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'The tragedy of old age is not that one is old, but that one is young'

PENSION TIME BOMB
Planning to prevent the financial equivalent of climate change

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INSIDE THIS ISSUE

Welcome to our latest edition. If a week in politics is a long time, then the eight weeks of general election campaigning seemed like an eternity.

Prime Minister Theresa May's snap UK election surprised many people. Despite polls narrowing substantially over the course of the election campaign, a Conservative-led government was considered the most likely result by investment markets. After weeks of campaigning – and with no outright winner – a hung parliament was declared. On page 06, we consider why investors should keep focused on their long-term financial goals and not panic following this period of political uncertainty.

With the UK's population ageing, more people will be living with long-term care needs. Oscar Wilde once said: 'The tragedy of old age is not that one is old, but that one is young.' But the good news of rising life expectancy also brings with it the challenge of how we fund our future care costs. The question is: who is responsible for looking after us if we need care in old age? Turn to page 04 to read the full article.

Millions of workers across the UK could be heading for a significant shortfall in the amount of pension they need for an adequate income. The World Economic Forum has issued a warning that calls on the Government to impose faster pension-age rises as it earmarks the UK as one of several countries facing a 'pension time bomb'. Turn to page 03.

The full list of the articles featured in this issue appears opposite.

To discuss any of the articles featured, please contact us.

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 VALUE OF INVESTMENTS MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

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PENSION TIME BOMB

Planning to prevent the financial equivalent of climate change

GEORGE OSBORNE, THE FORMER CHANCELLOR, LINKED THE STATE PENSION AGE TO LIFE EXPECTANCY IN THE PREVIOUS PARLIAMENT.

MILLIONS OF WORKERS ACROSS THE UK COULD BE HEADING FOR A SIGNIFICANT SHORTFALL IN THE AMOUNT OF PENSION THEY NEED FOR AN ADEQUATE INCOME. THE WORLD ECONOMIC FORUM (WEF) HAS ISSUED A WARNING THAT CALLS ON THE GOVERNMENT TO IMPOSE FASTER PENSION-AGE RISES AS IT EARMARKS THE UK AS ONE OF SEVERAL COUNTRIES FACING A 'PENSION TIME BOMB', WITH THE UK PENSION SAVINGS GAP REACHING £25 TRILLION BY 2050 IF ACTION IS NOT TAKEN SOON.

The pension savings gap is defined as the shortfall between current retirement pots and the amount of money needed to maintain an income of 70% of pre-retirement levels.

Commenting, the WEF head of financial and infrastructure systems, Michael Drexler, said: 'The anticipated increase in longevity and resulting ageing populations is the financial equivalent of climate change.

'If increases in life expectancy were matched by corresponding increases in the retirement age, the challenge would be less acute.'

He added that policymakers need to consider how to integrate 75 and 80-year-olds into the workplace.

The WEF analysis also calls for the £1 million lifetime allowance to be scrapped, arguing it sends the 'wrong signal' that there is a limit to pension contributions.

STATE FUNDING EXPECTATIONS

A study by the Organisation for Economic Co-operation and Development (OECD) in 2015 found that savers in the UK could, on average, expect the state to fund 38% of their working-age income when they retired – lower than any other major advanced economy. Across the 35 major economies in the OECD, the average was 63%.

While the think tank has praised the UK Government's shake-up of the pensions system, many are still not saving enough into private pension schemes, the OECD warned. The WEF said a five-point plan was needed to ensure those born today can retire and still receive a comfortable income. They also noted that life expectancy has been increasing 'rapidly' since the middle of the last century, rising on average by one year, every five years.

This means that babies born today can expect to live for more than 100 years. According to the forum, the number of people aged over 65 will increase from 600 million today to 2.1 billion in 2050.

PUBLIC PURSE PRESSURE

As population growth slows, this will mean the number of workers paying for the pensions of those in retirement will fall from eight workers today to four per retiree in 2050, putting pressure on the public purse.

The WEF believes working for longer is inevitable. George Osborne, the former Chancellor, linked the State Pension age to life expectancy in the previous parliament. As a result, the Office for Budget Responsibility (OBR), the Government's fiscal watchdog, forecasts that workers will have to retire at 69 by 2055.

Under current plans in the UK, the State Pension age will rise to 66 by 2020 for both men and women.

LONG-TERM PROJECTIONS

The OBR's latest long-term projections suggest this move is necessary for the State Pension to remain sustainable. Official projections show 26.2% of the UK population will be aged over 65 in 2066, compared with 18% last year and 12% in 1961.

The WEF believes workers need to save between 10% and 15% of their average annual salary to support a reasonable level of income in retirement. It warned that many workers faced a shock in later life, with current savings rates 'not aligned with individuals' expectations for retirement income – putting at risk the credibility of the whole pension system.' ◄

WHEN WOULD YOU LIKE TO RETIRE?

