INSIGHT

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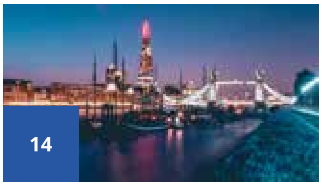

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WELCOME

In this new year edition, the beginning of the year is the optimum time when you may be thinking about resolutions. Although the current tax year does not end until 5 April 2019, tax planning really shouldn't be left last minute. Get a head start on your tax planning resolutions to enhance not only your own, but your family's or your company's tax-efficient plans in the future. On page 05, we set out the tax tips and actions which may be appropriate.

Although we all have different goals during our lifetime, there are some key goals that we'll all have in common, especially when it comes to retirement. Read more on page 06.

A pound saved is a pound earned. But, thanks to inflation, over time, the value of the pound saved could be worth much less than when it was first earned. Rising prices on investments should not be ignored and so on page 08, we look at ways investors can easily fail to prepare for the risk of inflation eroding the purchasing power of their money, especially in a low-inflation environment.

Future generational planning is at the core of both tax and financial planning and our joint managing director of our Financial Planning and Wealth Management Team; David Squire looks at the power of using pensions to benefit future generations on page 04, whilst our Tax Partner; Graham Poles says that families are simply not planning ahead sufficiently to pass wealth down to the next generations on page 12.

The full list of the articles featured in this issue appears opposite, and we hope you enjoy this Winter issue of our magazine. If you would prefer to download a digital copy or subscribe to new issues electronically, please visit https://www.armstrongwatson.co.uk/financial-planning-wealth-management.

Paul Dickson
Managing Partner

PENSION FREEDOMS

The power of using pensions to benefit future generations

SINCE THE INTRODUCTION OF THE 'PENSION FREEDOMS' IN APRIL 2015, A KEY BENEFIT IS THAT PENSIONS CAN NOW BE USED TO PRESERVE FAMILY WEALTH AND ENSURE THAT THEY ARE TAX EFFICIENTLY PASSED DOWN TO THE NEXT GENERATION.

The reality is that pensions can last for many generations and it is no longer a requirement that only a financial dependant can benefit (you may choose to nominate someone else), so a successor can be selected by the nominee to receive the benefits upon their death.

AGE 75

One key element of the new rules to consider is that if you die before age 75, any funds paid from your pension to your nominated beneficiaries are tax-free, whether they are taken as an income or a lump sum. This could benefit a spouse, child or grandchild, but if you die after age 75 the inheritor will pay Income Tax at their marginal rate on any withdrawals, whether as a lump sum or income, in the year it is paid to them.

NOMINATION AND EXPRESSION OF WISH

To be able to pass on pensions effectively it's important to ensure that your nominations and expressions of wishes are up to date and to find out how flexible your current pension scheme is where death benefits are concerned. Many pension schemes are not able to pass on a pension as an income and if this is the case the ability to cascade wealth down the generations is lost.

TAX

In most circumstances it is more tax-efficient following the death of an individual over age 75 to pass on a pension via a drawdown (or income) arrangement rather than a lump sum. A pension income can be withdrawn by the nominated beneficiary gradually (within tax allowances) rather than simply being paid as a taxable lump sum in a single tax year. Even if the recipient has no other income, a fund of over £46,200 (the High Rate tax threshold) will suffer 40% tax on at least part of the payment.

Taking into consideration further tax efficiencies, if your estate and your fund are going to children in different tax positions, you may want to consider leaving the pension funds to the lower taxpayer and the non-pension assets to the other, because the lower rate taxpayer will have less tax to pay on withdrawals.

INHERITANCE TAX (IHT) POSITION

The pension provider does have discretion over who receives the pension fund and your expression of wishes are not binding on them, so they will look at a number of factors before deciding who is to benefit from your fund. It can therefore be beneficial to select the individuals you would potentially like to benefit and allocate, say, 1% to each of them (say, your children and/or grandchildren).

The fund must be either paid out as a lump sum, or allocated to a drawdown pension within two years of death, but there is no requirement to take any income, just a designation into a drawdown arrangement. The same rules apply when the funds are passed onto a successor.

