money matters

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Tel. 0333 433 0246
Web. www.ancojadagroup.com

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Boosting your legacy

How pension plans can help minimise tax on your estate

Pension plans have been a popular retirement savings option in the United Kingdom for many years.

In addition to providing retirement income, pension plans can also be an effective tool for estate planning purposes.

In this article, we will explore the benefits of using a pension plan as part of your overall estate plan.

1. Tax Advantages: Pension plans offer tax relief on contributions, which can significantly reduce your tax bill. This tax relief can be a significant advantage for estate planning, as it means that the money can grow over time without being diminished by taxes, potentially leaving a larger legacy for future generations.

- Potential for Larger Distributions: Pension plans often offer larger distributions than other types of retirement savings accounts, such as individual savings accounts (ISAs). This can be especially beneficial for estate planning, as it allows you to pass on more money to your beneficiaries.

- Probate Avoidance: Pension plans are not typically subject to probate, which is the legal process by which a person's estate is distributed after their death. This can save time, money, and reduce the stress for your loved ones, who can receive the benefits of the pension plan more quickly and easily.

- Beneficiary Designation: With a pension plan, you can choose the person or people who will receive the benefits after your death. This allows you to have more control over who receives your assets and how they are used, which is a key consideration in estate planning.

- Estate Tax Benefits: In the UK, pension plans may provide estate tax benefits, as the assets held in the plan are generally exempt from inheritance tax. This can help reduce the tax bill for your beneficiaries and ensure that more of your assets are passed on to future generations.

In conclusion, a pension plan can be an effective tool for estate planning purposes in the United Kingdom, offering tax advantages, larger distributions, probate avoidance, beneficiary designation, and estate tax benefits.

It is important to consider your estate planning goals and speak with a financial advisor to determine if a pension plan is the right choice for you. if you feel this form of planning could be right for you, contact us now to arrange a confidential discussion.

2023 inflation forecast: the only way is down?

Inflation surged in 2022, but can it reverse in 2023?

Forecasters of inflation were way off target for 2022.

For example:

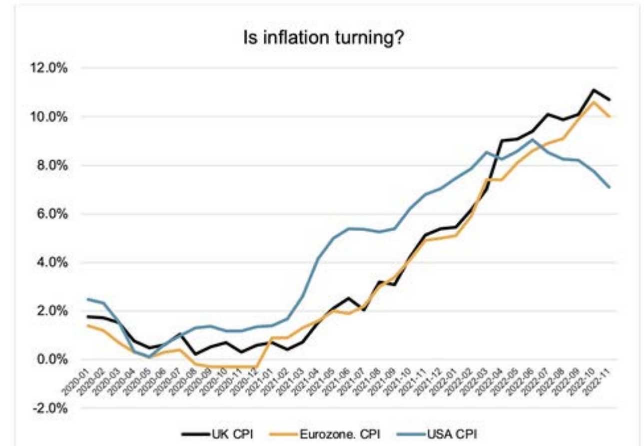
- In December 2021, the Bank of England's Monetary Policy Committee said "CPI inflation was expected to remain around 5% through the majority of the winter period, and peak at around 6% in April 2022".
- Two months earlier, the Office for Budget Responsibility (OBR) in its Economic and Fiscal Outlook said "News since we closed our forecast would be consistent with inflation peaking at close to 5% next year. And it could hit the highest rate seen in the UK for three decades".

The OBR was a decade out. At the time of writing, it looks as if the peak 2022 reading for UK CPI inflation was October's 11.1% – the highest for 41 years according to the Office for National Statistics. Is that the peak for this inflationary cycle, as the data in the graph above hints?

The good news is that, as of now, inflation does look set to drop. Some of that is down to what economists call the 'base effect'. Annual inflation is the difference between prices, 12 months apart, so each new month's inflation calculation loses the oldest month of data which is replaced by the latest month. If the month that disappears was one in which there was an inflation spike and the new month is spike free, then inflation falls.

For example, in the month of April 2022, prices rose by 2.5% because of the utility price cap increase. If April 2023 sees monthly price rises of a still high 1.0%, then annual inflation will drop by 1.5% (2.5% – 1.0%).

Some commodity and service prices have already fallen from the highs created by Covid-19 supply issues and/or the Ukraine war and these drops will work through to domestic inflation. For example, by mid-December the price of wheat had almost halved from its February peak. Shipping costs have also fallen dramatically from their 2022 highs.