As people's retirements get longer, the responsibility for funding them will shift even further towards individuals. If you have not retired but have a specific retirement date in mind, it is essential to obtain professional financial advice to put a savings plan in place to aim to meet that goal with sufficient savings in your pension pot. To discuss your requirements, please contact us.

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.

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.

FUNDING FUTURE CARE COSTS

'The tragedy of old age is not that one is old, but that one is young'

WITH THE UK'S POPULATION AGEING, MORE PEOPLE WILL BE LIVING WITH LONG-TERM CARE NEEDS. OSCAR WILDE ONCE SAID: 'THE TRAGEDY OF OLD AGE IS NOT THAT ONE IS OLD, BUT THAT ONE IS YOUNG.' BUT THE GOOD NEWS OF RISING LIFE EXPECTANCY ALSO BRINGS WITH IT THE CHALLENGE OF HOW WE FUND OUR FUTURE CARE COSTS. THE QUESTION IS: WHO IS RESPONSIBLE FOR LOOKING AFTER US IF WE NEED CARE IN OLD AGE?

As we get older, it becomes more likely that we may need day-to-day help with activities such as washing and dressing, or assistance with household activities such as cleaning and cooking. This type of support, along with some types of medical care, is what is called 'long-term care'.

A GOOD LIFE IN OLD AGE

Demand for long-term care is expected to rise, thanks in part to our ageing population and the increasing prevalence of long-term conditions such as dementia. This makes planning ahead essential, but when it comes to funding later life it can get quite complicated, particularly since the costs depend on several unknowns, including how long we are going to live.

The matter is further exacerbated because of how local authorities calculate whether a person needs financial assistance for the cost of residential care.

LEVEL OF STATE SUPPORT

The level of state support received can be different depending on whether you live in England, Wales, Scotland or Northern Ireland.

In England and Wales, for example, currently you can receive means-tested state assistance, which depends on your savings and assets. For instance, if your savings and assets are above £23,250 in England, you will normally be expected to pay for the full cost of long-term care yourself.

Government state benefits can also provide some help, but may not be enough or may not pay for the full cost of long-term care.

FINANCIAL SUPPORT ASSISTANCE

Long-term care insurance can provide the financial support you need if you have to pay for care assistance for yourself or a loved one. Additionally, some long-term care insurance will cover the cost of assistance for those who need help to perform the basic activities of daily life such as getting out of bed, dressing, washing and going to the toilet.

You can receive long-term care in your own home or in residential or nursing homes.

Regardless of where you receive care, paying for care in old age is a growing issue.

PLANNING FOR LONG-TERM CARE

There are a number of different ways to fund long-term care. These are some of the main options available to people needing to make provision.

IMMEDIATE NEEDS ANNUITIES

This annuity is a type of insurance policy that provides a regular income in exchange for an upfront lump sum investment. When used for long-term care, it provides a guaranteed income for life to help to pay for care costs in exchange for a one-off lump sum payment if you have care needs now. Income is tax-free if it is paid directly to the care provider.

ENHANCED ANNUITIES

You can use your pension to purchase an enhanced annuity (also known as an 'impaired life annuity') if you have a health problem or a long-term illness, if you are overweight or if you smoke. Annuity providers use full medical underwriting to determine a more accurate individual price. People with medical conditions including Parkinson's disease and multiple sclerosis, or those who have had a major organ transplant, are likely to be eligible for an enhanced annuity.

EQUITY RELEASE SCHEMES

If you need to fund your long-term care and have already paid off (or nearly paid off) your mortgage, an equity release scheme could be one option to consider if appropriate. It is important to obtain professional financial advice before committing to an equity release scheme. Your individual circumstances need to be assessed, and this is why financial advice is a must in the process and a regulatory requirement.

These schemes give you the ability to obtain a cash lump sum as a loan secured on your home. However, it's essential to make an informed decision and consider the options and alternatives available, plus any implications regarding state benefits, local authority support and tax obligations.

SAVINGS AND INVESTMENTS

These two methods enable you to plan ahead and ensure your savings and assets are in place for your future care needs.

If you are already retired, or nearing retirement, you should ensure that your financial affairs are in order – for example, arranging or updating your Will or Power of Attorney. It also makes sense to ensure your savings, investments and other assets are in order in the event that you or your partner may need long-term care in the future.

If you are of working age, you are in the best position to plan for your future care needs. Accumulating wealth through investments or savings while you are earning will help with the potential costs of long-term care in later life.

WHEN PLANNING FOR FUTURE CARE NEEDS, WHAT SHOULD YOU THINK ABOUT?

- Who in your family may most need long-term care and for how long?
- Do you or another family member need to make long-term care provision now?
- Do you have sufficient money to pay for future long-term care fees?
- How long might you need to pay for a care fees plan?
- Is there the likelihood that home care or a nursing home may be required?
- What activities may you require help with, for example, help with dressing, using the toilet, feeding or mobility?
- Would your home require additional features such as a stair lift, an opening and closing bath, or a bath seat?

LOOKING TO REVIEW THE LONG-TERM CARE FUNDING OPTIONS AVAILABLE TO YOU?

