money matters

ancojada group

In This Issue....

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Discussing inheritance with your heirs

Shockingly, more than half of the UK adult population have not discussed the subject.

With wealth for millennials set to double in the next 20 years, it's time to get over the awkwardness and have the conversation now.

One of the main reasons why people don't discuss their inheritance wishes is that they assume estate planning is not for them. That it is only necessary if you are very wealthy.

Most of us would like to leave a legacy.

But nothing could be further from the truth. Most of us would like to leave a legacy and if you want to ensure your wishes are followed, obtaining professional advice and planning is essential, whatever your circumstances.

New research has highlighted 58% of UK adults admit they have never discussed inheritance matters with their loved ones – with the reluctance to do so equally split between men and women.

The findings revealed that the main reason people shy away from it is because they don't believe they have enough assets to consider it worthwhile (18%).

Getting older is the main prompt for thinking about such matters

However, for nearly half the population (49%), getting older is the main prompt for thinking about such matters. Other life events that have pushed people to confront it are: the birth of a child or the death of a parent (both 7%), followed by the COVID 19 pandemic or a health scare (both 4%).

And there are certain people who hold the key to unlocking these conversations, with 54% saying their partner is the preferred person to talk to, followed by 22% who feel most comfortable chatting things through with their children.

Worryingly, only 2% say they have discussed it with an estate planner or solicitor and only 1% have done so with a professional financial adviser.

Ready to start a conversation about inheritance? The importance of an up to date Will.

Making a Will provides a good reason to have a multi-generational family meeting about your inheritance wishes. Having an up-to-date Will is important for both you and your family. The truth is that having an out-of-date Will is as problematic as having no Will at all.

Once you have an up-to-date Will, talking it through with your professional financial adviser, they can then recommend a plan about how to approach your inheritance goals. Also remember, failing to prepare your children for what they may inherit can hinder their ability to handle money wisely.

Take advantage of the gift allowance

You can give away £3,000 each year and this will not be subject to Inheritance Tax (commonly called IHT for short). In addition, parents can gift £5,000 to each child as a wedding gift, while grandparents can give £2,500. Gifting money regularly throughout the year can be a great way to financially help loved ones and can also reduce your IHT liability. Some people will find it hard asking for money, so try and speak to your children and grandchildren to find out if you can help them with something specific, such as a new car or school fees.

Let life events help you start a conversation

Life events, like a birth, adoption, marriage or a family bereavement can make people evaluate their own plans. Use these opportunities as a way of talking to relatives about how you would like to pass on your wealth.

Talk about later life care

Many people are worried about how they will pay for social care when they get older. As a result, people may be starting to plan for this earlier than previous generations. It's important to talk to your family about the care you want so they stay true to your wishes. This could be an ideal time to introduce the subject of inheritance, as estate planning and later life care go hand in hand.

Talk about family heirlooms

If you find it hard to approach the subject of estate planning with your family then a good place to start could be talking about family heirlooms. People enjoy hearing stories about older relatives, even if they never had the chance to meet them. Talking about items that are important to you or were important to other family members can be a great way to start a conversation about estate planning.

Let's talk about inheritance matters!

Some people find the idea of discussing inheritance uncomfortable and wrongly assume that planning in advance is complicated, but if you don't discuss things before it's too late the situation can become much more thorny in the future, particularly if there is a blended family or if there is anything unexpected in the Will.

Buy-to-let tax changes bite with rising interest rates

Changes to tax rules made some years ago could soon inflict financial pain as interest rates rise.

In the post-election Budget of 2015, the then Chancellor, George Osborne, announced a surprise set of changes to the tax rules for buy-to-let (BTL) residential properties.

The most significant was the treatment of interest on BTL mortgages. At the time, interest paid could be offset fully against rental income, meaning that the interest received full tax relief at up to 45%. The Chancellor decided to replace this treatment with one in which:

- Interest could not be deducted from rent, thereby increasing the tax charged on rental income and, as a corollary, the property owner's total taxable income; but
- A tax credit of 20% of interest paid would be given.

The reform was dramatic enough for Mr Osborne to phase it in over four years from April 2017, meaning that it did not take full effect until the 2020/21 tax year. By then, the Bank of England had reduced its base interest rate to 0.1% in response to the Covid-19 pandemic. Consequently, the reduction of tax relief on interest was less of an issue for BTL in 2020 than looked likely in 2015.

Just over two years later, the picture is altering rapidly as the Bank of England ratchets up interest rates to deal with post-pandemic inflation. One leading property agent has calculated that for some higher rate taxpaying BTL investors, an increase in mortgage rates of 2% could reduce their net income to nil!

The dramatic change to interest and tax relief highlights the risks inherent in borrowing to invest. The multiplier effect works of borrowing in both directions.

Retirement spending surprises

Recent research has cast a new light on retirement spending habits.

Do you expect your spending to reduce gradually once you retire?