One point to remember is that a falling inflation rate does not mean overall prices are falling, so your financial planning may well need a review to take account of the damage inflicted by 2022's CPI.

Insurance that works while you can't

Would you be able to carry on paying the bills using statutory sick pay or your savings?

Consider how you would cover your usual monthly costs if you were ill or injured and couldn't work for a while. Would you be able to carry on paying the bills using statutory sick pay or your savings? If not, it's worth thinking about.

Three in five people with the right protection in place would feel more financially resilient if they had a policy that paid if they were unable to work due to illness or injury, research highlights.

That is why is it so important for people to obtain professional financial advice and find a protection solution to protect themselves and family.

Financial position

Protecting income should be at the heart of building financial resilience. But worryingly, 45% of 25-44-year-olds without a protection policy are not confident they could financially cope if they fell ill.

Over a quarter (28%) of workers in this age group would struggle to pay household bills if they were unable to work for two months or more.

Half also say their partner relies on their income, and they need both incomes to cover their monthly outgoings. So as the cost of living crisis bites, it is even more important to ensure we have the right conversations with customers about their financial position if they are unable to work.

Disposable income

The research also highlights that almost half of people surveyed are not confident they could cope financially if they fell ill. This lines up with UK savings statistics which tell us that 41% of Britons don't have enough savings to live for one month without income.

Nobody wants to worry about how they would cope financially if they were ill or injured and couldn't work. The reality is, with the likelihood of disposable income in real terms going to contract for many people, this makes protection even more crucial.

Give you and your family peace of mind against loss of income.

Should you find yourself unable to work due to illness or injury, having the right protection in place will give you and your family peace of mind against your loss of income. If you have any concerns and to find out more, please contact us.

Protecting those who need you the most

Use lifetime trusts to protect those most vulnerable.

Estate planning is a critical part of financial planning.

It involves making arrangements for the distribution of your assets after your death.

Lifetime trusts are a popular estate planning tool that can provide significant benefits for certain individuals, such as disabled, vulnerable, and bereaved minors.

In this article, we will explore the benefits of using lifetime trusts and the tax treatment of various types of trusts.

What are lifetime trusts?

A lifetime trust is a legal arrangement that allows you to transfer assets into a trust during your lifetime. The trust is managed by a trustee (or trustees) who is responsible for administering the assets and distributing the income or capital to the beneficiaries in accordance with the terms of the trust.

Benefits of using lifetime trusts

Lifetime trusts can offer several benefits for individuals who want to provide for their loved ones after their death. For example, lifetime trusts can be used to:

- Protect assets from potential future creditors or ex-spouses.
- Provide for disabled or vulnerable beneficiaries who may not be able to manage their own finances.
- Protect assets from being misused by beneficiaries who are not capable of managing their inheritance responsibly.
- Provide for bereaved minors who need ongoing financial support until they reach adulthood.

Tax treatment of lifetime trusts

The tax treatment of lifetime trusts varies depending on the type of trust and the circumstances of the settlor and beneficiaries. In general, there are two types of lifetime trusts: bare trusts and discretionary trusts.

Bare trusts

In a bare trust, the beneficiary has an absolute right to the assets in the trust. Bare trusts are often used to hold investments for a child, and the child is taxed on the income and gains of the trust as if they owned the assets themselves. The settlor of the trust is not subject to any inheritance tax implications if they survive for seven years after making the gift.

Discretionary trusts

In a discretionary trust, the trustees have discretion over the distribution of income and capital to the beneficiaries. Discretionary trusts are often used for disabled or vulnerable beneficiaries who need ongoing financial support. The trust is taxed on any income and gains, and the trustees can claim a tax credit for any tax paid. The settlor of the trust may be subject to inheritance tax implications, depending on the value of the assets transferred into the trust and the settlor's overall estate value.

Disadvantages of lifetime trusts

While lifetime trusts can offer significant benefits, there are also some disadvantages to consider. For example, lifetime trusts can be expensive to set up and administer. In addition, the taxation of trusts can be complex, and it is essential to get proper advice from a qualified professional to ensure that the trust is set up correctly.

In conclusion, lifetime trusts can be a valuable estate planning tool for individuals who want to provide for their loved ones after their death, particularly disabled, vulnerable, and bereaved minors.

However, it is crucial to understand the tax implications of setting up a trust and to get proper advice from a qualified professional to ensure that the trust is structured in the most tax-efficient way.

