income for those with earnings within these brackets, thereby retaining Child Benefit entitlements. Even for earners above £60,000, applying for Child Benefit to accrue National Insurance credits remains beneficial, which is vital for the State Pension. ◀

TIME TO EXPLORE HOW TO ENHANCE YOUR PENSION?

Navigating the complexities of pension contributions and tax benefits requires careful consideration and professional financial advice. If you need further clarification or wish to explore more personalised financial strategies to enhance your pension, we are here to assist. Please do not hesitate to contact us for support and guidance to help you achieve a secure and prosperous retirement.

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A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX PLANNING.

NAVIGATING **INHERITANCE TAX**

HOW TO PASS ON ASSETS TO THE NEXT GENERATION TO SECURE THEIR FUTURE FOR TOMORROW

Inheritance Tax (IHT) represents a significant consideration for anyone looking to pass on assets to the next generation. As of the 2024/25 tax year, IHT incurs a 40% charge on the portion of an estate exceeding the nil rate band of £325,000, excluding transfers to a spouse or registered civil partner.

Additionally, introduction of the main residence allowance in 2017, offering an extra £175,000 relief when a primary residence is bequeathed to direct descendants or where an individual has moved into a care home, enables individual allowances to reach £500,000 before IHT applies cumulatively.

However, this allowance diminishes for estates valued above £2 million and comes with specific conditions, highlighting the importance of proactive IHT planning. With the IHT threshold frozen until at least April 2028, understanding how to manage your estate's potential IHT liability is more crucial than ever.

EFFECTIVE ESTATE PLANNING STRATEGIES

A cornerstone of estate management and IHT management involves maximising the use of gift allowances. The law permits unlimited transfers between UK-domiciled spouses or registered civil partners without incurring IHT. For gifts to others, the annual exemption allows you to give away up to £3,000 per tax year, potentially carrying forward any unused allowance to the next year, enabling a £6,000 gift.

Further opportunities for IHT-free gifting include small gifts of up to £250 per person annually, donations to qualified charities and institutions, and wedding gifts within certain monetary limits, depending on your relationship with the couple. These strategies reduce your taxable estate and allow you to see your beneficiaries enjoy their inheritance during your lifetime.

REDUCING ESTATE VALUE THROUGH INCOME GIFTING

Another straightforward method to minimise your estate's IHT exposure is to gift excess income. This approach requires that gifts do not affect your standard of living, originate from surplus income rather than capital and be made regularly.

You can significantly lessen the future IHT burden by redistributing income that would otherwise increase your estate's value. Moreover, such surplus income could be channelled into funding a life assurance policy within a trust, providing further financial efficiency and peace of mind.

ASSET GIFTING CONSIDERATIONS

Gifting assets such as cash, art and property presents a viable strategy for reducing your future taxable estate's value. It's imperative, however, that once gifted, you derive no benefit from these assets to avoid them being classified as 'gifts with reservation', which could negate any IHT benefits.

Furthermore, to qualify as 'potentially exempt transfers', the '7-year rule' means you must survive for seven years following the gift. Failure to do so may result in the gifts being subject to IHT. Given the complexity of trusts, professional advice is prudent when considering gifts into trust, typically treated as chargeable lifetime transfers.

TAPER RELIEF

Years between gift and death	Rate of tax on the gift
3 to 4 years	32%
4 to 5 years	24%
5 to 6 years	16%
6 to 7 years	8%
7 or more	0%

MITIGATING INHERITANCE TAX THROUGH INSURANCE

Securing against potential IHT liabilities can be achieved effectively through insurance, especially for assets that are not easily transferred into trusts or gifted, such as real estate. Opting for a 'whole of life' assurance policy can serve as a strategic approach, ensuring a predetermined sum is available to settle any IHT due upon death.

Notably, if these premiums are financed using surplus income or within the £3,000 annual gift exemption, they evade classification as chargeable lifetime transfers. The policy must be placed in an appropriate trust to ensure the proceeds do not augment the value of the estate and thus remain outside the scope of IHT.

STRATEGIC INVESTMENT IN BUSINESS RELIEF

In addition to insurance, investing in assets eligible for Business Relief (BR) presents a viable method for reducing IHT liability. Such assets once held within an IHT portfolio for a minimum of two years—and assuming ownership at the time of death—are subject to 0% tax. This encompasses a range of unlisted companies and certain AIM-listed stocks.

While this strategy introduces a greater degree of investment risk compared to other avenues, it offers the distinct advantage of retaining access to your capital without the necessity to survive an additional seven years, as is typically required. However, it is essential to acknowledge that this form of investment, predominantly in small capitalisation equities, is considered high risk due to the inherent volatility and uncertainty of growth, making it a long-term commitment.

