BULLETIN

YOUR ESSENTIAL FINANCIAL BRIEFING

Welcome to this series of topical articles to help you navigate your financial world

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SOVEREIGN WEALTH

Case study: Trust, support and the value of financial advice in difficult times

Louise, a St. James's Place client, tells us how St. James's Place helped to secure the foundations for her family's future

When Louise first took financial advice, it was with a view towards securing her family's long-term future. She couldn't have known how dramatically the shape of that future would soon change.

In 2014, Louise and her husband, Andy, were in their mid-forties, with two young children and a desire for financial peace of mind. They sought guidance from St. James's Place about paying for their children's education, helping them out with weddings and first-home deposits when the time came, and the best way to deal with shares that Andy received when his employer went public.

Then, in November 2015, Andy was diagnosed with non-Hodgkin's lymphoma, a type of blood cancer that affects the lymphatic system.

"It is considered one of the most treatable and curable cancers, plus he was relatively young and very fit," Louise recalls. "Unfortunately it manifested itself as a tumour strangling his spinal cord, which affected his mobility. We believed for some time that he would come out the other side of it, even if he wasn't the same person or able to do the same things." Andy was 44 at the time, was a keen sportsman with a passion for cycling and had shown no previous symptoms of the condition.

FOCUS ON FUTURE-PROOFING

The advice Louise and Andy initially received addressed the aspirations characteristic of a family with young children. Using cashflow software, their finances could be arranged to meet their goals.

"At that point it was really about making sure we would be comfortable, that we would be able to look after the kids and generally feel like we had our ducks in a row," Louise explains.

When Andy was diagnosed, they refocused on ensuring that Louise and the children would be financially looked after if the worst were to happen.

The first mortgage the couple had taken out was an endowment policy, with critical illness insurance included. Louise had continued to work full-time in the wake of the diagnosis, but the payout from the insurance allowed her to give that up in order to look after Andy and concentrate on the children.

"When he was first diagnosed, I carried on working full-time," Louise says. "I was going to hospital in Stoke every day – coming home from work, feeding the kids then going to hospital. I've no idea how I did that."

The couple checked that their existing life insurance policies were written in trust; they used some of the critical illness policy proceeds to maximise Andy's personal pension contributions. By using his annual allowance in the current and previous tax years, he was able to benefit fully from higher-rate tax relief.

SUPPORT AND PEACE OF MIND

In early 2017 came the news that Andy's condition was terminal. The priority now was to give Andy peace of mind – that Louise and the children would be taken care of once he had gone, and that she would not have to work if she didn't want to.

Louise says the help she had with these practical financial issues in what was an emotional situation gave the couple

Financial advice has made me feel safe, and that's massive

space to spend precious time together as a family without having to stress about their finances.

"We were speaking quite regularly," Louise recalls. "Help was incredibly accessible, and an awareness of our situation.

"We needed a detached approach so that we could focus on Andy and not have to worry about money. I couldn't imagine what it would be like having someone that poorly and having to make ends meet. That took a lot of worry away from us, and we trusted that the right thing was being done."

That included addressing a Capital Gains Tax liability that would arise from share sale proceeds from Andy's employer, paid out in July 2017. Investing some of the chargeable gains into an Enterprise Investment Scheme (EIS) would allow the gains to be deferred and ultimately disappear when Andy died.

"We had a lot of help to structure things," Louise says. "The first lot of shares Andy received were done in a very tax-efficient way, but the second lot were much more complex. The advice received was very practical given a very delicate situation."

Andy's pension arrangements needed some attention too, specifically a defined benefit (DB) pension with a previous employer.

With the knowledge that Andy would not reach retirement age, it was decided to sacrifice the guaranteed income from the DB arrangement and transfer the pot into a private pension. This meant that Louise could later receive the full pension tax-free, or pass it on to the children on her death if she didn't need it.

SOMEONE TO LEAN ON

By this time the focus was on making sure that everything possible could be done to ensure that the family would be financially comfortable when Andy had gone. Being able to trust a qualified professional played a big role in that, says Louise.

