LIFE

Spring 2020

Independent Financial Planning for your future

Focus on long-term horizons

Wealth uplift

Preserving your legacy

Managing volatility

Attivo Financial

Welcome

Welcome to the Spring/Summer issue of Life Magazine.

The outbreak of COVID-19 has been dominating the news headlines but I would like to reassure you that we are very much open for business.

In uncertain times like these the value of taking financial advice is more important than ever. On **page 3**, I discuss the beneficial impact it can have on both pension and non-pension wealth.

We have launched our Personal Finance Portal, providing you with a clear overview of your finances and the ability to manage and track them in one place. Find out more about the benefits and features, and how to register on **page 7**.

On **page 8** our Chartered Financial Planner, Joe Bergin, discusses tax planning strategies for higher-rate taxpayers to ensure you do not miss out on key tax benefits.

No one wants to think about a time when they won't be around but it is important to ensure you are financially prepared. On **page 16**, David McCallig, Chartered Financial Planner, discusses inheritance tax planning and how to keep your wealth in your family to ensure your loved ones are provided for.

If there is a particular topic or area you would like us to cover, please let us know. If you have any questions about any of the articles or would like to speak to us about your financial planning needs, please get in touch.

Stuart Harding
FPFS FCSI MSc
Financial Planning Director

LIFE

Independent Financial Planning for your future

Also available online at www.attivofinancialplanning.co.uk/lifemagazine

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Wealth uplift

Calculating the value of financial advice

Stuart Harding FPFS FCSI MSc
Financial Planning Director

Quantifying the value of financial advice has always been a challenge because people who receive financial advice have different characteristics to those who do not.

But what if it was now possible to quantify the value of financial advice and isolate a pure 'advice effect'? This is exactly what the researchers at the International Longevity Centre – UK (ILC) have been able to calculate.

What it's worth

The new research[1], 'What it's worth: Revisiting the value of financial advice' from the ILC suggests that, holding other factors constant, those who received advice around the turn of the century were on average over £47,000 better off a decade later than those who did not.

This result comes from detailed analysis of the Government's Wealth and Assets Survey, which has tracked the wealth of thousands of people over two yearly 'waves' since 2004 to 2006. The wealth uplift from advice comprises an extra £31,000 of pension wealth and over £16,000 extra in non-pension financial wealth.

Impact of taking advice

One of the key findings from the research is that the proportionate impact of taking advice is greater for those of more modest means. For the 'affluent' group identified in the research, the uplift from taking advice is an extra 24% in financial wealth compared with 35% for the non-affluent group. On pension wealth, the uplift is 11% for the affluent group compared with 24% for the non-affluent.

An important explanation for the improved outcomes for those who take advice is that they are more likely to invest in assets which offer greater returns (though with higher risk). Across the whole sample, the impact of taking advice is to add around eight percentage points to the probability of investing in equities.

Larger pension pots

The research also found that those who were still taking advice at the end of the period had pension pots on average 50% higher than those who had only taken advice at the beginning of the period. However, this result is not controlled for other differences in characteristics, so may at least in part reflect greater engagement by those who have larger pension pots.

International Longevity Centre Director, David Sinclair, commented: 'The simple fact is that those who take advice are likely to be richer in retirement. But it is still the case that far too many people who take out investments and pensions do not use financial advice. And only a minority of the population has seen a financial adviser.'

Source data:

[1] 'What it's worth: Revisiting the value of financial advice' will be published on 28 November 2019 at http://www.ilcuk.org.uk and http://www.royallondon.com/policy-papers.

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Managing volatility

Diversification is paramount in uncertain times

The outbreak of coronavirus (COVID-19) has understandably been dominating the news headlines.

Market fear over the escalating global spread of coronavirus has seen a sell-off across many asset classes. This period of market stress further emphasises the importance of diversification within portfolios. Investors' objectives can rarely be met by investing in a single asset class.

Diversification means making sure your portfolio has varied investments: investing in stocks and bonds, in different industries, and in large and small companies. Whilst 'don't put all your eggs in one basket' is a well-used adage, it is still relevant today and means: don't have all your money in one place, as you could lose it all in one go.

Smoother return profile

By holding well-diversified assets at both a geographical and asset-class level, our portfolios experience a (relatively) smoother return profile because risk exposure is less concentrated.

Investment options span every sector of the stock, bond and property markets, but allocating your assets based on performance alone is often ill-advised because the market is a moving target. One year, a particular type of security can be a star performer, only to severely underperform the very next year

Range of assets

During the early weeks of the coronavirus outbreak, the response from financial markets was somewhat muted. However, as the virus has continued to spread, markets have reacted in a more pronounced way to the impact on supply chains, tourism and global demand.

This further strengthens the case to invest across several asset classes to provide greater diversification potential. Therefore, if one asset class performs favourably, it can potentially offset another that is performing less favourably, providing more balance to your portfolio when market shifts occur. Investment returns vary significantly between different investment 'baskets', or asset classes, year-to-year.

Different life stages

Different investors are at different stages in their lives. Younger investors may have a longer time horizon for their investing than older investors. Risk tolerance is a personal choice, but it's good to keep perspective on personal time horizons and manage risk according to when access to funds from different assets is needed. If cash is needed in the near term, it is better to sell an asset when you want to sell it rather than when you have to sell it.

Under normal market conditions, diversification is an effective way to reduce risk. If you hold just one

> **Warren Buffett, the American investor and philanthropist, puts it very succinctly: 'Our favourite holding period is forever.' Over the long term, investors do experience market falls which happen periodically**

investment and it performs badly, you could lose all of your money. If you hold a diversified portfolio with a variety of different investments, it's much less likely that all of your investments will perform badly at the same time. The profits you earn on the investments that perform well offset the losses on those that perform poorly.

Minimising risk

While it cannot guarantee against losses, diversifying your portfolio effectively – holding a blend of assets to help you navigate the volatility of markets – is vital to achieving your long-term financial goals whilst minimising risk.