For those with an IHT issue, it may well be preferable to consider spending non-pension assets rather than reduce pension funds, which are effectively free from IHT in the majority of circumstances. This is because any other funds held over the nil rate band (£325,000 for an individual, £650,000 for a couple) are subject to 40% tax on death. Whilst funds held within a pension, as well as being outside your estate are also protected from income and capital gains taxes.

Putting your pension nominations in place as early as possible is essential to ensure that tax efficiencies are achieved and family wealth is maintained, and with sound planning it is possible to preserve pension wealth for the benefit of multiple future generations of your family.

As ever, the best way to ensure that your arrangements remain appropriate, is to take professional advice from an independent firm of Chartered Financial Planners. ■

David Squire
Financial Planning Joint Managing Director

AVOID THE MAD MARCH RUSH

Get a head start on your tax planning resolutions

THERE ARE A VARIETY OF TAX RELIEFS AND PLANNING IDEAS AVAILABLE TO ENTREPRENEURS, BUSINESSES AND INDIVIDUALS. AT ARMSTRONG WATSON FINANCIAL PLANNING AND WEALTH MANAGEMENT, WE ENSURE THAT YOU HAVE MADE THE BEST USE OF RELIEFS AND ALLOWANCES AVAILABLE. SHOULD YOU NEED TO DISCUSS IN DETAIL OR REQUIRE ADVICE ON ANY OF OUR TAX PLANNING IDEAS, PLEASE DO NOT HESITATE TO CONTACT US.

The current tax year ends on 5 April 2019. Now is the perfect time to get a head start on your tax planning resolutions to enhance your own, your family's or your company's tax-efficient plans for the future.

We have set out some tax tips and actions that may be appropriate to certain taxpayers. Reviewing your tax affairs now will ensure that available reliefs and exemptions have been fully utilised, together with future planning, which could help to reduce your tax bill.

It is important to ensure that, if you have not done so already, you take the time to carry out a review of your tax and financial affairs to identify any tax planning opportunities and take action before it's too late. Personal circumstances differ, so if you have any questions or if there is a particular area of interest you are interested in, please contact us.

HERE ARE OUR TIPS TO HELP YOU GET AHEAD ON MANAGING YOUR TAX AFFAIRS

Individual Savings Accounts (ISAs) – fully utilise your tax-efficient ISA allowance. The allowance for 2018/19 is £20,000 per person – and will remain so for 2019/20 – whilst the Junior ISA allowance is now £4,260 for children under 18, increasing to £4,368 for 2019/20. Also, if eligible, you can contribute up to £4,000 to a Lifetime ISA, although penalties apply for early withdrawal.

Capital gains – use the capital gains annual exemption of £11,700 (increasing to £12,000 for 2019/20) to release gains tax-free. The allowance cannot be transferred between spouses or carried forward.

Pension contributions – consider contributing up to £2,880 towards a pension for your non-earning spouse or children. The Government will add £720 on top – for free. Take full advantage of increasing pension contributions by utilising the annual allowance, which is £40,000 (tapered if you earn over £150,000). Unused annual allowances may also be carried forward from the previous three tax years. Anyone who has accessed their pension during a tax year may also be subject to the Money Purchase Annual Allowance (MPAA) which reduces the amount they can put into a pension.

Remuneration strategy – if you run your own company, it's a good idea to determine your pay and benefits strategy sooner rather than later. For 2018/19, the dividend nil-rate band is reduced from £5,000 to only £2,000, and will stay at £2,000 for 2019/20 – it's really important to consider the tax implications of your chosen approach to salary, benefits, pensions and dividends.

Gifting – you can act at any time to help reduce a potential Inheritance Tax bill when you're no longer around. Make use of the Inheritance Tax annual exemption to make gifts of £3,000. If unused, the exemption can be carried forward one year.

Transfer income-producing assets – consider transferring income-producing assets between your spouse or registered civil partner in order to use the Income Tax personal allowance and lower Income Tax bands of the transferee.

Overpayment and capital loss claims – submit claims for overpaid tax and capital loss claims for the 2014/15 year before 5 April 2019, after which such claims will be time-barred.