"I'm very much of the opinion that the adviser is the expert and someone I can trust with the detail of it. It must have been difficult, knowing us both – having those hard conversations when we found out that Andy wasn't going to get better. The support has been massive, and continues to be."

Andy made it to Christmas 2017, passing away shortly afterwards with his family around him. By that point the financial foundations for the family's future had been laid, leaving Louise and the children space to grieve knowing they were financially secure.

The life policy was claimed on, probate applied for and funds gathered from Andy's pensions, while Louise was introduced to an accountant to help with paperwork and other requirements.

"I didn't have to worry, because I knew everything was covered," Louise says. "I wouldn't have got through it without help. I wouldn't even have known where to start, even though I have a banking background."

Having worked in the financial services industry, Louise – who now works for DKMS, a blood cancer charity – already understood the value of financial advice. Her experience since 2012 has given her a whole new appreciation.

"I honestly believe that without it I wouldn't be in the position that I'm in now and that it would have been a lot more stressful," she says.

"It has made me feel safe, and that's massive, because I'm on my own now."

The names used within this article have been changed to protect the client's identity but the client's permission has been given to share this story more widely.

Fraught with obstacles and penalties – the ups and downs of a woman's financial life journey

Women commonly encounter financial hurdles men don't – underscoring the need for sound, longer-term savings strategies

Constrained by COVID-19, the UK has become a nation of cabin fever-consumed runners and cyclists. But things were very different before lockdown. If we look at the largest of our home nations, for example, nearly nine million people in England took part in fitness classes each week, and more than half were women[1].

While they might prioritise their physical health, though, too many women pay too little attention to their future financial fitness – and are ill-prepared to deal with the obstacles to financial security they face throughout their lives.

There are, unfortunately, any number of physical, emotional and social demands placed on women, linked to life events, that come with short-term financial 'penalties' and longer-term consequences.

THE FINANCIAL HURDLES WOMEN FACE

According to the *Scottish Widows Women in Retirement Report 2019*, while a young woman is less likely to live at home with her parents than a young man, median rents in England will, on average, snatch away 43% of her salary –versus 28% of his. In the same vein, paying for a first home will cost a woman twelve times her salary – but a man eight times his.

And just to belabour the point a bit: the average cost of living out your later life in a care home in the UK adds up to £132,000 for a woman, compared with £82,000 for a man, according to a report from the Chartered Insurance Institute's Insuring Women's Futures programme.

Then, of course, there's the fact that women still take on the lion's share of caring responsibilities for children, grandchildren, or elderly relatives. And to do so, they may work fewer hours and lose the ability to save for themselves and their retirement.

This partly explains why there's a gender pension gap: the Insuring Women's Futures report shows that it's nearly 40% – and, worryingly, 1.2 million women who are approaching pensionable age have almost no savings at all. The gender pay gap, meanwhile, is currently around 17%, according to the Office for National Statistics – with women's salaries losing ground when they take career breaks. And don't underestimate the impact of the menopause – it's not often talked about, but many women struggle with the changes it brings enough to give up work.

EMPOWERMENT THROUGH EARLY PLANNING

"It feels like everywhere you look, women are being penalised," says Sharon Bonfield, Advising Women Marketing Lead at St. James's Place. "But that doesn't mean you can't do something about it."

Planning early can stop you being financially disadvantaged by common life events, she says.

"Research shows women are excellent planners. They tend to be good at budgeting and squirrelling money away for a rainy day. But their more cautious approach means they're more likely than men to save in cash rather than invest – which could be an opportunity cost."

As well as taking the plunge into investing, there are other practical ways for women to plan for and mitigate against the financial impact of marriage, divorce and many other costly 'milestones' – with a view to protecting their financial futures.

"And the sooner you start, the better," says Bonfield. "If I were in my 20s, I'd ensure I was enrolled in my workplace pension. A lot of people opt out at that age because affordability is an issue. But, because of the power of compounding, even a small amount of money put away early can make a big difference later on."