Although you can diversify within one asset class – for instance, by holding shares (or equities) in several companies that operate in different sectors – this will fail to insulate you from systemic risks, such as international stock market volatility.

Further diversification

As well as investing across asset classes, you can further diversify by spreading your investments within asset classes. For instance, corporate bonds and government bonds can offer very different propositions, with the former tending to offer higher possible returns but with a higher risk of defaults, or bond repayments not being met by the issuer.

There are four main types of investment, known as 'asset classes'. Each asset class has different characteristics and advantages and disadvantages for investors.

Market timing

Resist the temptation to change your portfolio in response to short-term market movement. 'Timing' the markets seldom works in practice and can make it too easy to miss out on any gains. The golden rule to investing is allowing your investments sufficient time to achieve their potential. Warren Buffett, the American investor and philanthropist, puts it very succinctly: 'Our favourite holding period is forever.'

Over the long term, investors will experience market falls which happen periodically. Generally, the wrong thing to do when markets fall by a reasonable margin is to panic and sell out of the market – this just means you have taken the loss. It's important to remember why you're invested in the first place and make sure that rationale hasn't changed. ●

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Focus on long-term horizons

Time in the market, not timing the market

During this difficult time, fear and worry is understandable, particularly as the coronavirus (COVID-19) outbreak led to the biggest daily drop in the FTSE 100 since the financial crisis. Trying to second-guess the impact of events such as the coronavirus or the recent stock market volatility – or even attempting to make a bet on them – rarely pays off.

Instead, investors who focus on long-term horizons – at least five to ten years – have historically fared much better.

We all have different objectives in life and need different strategies to help achieve them. Sensible diversification – owning a mix of assets, including shares, bonds and alternative investments such as property – can help protect investors over the long term. When one area of a portfolio underperforms, another part should provide important protection.

Risk tolerance and time horizon

If you have a well-diversified portfolio, then it's more important than ever to stay the course. You have a strategy in place that reflects your risk tolerance and time horizon, so remain committed. This will help you navigate through periods of uncertainty when some investors are panicking or acting out of fear. Volatility is not all bad, as long as you are prepared to take advantage of the unique opportunities it brings.

In volatile markets, it is perfectly normal for investors to become nervous, question their investment approach and concentrate on the potential for short-term losses over their longer-term investment strategy. Be aware of the psychological affect this type of volatility has on you as an investor, and resist the urge to be reactive.

Proper diversification and perseverance

It's important to understand that this movement is not all bad for investors. Some commentators may talk about volatility as a detriment to markets and investors, but not talk about the opportunities that arise for investors during periods of market volatility.

No one knows how severe any market turbulence will be or what the markets will do next. It could be over quickly or become more protracted. However, no matter what lies ahead, proper diversification and perseverance over the long term are very important.

Ups and downs of different types of market conditions

It's likely that the coronavirus will continue to have an impact on markets over the coming months and even years. However, major events causing markets to fall, particularly in the short term, is something we've seen time and time again. And it doesn't mean that markets won't recover. History shows again and again that the ups and downs of different types of market conditions are part and parcel of investing.

The key is to remain calm when stock markets fall. Don't panic. Don't frantically sell. If you can avoid it, don't even log into your investment account. At moments like this, the skills and experience of receiving professional financial advice comes into its own. Not only do we have the experience of dealing with different types of market conditions, but we can also help to take the emotion out of your decisions.

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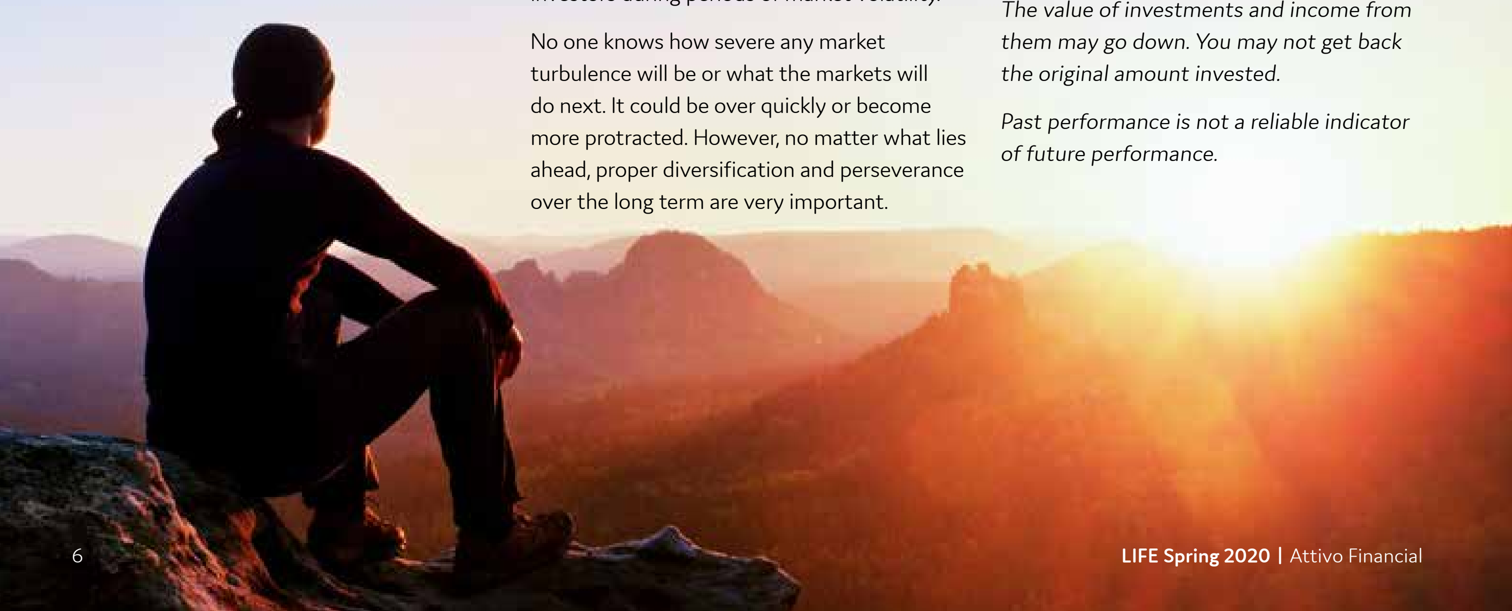

Personal finance at your fingertips

The Personal Finance Portal is an invaluable tool that enables you to view your financial information and interact with your Financial Planner via a secure, online 'hub' anywhere and on any device

Available to clients of Attivo Financial Planning, the Personal Finance Portal (PFP) provides a clear overview of your finances, so they can be managed and tracked in one place. It is like a personal digital filing cabinet where all of your financial records can be kept, and easily accessible whenever they are needed.