All in all, planning and timing are of upmost importance when it comes to funding for long-tem care, and this is more the case now than ever. We can assist you to review the appropriate options available to help fund care and minimise the impact of long-term care fees. To find out more, please contact us.

EQUITY RELEASE MAY REQUIRE A LIFETIME MORTGAGE OR HOME REVERSION PLAN. TO UNDERSTAND THE FEATURES AND RISKS, ASK FOR A PERSONALISED ILLUSTRATION.

DEMAND FOR LONG-TERM CARE IS EXPECTED TO RISE, THANKS IN PART TO OUR AGEING POPULATION AND THE INCREASING PREVALENCE OF LONG-TERM CONDITIONS SUCH AS DEMENTIA.

ELECTION 2017

Why investors need to keep focused on long-term financial goals

PRIME MINISTER THERESA MAY'S ANNOUNCEMENT THAT SHE WOULD CALL A SNAP UK GENERAL ELECTION ON 8 JUNE 2017 SURPRISED MANY PEOPLE. AFTER WEEKS OF CAMPAIGNING, THERE WAS NO OUTRIGHT WINNER, WITH BOTH THE CONSERVATIVES AND THE LABOUR PARTY FAILING TO SECURE A MAJORITY, RESULTING IN A HUNG PARLIAMENT.

Even though the Conservatives remain the largest party in the House of Commons, Mrs May won 318 seats, meaning she was eight short of the majority target of 326. The Conservatives lost 13 seats, while Jeremy Corbyn's Labour gained 30. At the time of writing this article on 22 June 2017, the Prime Minister is looking to rely on the support of the Northern Irish Democratic Unionist Party to form a government.

MARKET UNCERTAINTY

Despite polls narrowing substantially over the course of the election campaign, a Conservative-led government was considered the most likely result from the UK election by investment markets. But general elections create uncertainty, and markets do not like uncertainty.

Markets can be affected by all sorts of economic and social factors, including political decisions, consumer confidence and global events. Elections are no exception, and the outcome of this general election will have an impact on market conditions going forward.

With this in mind, you may be considering what the result could mean for your investments, but it's important not to panic. Changes can make things uncertain, but the rise and fall of market prices are a normal part of investing.

INVESTMENT STRATEGY

General elections have the potential to unsettle markets, given the uncertainty over the outcome and impact on the economy. Political events should not ordinarily prompt you to change your investment strategy over the long term. Market timing is incredibly difficult. You cannot predict for definite which way any currency or stock market index will move next, and many factors aside from politics – such as company events, inflation and deflation – affect how markets move.

LONG-TERM GAINS

Investors ideally need to focus on their long-term strategy and goals rather than any short-term impact that a political event may have on performance. Remaining with a buy-and-hold approach in funds and shares with good-quality underlying businesses should avoid missing out on long-term gains.

Diversifying across several asset classes and currencies is also important. Having a spread of different assets that come with varying degrees of risk will reduce the likelihood of portfolio values being damaged by a fall in one particular market or area.

CONSIDERABLE OPPORTUNITIES

In addition, putting some cash aside at times of uncertainty can give investors the flexibility to act as more information becomes known over the coming weeks and months. Volatility also brings considerable opportunities, and investors should avoid knee-jerk reactions.

The unexpected general election result has a number of implications, including what this means for Brexit negotiations and whether a hung parliament may result in a 'softer' Brexit than markets had been anticipating. A 'softer' Brexit would also be welcomed by business, and a fall in sterling could offset market falls given the significant proportion of overseas earnings for large-cap companies.

PORTFOLIO REVIEW

Investors who are concerned about the impact of the election result may want to review their portfolio and ensure their investments are spread across a range of assets, including

Jeremy Corbyn

Theresa May

THERESA MAY WON 318 SEATS, MEANING SHE WAS EIGHT SHORT OF THE MAJORITY TARGET OF 326.

cash, bonds and equities, alongside different industry sectors and geographical regions. This may help reduce any volatility that could result from UK economy jitters if investors fear Brexit could lead to a recession over the next few years. The longer investors stay invested in the stock market, the greater the potential for future positive returns.

No one can predict for definite which way any currency or stock market index will move next, whatever form the next government takes. Besides which, aside from politics, there are many factors that may affect market movements. These may include inflation, monetary policy and specific company events.

DON'T TIME THE MARKETS

Trying to time the market without the benefit of hindsight is hard. This involves making investment decisions at the moment when you believe markets will rise to benefit from any upturn, effectively speculating on the outcome. This is a very high-risk strategy and extremely difficult for investors to do successfully. The impulse to act can lead to mistakes and mismanagement of investments. Selling during periods of weakness in the market creates a guaranteed loss. The trouble for investors is that trying to time the market during rough periods can further compound losses in their portfolios.