IT'S NEVER TOO LATE TO GET ORGANISED

"If you're now in your 40s, 50s and 60s… well, there's still plenty you can do", she adds.

If you've taken time out of work, for example, check to make sure you've made sufficient National Insurance contributions to qualify for the full State Pension – and if not, top them up.

Also, consider taking advice on whether it is better to consolidate your old pension pots to gain control and a better understanding of what you have saved already – there are loads of regulated options to help you track down lost and forgotten pots, including the UK government's own, free Pension Tracing Service.

Otherwise, look at how much you've got saved in cash. Three to six months' worth of expenses as an emergency fund is ideal – anything more might be better invested. If you're saving on behalf of a child, for example, you'll have a long time for the investment to mature and potentially benefit from the year-on-year compound growth of reinvested returns.

And think about protection. Would your family cope financially if you were suddenly unable to do what you normally do? During the current coronavirus crisis, this seemingly remote eventuality has become all too real for many UK families – who have found themselves lacking any sort of financial support system.

All of that said, financial planning should be a family affair, and your partner has a critical role to play too – whether that's sharing some of the caring responsibility, or paying into your pension while you're off on parental leave.

The path to financial wellbeing is seldom obvious – especially for women, who encounter a myriad of financial obstacles along the way. Wherever you are in life's journey, though – and whatever the challenges you face – there's no substitute for simply asking questions and having a plan in place. This is why taking professional advice is vital. Please get in touch if you need help in this area of financial planning.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and the value may fall as well as rise. You may get back less than the amount invested.

Sources:

[1] https://www.statista.com/statistics/934566/number-of-fitness-activity-participants-in-england-by-gender/; https://www.statista.com/topics/3411/fitness-industry-in-the-united-kingdom-uk/

There are practical ways for women to mitigate the impact of marriage, divorce and other costly 'milestones', to protect their financial future

Beyond cash: how parents can help children buy their first home

Older generations looking to give their children or grandchildren a boost on to the property ladder don't need to drain their retirement pot

Do you know who the UK's eleventh biggest mortgage lender is, currently dominating a large chunk of the market? You might be surprised to learn it's not a major financial institution – it's the so-called 'Bank of Mum and Dad'.

Parents in the UK were expected to lend a hefty £6.3 billion towards helping their children get on to the property ladder in 2019, according to Legal & General's *Bank of Mum and Dad* report, and the average contribution was £24,100, rising to £31,000 in London.

For many younger people battling stagnant salaries and soaring house prices, help from older generations is the only way to purchase a property. The Office for National Statistics published its 'House price to workplace-based earnings ratio' in March 2020 and this showed that UK house prices have soared by 42% in the last ten years, while average earnings have risen by just 17%.

EAGER TO HELP

The most obvious way for parents and grandparents to help their child or grandchild buy their first home is to gift a sum of money towards a deposit.

But Paul Johnson, Client Banking and Mortgage Manager at St. James's Place, warns of the risks involved in handing over large amounts of money.

"We're finding that some parents are delaying their retirement, or cashing in pension pots and using their tax-free cash from their pension to help their children, when they shouldn't be," he says. "Parents who do this may risk impacting their own retirement plans."

"Also, while there may be no immediate implications from gifting, any large amount could be subject to Inheritance Tax (IHT) if the parent dies within seven years of making the gift."

Meanwhile, rising life expectancy means that retirement pots have to last longer than ever. "Giving a large chunk of money often isn't the best way to help," Johnson adds. "Especially since there are various other options that can be explored."

ALTERNATIVES TO GIFTING

There are other ways to help – Family Assistance Mortgages, for example – that take into account parents' or grandparents' finances and don't require them to hand over large amounts of cash.

Parents may jointly apply for a mortgage with their younger relative, so their income is included in the lender's assessment and will increase the child's borrowing potential, Johnson says. In this case, it's vital to consider the legal and tax implications.

Giving a large chunk of money often isn't the best way to help – especially since there are various other options that can be explored

In a joint borrower sole proprietor arrangement, the older relatives will not be named on the property ownership deeds, meaning they will not be liable for the Stamp Duty surcharge on the purchase, nor Capital Gains Tax when the property is sold.