The portal makes managing your money simple using easy-to-understand graphics and most importantly, it is completely safe and secure.

Your financial dashboard

The portal can be accessed via your computer, tablet or mobile, so you can see your investments, savings, pensions, mortgages, loans and properties all on one dashboard whenever you need to. There is no need to log on to multiple financial sites, reducing the risk of online fraud.

Increased data security

With the increasing importance of data security, we will send your personal documents to you via the portal so you can be assured that your information is secure at all times. We will no longer send you important documents via email or in the post.

Open banking

Linking your bank accounts to the portal helps you understand exactly where you are spending your money. Available from July, you can link your current account, savings accounts and credit cards and your spending will automatically be broken down into discrete categories such as Household, Loans and finance, and Lifestyle. The portal will link directly to your bank account without the need to share any banking log in details.

Secure messaging

The portal includes a secure messaging service so you can get in touch with your Financial Planner, safe in the knowledge that any information and attachments you share are fully encrypted.

Secure document storage

The portal keeps your important financial documents secure and makes them easy to access when you need them. You can store all your financial paperwork including wills, property deeds, insurance contracts, policy documents, valuations and statements. Any documents your Financial Planner has shared with you are also stored here and you can upload documents to share with them too.

Secure document signing with DocuSign

DocuSign enables you to digitally sign documents that your Financial Planner sends to you via the portal. You will receive a secure message notifying you that your Financial Planner has sent you a document which requires your signature.

Your data and privacy

Attivo Financial Planning take the security of our clients personal and financial information seriously. Our software partner, Intelligent Office, works closely with a number of global security experts to ensure our clients' data is safe at all times. Regular and comprehensive external auditing of our systems is carried out to ensure they cannot be compromised. The portal uses the same level of data encryption and security as banks to protect your information.

When accounts are linked on the portal, all data is made anonymous on the secure servers so that personal financial information cannot be tracked back to you. We do not share any data or information with third parties unless given explicit consent by you.

Getting started

It only takes a few minutes to register for your account and can be done via your computer, tablet or mobile. If you haven't received an email inviting you to register, simply visit https://attivofinancialplanning.mypfp.co.uk/account/register, enter your email address and follow the instructions sent in the activation email.

You can only register with the email address that you have provided to Attivo Financial Planning. You will need your own, unique email address – you cannot use the same one as your spouse or partner. To update your email address, please contact your Financial Planner.

Once you have registered you can start adding accounts to your Portfolio, update the details in your Profile, set your savings Goals and more. With your profile complete and accounts linked, you are ready to access up-to-date valuations and an overview of your investment performance at the click of a button.

More information is available on our website, including our **Guide to your Personal Finance Portal**. Please visit https://www.attivofinancialplanning.co.uk/pfp/

Tax-efficient investing

Legitimate ways for higher earners to reduce a tax bill

Joe Bergin FPFS
Chartered Financial Planner and Occupational Pension Specialist

Without a carefully developed tax planning strategy, higher-rate taxpayers run the risk of missing out on key tax benefits and paying more in taxes than necessary. A higher tax liability can diminish the value of your investment earnings over the long term.

To start with, it's important to look at how you might be able to minimise tax along the way. In other words, reduce tax where you can, but don't allow it to be your sole driver when making investing decisions or steer you away from achieving your core financial goals.

Even though the Government continues to reduce the number of tax avoidance schemes available, there are still legitimate ways for higher earners to reduce their tax bill. The more tax wrappers and annual allowances you use, the more money you'll be able to save and invest for your future.

Where can you turn if you want to invest tax-efficiently?

Individual Savings Accounts (ISAs)

One of the most straightforward ways to invest tax-efficiently in the UK is to invest within a Stocks & Shares ISA. They are very flexible and allow you to access your money at any time, and all of the proceeds taken are free from tax on capital gains, dividend income and interest.

The current annual ISA allowance is £20,000 per person. This means that a couple can now save £40,000 per tax year between them into two Stocks & Shares ISAs, sheltering a significant sum from tax.

Once higher-rate taxpayers have used up their own ISA allowances, they could also consider investing for their children or grandchildren by putting money into a Junior ISA. Currently, the annual allowance for Junior ISAs is £9,000, and each child can own one as long as they are under 18, living in the UK and they don't have a Child Trust Fund. Bear in mind, however, that on the child's 18th birthday, money in a Junior ISA becomes theirs.

Pensions

Contributing into a pension is another tax-efficient strategy that those on higher incomes may wish to consider. Not only are capital gains and investment income tax-free within pension accounts, but when you contribute into a pension, the Government provides tax relief.

This is paid on your pension contributions at the highest rate of Income Tax you pay, meaning that higher-rate taxpayers receive 40% tax relief, while additional-rate taxpayers receive 45% tax relief.

For 2019/20, the annual pension contribution limit for tax relief purposes is 100% of your salary or £40,000, whichever is lower. If you are considered to be a high-income individual and have an adjusted income of more than £150,000 per year, and a threshold income of more than £110,000 per year, your annual allowance will be tapered.

You may be able to make use of any annual allowance that you have not used in the three previous tax years under pension carry forward rules. If you want to carry forward your pension allowance, there are two requirements you need to meet.

Firstly, you had a pension in each tax year you wish to carry forward from, regardless of whether or not you actually made a contribution – the State Pension cannot be included. Secondly, you have earnings in the current tax year of at least the total amount you are contributing, although this does not apply to contributions your employer makes.