IMPORTANCE OF PROFESSIONAL GUIDANCE

Given the speculative nature of investments focused on small capitalisation and AIM-listed stocks, potential investors should proceed with caution. The possibility of substantial fluctuations underscores the need for such investments to be viewed with a long-term perspective. Furthermore, the regulatory landscape governing IHT and the tax treatment of specific investment vehicles, like AIM shares, could evolve, potentially affecting their suitability as part of an IHT mitigation strategy.

Therefore, obtaining professional financial advice is indispensable. Tailoring financial strategies to individual circumstances and maximising the efficacy of available tax reliefs demands a comprehensive understanding of current regulations and personal financial objectives. Efficiently managing your estate to mitigate IHT liabilities requires careful planning and a thorough knowledge of the available allowances and exemptions. ◀

ARE YOU LOOKING FOR TAILORED ADVICE TO SECURE YOUR LEGACY?

If you require further information or wish to discuss tailored estate planning solutions, we are ready to provide you with the guidance and support needed to navigate the complexities of Inheritance Tax planning. Contact us today to secure your legacy for tomorrow.

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THE FINANCIAL CONDUCT AUTHORITY DOESN'T REGULATE TRUST PLANNING AND MOST FORMS OF INHERITANCE TAX (IHT) PLANNING. SOME IHT PLANNING SOLUTIONS PUT YOUR MONEY AT RISK, AND YOU MAY GET BACK LESS THAN YOU INVESTED. IHT THRESHOLDS DEPEND ON INDIVIDUAL CIRCUMSTANCES AND THE LAW. TAX AND IHT RULES MAY CHANGE IN THE FUTURE.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU COULD GET BACK LESS THAN YOU INVESTED.



RISING TREND OF **UNRETIREMENT**

14% OF THOSE AGED OVER 55 HAVE FOUND THEMSELVES RE-ENTERING THE WORKFORCE

In recent times, a significant portion of retirees, specifically 14% of those aged over 55, have found themselves re-entering the workforce, driven by the inadequacy of their pensions to meet rising living costs, according to new research[1].

This phenomenon, further compounded by an additional 4% contemplating a return to employment, highlights a growing trend among older generations striving to sustain their standard of living in retirement. Notably, this trend is more prevalent among men, with 16% returning to work compared to 12% of women.

FINANCIAL PRESSURES AND LIFESTYLE ASPIRATIONS

A closer examination reveals that financial constraints are the primary motivator for this shift, with nearly two-thirds (64%) of those who have 'unretired' citing income issues as the key factor. An alarming 32% reported that their living expenses had escalated beyond expectations, necessitating a return to employment.

Additionally, 24% acknowledged that their pension was insufficient for a comfortable livelihood. Interestingly, a sizeable group (31%) expressed a desire to enhance their retirement income to afford luxuries, illustrating a blend of necessity and aspiration driving the unretirement wave.

ADJUSTMENTS IN RETIREMENT PLANNING

This trend coincides with the Pensions and Lifetime Savings Association's (PLSA) recent adjustment to the anticipated retirement income, marking a 34% increase in the projected annual income required for a moderate lifestyle.

This adjustment, from £23,300 to £31,300, reflects rising costs in essential areas such as food, energy and transportation, alongside an additional allocation for assisting family members facing financial hardship. Such recalibrations underscore retirees' evolving challenges, prompting many to reevaluate their retirement and financial strategies.

BEYOND FINANCIAL MOTIVATIONS

However, financial necessity is not the sole driver behind the decision to return to work post-retirement. A considerable number of retirees are motivated by the desire to alleviate feelings of boredom (39%), loneliness (19%) and dissatisfaction (15%).

These emotional factors and the financial pressures exerted by the current economic climate are compelling retirees to reconsider their retirement plans. In response, more than one in ten (12%) are postponing retirement, while 3% are taking on additional employment to bolster their income.

ENHANCING RETIREMENT SAVINGS THROUGH EMPLOYER SCHEMES

Ensuring you fully utilise your employer's pension plan is a key strategy in preparing for retirement. If your employer offers a matching scheme for pension contributions, it's wise to contribute the maximum amount they are willing to match. This effectively doubles your investment towards your retirement savings, leveraging your employer's contribution to enhance the growth of your pension pot.

Moreover, if you're anticipating a bonus, allocating a portion or the entirety to your pension can be a tax-efficient move. This boosts your pension savings and reduces your immediate tax and National Insurance contributions, allowing you to retain a more significant share of your earnings over the long term.

CAPITALISING ON FINANCIAL MILESTONES

The path to a substantial pension pot is paved with strategic decisions at key financial milestones. Consider upping your pension contributions when experiencing a pay increase, benefiting from a tax reduction or finding yourself with surplus savings.