Or it may be that the best option is for a parent or grandparent to use a portion of their savings to reduce the homebuyer's repayments and secure the mortgage.

"A parent's savings may be deposited into an account that sits alongside the mortgage to reduce the repayments, for example, by lowering the interest rate payable," says Johnson.

These family offset accounts are a good solution when an older relative wants to help, but does not want to gift money they may later need themselves.

In both cases, the older generation keeps ownership of their investments and savings – and the ability to benefit from them in the future. However, terms and conditions apply, so independent legal advice should be sought.

There are other arrangements available where, for example, a parent can use their own property as security to help young relatives. These guarantor mortgages come with their own risks, however – notably that, should a child miss their monthly mortgage payments, a lender could potentially force the parent to sell their own home.

If you're a parent or grandparent looking to help a younger relative buy a property, then it's crucial that you take legal and financial advice before you enter into any type of contract.

Please get in touch to understand your options – and for advice on the range of family assistance mortgages available, and managing the application process from start to finish.

The home on which the mortgage is secured may be repossessed if repayments are not maintained.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are dependent on individual circumstances.

Why is a regular financial health check in retirement essential?

When the time comes to access your retirement income, you'll have new challenges to contend with

A regular health check can offer peace of mind, help to keep you on track and spot any issues before they become serious. Getting one is a no-brainer – and increasingly so in our later years.

The same applies to your finances – and never more so than in retirement. Just as your physical and mental health can become more complex in later life, so too can your financial plans.

Remaining invested in retirement, as many people now do, offers plenty of opportunities. But it also requires oversight and decision-making throughout a period that could last for up to three decades or more. Here's why...

A NEW SET OF RISKS

Once you move into retirement and start to take an income from your pension pot, you're exposed to a new set of risks – such as sequencing risk and longevity risk – which tend to have impacts that only become clear when it's too late.

Regular reviews – with a view to recognising and mitigating the effects of those risks – are therefore essential, says Danni Brotherston, Head of Advice Policy and Development at St. James's Place Wealth Management.

"Ongoing advice is important before retirement, but arguably even more so in retirement – especially if you remain invested or you're heavily reliant on other assets to provide an income."