While contributing into a pension can be a very effective strategy due to the generous tax breaks on offer, the downside to pensions is that money cannot be accessed until age 55, and at this age you can only take 25% of your pension pot tax-free. Higher earners should also be aware of the Lifetime Allowance – the total amount of money you can build up in your pension accounts while still enjoying the full tax benefits.

Venture capital schemes

The purpose of the venture capital schemes is to provide funding for companies that are in the relatively early stage of the business cycle. Experienced investors who are comfortable with high levels of risk may also want to consider venture capital schemes.

There are three investment schemes that have been set up by the UK Government and offer very generous tax breaks.

The Enterprise Investment Scheme (EIS)

This scheme is designed to encourage investment into early-stage companies that are not listed on a stock exchange. It offers investors a range of tax breaks, including Income Tax relief of 30%, no Capital Gains Tax on gains realised on the disposal of EIS investments provided the investments are held for three years, Capital Gains Tax deferrals if proceeds are invested in qualifying EIS investments, and Inheritance Tax relief if the investments are held for two years.

The Seed Enterprise Investment Scheme (SEIS)

This scheme is designed to promote investment into start-up companies that are raising their first £150,000 in external equity capital. Like the EIS, it offers a range of generous tax breaks, including Income Tax relief of 50%, no Capital Gains Tax on gains realised on the disposal of SEIS investments provided the shares are held for three years, reinvestment tax relief, and Inheritance Tax relief if investments are held for two years.

Venture Capital Trusts (VCTs)

VCTs are investment companies that are listed on the London Stock Exchange and invest in smaller companies that meet certain criteria. VCTs offer investors a range of tax breaks including 30% Income Tax relief, tax-free dividends and tax-free growth.

While all of these schemes offer generous tax breaks, it's important to be aware that due to the high-risk nature of investing in small, early-stage companies, they will not be suitable for everyone. Only those who can afford to take the risk should consider these tax-efficient investment schemes.

Accessing pension benefits early may impact on levels of retirement income and is not suitable for everyone. You should seek advice to understand your options at retirement.

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Tax rules are complicated, so you should always obtain professional advice.

A pension is a long-term investment.

Pensions are not normally accessible until age 55. Your pension income could also be affected by interest rates at the time you take 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.

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Discover a clearer financial future

Professional financial advice tailored to you

It's a common fallacy that only those who are wealthy have any need for professional financial advice. Regardless of how careful you are with your money, dealing with the tricky intricacies of taxation, investments and financial regulations can be difficult for even the most money-conscious of earners.

However, when it comes to financial planning for your future, it's important that you receive expert professional advice about all the options and income sources available to you. As your life progresses, there will be certain points where you'll be thinking about making changes that relate to your finances, for example, getting a new job or as you approach retirement. Your unique circumstances will play a significant part in achieving your goals and financial planning requirements.

Helping you define and quantify your goals

Your financial objectives should have a time frame and be goals that can be quantified. An aspiration such as achieving a comfortable retirement is difficult to plan for, but putting in place a well-defined financial planning strategy will help you define and quantify your goals.

Cash flow modelling can help you visualise your current financial position and demonstrate how your future financial goals and

objectives can be achieved. Life events, investment performance and taxation all need to be taken into consideration to give a reviewable and detailed plan.

Tax planning, prudent spending and careful budgeting

The aim is to increase your cash flows by carefully monitoring your spending patterns and expenses. And with tax planning, prudent spending and careful budgeting, we can help you keep more of your hard-earned cash. An increase in cash flow will lead to an increase in capital and the option to consider further investments to improve your overall financial well-being.

Tax considerations are also important when considering financial planning. The assessment rates for Income Tax and Capital Gains Tax will be important factors in determining how much you should save to meet your future goals. We can advise you about how to utilise your tax allowances and reliefs as an effective way of reducing your tax liability and making further savings over your lifetime.

A valuable safety net to protect you and your family

Protection insurance will also provide a valuable safety net for you or your family should you become ill or die. However, in some cases, you might find you are already covered in some way, either as part of your work benefits or through the state. Do you have enough life insurance, and do you have the right kind of policy for your situation? Do you have disability and long-term care insurance? Do you need this protection? Your financial plan should address all of these issues.

A proper financial plan also considers your personal circumstances, objectives and risk tolerance. It acts as a guide in helping choose the right types of investment to fit your needs, personality and goals. Annual reviews of your financial plan will help during this transition phase, so you know the different options you have for withdrawing a retirement income and what the results will be in terms of yield and future income.

Mitigate the risk of running out of money in the future

When you retire, structuring your investments during this period will provide the flexibility to help if you decide you want to spend more in some years than others, for example, when planning to buy a car or go on a luxury holiday. By creating a financial plan based on these needs, we can help you work out how much you will require to mitigate the risk of running out of money – and to enjoy the later years of life.

So a better financial understanding can be achieved when measurable financial goals are set, the effects of decisions understood and results reviewed. Giving you a whole new approach to your budget and improving control over your financial lifestyle.

Don't let financial changes or emergencies throw you off track

Whether you want to fund your children's university education, save for retirement or buy a new house, most financial goals require periodic savings. The financial planning process will help you identify how much you will need to save periodically – and in total – for each of your goals. Also, sudden financial changes or emergencies could still throw you off track. It is good to have savings you can access quickly.

It goes without saying that your financial plans should not be static. There is little point in making a plan and never returning to it. You should expect to make alterations as life changes. It's important to have a yearly review at the very least to check you are on track to meeting your goals.

Strategy for financial well-being

Government guidance body launches five goals

A new UK-wide strategy to transform the country's financial well-being in a decade has been launched by the Money and Pensions Service (MaPS) under its government mandate.

The UK Strategy for Financial Well-being sets out a ten-year vision to improve millions of lives and includes five priority areas to help people make the most of their money and pensions. The strategy is aimed at transforming the lives of many individuals, benefitting communities, businesses, the economy and wider society.