ACHIEVE SMOOTHER RETURNS

Investors should have a well diversified portfolio – with a mixture of assets such as shares, bonds, cash and property, and a mixture of different sectors and countries within this group of assets. By being invested in assets that fall less in a crisis and spreading the investments, investors can achieve smoother returns than investing in just one type of asset, without reducing the expected level of returns. As a result, diversification improves the risk and return profile of a portfolio over an economic cycle. It's essential to obtain professional advice to help to ensure your portfolio is well balanced for the amount of risk you're comfortable taking – and can afford to take.

KEEP YOUR LONG-TERM GOALS IN MIND

One of the main concerns for any type of investing is market volatility. It is important to note that short-term volatility is not necessarily indicative of a long-term trend. The advantage of long-term investing is found in the relationship between volatility and time. Investments held for longer periods tend to exhibit lower volatility than those held for shorter periods. If you have a particular goal in mind with a deadline, stick to that. Don't be distracted by the short-term noise of the markets.

TAKE ADVANTAGE OF TAX-EFFICIENT VEHICLES

Minimising taxes on your investments is a key part of earning better returns. It's sensible for investors to continue making use of existing tax-efficient investments, such as Individual Savings Accounts (ISAs) and pensions allowances. If appropriate, it's important investors do not overlook the effect that tax wrappers – such as ISAs and a Self-Invested Personal Pension (SIPP) – can have on a portfolio. It makes sense to use all of one's tax allowances every year.

REGULAR INVESTMENTS

For investors concerned about where the market may move next, regular investing may help to take the emotion out of investment decisions. This strategy means investors buy more shares when prices are low and fewer when they are high. Making regular investments, perhaps on a monthly basis, is a good way to deal with volatile markets. This is called 'pound cost averaging'. By investing regularly, investors smooth out the highs and lows of the markets by purchasing investments when their prices have fallen and benefiting when prices rise. ◄

INHERITANCE TAX RULE CHANGES

Effective estate planning can safeguard your wealth for future generations

IF YOU WANT TO HAVE CONTROL OVER WHAT HAPPENS TO YOUR ASSETS AFTER YOUR DEATH, EFFECTIVE ESTATE PLANNING IS ESSENTIAL. AFTER A LIFETIME OF HARD WORK, YOU WANT TO MAKE SURE YOU PROTECT AS MUCH OF YOUR WEALTH AS POSSIBLE AND PASS IT ON TO THE RIGHT PEOPLE. HOWEVER, THIS DOES NOT HAPPEN AUTOMATICALLY. IF YOU DO NOT PLAN FOR WHAT HAPPENS TO YOUR ASSETS WHEN YOU DIE, MORE OF YOUR ESTATE THAN NECESSARY COULD BE SUBJECT TO INHERITANCE TAX.

The rules around Inheritance Tax changed from 6 April this year. The introduction of an additional nil-rate band is good news for married couples looking to pass the family home down to their children or grandchildren, but not every estate can claim it.

BEREAVED FAMILIES

This tax year, according to the Office for Budget Responsibility, more than 30,000 bereaved families will be required to pay tax on their inheritance[1]. So, it pays to think about Inheritance Tax while you can and work out as soon as possible how much potentially could be taken out of your estate – before it becomes your family's problem to deal with.

An Inheritance Tax survey conducted by Canada Life[2] shows that Britons over the age of 45 are either ignoring estate planning solutions or they have forgotten about the benefits these can provide. Only 27% of those surveyed have taken financial advice on Inheritance Tax planning, despite all of them having a potential Inheritance Tax liability.

LEAVING AN ESTATE

Every individual in the UK, regardless of marital status, is entitled to leave an estate worth up to £325,000 without having to pay any Inheritance Tax. This is known as the 'nil-rate band'. Anything above that amount is taxed at an Inheritance Tax rate of 40%. If you are married or in a registered civil partnership, then you can leave your entire estate to your spouse or partner with no Inheritance Tax liability.

The estate will be exempt from Inheritance Tax and will not use up the nil-rate band. Instead, the unused nil-rate band is transferred to your spouse or registered civil partner on their death. This means that should you and your spouse pass away, the value of your combined estate has to be valued at more than £650,000 before the estate would face an Inheritance Tax liability.

CONSIDERED 'WEALTHY'

You don't have to own a very large estate or even be considered 'wealthy' to leave behind an Inheritance Tax bill. The nil-rate band has remained frozen at £325,000 since April 2009, but the average price of a UK property has risen 33% over the same period[3].

With much of the UK population's wealth invested in their property, a growing number of families are potentially being left with a significant Inheritance Tax bill to pay.

RESIDENCE NIL-RATE BAND

If you're worried that rising house prices might have pushed the value of your estate into exceeding the nil-rate band, then the new 'residence nil-rate band' could be significant. From 6 April 2017, it can now be claimed on top of the existing nil-rate band. But claiming this new allowance is not as simple as it sounds. It can only be claimed by the estates of people on property that is, or was at some point in the past, used as their main residence and which forms part of their estate on death.