Landlords – for 2018/19, the restriction on deductibility of mortgage interest and other finance costs doubles from 25% to 50%. If you plan to take steps to mitigate the impact (such as incorporation, for example), you may save more tax by taking those steps earlier on in the year. In future years, the restriction will apply to 75%, and then from April 2020, 100% of finance costs incurred by individual landlords. ■

SAVE TAX – WE'RE HERE TO HELP

Not all these tax tips will be relevant to you, your family or your business. However, if you are interested in more information or to review your situation, please contact our Financial Planning Consultants at an office near you.

YOU HAVE ONE LIFE, SO INVEST WISELY

Identifying multiple risk profiles for multiple goals

THROUGHOUT OUR LIVES, WE WILL HAVE MANY DIFFERENT LIFESTYLE AND FINANCIAL GOALS THAT WE WOULD LIKE TO ACHIEVE. ALTHOUGH WE ALL HAVE DIFFERENT GOALS, THERE ARE SOME KEY GOALS THAT WE'LL HAVE IN COMMON, ESPECIALLY WHEN IT COMES TO RETIREMENT.

What do you want from your investments? Supplementing your income? Building your retirement pot? It's essential we tailor your investments to suit your goals. To understand your personal investing goals, you need to take into account all the needs and preferences that may shape your financial life.

When setting goals, you are forced to think hard about the various life aspects you care about and how much they will cost in future. This helps to put your expectations in perspective, so that you can align your savings with future requirements. It also prevents you from underestimating the amount of money you require for the future or being mislead about your savings ability.

INCREASING YOUR CHANCES OF ACHIEVING YOUR GOALS

The simple act of writing your goals down and sharing them with others increases your chances of achieving them. What are your objectives for the money you're investing? Do you want to accumulate money for a longer-term goal, such as a child's or grandchild's university education, or perhaps a comfortable retirement for yourself?

You might even have several goals, and each of those goals may require different investment approaches to achieve them. Before you decide to invest your hard-earned money, it is important to fully understand why you are investing and what you want to achieve.

PRIORITISING YOUR INVESTMENT GOALS

Growth: how much investment growth is appropriate and realistic to accomplish your objectives and meet your needs?

Cash flow: your portfolio ideally must sustain the ability to generate sufficient cash flow throughout your retirement.

Combination of growth and cash flow: you would like your portfolio to have the necessary growth to provide consistent cash flow. As with the pure growth goal, it's vital to understand what potential returns to expect.

Capital preservation: this aspect of goal-based investing refers to preserving the nominal value of your assets. Nominal values aren't inflation-adjusted, and this goal may be more appropriate for shorter-term cash-flow needs than for longer time horizons, as capital preservation over a long period can mean watching your purchasing power diminish.

Capital preservation and growth: these two goals are inherently at odds. Realistically, these cannot be pursued at the same time, as terrific as that may sound. Growth cannot be achieved without putting investment capital at risk. It will be necessary to segment the investment monies to nominate the required amount to be set aside with a view to capital preservation, with an amount being maintained separately for investment with a view to achieving growth potential.

Maintain or improve lifestyle: you have worked hard for your retirement and may wish to maintain or enhance your current lifestyle in your retirement years. This means growing your purchasing power over time. Ultimately, this goal requires a growth strategy that must offset the erosive effects of inflation.

Depletion, or spending every pound: although spending every pound before you die isn't a common goal among retirees, it does exist. But as you might guess, it is a risky proposition. There is no way to accurately predict your lifespan. And should you live longer than you expect, you could run out of money sooner than you had planned.

With your goals in place, you then need to know how much risk you can tolerate. Along the way, there will inevitably be periods of ups and downs – and while the former are celebrated, the latter can be frightening, even to the most seasoned investor.

REGULAR REVIEWS TO ACCOUNT FOR ANY CHANGES

Whatever your personal investment goals may be, it is important to consider the time horizon at the outset, as this will impact the type of investments you should consider to help achieve your goals. It also makes sense to review your goals with us at regular intervals to account for any changes in your personal circumstances.

BALANCED APPROACH TO RISK AND RETURN

Investment strategies should often include a combination of various approaches in order to obtain a balanced approach to risk and return. But the real measure of risk is whether or not you reach your financial goals. Maintaining a balanced approach is usually key to the chances of achieving your investment goals, while bearing in mind that at some point you will want access to your money. This makes it important to allow for flexibility in your planning.