The UK Strategy for Financial Well-being establishes five 'agendas for change' and sets goals to be achieved by 2030. These are:

Financial Foundations: 6.8 million children and young people getting a meaningful financial education – an increase of 2 million from 2019[1]

Nation of Savers: 16.7 million working age people who are struggling[2] and squeezed[3] saving regularly – an increase of 2 million.

Credit Counts: 2 million fewer people often using credit to pay for food or bills.

Better Debt Advice: 2 million more people getting the debt advice they need; currently only 32% of those who need debt advice access it.

Future Focus: 28.6 million people understanding enough to plan for their later lives, and during them – an increase of 5 million.

Susceptible to financial detriment

The strategy will also examine factors which can make people particularly susceptible to financial detriment, such as mental health conditions and gender. It will be delivered in collaboration with a broad range of organisations and experts from all sectors.

What is financial well-being?

Financial well-being is about feeling secure and in control. It is knowing that you can pay the bills today, can deal with the unexpected tomorrow and be on track for a healthy financial future. People should feel confident and empowered.

Why is a UK strategy needed?

Poor financial well-being has knock-on effects for our mental health, physical health and relationships.

We know that:

- 11.5 million people have less than £100 in savings to fall back on.

> **“Financial well-being is about feeling secure and in control. It is knowing that you can pay the bills today and can deal with the unexpected tomorrow”**

- 9 million people often use credit to pay for food or essential bills.
- 22 million people say they don't know enough to plan for their retirement.
- 5.3 million children aren't getting a meaningful financial education.

Investing money for retirement

People who enjoy good financial well-being are more productive at work, and businesses also benefit from having customers who can afford to keep up with bills and payments. Individuals and the wider economy benefit from people being able to invest money for retirement.

Over the first half of 2020, MaPS will work with leaders and experts from across the public, private and voluntary sectors to set out clear delivery plans to achieve the five goals, with specific plans for England, Scotland, Wales and Northern Ireland.

Following this mobilisation phase, MaPS will develop its own corporate strategy which will define how the organisation will activate the UK Strategy and continue to deliver on essential money and pensions guidance and services to its customers. ●

Source data:

[1] 2018 Financial Capability Survey, Money and Pensions Service.

[2] MaPS defines those who are 'struggling' as people who find it hard to keep up with bills and payments and to build any form of savings buffer. They are the least financially resilient segment and the most likely to be over-indebted.

[3] Those who are 'squeezed' are working-age consumers with significant financial commitments but relatively little provision for coping with income shocks. They are digitally savvy and have high media consumption, but this is more for entertainment than financial information. This is based on the Money Advice Service Target Market Segmentation.

Inflation matters

One of the biggest threats to the health of your investment portfolio

If you're investing – especially for major goals years away, such as retirement – you can't afford to ignore the corrosive effect rising prices can have on the value of your assets.

Is inflation finally returning to Western economies, aided by the 'Trumpflation effect'? It's been described as a 'hidden tax' because of the consistent destruction of value that it brings about.

Taking a bite out of your investment returns

Most people understand that inflation increases the price of their groceries or decreases the value of the pound in their wallet or purse. In reality, though, inflation affects all areas of the economy – and over time, it can take a bite out of your investment returns.

The reality is that inflation poses a stealth threat to all investors, which is why it's important to consider ways to mitigate inflation in your investment portfolio. When you consider the return on an investment, it's not just the interest rate you'll receive but also the real rate of return, which is determined by taking into account the effects of inflation.

Plan to achieve long-term financial goals

Clearly, if you plan to achieve long-term financial goals, such as university savings for your children or your own retirement, you'll need to create a portfolio of investments that will provide sufficient returns after factoring in the rate of inflation.

Protecting your portfolio against the potential threat of rising inflation might begin with a review of the investments most likely to provide returns that outpace inflation.

Navigating the threat that inflation poses

Over the long run – 10, 20, 30 years, or more – equities may provide the best potential for returns that exceed inflation. While past performance is no guarantee of future results, they have historically provided higher returns than other asset classes.

If you consistently receive below-inflation interest rates, this will slowly, but surely, erode what your savings are really worth. Investing some or more of your savings could help you navigate the threat that inflation poses to your long-term financial health.

Putting a strong investment strategy in place

Not only does the value of many investment assets often rise with inflation, offering some protection from rising prices, but successful investments should deliver higher returns than cash savings alone can muster.

Inflation is a market force that is impossible to avoid completely. However, by planning for it and putting a strong investment strategy in place, you might be able to help minimise the impact of inflation on your savings and long-term financial plans.

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Second self-assessment payment deferment

Strengthening the safety net for those who work for themselves

The Chancellor, Rishi Sunak, said he will 'strengthen the safety net for those who work for themselves' with a package of measures to support the self-employed and freelancers, offering improved benefits and tax deferrals.

If you're due to pay a self-assessment payment on account by 31 July 2020, but the impact of the coronavirus causes you difficulty in making payment by that date, then you may defer payment until January 2021.

You are eligible if you are due to pay your second self-assessment payment on account on 31 July. You do not need to be self-employed to be eligible for the deferment – the deferment is optional. If you are still able to pay your second payment on account on 31 July, you should do so.

This is an automatic offer with no applications required. No penalties or interest for late payment will be charged if you defer payment until 31 January 2021. During the deferral period, you can set up a budget payment plan to help you pay the deferred payment on account when it's due.

If you're in temporary financial distress because of COVID-19, more help is available from HMRC's Time to Pay scheme.

If you're due to pay a self-assessment payment on account by 31 July 2020, but the impact of the coronavirus causes you difficulty in making payment by that date, then you may defer payment until January 2021

Preserving your legacy

How to keep your wealth in the family

David McCallig FPFS MCSI
Chartered Financial Planner and Occupational Pension Specialist

Are you worried about leaving an inheritance to your loved ones and then having them pay tax on your legacy? No one likes to think about a time when they won't be here, but unfortunately the reality is that some people aren't prepared financially.

Estates that pass on to a spouse, registered civil partner or charities are exempt from Inheritance Tax (IHT), even if the value of such estates is higher than the threshold limits. Estates that pass on to anyone else, including siblings, children and grandchildren, attract IHT.

