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INSIDE THIS ISSUE

THE INTERGENERATIONAL FAIRNESS DEBATE – PEERS MAKE RECOMMENDATIONS

The deal between young and old to support each other through life could break down because of major problems with housing, work and tax. This was the conclusion reached by the House of Lords Committee on Intergenerational Fairness and Provision following a 12-month parliamentary inquiry.

The Committee was made up of Labour, Conservative, Liberal Democrat and crossbench peers and made recommendations across a wide range of topics. It believes that major reforms are needed both to 'retain the supportive relationship between generations' and to plan for the '100-year life' that younger people can expect to become the norm.

THE PERCEIVED CAUSES OF UNFAIRNESS

In the Committee's view, the growth of the gig economy, soaring housing costs and financial giveaways for older people are driving a wedge between generations in Britain. In order to redress the balance, policy changes will need to be introduced. 'Outdated' age-specific benefits for older people should be replaced with support for the young to 'deliver a fairer society'.

The Committee's report[2] included changes that risk angering older voters, including delaying winter fuel payments and bus passes until they have been retired for five years, and removing the triple lock on the State Pension that guarantees inflation-linked annual increases. It also recommends that those who continue to work after their normal retirement date should pay National Insurance Contributions whilst they are working.

Commenting on the proposals put forward by the Committee, its Chairman Lord True said that the connections between the generations could be undermined if the government didn't get to grips with the key issues of housing, secure employment and fairness in tax and benefits.

OPPOSING VIEWS PERSIST

The peers' study cited research from Age UK that shows people are more likely to view older people as friendly and warm than competent, while the peers' own panel of younger people said they were treated badly by older people who considered them 'trouble' or 'soft'.

[2]Select Committee on Intergenerational Fairness & Provision, April 2019

PENSIONERS ADOPTING A PRUDENT APPROACH

Back in April 2015, when the new pension rules were introduced, fears were expressed in some quarters that pensioners would empty their pension pots and splurge their cash on extravagant luxuries such as Lamborghinis.

However, this simply didn't happen to any great degree. Whilst the total value of pension withdrawals made since April 2015 is over £25bn, the average withdrawal made between July and September 2018 was £7,597, the lowest level recorded by HMRC since their records began four years ago[1].

TAX AND MARKET VOLATILITY

This prudent approach may be based in practicalities. Taking large amounts of cash out of a pension can give rise to a hefty tax bill, so many were probably deterred by the thought that they would end up in a higher tax bracket. In addition, market volatility may have made pensioners more cautious and anxious to preserve their savings; after all, we would all like to think that our wealth will last as long as we do. Taking decisions about pensions can be difficult; professional advice will help you maximise the benefits of the current pension rules.

[1]HMRC, April 2019

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

HOW YOU COULD GIVE YOUR CHILD A RETIREMENT WINDFALL

Setting up a pension plan for your child and putting £2,880 in each year will help give them a wealthier retirement. Current pension rules allow a parent to contribute up to £2,880 for a child under 18. Tax relief means that this figure is topped up to £3,600.

If the parent starts making annual contributions when the child is born and continues until they are aged 18, then this would add up to £52,000, and under current rules this would be topped up by around £13,000 in tax relief.

OTHER SAVINGS OPTIONS

For parents who want to give their offspring money earlier, they can save up to £4,368 tax-free in a Junior ISA in the 2019-20 tax year. Invested in a medium-risk fund this could be worth up to £110,000[3] by the time they reach 18, if you paid in £364 a month for 18 years, although as the value of investments fluctuates, this may not be the case. Income and gains on the money saved are tax-free. If you're unable to afford the full subscription each tax year, small regular sums build up over time too.

Assuming growth in investments over the period, your child could have a sizable pension pot and ISA fund to draw upon, the spending power of which will depend on the passage of inflation over the intervening years.

[3]Which?, 2019

TRUSTS – AN EFFECTIVE WAY TO TRANSFER WEALTH

Trusts can play an important role in helping families achieve their financial goals and provide an effective way of passing money down the generations.