Adjusting your contributions in line with positive changes in your financial situation can make the increase feel less impactful on your disposable income while significantly boosting your pension in the long run. This approach is particularly beneficial for younger savers, for whom even small increases in contributions can compound into a considerable sum by retirement.

TAX BENEFITS AND STRATEGIC SAVING

A deeper understanding of the tax implications of pension contributions can lead to more efficient saving strategies. Directing parts of your income or bonuses into your pension plan can reduce your taxable income, which can lead to immediate tax benefits.

This strategy decreases your tax liability and secures a more significant portion of your earnings for retirement. The underlying principle is straightforward: save more now, pay less tax today and accumulate a larger retirement fund for the future. ◀

ARE YOU LOOKING TO OPTIMISE YOUR RETIREMENT PLANNING?

Additional information and tailored professional financial advice are invaluable for those looking to navigate the intricacies of pension contributions and optimise their retirement planning. To delve deeper into maximising your pension potential, please get in touch with us for expert advice customised to meet your unique needs.

Source data:

[1] Boxclever conducted research for Standard Life among 6,350 UK adults. Fieldwork was conducted 26 July–9 August 2023. Data was weighted post-fieldwork to ensure the data remained nationally representative on key demographics.

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A PENSION IS A LONG TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF BENEFITS AVAILABLE. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

LOOMING **PENSION PITFALL**

£50 BILLION OF HARD-EARNED PENSION FUNDS COULD BE IN JEOPARDY

Recent investigations by the Centre for Economics and Business Research have illuminated a daunting predicament facing the United Kingdom's pension sector[1]. An alarming £50 billion of hard-earned pension funds could be in jeopardy, lost within neglected accounts or dispersed amongst a myriad of forgotten pots.

In 2023, was surmised that upwards of 4.8 million pension pots had vanished from the radar of UK citizens, with approximately one in ten workers expressing concerns over a potentially misplaced pension pot valued at over £10,000.

The forecast suggests a stark escalation, with the aggregate number of UK pension pots set to surge by 130%, from the current figure of 106 million to 243 million by 2050. This burgeoning crisis is attributed to the increasing trend of job mobility among the youth and the ripple effects of auto-enrolment. This scheme has markedly bolstered workplace pension engagement since its inception in 2012.

GENERATIONAL GAPS AND ACCUMULATION TRENDS

A detailed analysis reveals a discernible disparity across different age groups in terms of pension accumulation. Individuals below 35 years of age have, on average, accumulated more pensions (2.4) compared to their mid-career (35 to 54 years: 2.1) and senior counterparts (over 55 years: 1.7), despite having shorter employment histories[2].

It is projected that the youngest cohort entering the workforce today will amass, on average, five pension pots by their retirement age of 68, with some individuals possibly gathering over twenty separate pensions throughout their career span. The likelihood of misplacing a pension pot is notably higher among the younger workforce – 25% believe they might have lost track of a pension, in contrast to 17% of those in mid-career and just 8% of older workers.

GOVERNMENT INITIATIVES AND INDIVIDUAL VIGILANCE

To address the escalating issue of unclaimed pensions, the government has put forth initiatives such as pension dashboards and the innovative 'pot for life' concept, aiming to alleviate the challenges of tracking multiple pension pots. The inadvertent neglect of pensions can lead to a less secure financial standing in retirement. Maintaining meticulous records of previous employment, alongside pension provider details, requires professional financial advice.

Furthermore, frequent job changes, particularly prevalent among the younger generation, accentuate the risk of accruing and subsequently losing track of multiple pension pots. This scenario underscores the necessity for governmental support and guidance in managing pensions effectively, ensuring a robust private pension framework to support the financial sustainability of an ageing population.

SECURING YOUR FINANCIAL FUTURE

As we navigate these changing times, the importance of being proactive in managing our pensions cannot be overstated. Consolidating pensions could be a prudent strategy for those seeking to safeguard their retirement savings and ensure a stable financial future. It's imperative to remain informed and actively manage your pension portfolio. ◄

READY TO SECURE YOUR FINANCES AND TAKE THE RIGHT STEPS TODAY?

Should you require further assistance or wish to explore more about securing your pension pots, do not hesitate to contact us for professional advice. Securing your financial future starts with taking the right steps today.

Source data:

[1] Analysis conducted by the Centre for Economics and Business Research, on behalf of PensionBee – a 'lost' pension pot is defined as one in which the connection between the owner and the pot is currently cut off. This doesn't mean these pension pots are lost forever, and they're likely recoverable – 19 March 2024.

[2] An average number of pension pots was created using respondents' estimates of how many pots they have. Where they were unable to provide one, we asked them how many employers they had in various time periods and multiplied that by the average pension enrolment proportion for the period. The weighted average number of pension pots of the general sample is multiplied by the number of UK adults as per ONS census data from 2021 to find the UK-wide total.

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