Deciding on the best way to leave your estate

If your estate is likely to suffer IHT, there are accessible solutions and strategies we can discuss with you to mitigate this tax. You may find the idea of discussing inheritance uncomfortable, but proper IHT planning could save your family hundreds of thousands of pounds. This is about deciding on the best way to leave your estate to those you love after you die, and to help ensure your loved ones are provided for.

When you die, the Government charges tax on your estate – and it could be a pretty significant amount. IHT is payable at 40% on assets within your estate that exceed the nil-rate band threshold (currently at £325,000) and is payable on assets that are passed on when you die. Nearly everyone has an estate, no matter how big or small it may be. This will include your property and business, cash and investments, cars, jewellery, art, and proceeds from life insurance policies not written in an appropriate trust.

Transfer to a surviving spouse or registered civil partner

An additional nil-rate band is available for individuals on their main residence if it is passed on to a direct descendant. Direct descendants include children (including stepchildren, adopted children or foster children) or grandchildren. This additional IHT-free residence nil-rate band is set at £175,000 in the 2020/21 tax year, increased from £150,000 in 2019/20. As with the existing nil-rate band, any unused additional nil-rate band can be transferred to a surviving spouse or registered civil partner.

More tax-efficient for IHT purposes to gift money

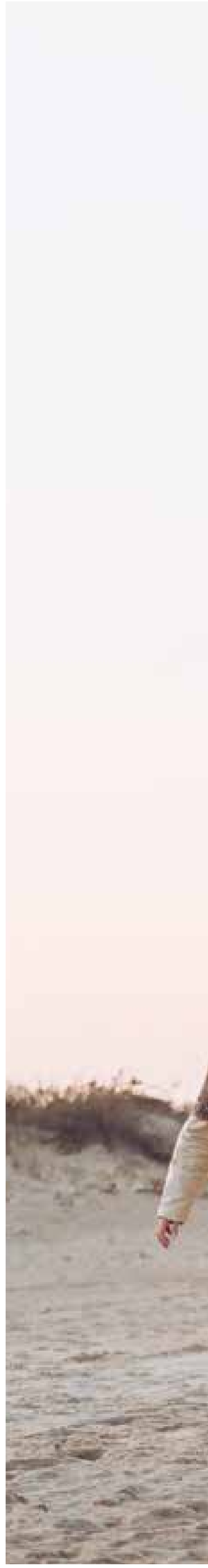
The residence nil-rate band is available on top of the existing IHT nil-rate band of £325,000, so that in 2020/21 an individual will potentially be able to leave £500,000 free of IHT. As is now the case with the standard nil-rate band, where the first of a married couple to die leaves their estate to their spouse, the residence nil-rate band can effectively be 'passed on' to the surviving spouse.

> **“Transferring wealth while you are alive can have a transformative effect on both your and your family's life”**

While few of us enjoy talking about our eventual demise, not having a Will can result in assets passing to the wrong person or in a way that gives rise to a larger IHT bill. That's why it's equally important to keep any Will up to date. Tax rules and rates are always changing, and it is crucial to make the most of any new opportunities and to avoid any pitfalls. However, it can be more tax-efficient for IHT purposes to gift money while you are still alive.

Transformative effect on both your and your family's life

Transferring wealth while you are alive can have a transformative effect on both your and your family's life. Gifting money to a younger relative to top up their pension and an Individual Savings Account can substantially boost their income when they eventually retire.



Each year, you can give away £3,000, and that gift will not be subject to IHT. You can also give £250 to any number of people each year. Parents can give £5,000 to each of their children as a wedding gift. Grandparents can give £2,500, and anyone else £1,000.

Further tax-free gifts

Gifts of any size to charities or political parties are also IHT-free. If a gift is regular, comes out of your income and does not affect your standard of living, any amount of money can be given away and ignored for IHT.

It is also possible to make further tax-free gifts ('potentially exempt transfers'), but you have to survive for seven years after making the gift to get the full benefit of it being outside your estate for IHT purposes.

Taking a significant amount of wealth out of your estate

If you pass away within seven years and the gifts are valued at more than the nil-rate band, taper relief will be applied. The tax reduces on a sliding scale if the gift was made between three and seven years earlier.

Many people think that IHT only concerns the very wealthy, but property prices are such that the value of your property alone can easily exceed the tax threshold. Don't forget, IHT can take a significant amount of wealth out of your estate, making a big difference to the amount your heirs receive when you are gone. ●

Information is based on our current understanding of Taxation legislation and regulations.

Any levels and bases of, and reliefs from, taxation are subject to change.

The rules around inheritance tax are complicated, so you should always obtain professional advice.

The value of investments and the income they produce can fall as well as rise. You may get back less than you invested.

Life is full of uncertainties

If the worst were to happen, would your bills still get paid?

Everyone should consider protection, even those who don't have a family or a mortgage! Unless they have substantial savings or inherited wealth, most people rely on their salary to pay for everything.

Over the years, you may have taken out a number of different insurance policies to give you and your family financial security. Perhaps this may have been when you started a family, took out a mortgage or became self-employed.

These policies are designed to give your loved ones peace of mind by helping make sure there will be enough money in place to cover bills and other expenses should you become critically ill, be unable to work or even die.

Although state benefits provide some support, few families want to rely on the state to maintain their standard of living. It is therefore crucial to keep abreast of the level of your cover.

Time to review

Your personal circumstances and needs will almost certainly have changed over time. Perhaps you have children who have since flown the nest, or you've paid off your mortgage.

You may also be entitled to benefits with your current employer that either overlap with polices you already have or leave things now important to you not covered.

It could be time to review these policies, and the level of cover they provide, to make sure they are still suitable.

Life cover protection

Life cover protection is designed to protect your family and other people who may depend on you for financial support. It pays a death benefit to the beneficiary of the life assurance policy.

If you have dependents or outstanding debts such as a mortgage, at the very least, it should ensure your family can keep their home, but ideally it would also provide an additional sum as a financial buffer at a difficult time.