It is often thought that as people pass through retirement their spending falls, assuming they do not have to pay for residential care. However, fresh research by the Institute for Fiscal Studies (IFS) using recent UK population data suggests this is not what happens. It appears that earlier investigations may have been mistaken in their approach.

The IFS found that if weekly per person expenditure was simply plotted against age, then there was a distinct downward drift, as the old research had suggested – between 62 and 72 there was a drop of about 15%. However, a more detailed examination looking at groups of retirees based on their year of birth revealed a different picture.

Within each group, after adjusting for inflation, expenditure generally rose slightly year-by-year, except for those well into their 80s. What the snapshot picture of spending across all ages missed was that the younger the retiree group, the higher was their initial expenditure, probably because of greater pension and other wealth.

The composition of that spending changed with age, but again the IFS found common beliefs that were not always correct. While across the different groups spending on motoring fell with age, holiday expenditure continued rising until age 80. However, there was once more a wealth-related gap between the birth date groups:

- Of those aged 82 and born between 1924–1928, 57% spent on motoring while 19% had holiday expenditure.
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- For those aged 62 and born between 1944–1948 the corresponding proportions were 83% and 41%. This mirrors another IFS finding that later-born generations spend more at the start of retirement on categories such as leisure services and holidays.

The IFS concluded that "...if the spending patterns of current retirees are a good guide to how people in the future will want to spend, current savers might be best advised not to plan their retirement saving on the basis that their overall spending will fall sharply during retirement." In other words, your retirement plans may need a review if you have assumed you can live with a decreasing income (even before considering inflation).

Millions of Midlifers are propping up their families

The financial decisions made by individuals as they reach retirement could have significant consequences on their finances and standards of living.

Midlifers (people aged 40 to 60) are facing a challenging backdrop, with rising inflation and increasing energy bills putting further pressure on an age group that is already juggling multiple headwinds.

Midlifers spend £10 billion a year in financial help for loved ones, while support costs have risen by £300 annually over the last 15 years. According to new analysis, responsibility peaks at the age of 45, with midlifers having the greatest level of financial responsibility at this stage of their life.

Greater Pressure

Unpaid caring responsibility also becomes more common from the age of 58, meaning many 40 to 60-year-olds are struggling to juggle their responsibilities.

Many midlifers already feel the level of support they provide is unsustainable (10%).

With inflation set to continue to rise throughout 2022, energy prices reaching record highs and an increase to National Insurance, this support will be under even greater pressure.

Financial Support

The study examined the unique challenges faced by those in midlife and the impact of these on people's work, wealth and wellbeing.

It finds that millions of midlifers are propping up their families, with more than six million people aged 40 to 60 (33%) currently providing financial support or unpaid care to at least one loved one, on top of their job and other family commitments.

More than one in six (17%) people in midlife provide financial support to an adult in their life, such as an elderly parent or grown-up child, at a collective cost of £10.4 billion a year.

Those supporting adult children will spend an average of £247 a month, whereas midlifers who provide financial support to an elderly parent or relative will spend an average of £282 a month, in addition to their own household expenses.

Time Pressures

Alongside financial support, those aged 40 to 60 are also relied on to provide unpaid care (15%) to elderly relatives or childcare for grandchildren while also juggling their lives and careers. The average amount of time taken up by unpaid care is the equivalent to a part-time job, at nearly 15 hours a week.

As a result of these time pressures, one in four people in midlife (25%) get less than an hour to themselves in the average day and one in five (19%) spend no time on their financial wellbeing.

Midlife Spending

The financial and caring commitments required of people in midlife have already increased in recent years. Based on analysis of ONS data, spending in areas that includes support for other generations has increased by £300 in the last 15 years, placing further pressure on this age group.

The COVID 19 pandemic has increased this further, with those in midlife spending more time and money supporting their loved ones.

Just over half (52%) of 40 to 60-year-olds in the UK have seen their financial pressures grow, while 34% say that it has increased the time pressure they face.

Auto-enrolment: an unusual success story

Party(ing) politicians are held in low esteem at present, but there is one cross-party measure that deserves to be recognised – automatic pension enrolment.

But its success shouldn't be an excuse for complacency.

