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PERSPECTIVE

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INSIDE THIS ISSUE

Welcome to the Autumn 2021 issue of *Perspective* from Haslers Chartered Accountants and Business Advisers.

Inside this issue, we spend our working lives building towards retirement. Choices we make today will have a big impact on the quality of our lives later on. If you only have a handful of years to go until you reach your retirement, it has never been more important to understand your options and put a plan in place – now could be a good time to re-evaluate your plans with us. Turn to page 02.

Having a financial plan in place early on can make it easier to manage your money further down the line. It's never too early to make a financial plan. The sooner you work out your goals and start following a plan to achieve them, the more likely you are to succeed. On page 06 we consider three key questions to ask yourself when building a financial plan.

Change is the only constant in life. It inevitably involves twists and turns, with some that are expected while others may be entirely unplanned. When this happens, it's important we make the right choices to achieve the best outcomes for everyone. We look at some major life events you may wish to discuss with us on page 05.

The latest Inheritance Tax (IHT) statistics show an additional 4% was added to HM Revenue & Customs receipts compared to the previous year. Whether your beneficiaries have to pay it, and how much they'll pay, is based on the value of your estate. IHT is currently applied to estates worth more than £325,000, and will remain at this level until April 2026. Read the full article on page 04.

We hope you enjoy the articles

To discuss any of the articles featured in this issue of Perspective, please contact us on **020 8418 3333** or **email advice@haslers.com** – we look forward to hearing from you.

TOP PENSION TIPS IF YOU'RE ABOUT TO RETIRE

Understanding your options and putting a plan in place

We spend our working lives building towards retirement. Choices we make today will have a big impact on the quality of our lives later on. If you only have a handful of years to go until you reach your retirement, it has never been more important to understand your options and put a plan in place – now could be a good time to re-evaluate your plans with us.

The changes made to UK pensions in 2015 mean that we all have more choices available on how to fund our lifestyle in retirement. But decisions surrounding when, why, and how you decide to retire will be very personal and will largely depend on your individual circumstances.

These decisions will also be impacted by external factors such as the rising State Pension age, and the impact of the recent pandemic on the job market. When planning for your future, it's important to know when you can access the money in your pension pot.

If your pension is not on track to give you the income you want in retirement, you need to look at how to boost it. It's also worth remembering that taking your pension doesn't mean you need to retire.

Taking stock of your retirement plans

Retirement is a time to reap the rewards of years of hard work and do more of the things that you love, whether that's travelling the world or spending time with your grandchildren. But to make this a reality, you need to prepare as well as you can financially. This isn't always easy, as pensions and retirement planning can be complex.

To help you ensure you're on the right track, ask yourself the following questions. What type of pension/s do I have? Do I have more than one pension pot? If so, where are they? When and how can I access the funds in my pension pots? What is the value of my pension pots? What benefits will they provide me with? What about any other options or guarantees?

Will you potentially exceed the Pension Lifetime Allowance?

If you're close to retirement, you may find you are approaching the Pension Lifetime Allowance (LTA) limit. The LTA is the most you can save into your pension without incurring a tax charge when you draw the money out. This has been cut over the years and is now £1,073,100 for the 2021/22 tax year.

The LTA has also been frozen at £1,073,100 until 2026, potentially exposing you to the charge for breaching the threshold. If you breach the threshold you face a 55% charge on amounts taken above this ceiling if this is withdrawn as a lump sum, with the charge reducing to 25% when taken as income.

If you think you are nearing the LTA, it's important to monitor the value of your pensions, and especially the value of changes to any defined benefit pensions as these can be surprisingly large. There were, and are, protections that can help you avoid a tax charge by giving you a higher LTA. We can discuss whether this applies to your situation.

What does your current and forecasted wealth look like?

As you get closer to retirement, it is important to assess your current and forecasted wealth, along with your income and expenditure, to create a picture of your finances for both now and in the future.

Lifetime cash flow modelling will help ensure you don't run out of money – or die with too much – by showing whether your current investment approach is either excessively risky or unduly cautious. Retirement cash flow modelling can help to alleviate your concerns.