When you know exactly what the money is for, the time you have to achieve those goals and your tolerance for risk, you can construct your investment portfolio accordingly. ■

HELPING YOU MAKE A PLAN TO REACH YOUR FINANCIAL GOALS

Achieving your financial goals – especially your long-term goals – requires a highly disciplined approach. No matter where you are in life, you will have financial goals you want to achieve. We can help you make a plan to reach them. To find out more or to discuss your future plans, please contact us.

INFLATION MATTERS

Impact of rising prices on investments

A POUND SAVED IS A POUND EARNED. BUT THANKS TO INFLATION, OVER TIME, THE VALUE OF THE POUND SAVED COULD BE MUCH LESS THAN WHEN IT WAS EARNED. ONE CANNOT IGNORE THE CORROSIVE IMPACT OF RISING PRICES ON INVESTMENTS. INVESTORS CAN EASILY FAIL TO PREPARE FOR THE RISK OF INFLATION ERODING THE PURCHASING POWER OF MONEY, ESPECIALLY IN A LOW-INFLATION ENVIRONMENT. THEREFORE, IT IS WISE FOR PORTFOLIOS TO INCLUDE ASSETS THAT HELP OFFSET THE EFFECTS OF INFLATION.

MAINTAIN THE PURCHASING POWER OVER TIME

After two years when consumer prices in the UK barely rose, there are signs that inflation may be about to return. If it does, how should you prepare? To help maintain the purchasing power over time, your savings need to grow at least as quickly as prices are rising.

The Bank of England forecasts that consumer price inflation will remain above 2% in each year until 2021. While nowhere close to historic highs, higher inflation stands in contrast to near-record-low interest rates offered on cash savings. Higher inflation represents a hike in the cost of everyday living – and the higher it rises, the less your cash will be ultimately worth. Rising inflation weighs on both real wages and savings returns for UK consumers.

BIGGEST ENEMY OF CASH SAVERS

Keeping enough cash aside to cover any foreseeable costs you might face is always sensible, typically three to six months of your monthly outgoings. However, relying solely or overly on cash might prevent you from achieving your long-term financial goals, which may only be possible if you accept some level of investment risk.

Worse, in an environment where the cost of living is rising faster than the interest rates on cash, there is a danger that your savings will slowly become worth less and less, leaving you worse off down the road.

SEEKING HIGHER INVESTMENTS RETURNS

If you are prepared to take on some investment risk, you could look at investing in a bond fund to look for higher returns. Bond funds invest in a basket of IOUs issued by governments and/or companies looking to raise cash. When someone invests in a bond, they are essentially lending the bond issuer their money for a fixed period of time.

But higher inflation can also be bad news for investors in bonds. Bondholders receive regular income payments, known as 'coupons', from the Government or company that issued the bond. Where coupons are fixed in value for the life of the bond – often several years – the real value of this income will be eroded if prices rise. The nominal value of the bond (known as the 'principal') will also be worth less when it matures and the loan is repaid.

INVESTOR INCOME RISING IN LINE WITH INFLATION

Protection against this threat is offered by inflation-linked bonds, whose coupons and principal will track prices. By linking coupons to prices, the income that investors receive will rise in line with inflation, so they should be left no worse off – unless, of course, the bond issuer fails to keep up with repayments (an unavoidable risk for bond investors).

If prices fall, however, so would the value of inflation-linked bonds and the income from them – in contrast to bonds whose principal and coupons are fixed – and so would then be worth more in real terms. If inflation falls, protection from it rising can therefore come at a price.

RELATIVELY STEADY AND PREDICTABLE INCOME

Broadly speaking, bonds are typically viewed as a lower-risk option than shares and generally offer a relatively steady and predictable income, though some bonds do carry higher risk than some shares.

Opting for a bond fund can help you diversify your risk, but these portfolios come in many guises, and some will carry greater investment risk than others. Generally, they will all hold bonds that are at various stages of their life and therefore will vary in value.

EQUITIES DURING INFLATIONARY PERIODS

To beat rising prices, the total returns from any investment – being the combination of capital growth and any income – must be greater than the rate of inflation. As a result, company earnings may have the potential to keep up with inflation, all things being constant, but there can be no guarantee of this – some companies may fail in inflationary times.

However, company shares (or 'equities') offer the potential for long-term investors to offset the effects of inflation. Ultimately, shares are claims to the ownership of real assets, such as land or factories, which should appreciate in value if overall prices increase.