It's only available to homeowners who plan on leaving their residence to 'direct descendants', such as children or grandchildren or step children. If you don't have any direct descendants, or you wish to leave your home to someone else, the new allowance can't be claimed.

TAPERING EFFECT

Anyone without a property worth at least £175,000 per person, or £350,000 per couple (in 2020/21), will only partially benefit. And, because the new allowance was intended to help 'middle England' and those who weren't especially wealthy, the residence nil-rate band reduces for estates worth more than £2 million by £1 for every £2 above the taper threshold. Because of this tapering effect, there is a point at which claiming the allowance is ruled out completely.

Your estate may still be able to claim the residence nil-rate allowance even if you've already sold your home, for example, because you are in residential care or living with your children. If your home was sold after 8 July 2015 and you plan on leaving the proceeds to your direct descendants, then there are provisions in place that will allow your estate to claim the new allowance. However, this doesn't apply to homes sold before 9 July 2015.

PLANNING AHEAD

If you plan ahead, certain gifts made during your lifetime could reduce the amount of Inheritance Tax payable on your death. In addition, the proceeds payable from any life insurance policies written in an appropriate trust will not form part of your estate and so will not further add to a potential Inheritance Tax bill.

Estate planning will enable you to maximise your wealth and minimise Inheritance Tax. Is it time for you to have a comprehensive review of all your assets and objectives and consider the tax-efficient solutions? ◂

WHAT ARE YOUR REQUIREMENTS AND MOTIVATIONS?

The rules around Inheritance Tax are complex, and when reviewing your particular situation you should always obtain professional advice. Everyone has different requirements and motivations – the right solutions for you are the ones that suit your personal circumstances. We can work with you to discover what these are. To discuss all the options available to you, please contact us.

Source data:

[1] Office of Budget Responsibility, November 2016.

[2] Survey of 1,001 UK consumers aged 45 or over with total assets exceeding the individual Inheritance Tax threshold of £325,000 carried out in September 2016.

[3] Nationwide report: UK house prices since 1952.

RETIREMENT CHOICES

How much time do you spend planning for retirement?

THE 2015 PENSION FREEDOMS GAVE US GREATER FLEXIBILITY OVER OUR RETIREMENT OPTIONS, BUT THE REFORMS HAVE ALSO MADE RETIREMENT CHOICES MUCH MORE COMPLEX. THIS MEANS WE NEED TO START THINKING ABOUT OUR RETIREMENT EARLIER. HOWEVER, HALF (50%) OF RESPONDENTS AGED 45–54 TO A LV= CONSUMER SURVEY[1] DIDN'T THINK ABOUT RETIREMENT AT ALL LAST YEAR.

Given the lack of time people spend thinking about retirement, it's perhaps unsurprising that six in ten (62%) 45 to 54-year-olds don't know how much they have saved for retirement, and only around one in ten (12%) say they fully understand the 2015 pension reforms.

If people spent more time planning for retirement, this could help them better identify whether they are saving enough. According to the survey, people expect to need £1,360[2] a month in order to live comfortably in retirement. In order to do this, someone retiring at 55 would need to have around £311,000 saved, or £158,000 if they retire at 65 – assuming they qualify for the full State Pension.

However, the average pension savings of those surveyed aged 45 to 54 years old is £71,342, with four in ten (39%) having less than £50,000, and one in seven (13%) not having anything at all. To achieve the amount they want and retire at 55, the average 45-year-old would need to save around £24,000 in pension contributions each year for the next decade.

Anyone approaching retirement should check their pension pots annually and seek professional financial advice to help them make a plan.

Five areas to consider if appropriate to your retirement plans:

1. Track down lost pensions – If you've moved jobs frequently, you may have lost track of old pensions. The Pension Tracing Service is free and can help you trace a pension that you've lost track of, even if you don't have the contact details of the provider. All you need to know is the name of your previous employer or pension scheme.

2. Consider consolidating – It's easy to build up a number of different pensions over the course of a lifetime, and by consolidating them into one place you could save money and manage your savings more effectively. This process lets you simplify your pension arrangements and makes it easier to manage your pension savings efficiently from a single pot.

3. Check your other assets – Compile a list of any other savings or investments that you have which could help fund your retirement. This could include equity in property.

4. Review the State Pension – It's unlikely to be enough to see you through retirement on its own, but it should be taken into consideration when looking at your options. You can check your State Pension age by using the Government's state pension calculator – www.gov.uk/state-pension-age.

5. Obtain professional financial advice – Regulated professional financial advice is the best way to help you plan and save enough money to last throughout retirement. ◂

Source data:

[1] Consumer survey: Opinium, on behalf of LV=, conducted online interviews with 2,404 UK adults between 12 and 27 March 2017. Data has been weighted to reflect a nationally representative audience.

[2] Methodology for retirement income: LV= calculated the size of pension pot needed to give someone in good health a monthly income of £1,361 (or annual income of £16,332) from the age of 55 until death and 65 until death, including the full State Pension. To provide a guaranteed income between 55 and 65, LV= calculated the pot size needed to purchase a Fixed Term Annuity with no money left at the end of the term. To provide an income after 65, once the State Pension kicks in, three comparison annuity quotes were produced with major providers for someone retiring at 65, and an average figure was taken for each. All quotes are gender neutral and assume a single life annuity with no death benefits.