Building your individual retirement cash flow plan involves assessing your current and forecasted wealth, along with your income and expenditure, using assumed rates of investment growth, inflation and interest rates, to build a picture of your finances both now and in the future.

If you have accumulated wealth, retirement cash flow modelling will help you manage your position and make sensible decisions over the years. However, cash flow planning is arguably even more beneficial if you have longer-term personal or business objectives, as you can see how much you need to save and the returns you need to meet those defined objectives.

Time to look at your options available when accessing your pension?

Once you reach age 55, you can access your pension pot. You can take some or all of it, to use as you need, or leave it so that it has the potential to continue to grow. It's up to you how you take the benefits

from your pension pot. You can take your benefits in a number of different ways.

You can choose to buy a guaranteed income for life (an annuity). You can take some, or all, of your pension pot as a cash lump sum, or you can leave it invested. However you decide to take your benefits, you'll normally be able to take 25% of your pension pot tax-free. The rest will be subject to Income Tax.

It's good to have choices when it comes to pensions and your retirement, but it's also important to understand all your options and any impact your decision may have on your future security. How long your pension pot lasts will depend on the choices you make. We can help by discussing the options available to access your pension.

Annuities

If you buy an annuity this will provide a guaranteed income for the rest of your life. With this option, the provider agrees to pay you an agreed regular sum until you die. With an annuity, you may receive more or less money than you put in depending on how long you live after your annuity has started.

Flexible drawdown

By opting for flexible drawdown, you can leave your pension pot invested so that it has the potential to grow, or take lump sums or a regular income from it. Your pension pot will last until you've taken all your money out. The level of income you take and any investment growth will be key factors as to how long your pension pot will last.

Take some or all of it in cash

If you take all or some of your pension pot as a cash lump sum, it's up to you how long it lasts. Once you receive your money after tax, you're completely responsible for it and can use it as you require – although remember that although 25% of the amount you take is tax-free, you'll pay Income Tax on the rest.

Leave it all for now – defer your pension

You could decide not to take your pension at your selected retirement date and leave it invested until you're ready to take your benefits. This means your pension pot would have the potential to grow, although this is not guaranteed. It's important to ensure you don't lose any guarantees which only apply at your retirement date if you decide to leave your pension pot. ■

Would you like us to carry out a retirement plan review with you?

Even if retirement isn't far away, there are ways to increase your retirement income. This applies both to your State Pension entitlement as well as to any personal or workplace pension pots you have. To find out what you can do, please contact us for more information.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028). 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 AFFECT ED BY THE INTEREST RATES AT THE TIME YOUTAKE 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. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

INHERITANCE TAX

Minimising the impact on your estate

The latest Inheritance Tax (IHT) statistics show an additional 4% was added to HM Revenue & Customs receipts compared to the previous year[1]. IHT is a tax payable when you die. Whether your beneficiaries have to pay it, and how much they'll pay, is based on the value of your estate.

Your estate's value is the value of the whole entirety of your assets. An asset is anything of value that is owned, for example: money, property, investments, businesses, possessions, payouts from life assurance not written under an appropriate trust, as well as any gifts made within seven years of your death. IHT is currently applied to estates worth more than £325,000, and will remain at this level until April 2026.

Surviving spouse

When the value of your estate exceeds this limit, known as the 'nil-rate band', everything over the threshold is taxed at 40% (unless you're leaving it to your surviving spouse, in which case no IHT needs to be paid).

For the 2021/22 tax year, there is also a 'residence nil-rate band' currently worth £175,000. If applicable to your particular situation, this is added to your nil-rate band of £325,000 – so your estate could be worth up to £500,000 before any IHT is payable.

Emotional times

This increased tax take suggests that the Chancellor's freeze on the nil-rate band and residence nil-rate band at the last Budget is beginning to have the desired effect. It is achieving the 'fiscal drag' it set out to do, particularly given that asset prices have soared following the depths of the pandemic and could continue to do so given inflation is on the up.

As a result, many more people could end up having to pay IHT without realising they would fall into the tax charge. It is vitally important people start to have conversations with loved ones to fully understand an estate and the value of it. While it isn't always the most pleasant conversation, it is better to have it now than during more emotional times such as following a death.