STEADY INCOME STREAM AS WELL AS CAPITAL GROWTH

Equity returns, in theory, should therefore be inflation-neutral, so long as companies can pass on any higher costs they face and maintain their profitability. In turn, a company's ability to make money will typically be reflected in its share price and its ability to provide investors with an income in the form of a dividend.

Opting for a fund which invests in a wide spread of stocks is less risky than putting your money into just a handful of shares. While you could invest in a low-cost tracker fund, which will simply mirror the performance of a particular index (such as the UK's FTSE 100), equity income portfolios – which generally aim to deliver a steady income stream as well as capital growth – tend to be very popular with investors.

HIGHER INFLATION SQUEEZES PURCHASING POWER

These vehicles invest in the shares of dividend paying firms, or companies that tend to share their profits with their shareholders, and investors can opt to either take the income or instead re-invest it. It is vital to understand that dividends are not guaranteed: they depend on companies' profits, and those companies can decide to cut or cancel their payouts altogether – all of which can also cause share prices to fall.

Where higher inflation squeezes consumers' purchasing power, some companies may find it difficult to pass on higher costs, reducing profitability and, probably, investment returns. Just as a company can raise its dividend in line with inflation, it can choose to cut or stop the payout at any point. ■

STAYING AHEAD OF INFLATION

Inflation has been quiet for a very long time. But there are some signs that inflation may be about to return. If it does, are you prepared? It's essential to ensure your portfolio includes some areas that may benefit from or be resilient to interest rate rises. If you would like to discuss your investments or if you have any questions, please contact us.

INVESTMENTS DO NOT INCLUDE THE SAME SECURITY OF CAPITAL WHICH IS AFFORDED WITH A DEPOSIT ACCOUNT. YOU MAY GET BACK LESS THAN THE AMOUNT INVESTED.

SELF-EMPLOYED FINANCES

Looming pensions saving crisis on the horizon

THE NUMBER OF PEOPLE RUNNING THEIR OWN BUSINESSES HAS SOARED SINCE THE FINANCIAL CRISIS, WITH A SIGNIFICANT NUMBER BEING SET UP BY SOMEONE AGED OVER 50. BUT AN UNHEALTHY NUMBER OF SELF-EMPLOYED WORKERS IN THE UK DO NOT CURRENTLY SAVE INTO A PENSION.

New research[1] has highlighted that self-employed workers are heading towards a pension saving crisis as they cannot afford to save for their retirement. Starting your own business and becoming self-employed is exciting. But being your own boss can have some challenges – saving for retirement is certainly one of them.

The nationwide study found that more than two fifths (43%) of those working for themselves admit they do not have a pension, compared to just 4% of those in employment. A key reason is that 36% of the self-employed say they cannot afford to save for retirement.

LESS COMFORTABLE RETIREMENT

Self-employed workers now make up 15.1% of the UK workforce, with more than 4.8 million people working for themselves[2], but the research found they are heading for a less comfortable retirement, with many not planning to stop work.

Around one in three (31%) say they will be relying entirely on the State Pension worth around £8,545 a year to fund their retirement, while 28% will be reliant on their business to provide the income they need.

DAY-TO-DAY EMERGENCIES

Self-employed workers are savers, but the research found they are more focused on day-to-day emergencies than the long term of retirement. Two thirds (64%) of the self-employed save to build up a safety net in case of an emergency, in comparison with 57% of those in employment.

Just one in ten self-employed people see a financial adviser regularly, despite having potentially more complex requirements than someone in employment. One in five (19%) are not confident with money and financial matters, while a quarter (24%) worry that they do not know enough about money.

PENSIONS FOR THE SELF-EMPLOYED

All this adds up to an education gap when it comes to the importance of pensions for the self-employed, as 20% admit they do not take pension saving seriously as they do not think it applies to them.

Saving for retirement is tougher when you are self-employed, as there is no one to organise a pension for you and no employer making contributions on your behalf. On top of that, self-employed workers often don't have a regular income, so many will focus on setting aside money as a safety net if they cannot work.

FUNDING A COMFORTABLE RETIREMENT

Saving for a pension is still important, as no one wants to work forever. And no matter what your employment status, having money to fund your retirement is essential, as the State Pension is unlikely to be enough to fund a comfortable retirement.

