eNews
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Homecroft WEALTH
Chartered Financial Planners

PLANNING

# A word of advice...

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*Research shows the benefits of financial advice stretch beyond simply number-crunching.*

A recent survey found that people who had taken financial advice were more confident when it came to planning their future and thinking through the difficulties that often surround ageing, including illness, long-term care or loneliness.

These are issues that most of us find difficult to contemplate: no one likes to think about themselves, or a loved one, falling ill for example. But this research suggests those who have actively planned for the future feel less anxious or uncomfortable confronting these topics.

Making a financial plan, with or without an adviser, can also help people feel more positive about their current situation. The research, by Standard Life in their 'Retirement Voice 2022' survey, found this doesn't just apply to wealthier savers and investors, but those across the income spectrum.

> *The research found 72% are doing little, if anything to plan for their retirement and may end up not only poorer, but more stressed as a result.*

### Lack of understanding

Despite these positive outcomes, however, it is clear many people find financial planning difficult on their own. This research found 72% are doing little, if anything to plan for their retirement — and may end up not only poorer, but more stressed about their finances as a result.

People find retirement planning particularly difficult. Half of consumers surveyed said they found information on pensions 'overwhelming', and two in five said they had no idea what to do next with pension information and statements.

And pensions aren't the only financial products people find difficult to understand. A separate survey, by the Financial Services Compensation Scheme, found that almost half of investors wished they'd spent more time researching investment products.

We obviously believe in the benefits of taking personal, expert financial advice when seeking out products and drawing up a plan to meet your goals. And now the research proves it.

SAVINGS

# Deposit protection comes under review

*The Bank of England is reviewing the deposit guarantee scheme, with a view to boosting protection for the nation's savers.*

The first £85,000 saved in a bank or building society is guaranteed by the Financial Services Compensation Scheme (FSCS) if that institution goes bankrupt. That safety net was increased to its current level after the 2007 financial crisis.

### Increased level?

The Bank of England is now looking at whether this guarantee needs to be increased following a bank run on Silicon Valley Bank in the US, and the forced sale of Credit Suisse to its rival Swiss bank UBS. The governor of the Bank of England, Andrew Bailey, has pointed out that the FSCS is not as generous as its US equivalent, where savers now have $250,000 (£200,000) protected. There are also concerns that some people might have to wait to access their money, due to the way the FSCS is funded.

### Spread funds

For most people the current scheme offers a decent level of protection. Those who have more significant savings should split funds between different banking institutions, not different accounts within the same bank, as they will have up to £85,000 protected with each organisation.

It is worth remembering this is a per person limit, so couples will be fully protected if they each have £85,000 — even if it is saved with the same bank.


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PENSIONS

# The income choice in retirement

*How do you intend to convert your pension pot into income when you retire?*

To some extent the answer depends upon how you intend to retire, which is increasingly a more gradual process.

Flexibility is normally more important for a phased retirement, as you will need to adjust your pension benefits according to the level of your earnings, as well as the arrival of the state pension. How you draw your pension income will also depend upon:

- the other income that you expect to receive in retirement;
- your attitude to risk; and
- the extent to which you want to use your pension as part of your estate planning.

At one end of the pension income spectrum is the annuity, which guarantees an income for life. Volatile investment markets have rekindled the appeal of fixed payments, while rising

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long-term interest rates have significantly improved annuity rates. At the other end is income withdrawal, which offers maximum flexibility and better estate planning benefits, but with investment risk replacing the annuity's guarantee.

Falling between annuities and income withdrawals are a variety of other ways of drawing income. Combining different income methods can be a sensible option. For instance, you could use an annuity and add a flexible top up via income withdrawals. To understand your options, the first step is to seek advice, well before you need the income to begin.

**State pension age warning:** The timing of the move to a state pension age of 68 remains unclear. At the end of March 2023 the government once again deferred the decision, this time until "a further review within two years of the next Parliament".

✢ *The value of your investment can go down as well as up and you may not get back the full amount you invested.*

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

*Occupational pension schemes are regulated by The Pensions Regulator.*

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

TAX

# Rising inheritance tax take – time to review your estate planning

*New data from HMRC show that in 2022/23 inheritance tax (IHT) payments hit a new high.*

The IHT nil rate band was set at £325,000 in April 2009 and has been frozen ever since. This year's Budget extended that freeze to April 2028. For the first year of the nil rate band in 2009/10, IHT receipts amounted to around £2.4 billion. Figures recently released for 2022/23 show receipts at just over £7 billion in the fourteenth year of the freeze.

IHT has become a tax which now potentially affects many more people, particularly after a surviving spouse or civil partner dies. On the first death there is normally no tax to pay, so it is often the children or grandchildren who experience first-hand the full impact of IHT.

## Mitigating the freeze

If you want to limit the Treasury's share of your estate, the sooner you start planning, the better. Unfortunately, one of the simplest strategies – making substantial lifetime gifts – is often not a practical option. However, there are other routes to lowering the IHT bill on your estate, including:

- **Make the most of pensions** Although the primary role of pension arrangements is to provide income in retirement, legislative changes have turned pensions into a valuable estate planning tool.
- **Use the normal expenditure exemption** If you make gifts that are regular, out of normal income and that do not reduce your standard of living, then they are free of IHT.
- **Make a will and, if you already have one, keep it up to date** The right will can not only help save IHT, but also means that you choose your beneficiaries rather than the arbitrary rules of intestacy.
- **Skip a generation** By passing money directly to your grandchildren, you could reduce the IHT on your children's estate.

IHT planning is best considered as part of your overall financial planning, rather than in isolation. Professional advice is essential to navigate the complexities of the legislation.

✢ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

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

PENSIONS

# NICs and unclaimed child benefit

*New legislation should ensure stay-at-home parents don't miss out on pension entitlements.*

Currently, a non-working parent of a child under 12 who claims child benefit can get national insurance (NI) credits towards their state pension. people need to pay NI, or receive NI credits, for at least 35 qualifying years to get their full state pension. However, if one parent earns over £50,000, the family becomes subject to the high income child benefit charge. The stay-at-home parent can still claim child benefit – and so get the NI credit – but the working parent then has a tax charge levied on their pay.

Many higher-earning families don't claim this benefit, not realising this may impact the main carer's future pension. The government has said it will now remedy this situation, so that this NI credit will be applied retrospectively to those who are entitled to it to ensure parents haven't missed out.

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