What sort of lifestyle will you be able to afford?

How inflation could be impacting on your retirement plans

Inflation can affect your retirement savings depending on what you do with that money. Leaving your money in a bank account with low interest is a risk, as your money will not outgrow the rate of inflation.

Thats why it's important to have an understanding of how inflation could be impacting your retirement plans and how best to respond. With the right strategies in place, you can still make progress towards achieving your goals and remaining financially secure during retirement.

Retirement Plans

The first thing to know is that inflation won't necessarily derail your retirement plans. The important thing is to recognise the impact it has on long-term savings and investments and take proactive steps to keep your goals in sight.

One option is to review your investment portfolio and consider assets that have the potential to outperform inflation. It may also be worth assessing and identifying further opportunities for growth and investment diversification.

Financial Objectives

Although inflation may have an impact on short-term finances, its effects are typically less dramatic over the long term. Regularly reviewing your financial objectives and taking steps such as increasing contributions to a pension plan or Individual Savings Account (ISA) can help ensure your retirement plans remain on track.

When it comes to managing cashflow, paying off debt should take priority over building up savings if you want to keep pace with inflation. Reducing interest payments can free up more money each month which can then be put into a retirement fund or other investments.

Increased Contribution

If you find yourself falling behind on your retirement savings, it is important to take action now to get back on track. A useful first step could be to review your budget and identify any areas where you can reduce discretionary spending in order to maintain or even increase how much you are regularly contributing towards your pension.

This increased contribution will benefit from tax relief at your marginal rate of Income Tax up until age 75, making it an especially valuable move. However, make sure you only contribute what you can really afford, as pension money is locked away until age 55. (rising to age 57 from April 2028).

Phasing Retirement

It is worth remembering that the amount you contribute should reflect what you can realistically afford in order to avoid taking on more financial commitments than you can manage over the long term.

Phasing into retirement is an option to consider.

It would mean you can still maintain relationships and stay engaged with the professional world. Also, by working part-time or flexibly, you might be able to keep your pension fully invested and draw on other savings and investments to top up your lower income and still be able to retain benefits such as healthcare.

This could help to provide additional financial security in your later years.

New Opportunities

Additionally, a phased retirement gives you time to explore new opportunities and interests outside of work, while still earning money. It can also be a way to transition out of the professional world slowly and give yourself time to adjust to life after work. Whatever your motivations for a phased retirement, make sure it's right for you and that you fully understand the implications for your finances.

Do your research and consider all scenarios before making any decisions about when you will retire.

Remember that no matter what your decision is, it's important to review all aspects of your finances. This will help ensure that you have the best chance at achieving a comfortable retirement lifestyle. With the right planning, phasing or delaying retirement could be a choice that helps you to have the retirement that you want.

Financial Benefit

Before deciding whether to take a tax-free lump sum from your pension, professional advice should always be sought so you fully understand the implications of withdrawing large sums in one go.

You will need to consider not only the immediate financial benefit, but also how it might affect your future retirement

income. This means looking at your options, discussing potential risks, suggesting appropriate strategies and explaining possible tax consequences so that you can make an informed decision about your pension.

Ultimately, receiving professional advice will help you decide whether taking a lump sum from your pension is the best decision for you and your longterm financial security.

Managing Finances

Individual Savings Accounts (ISAs) are another tax-efficient way to supplement your income in retirement. Unlike pensions, the proceeds you withdraw from an ISA are completely tax-free.

So if you have any savings that you can put aside relatively safely and access when necessary, this could be an ideal solution for managing your finances during retirement.

It may also be appropriate for you to consider investing in stocks or bonds, as these could provide even greater returns over time with some risk attached. However, it's important to remember that stock market investments carry a certain amount of risk and can go down as well as up, so professional advice should always be taken before investing large sums of money.

Golden Years

When planning your retirement income, make sure you factor in other sources such as inheritance or rental income. This will help to ensure that you have enough money to enjoy your later years in comfort and security. Additionally, annuities may also be a way to turn your pension pot into a regular income stream. An annuity is an insurance policy taken out with an insurer that pays out a fixed sum each year until the policy matures or you pass away.

Overall, you should consider all of your options when planning for retirement. Using professional advice and understanding the different types of investments available can help you make informed decisions and maximise your income during the golden years of life.

Need to protect your long-term savings and investment from inflation?

To discuss the measures necessary to protect your long-term savings and investments from inflation to achieve your retirement goals, please contact us for more information.