If you leave an employer and become self-employed, you should continue to pay in to your workplace pension if possible. Some workplace pension schemes allow you to carry on saving once you have left your employer and become self-employed. ■

SUPPORTING YOUR RETIREMENT JOURNEY

Starting your own business will be a busy time, and you will be feeling the financial pressures from all directions, so it's understandable that a pension might not be on your immediate radar. Wherever you sit in your retirement journey, we're here to support you. Whether it's starting a pension, saving more into your plan or to help with your options for retirement, please contact us.

Source data:

[1] Consumer Intelligence conducted an independent online survey for Prudential between 20–21 June 2018 among 1,178 UK adults

[2] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2018-02-07

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

YOUR HOME OR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

TAX TREATMENT DEPENDS ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN THE FUTURE.

IHT SIMPLIFICATION?

Families are not planning ahead sufficiently to pass assets down to the next generations

DEALING WITH THE ESTATE OF SOMEONE WHO HAS DIED CAN BE STRESSFUL, BUT IT WAS GENERALLY NOT COSTLY. 18 MONTHS AGO, HOWEVER, THE GOVERNMENT MOOTED THE IDEA OF INCREASING THE FEES IN ENGLAND AND WALES – QUITE SUBSTANTIALLY.

STEALTH TAX

Inevitably, this was met with headlines such as 'stealth tax on the dead', and so with the surprise general election, the Government decided to shelve the increase. Unfortunately, this was not to be permanent, and in the past couple of months, they have confirmed an increase in Probate fees from April.

PROBATE FEES

Under the existing rules, when someone dies there is a fee charged for the grant of probate of £215. If using a solicitor, the fee charged is £155. From April, the fees will increase – but not by as much as previously thought.

The original suggestion would have seen the largest estates: over £2 million, facing a fee of £20,000. However, under the revised proposals, these estates will now pay £6,000, and whilst this is still a substantial increase over the current levels, it is not as bad as first expected. Families will need to be able to call upon this level of funds so that they can make the application and gain access to the deceased's estate.

POSITIVE NEWS

It's not all bad news, though, as the value of the estate below which no fee is payable will rise from £5,000 to £50,000. This will lift a great number of estates out of paying any fee at all, reportedly 2,500.

PLANNING IS ESSENTIAL

Unless you're planning to die before the new fees come into place – which is unlikely to be anyone's favoured option – there is little that can be done. Perhaps more people should consider gifting the larger probate to their children during their life, with the intention that this amount should be held for the future, if there is a concern that the amount will be an issue.

FURTHER CHANGES ON THE HORIZON FOR TRUSTS

It's likely that there are further changes ahead for Inheritance Tax (IHT) and trusts too, as the Office of Tax Simplification have completed the review of IHT. The Government have released the consultation on trusts and are looking to ensure that there is fiscal neutrality for such structures. The Government's focus is clearly on offshore trusts and the fact that these can remove assets from the charge, but they also have their sights set on the use of trusts passing assets down the generations. Currently, individuals can settle assets into a trust, and if the value of these assets is less than £325,000, then there's no immediate IHT charge. Once seven years have passed, these assets fall outside their estate, and then the exercise can be repeated. It is not clear what the Government are proposing instead of this arrangement, but what they want to ensure is that it does afford anyone an unfair tax advantage.

INCREASING TAX VOLUMES

With a greater number of estates now suffering IHT, and the tax take exceed £5 billion for the first time (an increase of 8% over the previous year), it is clear that families are not planning ahead sufficiently to pass assets down to the next generations. This does not always mean using complex structures to reduce the IHT burden on your family – there are a number of exemptions and investments that can be used to reduce the burden. As always, the most important thing is to start planning as early as possible.

Graham Poles
Tax Partner

CLIENT VIDEO TESTIMONIALS

Demonstrating our value to individuals and businesses

VALUE IS VERY PERSONAL AND DIFFICULT TO DEFINE. ADVICE ITSELF IS SOMEWHAT INTANGIBLE – IT'S NOT SOMETHING YOU CAN TOUCH OR SEE, AND YET WHAT YOU RECEIVE AND, MORE IMPORTANTLY, HOW YOU BENEFIT FROM THE ADVICE CAN BE VERY POWERFUL AND AT TIMES LIFE-CHANGING.