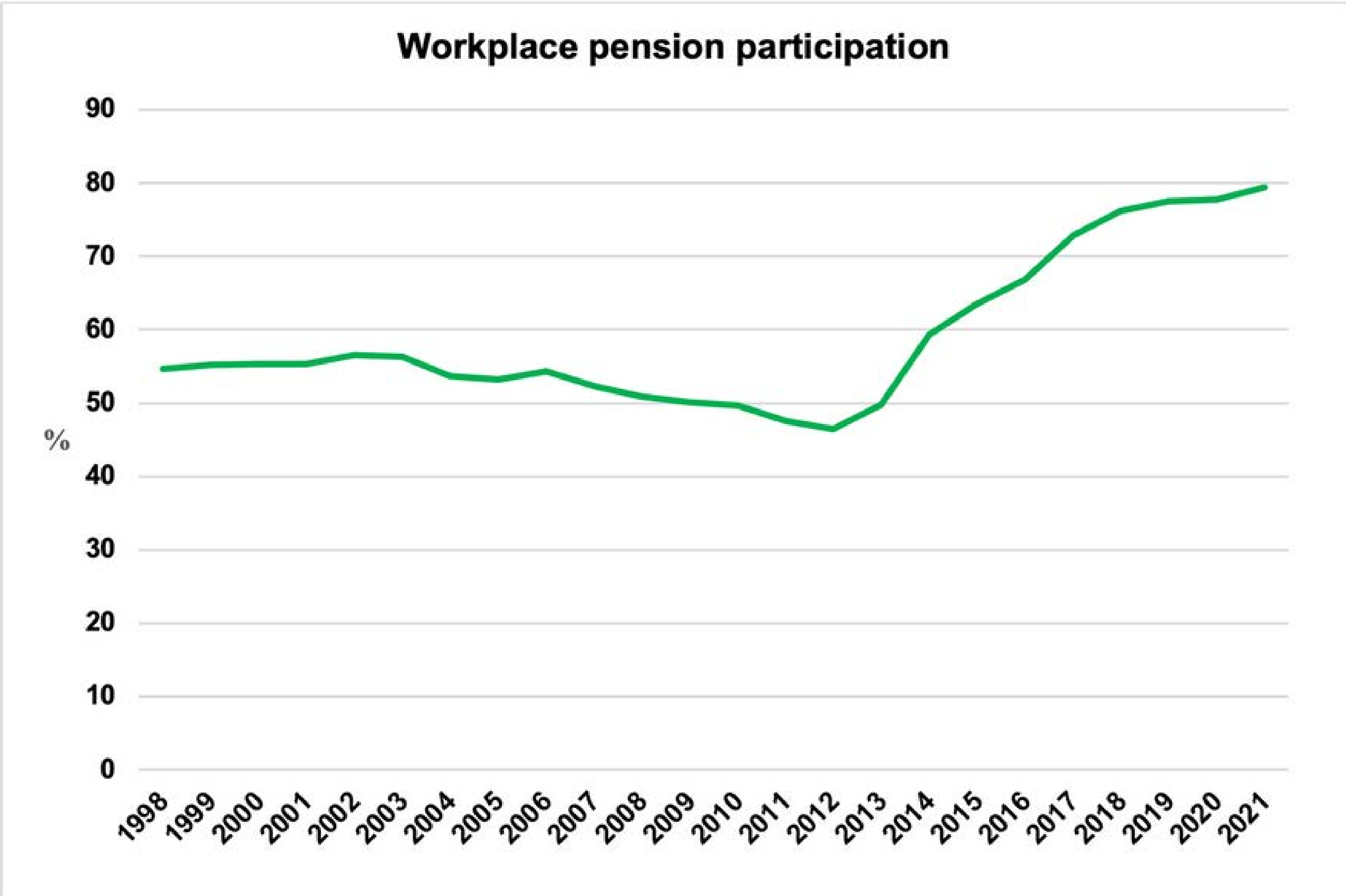
Eighteen years ago, the Pensions Commission, set up by the Blair government, published its first report into UK pension provision. In 2005 a second report appeared, addressing the three "killer facts" highlighted by its predecessor:

- More than half of UK private sector workers were relying solely on their state pension to provide for their retirement;
- Only about 1 in 200 people made what the Commission considered to be rational pension savings decisions. Most entered a pension arrangement if they were compulsorily enrolled by the state, automatically entered into an arrangement by their employer or sold a plan by a pension provider; and
- For small and medium sized employers, establishing an occupational pension scheme involved excessive administrative costs.

The Pensions Commission reports were followed by two pieces of legislation in 2007 and 2008 that laid the groundwork for the introduction of employee automatic enrolment in pension schemes.

An election intervened in 2010, replacing Labour with the Coalition Government, which immediately established a review of the proposals in the wake of the Global Financial Crisis.

The Coalition decided to go ahead, subject to some amendments to the phasing in of the new regime from October 2012.



Source: ONS.

The success of automatic enrolment was recently underlined by a new set of data from the Office for National Statistics (ONS).

As the graph above shows, once the gradual introduction of automatic enrolment started, the proportion of eligible workers in workplace pension schemes steadily rose from 46.5% in April 2012 to 79.4% in April 2021. Broadly speaking the automatic enrolment rules now apply to any worker aged between 22 and state pension age (66) with earnings of at least £10,000 a year.

There remain two areas that need to be addressed as part of automatic enrolment:

- The minimum total contribution level (currently 8% of pay between £120 a week and £967 a week) is widely seen as too low to provide an adequate retirement income; and
- While gig workers are covered, the self-employed are outside the regime and have become the sector of the population most reliant on state provision.

If either of those points apply to you, manual action is required – you cannot rely on what many see as one of the key ingredients for automatic enrolment's success: inertia.

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