WHAT IS A TRUST?

A trust is a legal arrangement which allows assets, usually property, investments or money, to be looked after by a trustee for the good of one or more beneficiaries. Those beneficiaries can be named individuals, such as your children, or can be people who are yet to be born. Trusts can be set up during your lifetime or in conjunction with a Will and can be used for several purposes.

WHY SET UP A TRUST?

They can have a variety of uses such as:

- Protecting the financial interests of a young beneficiary by retaining control of the assets until they reach the age of 18 (16 in Scotland)
- Looking after the interests of somebody who can't handle their own financial affairs through incapacity
- Providing for a husband or wife, while keeping the assets intact for the benefit of children
- Reducing Inheritance Tax liability (IHT) by taking assets out of an estate so reducing the amount on which IHT might otherwise be due
- Ensuring that the proceeds from a life insurance policy go to the beneficiary without waiting for probate, and don't form part of the estate for IHT purposes.

SETTING UP A TRUST

You will need to appoint trustees to look after the assets in the trust on behalf of the beneficiaries. They will have the power to make, manage and review investments and to make payments from the trust as set out in the trust deed.

There are several types of trust, and the one that's right for you will depend on who the beneficiaries are, what the assets are, and how and when you want them distributed. You will need to take expert advice as to what type of trust will work best for your particular circumstances.

The value of investments and income from them may go down. You may not get back the original amount invested.

IS IT TIME TO TALK TO YOUR FAMILY ABOUT MONEY?

Being open about wealth and discussing matters with those close to you can seem a step too far for many families. However, these days family finances can often be closely intertwined. The rise of the Bank of Mum and Dad has shown that many parents and grandparents want to pass on wealth during their lifetimes, rather than waiting until they die.

For the older generation, talking to us about big financial decisions such as whether to downsize or remortgage, how much support to give children towards their education or the deposit for a property, can help ensure the right financial plans are in place to safeguard each generation's financial interests.

OVERCOMING THE TABOOS

It's not uncommon even today for married couples not to know how much money their spouse earns. Wealthy parents can sometimes shy away from letting their children know too much about their wealth, in an effort to prevent them becoming complacent about what they might inherit in the years to come, and losing their work ethic. Naturally older people don't always want to dwell too much on the future, finding it difficult and distressing to raise issues like death and inheritance with their loved ones.

However, discussing wealth matters with your family and your financial adviser can help establish priorities, clarify goals and ensure that plans are put in place to support each generation according to their financial needs.

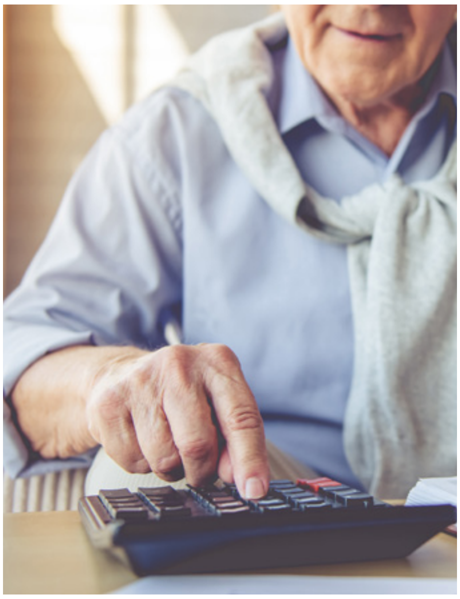
We are increasingly being asked to help plan family wealth holistically, not least because we offer sound practical advice in an objective way. If you'd like us to help your family, then please do get in touch.

MORE THAN A MILLION OVER 55s FACE TOUGHER PENSION RESTRICTIONS

Those dipping into their pensions using the pension freedoms introduced in 2015 need to be aware of the taxation implications of doing so if they also want to continue to save into a pension. An increasing number of individuals have been reported to be breaching the allowance. In the 2015-16 tax year, 8,890 individuals breached the allowance and paid £19,933 in average excess. By the following tax year, this figure doubled to 18,930 reported cases paying an average charge of £29,635[4].