The challenge, then, is: how do we demonstrate the value that we add? We didn't feel that our words would be enough, and so over the last few months we have been undertaking a project with some of our clients, and we are grateful that they've agreed to be involved.

In Issue 8, 9 and 10 we featured Ben Peters, Managing Director based in Harrogate, Barry Maxey, businessman and charity fundraiser in Carlisle and Ben Pepperell, Chief Executive in Hull. You can revisit their interviews here:
https://www.armstrongwatson.co.uk/ben-peters-harrogate
https://www.armstrongwatson.co.uk/barry-maxey-carlisle
https://www.armstrongwatson.co.uk/ben-pepperell-chief-executive-hull

This time, let us introduce you to Tony.

AN INTERVIEW WITH…TONY WOODHOUSE, SEMI-RETIRED, BEDALE

Tony was approaching his State Pension age and wanted to plan for his retirement.

BACKGROUND

Tony was looking for an independent financial adviser to help him review his income requirements as he was approaching his State Pension age. Due to the introduction of the pension freedoms, he felt that he could not work through it alone.

WHY DID YOU CHOOSE ARMSTRONG WATSON FINANCIAL PLANNING & WEALTH MANAGEMENT?

With the new pension freedoms, the complexities are so considerable that it's a maze that I could not navigate myself and end up with a result that I was confident in. It was critical that I found a Consultant to work with me and help me through that maze. I realised I wanted to work with someone who was part of a larger practice and would have the back up that it provided.

WHAT WAS IT ABOUT YOUR FINANCIAL PLANNING CONSULTANT WHICH MADE YOU COMFORTABLE TO TAKE ADVICE?

The relationship has got to be right, it's got to be a personal relationship because you're dealing with a lot of personal issues, but it's also got to have that slight detachment and that absolute professionalism too.

WHAT BENEFIT HAS TAKING ADVICE PROVIDED YOU WITH?

You save all your life and, suddenly, the moment has arrived when your pension arrangements have to be made. You realise that you are entering the latter part of your life, and it's a very sobering moment, so it's with great trepidation that you start the process.

The final result is that you have peace of mind that in all complexities you've come out with the solutions that were correct, and in my case I came out with the conviction that Armstrong Watson had my best interests at heart. I go into my retirement and I'm not worried about it anymore, at all. ■

You can watch the full interview with Tony Woodhouse here **https://www.armstrongwatson.co.uk/tony-woodhouse-bedale**

If you'd like to get in touch or find out more about our financial planning and wealth management service, contact us on **0808 144 5575.**

THE VALUE IS IN THE DIVIDEND

As financial conditions change, so to must investment behaviours

Achieving returns in excess of inflation is a common objective of investors, but how is this achieved?

NO MORE FREE LUNCH

In the years prior to the financial crisis, it was common for both bank rates and the yield on UK government debt to exceed inflation, effectively producing a risk-free real return. 2007, for instance, ended with CPI at 2.1%[1], UK Ten-Year Gilt yield at 4.5%[2] and Bank of England Base Rate at 5.5%[3]. Unfortunately, such luxury no longer exists. At the end of November 2018, CPI was 2.4%, UK Ten-Year Gilts yielded 1.37% and Base Rate was 0.75%.

WHAT ELSE IS ON THE MENU?

In order to protect or grow your purchasing power, taking risk is now necessary. Equities, in a large part, have the potential to deliver these real returns over the long term.

TOTAL RETURN VS PRICE RETURN

While investors may be put off by seeing the FTSE 100 failing to sustainably break above 7,000, despite first approaching this level at the turn of the millennium, substantial returns above inflation have actually been achieved thanks to the dividends paid by the UK's largest companies. From the FTSE 100 high point of 31 December 1999 to 30 November 2018, the FTSE 100 index has delivered just 0.7%, yet when dividends are included and reinvested, the return has been an impressive 96.3%[4].

YIELD

Over this time period, the returns on bonds and cash have also been attractive, so what makes equities different? Answer: yield. While the yields on cash and bonds no longer exceed inflation, the FTSE 100 now yields approximately 4.5%[5]. Future returns on stocks are, of course, uncertain, but such a high yield is a significant cushion against unfavourable index movements and, in our view, is an attractive proposition in a world of low yields and moderate inflation.