Complicated tax

With the government looking for ways to plug the holes in the public finances created by the pandemic, IHT will always be in focus. IHT is a complicated tax and one that requires a necessary level of knowledge to ensure you're planning in the most tax-efficient way.

So IHT planning should be considered but it's important not to plan in isolation – it should be part of an overall strategy that encompasses your lifetime financial goals and assets, even though constituent parts may be executed separately and at different times. ■

Passing on your wealth to the next generation

You have worked hard to build your wealth – we will help you pass it on to the next generation securely and efficiently. If you'd like to find out more or to discuss your situation, please get in touch with us today – we look forward to hearing from you.

Source data:
[1] National Statistics Inheritance Tax statistics: commentary from HM Revenue & Customs updated 29 July 2021.

COPING WITH LIFE-CHANGING EVENTS

Making the right choices to achieve the best outcomes

Change is the only constant in life. It inevitably involves twists and turns, with some that are expected while others may be entirely unplanned. When this happens, it's important we make the right choices to achieve the best outcomes for everyone.

None of us can predict exactly what and when a life-changing event will occur, and many of them will take you by surprise, whether good or bad. Here, we consider some major life events you may wish to discuss with us.

Divorce and managing finances

Managing your finances after divorce can sometimes feel like an impossible task, especially if the amount of money coming into your household is much less than when you were married. For some people, divorce can mean financial devastation or hardship.

You may lose half of what you have saved over the course of your adult life, and go into debt paying lawyer's fees and other expenses. Yet as messy and painful as divorce can be, it is often both necessary and ultimately a good thing – and it is possible to recover both financially and emotionally after a divorce.

When you're facing a divorce, you need to know where you stand financially. We can help you plan for a sound financial future, to give you security and peace of mind, allowing you to move forward with your life.

Thinking about financial planning for long-term care

More people in the UK are living for longer, which is good news. However, this longevity brings certain challenges, such as how we will fund any long-term care that may be needed in the future. If you are one of the many people faced with helping a parent or another loved one find long-term care, then you are probably grappling with a lot of questions.

Among them: How can I bring this up in a way that won't upset them? How are they, or how are we, going to pay for this? What type of living situation is best?

Ageing comes with many joys and challenges. We can discuss with you the options to help cover your loved ones' care needs now and in the future.

Dealing with your finances in widowhood

Coping with the death of a loved one can be extremely hard. You may be dealing with lots of different emotions, finding it hard to process them and having difficulties moving on. Losing your loved one, whether expected or sudden, can prove almost too much to bear.

But it's surprising how uninformed some spouses can be about each other's financial lives. Even in marriages that consciously attempt to integrate finances (joint bank accounts, both names on the mortgage), a lot of financial activity is specific to one spouse, for example, a credit card, retirement planning, an ownership interest in a business, investments, a car with only one name on the finance agreement.

After the death of a spouse, your financial situation will likely be a major concern. We will take the time to understand your needs and recommend solutions personally tailored to you.

What to do and not do with an inheritance

Losing someone you care about is one of the hardest experiences in life. Receiving an inheritance probably means coping with the death of a loved and cherished member of your family or a friend. The emotion associated with bereavement often makes taking decisions about both their estate, and what you stand to inherit, difficult.

Most estates are settled within six to nine months in the UK, but it depends on the complexity of the estate. If it isn't handled appropriately, the pressure of the proceeds can be stressful, upset your relationships and complicate your finances.

During this difficult time we can help you to consider your options, assess any tax implications and decide how this inheritance could be used to provide you with financial security in the years ahead.

The importance of financial planning

Financial planning helps you determine your short and long-term financial goals and create a balanced plan to meet those goals. The coronavirus (COVID-19) pandemic has demonstrated unequivocally that such unforeseen and unplanned for events can wreak havoc on our personal finances.

Establishing clarity around your finances is arguably one of the most critical things you can do for your overall financial success. It is important to understand your financial needs and then create a financial plan to meet them. Tax planning, prudent spending and careful budgeting will help you keep more of your hard-earned cash.