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.

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.

SECURING YOUR FINANCIAL FUTURE

Investing for major life events requires comprehensive investment solutions

IF YOU REALLY WANT TO GIVE YOUR MONEY THE POTENTIAL TO GROW AND YOU DON'T NEED IMMEDIATE ACCESS TO IT, THINK ABOUT INVESTING IT RATHER THAN JUST SAVING. YOU MIGHT WANT TO INVEST FOR MAJOR LIFE EVENTS LIKE RETIREMENT OR PAYING YOUR CHILD'S OR GRANDCHILD'S UNIVERSITY FEES.

Whatever the reason, investing has historically given higher returns than saving in a bank account, but be prepared – with the potential for higher reward comes more risk. Whatever you're putting money aside for, there's likely to be a role for Individual Saving Accounts (ISAs).

RIGHT OPTIONS

If you're looking to grow your money over many years, perhaps to fund a dream purchase or help you in retirement, cash might not be the right option – especially when the interest rates on Cash ISAs are near all-time lows.

Up to £85,000 of your money is secure in a bank or building society through the Financial Services Compensation Scheme, unlike stocks and shares or fixed interest investments which are less secure.

LEVEL OF RISK

If you are able to accept some level of risk, investing in the markets through a Stocks & Shares ISA might offer you exposure to higher returns than cash alone can deliver.

Here are some reasons why you might consider investing some, or more, of your savings in a Stocks & Shares ISA, which could help you realise your long-term financial ambitions.

ENOUGH CASH

One of the appeals of cash savings is that you can access them when you want. There are fixed rate Cash ISAs and variable rate Cash ISAs available. The capital itself will not go up or down in value. It's sensible to keep enough cash to cover any short-term needs, but keeping too much of your savings in cash can carry a cost.

When the price of goods and services (or inflation) is rising faster than the rate of interest you receive on, say, your cash savings in a UK bank or building society, the 'real' value of the amount is eroded, which could leave you worse off. Between January 2011 and December 2016, retail prices outpaced average Cash ISA rates by an average of 1.2 percentage points a year.

HIGHER RETURNS

By accepting some level of risk and investing your money in assets such as company shares, bonds and property, you could potentially achieve higher returns than cash alone can offer. Returns from investing can never be guaranteed, however, and you should remember that past performance is no guide to future performance.

Relying on any one asset could expose you to an unnecessary risk of losing money. The key to managing risk over the long run is holding the right blend of assets that can collectively perform in different circumstances.

DIVERSIFIED PORTFOLIO

A wide range of investments can be held in a Stocks & Shares ISA. As well as individual company shares and bonds – both government and corporate – you can invest in funds that package several assets. Some funds focus on one type of asset, and sometimes even one region, while others hold a mix of assets from around the world. A broad and diversified portfolio should help spread the risk of individual assets failing to deliver returns or falling in value.

TAX-EFFICIENCY

The beauty of investing through an ISA is that any income you receive, and any capital gains from a rise in value of your investments, will be free from personal taxation, irrespective of any other earnings you have.

It's important to remember that ISA tax rules may change in the future. The tax advantages of investing through an ISA will also depend on your personal circumstances.

MARKET CONDITIONS

Professional fund managers are constantly preparing for and reacting to changing market conditions, adjusting their portfolios accordingly. Your circumstances – and attitude towards investment risks – are also likely to evolve, meaning different types of assets will become more or less appropriate over time.

For example, if you're close to retirement, you may want to reduce the level of risk in your portfolio or move towards income-generating assets. It's sensible to review your investments regularly – even as a long-term investor.

DIFFERENT APPROACHES

Investing in stocks and shares through an ISA could hardly be more straightforward. You can choose to invest a lump sum or set up a regular savings plan that fits your circumstances and your financial goals.

There are a lot of different approaches to investing, each with their own risk and return profiles. It's important that you only invest in products that are suitable and obtain professional financial advice to establish an investment approach that is right for you. ◂

INVESTING FOR YOUR FUTURE

Within an ISA, you can reallocate your portfolio according to your outlook and needs at any time without losing any of the tax benefits. You can also move money from your Cash ISA to your Stocks & Shares ISA, or vice versa, as your short-term cash needs change. To explore how an ISA could help you invest for the future, please contact us.

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THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

STOCKS & SHARES ISA INVESTMENTS DO NOT INCLUDE THE SAME SECURITY OF CAPITAL THAT IS AFFORDED WITH A CASH ISA.