> **"Putting in place sufficient protection will give you peace of mind that if the worst does happen, the bills will still get paid"**

There are different types of policy available, from 'whole of life assurance' which covers you for your entire lifetime, to 'term assurance' policies which provide life cover for a fixed period of time – 10 or 20 years, for example – and are often used in conjunction with a mortgage.

Income protection cover

If something happened to you, would you be able to survive on your savings or on sick pay provided by your

employer? If not, you'll need some other way to keep paying the bills.

Income protection cover is designed to give you protection if you can't earn an income due to ill health, a sickness or disability. These policies protect a portion of your salary, typically paying out between 50–70% of your income. You receive monthly, tax-free payments that cover some of your lost earnings if you are unable to work.

They are vital policies for those with dependents and liabilities, paying out until you can start working again, or until you retire, die or the end of the policy term – whichever is sooner. They cover most illnesses that leave you unable to work, and you can claim as many times as you need to while the policy lasts.

Critical illness cover

If you are diagnosed with a critical illness, it can have a severe impact on your finances, as you may need to take time off work for your treatment and recovery. Critical illness cover pays out a tax-free lump sum if you're diagnosed with, or undergo surgery for, a specified critical illness that meets the policy definition.

It's designed to help support you and your family financially while you deal with your diagnosis, so you can focus on your recovery without worrying about how the bills will be paid.

Each policy will have its own list of specified conditions it covers, and it is vital to familiarise yourself with the full list and when you can claim for these illnesses before you apply.

Family income benefit cover

Family income benefit is a term insurance which lasts for a set period of time. If something were to happen to you, you would want to be sure your family is taken care of when you're gone.

The policy will pay out a monthly, tax-free income to your family if you die during the term, until the policy ends. So, if you take a 20-year family income benefit policy and die after five years, it will continue to pay out for another 15 years.

There is no cash in value, so if you stop making premium payments, your cover will end.

Private medical insurance

Private medical insurance will pay for the cost of private healthcare treatment if you are sick or injured. If you don't already have it as part of your employee benefits package, and you can afford to pay the premiums, you might decide it's worth paying extra to have more choice over your care.

It gives you a choice in the level of care you get and how and when it is provided. Basic private medical insurance usually picks up the costs of most in-patient treatments (tests and surgery) and day-care surgery.

Some policies extend to out-patient treatments (such as specialists and consultants) and might pay you a small fixed amount for each night you spend in an NHS hospital. Premiums are paid monthly or annually, but most policies do not cover pre-existing conditions.

The plan will have no cash in value at any time and will cease at the end of the term. If premiums are not maintained, then cover will lapse.

Critical illness plans may not cover all the definitions of a critical illness. The definitions vary between product providers and will be described in the key features and policy document if you go ahead with a plan.

Time to give your pension pot a boost?

Planning ahead for the financial future you want

Planning for retirement can be both exciting and daunting. It's essential to structure your affairs to make sure you have enough money when you eventually retire. To give your pension pot a boost, one option to consider if your pension savings are more than your annual allowance is to take advantage of the 'carry forward' rules for unused annual allowances from previous years and still receive tax relief.

The carry forward rules were introduced from 6 April 2011 and allow your unused annual allowance to be carried forward from the three previous tax years. Where this can be very beneficial is for an individual who has received a large salary increase, whose profits have been good in a self-employed business, who has been made redundant or who is nearing retirement.

Very useful for high earners

Utilising carry forward can also be very useful for high earners who are affected by the tapered annual allowance, which was introduced in April 2016. The way the tapered annual allowance works is that anyone with an adjusted income of more than £150,000 per year has their annual allowance reduced by £1 for every £2 they earn over £150,000, up to a maximum reduction of £30,000.

To be able to carry forward unused annual allowance from a previous tax year, you must have been a member of a registered pension scheme

at some point in that tax year (a 'member' includes active, deferred and pensioner members). This can apply even if no contributions were made during that year or if there was a nil pension input amount.

Individual's relevant UK earnings

Carry forward cannot be used for any year that an individual was not a member of a registered pension scheme. It's also worth noting that any contribution made using carry forward does not need to be made to the same registered pension scheme that an individual was a member of in the previous year.

If personal contributions (including third-party contributions) are being made using carry forward, then for tax relief purposes these can be no greater than 100% of an individual's relevant UK earnings (or £3,600 if this is greater) for the tax year in which the contribution is actually being made. Employer contributions are subject to HM Revenue & Customs' (HMRC's) 'wholly and exclusively' rules for corporation tax relief purposes.

Maximum allowable contribution

To take advantage of carry forward rules, you must make the maximum allowable contribution in the current tax year (£40,000 in 2020/21). You can then carry forward any unused annual allowances from the three previous tax years.

The amount of annual allowance that you can carry forward will depend on how much of your annual allowance you used in the previous three tax years. When assessing how much of your annual allowance you used in previous tax years, you need to include the total value of the contributions you made to your pension, any contributions made by your employer, and the tax relief you received from HMRC.

Tax year	Annual allowance
2017/18	£40,000
2018/19	£40,000
2019/20	£40,000
2020/21	£40,000

Automatically carry forward any unused annual allowance

It's possible to carry forward any unused annual allowance automatically. There's no requirement to make a claim to HMRC to carry forward any unused allowance, and there's no need for the details to be included on a self-assessment tax return if there's no annual allowance charge due.

To take advantage of carry forward rules, you must make the maximum allowable contribution in the current tax year

From 6 April 2015, the Money Purchase Annual Allowance (MPAA) was introduced. This reduced the annual allowance in certain circumstances. An individual cannot utilise carry forward if they have triggered the MPAA (unless they have ongoing accrual in a defined benefit scheme). ●

Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits and is not suitable for everyone. You should seek advice to understand your options at retirement.

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

Tax rules are complicated, so you should always obtain professional advice.

A pension is a long-term investment.

The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future performance.

Pensions are not normally accessible until age 55. Your pension income could also be affected by interest rates at the time you take 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.