GLOBAL FOCUS

When constructing a portfolio, we believe that exposure to global regions is important for diversification purposes, yet given the reduced currency risk that a UK bias produces, significant allocations to the domestic market are attractive. This does not necessitate a focus solely on the domestic economy, however. With over 70% of earnings of FTSE 100 companies originating from overseas[6], the exposure of large UK stocks to international growth is significant, thus allowing large allocations to the mature dividend market of the UK without experiencing an undue focus on just one country's economy.

PLAY THE CONDITIONS

As financial conditions change, so to must investment behaviours. While the real value of assets could once be protected without taking risk, this is now not possible. UK equities will always be at the mercy of market cycles and therefore should only be one part of an actively managed portfolio, but, as these cycles come and go, the value of dividends should not be ignored. ■

Source data:
[1] ONS
[2] Trading Economics
[3] Bank of England
[4] Morningstar Direct
[5] Bloomberg
[6] Schroders

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WORK PRESSURES

The greatest strains on physical and mental health

There is an increasing trend of people working for longer and delaying their retirement, with some staying in work out of financial necessity.

But one of the primary concerns people have about working beyond their 50s is the impact this could have on their health, or whether any health concerns might prevent them from working. Nearly two in five (37%) workers aged above 50 – equivalent to 3.8 million people[1] – anticipate that problems with their health will be the main factor that forces them into retirement, according to new research[2].

HEALTH AND WELL-BEING PROBLEMS

Though the number of workers in this age bracket has risen by more than one million people in the past five years[3], the findings suggest the longevity of this trend is at risk, with many indicating that health and well-being problems are caused or aggravated by the workplace itself.

Work pressures are described by those surveyed as one of the greatest strains on their physical and mental health (21%), alongside money issues (35%) – which are also often linked to working life – and pre-existing medical conditions (24%).

ACHIEVING FULLER WORKING LIVES

Worryingly, more than half (53%) of workers aged over 50 do not feel supported by their employer when it comes to their well-being – a feeling which is much less prevalent among younger colleagues (falling to 34% of workers aged 16–49). As an indication of the type of support employees need to achieve fuller working lives, one in five (21%) agree employers should offer workshops or seminars on health and well-being in later life.

The research also reveals improved health and well-being in the workplace could be achieved by encouraging employees to reassess their priorities, as almost two in five (37%) over-50s workers admit they often put their job above their health and well-being.

THE TWO BIGGEST HEALTH CHALLENGES

While few people say they do not feel confident about their long-term career plans (27%), 38% are not confident about long-term plans for their health. Greater communication is also needed, as more than a quarter (27%) of those surveyed do not feel comfortable telling their employer about any health issues they face as they grow older.

While the onus is partly on employers to do more to promote health and well-being within the workplace, employees also have a role to play. The two biggest health challenges among employees in the 50-plus age group – weight and diet (24%) and physical fitness (18%) – are both issues that individuals can take steps to improve through lifestyle changes.

Source data:

[1] Based on 37% of the 10.206m over-50s currently in work (source: ONS Labour Market Statistics, August 2018 (latest available figures) – table A05).

[2] Research conducted by Censuswide on behalf of Aviva in May 2018. Survey respondents included 2,497 UK adults aged 16°75, including 1,219 aged over 50 of whom 520 are still in work.

[3] ONS Labour Market Statistics, August 2018 (latest available figures) – table A05 shows there were 10.206m over-50s in work between April and June 2018, compared to 8.812m between April and June 2013.

FACTORS WHICH PUT THE GREATEST STRAIN ON EMPLOYEES' PHYSICAL AND MENTAL HEALTH

Top five	All workers	Over-50s workers
Money issues	43%	35%
Pre-existing medical conditions	16%	24%
Work pressures	30%	21%
Family issues	25%	19%
Poor diet	15%	12%

Source: *Aviva, 2018.*

PLANNING ON TAKING ILL HEALTH RETIREMENT?

If you're ill and your illness is so bad that you can't continue to work, you may be able to retire early. If you're planning on taking ill health retirement, we can help you understand the rules. If you would like help considering your options or for further information, please contact us.

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