CURRENCY FLUCTUATIONS

Why foreign exchange markets are in uncharted territory

THE SUMMER MONTHS ARE USUALLY THE ONLY TIME WHEN WE THINK ABOUT DIFFERENT CURRENCIES AND THEIR VALUES AS WE CONSIDER WHAT MONEY TO TAKE ON OUR HOLIDAYS. WHERE SHOULD WE GET OUR EUROS OR DOLLARS? HOW MUCH WILL WE NEED? SHOULD WE PURCHASE TRAVELLERS CHEQUES, CASH, A PRE-PAID CARD OR A COMBINATION OF EACH?

But, more importantly, currency fluctuations on foreign exchange markets can have a significant impact on the performance of our individual investments, as well as our overall investment returns. An example of this was when the UK voted to leave the EU – in other words, 'Brexit.'

UPS AND DOWNS

Sterling has been exceptionally prone to sudden ups and downs this year, and it has fallen sharply again amidst fears of a 'hard Brexit' from the EU. Before the EU referendum on Thursday 23 June 2016, the currency markets closed in London with the sterling/dollar spot exchange rate at 1.4947, which means £1 bought you roughly $1.50.

The next day, the unexpected Brexit result had a major detrimental impact on the pound, as the uncertainty over the outlook for the UK economy – and political fallout – made the UK less attractive to overseas investors. When the UK markets opened on the morning of Monday 27 June 2016, the exchange rate had fallen to 1.3445, meaning you would now only get about $1.34 for your pound.

SIGNIFICANT REVENUE

UK dividends have also been affected. Many UK companies, especially the larger ones, receive a significant amount of revenue from abroad and have dividends that are paid in dollars and euros. These dividends will have increased in value once converted back into sterling.

Similarly, if exchange rates had moved in the opposite direction (with sterling strengthening against the dollar), your subsequent returns would then look lower.

UNCHARTED TERRITORY

Markets are in uncharted territory, and sterling looks set to remain under severe pressure while Britain's departure from the EU is negotiated. The potentially turbulent transition could dampen confidence, inward investment and growth – all of which would continue to weigh heavily on sterling.

Another major factor affecting currencies is the economic backdrop and interest rate expectations. The prospect of higher interest rates in an economy tends to bolster its currency: higher yields on assets denominated in that currency make it more attractive, whereas very low rates have the opposite effect.

EXCHANGE RATE

Many investment funds available through Individual Savings Accounts (ISAs) and pensions have overseas currency exposure. In some cases, a lot of gain or loss can be due to the currency exchange rate rather than the return of the underlying shares or other assets.

Whenever there is a large change in any currency, whether it's rising or falling, there are always winners and losers. What's good for some will inevitably be bad for others. Some businesses will benefit, others will not (for example, as exporting becomes easier or more difficult). Some households will find their food costs go up, while others will see their money going further by taking a staycation rather than holidaying overseas.

MIXED VIEWS

With mixed views on the outlook for sterling, it's more important than ever to remember that investing is for the long term, and no single asset class will provide strong returns or benefit from currency movements in all economic conditions. That's why it's always a good idea to invest in a well-diversified portfolio that spreads your money across a variety of investments and geographies to achieve the best balance between risk and return, and to review this regularly.

Some funds will also use a strategy called 'hedging' to reduce the impact of currency movements. Basically, this means removing currency movements by using derivatives to bet that a currency will move in the opposite way. ◂

DIVERSIFIED INVESTMENTS OVER THE LONG TERM

Currency risk is a consideration when investing, but one which lessens if invested for the long term. It can be mitigated by the use of a currency-hedged share class, but also by ensuring that your portfolio of investments is always diversified so that you are never over-exposed to any one particular risk. If you would like further information, please contact us.

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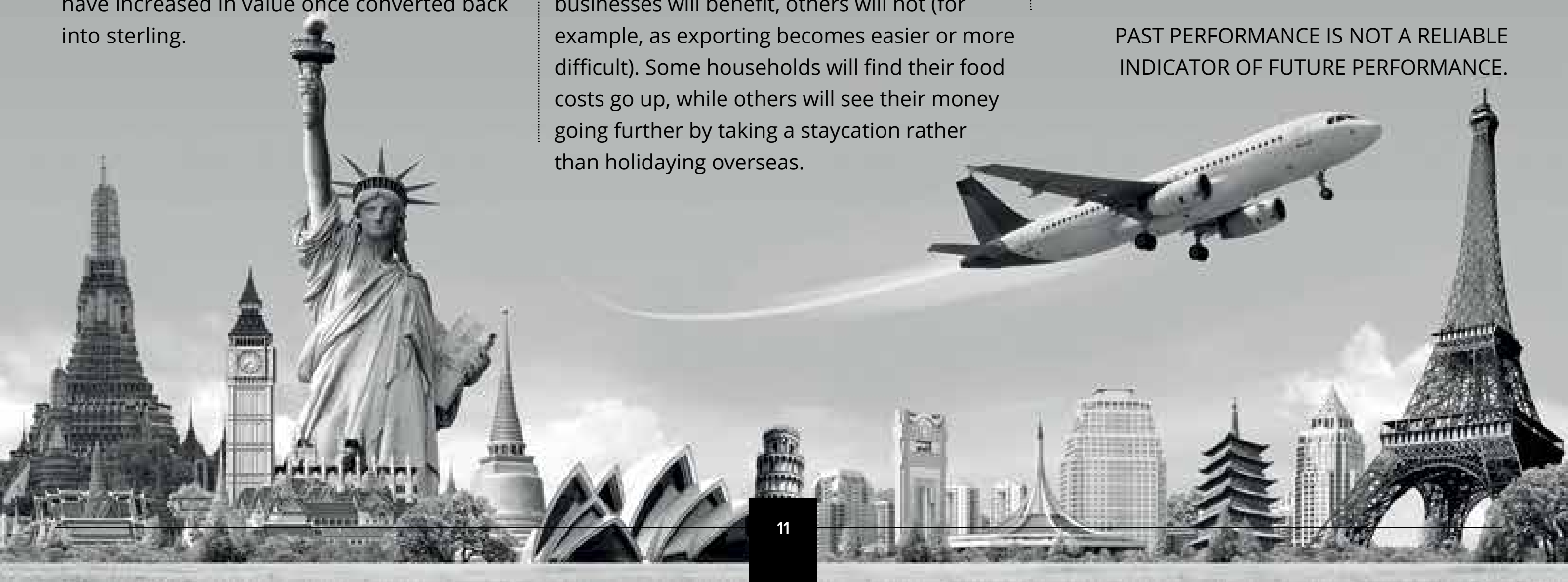
PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.