Pension freedoms

Retirees now have a whole host of new options

The pension freedoms, introduced on 6 April 2015, have given retirees a whole host of new options. There is no longer a compulsory requirement to purchase an annuity (a guaranteed income for life) when you retire. The introduction of pension freedoms brought about fundamental changes to the way we can access our pension savings.

There is now much greater flexibility around how you take your benefits from Money Purchase Pension (Defined Contribution) schemes, which include Self-Invested Personal

Pensions (SIPPs)

How pensions can be taken has become dramatically relaxed

Since the rules governing how pensions can be taken have been dramatically relaxed, more people are using pension freedoms to access their retirement savings, but the amount they are individually withdrawing has continued to fall, according to the latest data from HM Revenue & Customs (HMRC).

Pension freedoms have given retirees considerable flexibility over how they draw an income or withdraw lump sums from their accumulated retirement savings. There is no doubt the pension freedoms have been hugely popular. Figures published on 30 October last year show that £30 billion[1] has been withdrawn by savers since the pension freedoms were introduced in 2015.

Average withdrawals have been falling steadily and consistently

The quarterly numbers from HMRC cover money that has been withdrawn flexibly from pensions. Members of defined contribution pension schemes can access their pension savings early, provided they have reached the normal minimum pension age (currently 55). The figures for the third quarter last year show that £2.4 billion was withdrawn from pensions flexibly – a 21% increase from £2 billion in the third quarter of 2018.

The average amount withdrawn per individual in the third quarter of 2019 was £7,250, falling by 5% from £7,600 in the third quarter of 2018. The Government says that since reporting became mandatory in 2016, average withdrawals have been falling steadily and consistently, with peaks in the second quarter of each year.

What are your retirement options to consider?

Leave your pension pot untouched for now and take the money later

It's up to you when you take your money. You might have reached the normal retirement date under the scheme or received a pack from your pension provider, but that doesn't mean you have to take the money now. If you delay taking your pension until a later date, your pot continues to grow tax-free, potentially providing more income once you access it. If you do not take your money, we can check the investments and charges under the contract.

Receive a guaranteed income (annuity)

You can use your whole pension pot, or part of it, to buy an annuity. It typically gives you a regular and guaranteed income. You can normally withdraw up to a quarter (25%) of your pot as a one-off tax-free lump sum, then convert the rest into an annuity, providing a taxable income for life. Some older policies may allow you to take more than 25% as tax-free cash – we can review this with your pension provider. There are different lifetime annuity options and features to choose from that affect how much income you would get.

Receive an adjustable income (flexi-access drawdown)

With this option, you can normally take up to 25% (a quarter) of your pension pot, or the amount you allocate for drawdown, as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income. You set the income you want, though this might be adjusted periodically depending on the performance of your investments. Unlike with a lifetime annuity, your income isn't guaranteed for life – so you need to manage your investments carefully.

Take cash in lump sums (drawdown)

How much of your money you take and when is up to you. You can use your existing pension pot to take cash as and when you need it and leave the rest untouched, where it can continue to grow tax-free. For each cash withdrawal, normally the first 25% (quarter) is tax-free, and the rest counts as taxable income. There might be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year. There are also tax implications to consider that we can discuss with you.

> **Pension freedoms have given retirees considerable flexibility over how they draw an income or withdraw lump sums from their accumulated retirement savings**

Cash in your whole pot in one go
You can do this, but there are important things you need to think about. There are clear tax implications if you withdraw all of your money from a pension. Taking your whole pot as cash could mean you end up with a large tax bill – for most people, it will be more tax-efficient to use one of the other options. Cashing in your pension pot will also not give you a secure retirement income.

Mix your options
You don't have to choose one option. Instead, you can mix them over time or over your total pot when deciding how to access your pension. You can mix and match as you like, and take cash and income at different times to suit your needs. You can also keep saving into a pension if you wish, and get tax relief up to age 75. ●

Source data:

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/841958/Pension_Flexibility_Statistics_Oct_2019.pdf

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Tax savvy

Savers should think twice before using their pension to purchase property

From age 55, you have the flexibility to choose how you take money from your pension. But pension savers risk throwing away thousands of pounds of their hard-earned savings if they use their pension to purchase a second property.

Research undertaken by YouGov[1] reveals one in seven (15%) people aged over 55 would consider investing in a buy-to-let property to fund their retirement. However, for those approaching the age at which they can access their pension (45–54), the figure almost doubles to 29%.

Taxes can be considerable

The analysis shows that not only would a saver have to pay Income Tax on any pension withdrawal, but they would also incur costs such as stamp duty. These taxes can be considerable and reduce the initial sum, meaning people may need to radically rethink what type of property they can afford.

As an example[2], someone living in England with a £400,000 pension would have to pay £120,000 in Income Tax if they accessed their pension as a lump sum. As they would be purchasing a second property, they would also be liable for second home stamp duty, which would take a further £12,400 from their pot. This would leave them with just £267,600 of their initial investment. The situation for someone in Scotland is even less favourable, as the different regime means they would be left with just £261,400.

Before other associated costs

Someone in England with an £800,000 pot would be left with just £511,400 of their pension, while in Scotland they would be left with just over £489,000. This is before other costs associated with moving house, such as solicitor's fees, are taken into account.

While seeking professional financial advice would ensure people were aware of these costs and their likely impact, just over a quarter (27%) of those who said they would use their pension to fund a buy-to-let property said they were unlikely to take financial advice. ●

Source data:

[1] The YouGov research used a UK representative sample of 2,014 UK adults. This was made up of 387 in the 45–55 age group and 1,627 in the 55+ age group.

[2] These calculations take into account the following assumptions: PCLS of 25% is taken – no other taxable income in the same year – SDLT, LBTT and LTT is based on the fund less any Income Tax – the property is for buy to let purposes – no other costs of property purchase have been taken into account

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Attivo Financial

Attivo Financial
Honeybourne Place, Jessop Avenue, Cheltenham GL50 3SH
01242 585444 | clientservices@attivogroup.co.uk | attivofinancialplanning.co.uk