We know you'll have different priorities for your wealth at different points in your life. Whatever your financial aims, we can help you achieve them for both you and your family. ■

Time to bring clarity to your financial affairs?

Everybody experiences life-changing events at some point, whether directly or through a loved one. To discuss how we can help you, please contact us.

BUILD YOUR OWN FINANCIAL PLAN

Vision without action is merely a dream

Having a financial plan in place early on can make it easier to manage your money further down the line.

It's never too early to make a financial plan. The sooner you work out your goals and start following a plan to achieve them, the more likely you are to succeed.

Here are three key questions to ask yourself when building a financial plan.

1. What are my goals?

Building wealth takes time and a little effort. Like any activity, be it growing a business or learning a new skill, you need to decide early on what your long-term objectives are. It's exactly the same when you are building wealth – it is important to set financial goals.

Without a goal, your efforts can become disjointed and often confusing. Being able to keep track of your progress towards achieving a goal is only possible if you set one in the first place. Being able to measure progress is extremely rewarding and will help you maintain focus.

Procrastination is something we all battle from time-to-time. However, when you set goals in life, specific goals for what you want to achieve, it helps you understand that procrastination is dangerous. It is wasted time. It is another day you aren't moving closer to that goal.

Setting financial goals is essential to financial success. Once you've set your goals you can then write and follow a roadmap to realise them. It helps you stay focused and confident that you're on the right path.

Consider the SMART principle when setting your own goals:

Specific – Clearly define what each goal is and use details such as numbers where possible (quantify it).

Measurable – Think about a tangible way in which you can measure your progress.

Achievable – Are your ambitions realistic? With planning we are often capable of more than we realise but being pragmatic is important. Discussing your goals with us will help you to balance this.

Relevant – Are your goals in line with your own personal values? It is useful to chat this through with somebody else to clarify your values.

Timebound – Think about the timeframe you are working within and whether there is any flexibility needed.

Your goals are personal and unique to you. Perhaps you want to set up your own business and follow a lifelong passion, or maybe you want financial security and to ensure you can pass a legacy on to your loved ones.

Once you've defined your goals and you're clear on your current situation, it's a good time to work out if you have enough to achieve your goals or if there's a gap. This isn't an easy task as there are often many variables to consider, such as inflation, tax and growth rates.

2. Where am I now?

Cash flow planning is a concept borrowed from business and every business owner or finance director will be familiar with the term. These same principles can be applied to your personal financial planning. As we've mentioned, the starting point is to identify each one of your personal goals.

Cash flow planning is most effective when all likely future needs are taken into account too. Just focusing on immediate needs may seem more practical but focusing on one goal at a time can limit future options.

Make a list or a spreadsheet of what you have, specifying where and how much; this could include any assets such as property, cash balances, investments, pensions, protection policies and any debts such as mortgage, credit cards or loans. Look at your income and expenditure levels.

Remember the future is somewhere you have never been before. Cash flow planning guides and updates you on your journey. If there are delays on the way it can find another path. Combined with our professional advice, we can help you arrive at your destination more smoothly.

3. What do I need to do next?

As we've seen with the coronavirus (COVID-19) pandemic, things can change very quickly. It goes without saying that your financial plans should not be static objects, and that you should review your plans over time and on a regular basis to ensure that you remain on track towards your goals. You also need to adapt your financial plans as your circumstances change.

Reviewing your arrangements regularly is a vital way of ensuring you meet your financial goals and ensures that all your plans are up to date in light of changes to your circumstances and the wider financial landscape.

Reviews can also prompt you to consider some of those things that sometimes get left undone – such as your Will, which might still need to be arranged or updated. Or perhaps there is a Lasting Power of Attorney that has not been progressed or a life assurance policy that should be placed under an appropriate trust. As we've all recently experienced, life has a habit of springing unpleasant surprises on us when least expected. ■

Let's get started

Financial planning is the key to improving your financial wellness. Your personal plan is a roadmap to your financial success. You'll see exactly what you need to do now to make a significant difference for your future. **Please get in touch to find out how we can help you reach your financial goals – we look forward to hearing from you.**