THAT SHRINKING FEELING

Don't let your portfolio wealth simply drain away

MILLIONS OF BRITONS COULD SEE THEIR SAVINGS SHRINK BECAUSE THEY DON'T KNOW HOW TO SHIELD THEM FROM RISING INFLATION. THE FINDINGS ARE ACCORDING TO RESEARCH BY YOUGOV FOR ZURICH, WHICH FOUND MORE THAN A THIRD (37%) OF PEOPLE AGED 18 TO 65-PLUS ARE IN THE DARK OVER WAYS TO GROW THEIR SAVINGS ENOUGH TO AT LEAST KEEP UP WITH RISING PRICES.

There are a number of different factors that may create inflationary pressure in an economy. Rising commodity prices can have a major impact, particularly higher oil prices, as this translates into steeper petrol costs for consumers.

INFLATIONARY PRESSURE

Stronger economic growth pushes up inflation too, as increasing demand for goods and services places pressure on supplies, which may in turn lead to companies raising their prices.

The falling pound since Britain's vote to leave the EU in June last year and the 2017 UK general election result is also contributing to higher inflation in the UK, as it makes the cost of importing goods from overseas more expensive.

CONSUMER AWARENESS

Rising inflation is eating away at the nation's savings, yet the reality is that many people don't know how to fend it off. A gap in consumer awareness over how some can protect their savings from inflation could mean many people will see their wealth simply drain away.

Over the long term, this could threaten to leave people financially worse off in retirement, especially when combined with ultra-low interest rates and stagnant wage growth. Of the 4,000 people surveyed by YouGov, more than a quarter (27%) said they believed property was the best way to outpace inflation.

SPENDING POWER

More than one in ten (13%) people thought Cash ISAs could help them maintain their spending power – twice as many as those who said Stocks & Shares ISAs (7%).

Just 4% of people said investing in the stock market could help outstrip inflation, while only 3% backed savings invested in a pension. In fact, although they come with greater investment risk, Stocks & Shares ISAs typically offer more protection against inflation than Cash ISAs.

RAINY DAY

Cash ISAs are more appropriate to save money for a rainy day but are less suitable for long-term savings, such as for retirement. From this April, the amount people can now shelter tax-efficiently in a Cash ISA has risen to £20,000 a year.

With a bigger ISA pot to fill, the danger is that some people will leave more of their long-term savings stuck in cash where they will be eaten away by inflation.

LIVING COSTS

Inflation is bad news for savers, as it erodes the purchasing power of your money. Low interest rates also don't help, as this makes it even harder to find returns which keep pace with rising living costs.

Higher inflation can also drive down the price of bonds. These become less attractive because you're locked in at interest rates that may not keep up with the cost of living in years to come.

BETTER PROTECTION

One option is index-linked gilts, which are government bonds whose interest payments and value at redemption are adjusted for inflation. However, if they are sold before their maturity date, their market value can fall as well as rise and so may be more or less than the redemption value paid at the end of their terms.

Investing in equities can potentially provide better protection against inflation than deposit accounts or bonds that aren't index-linked, because companies can raise prices to cover higher costs, which in theory should enable them to grow at the same rate as inflation over time. However, investing in equities carries a high risk of losses, and you must be prepared to accept that you could get back less than you put in and that the value of your investment may not keep up with inflation. ◂

PREPARING YOUR PORTFOLIO FOR INFLATION

Inflation may finally be returning, and should it continue to rise, there will be a number of opportunities open to investors. To discuss your particular situation, please contact us.

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