Although tax relief is normally available on pension contributions up to £40,000 a year, once a pension saver makes a flexible withdrawal, the Money Purchase Annual Allowance is restricted to £4,000. Keeping up to date with pension rules and limits can seem complex and time-consuming, so do ask us for advice.

[4]HMRC, FOIA request



WOMEN AND PENSIONS

As from November 2018, the State Pension age for women rose to 65, matching the retirement age for men for the first time. This equalisation of the State Pension age at 65 is the first step towards a rise to 66 for both sexes in October 2020.

Many campaigners feel that the accelerated timetable for equalising State Pension age has hit many women hard. The campaign group, Women Against State Pension Inequality (WASPI) has protested outside parliament on numerous occasions.

PREPARING FOR THE FUTURE

A recent survey[5] has shown that just 54% of women were saving adequately for retirement, with around 18% not saving at all. The report showed that at every stage of life, men outpaced women in the amount they had saved. In around 85% of households, it's the norm for women to take care of the finances and budget for the important things in family life. However, it seems that they aren't always as focused as they should be on building up their pension for the future.

[5]Scottish Widows, 2018

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SCAMS – NEW WARNINGS ISSUED

Financial scams are continually being reported in the media and can have a devastating effect on the lives of savers.

Data released by the Financial Conduct Authority[6], reveals there were £197 million of reported losses in 2018. That figure could be substantially higher as this just relates to those frauds that were reported. Many people feel too embarrassed and shocked to reveal what has happened to them.

Despite the recent implementation of the ban on unsolicited phone calls, members of the public are still being urged to remain alert, as scammers are likely to change tack and find alternative ways of making contact.

SPOTTING THE SIGNS

It pays to be wary of anyone who contacts you out of the blue offering a "free pension review". If this happens, then alarm bells should sound. Another sign to look out for is anyone offering to free up your pension pot before the age of 55; this is a common tactic used by fraudsters.

Callers who encourage you to take out a large sum of money, or worse still, the whole of your pension in one go, and want to invest this on your behalf could also be operating a scam. The chances are that what they're offering you is an unauthorised or non-existent investment, meaning that you're highly likely to lose all your hard-earned cash, and wouldn't be eligible for compensation from the Financial Services Compensation Scheme.

WHY YOU SHOULD ALWAYS TAKE ADVICE

If you're thinking of making an important financial decision, it pays to take financial advice. If you receive an unwanted approach from an unknown caller about your pension, you can report it to the Information Commissioner's Office.

[6]FCA, Feb 2019

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HAPPY 20TH BIRTHDAY TO THE ISA

Over the years, an ISA has had a key role to play in financial planning, providing a welcome opportunity to save or invest tax-efficiently every year. It's estimated that around 42% of adults[7] have one.

At launch in April 1999, the annual allowance for an ISA was just £7,000. It's risen steadily over the intervening years and today stands at a generous £20,000. Those who were early adopters and maximised each year's allowance could by now have put around £206,000 into these tax-sheltered accounts.

MORE CHOICE ON OFFER

At launch, you could choose a cash ISA or a stocks and shares ISA, amongst other variations. Since then, more types of ISA have been added. There's a Junior ISA for children, the Help to Buy ISA designed to help first-time buyers, and the Lifetime ISA which can be used to build up a deposit for a home, or as a longer-term savings vehicle that can help provide funds in retirement.

DON'T DELAY, SAVE TODAY

If you're planning to use your ISA allowance this tax year, it makes sense to start as soon as possible to potentially give your money more time to grow.

[7]ONS, April 2019

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor. No part of this document may be reproduced in any manner without prior permission.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.

Information is based on our understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation, are subject to change.

The value of investments and income from them may go down. You may not get back the original amount invested.

Tax treatment is based on individual circumstances and may be subject to change in the future.

Cedar Wealth Limited is authorised and regulated by the Financial Conduct Authority.