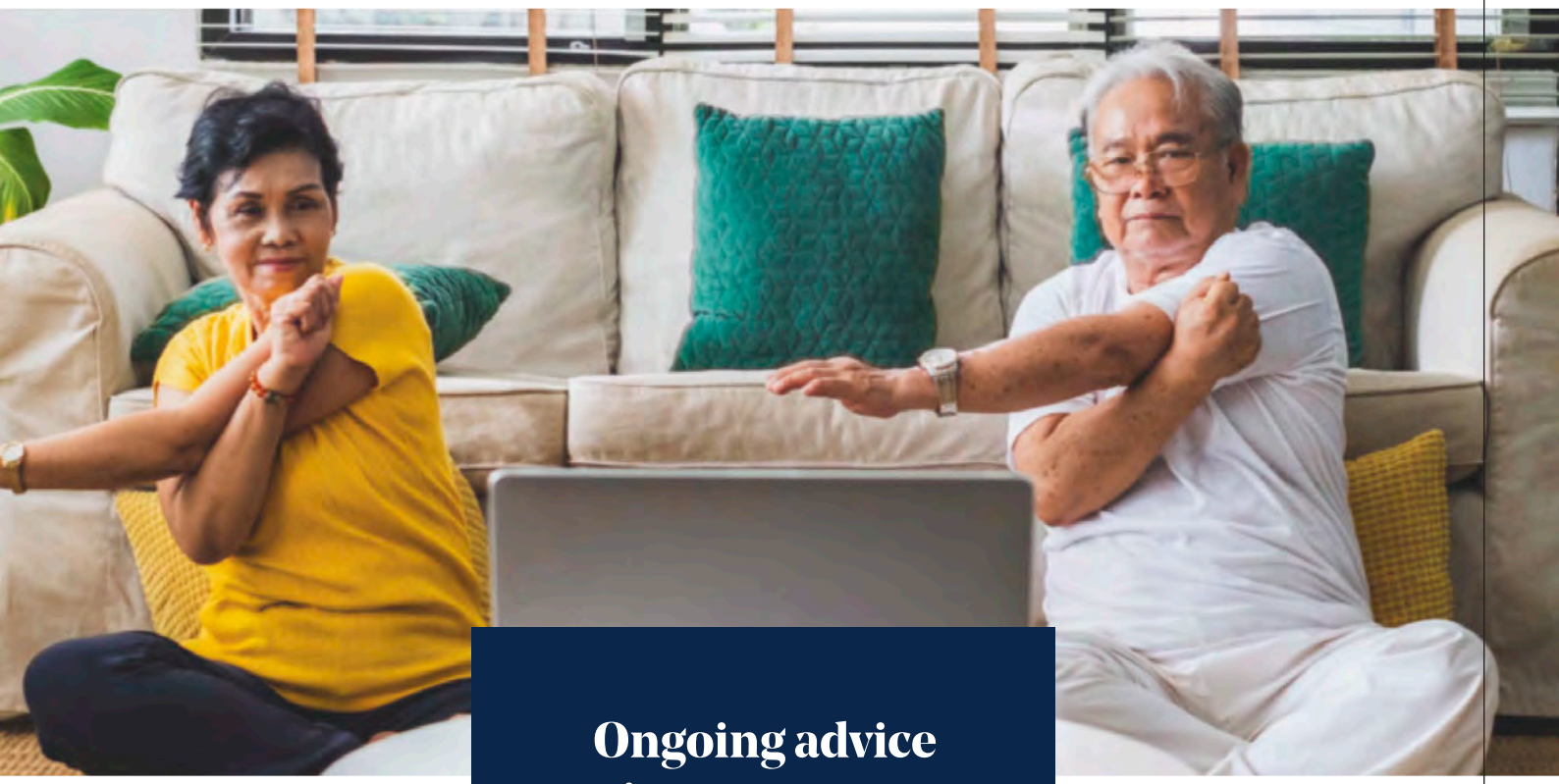
UNFORESEEN EVENTS

Changes in personal circumstances and/or the macroeconomic environment can have a material impact on the chances of your achieving your goals – and should trigger a review of your retirement arrangements to check you're not adversely affected.

The coronavirus pandemic has been one such catalyst.

Resulting in significant market volatility, it has, for example, raised the spectre of whether retirees should continue to withdraw the same level of income when markets are down as they were before the outbreak.

"Markets have fallen during the crisis," confirms Brotherston. "But a lot of people have also been spending less. So, there might be scope to take a reduced income



Ongoing advice is even more important in retirement

from their portfolios to help offset some of the negative effects of volatility."

COVID-19 has forced us to adjust our financial plans in other ways too.

In a climate of widespread redundancies, some people will have been faced with the prospect of retirement a bit earlier than expected. Others are opting to work for longer, taking a more phased approach to retirement, or even returning to work as they look to bolster their savings.

"You need to evaluate the impact *all* these types of events can have on your financial objectives and vulnerability – all the way through retirement," argues Brotherston.

This includes everything from the gifting of an inheritance and divorce, to changes to your health. In fact, she adds, changed circumstances in retirement are often linked to health – and the effect a decline can have on life expectancy and expenditure.

"Your health might deteriorate over time, particularly if you develop a condition," Brotherston explains. "This can mean that a solution that was right for you early on in retirement may not be one that's right later on."

SHARING THE LOAD

Most financial advisers undertake a formal review with their clients once a year, with additional reviews as events and circumstances demand them.

Regularly reviewing your plans at least once a year will help your investments to continue to reflect your risk appetite and ensure that everything remains in line with your objectives.

"Everyone has different priorities, and an adviser who really knows you can help you to make the right decisions – by adapting your strategy to your personal wants and needs," Brotherston says.

"There are so many moving parts that it's essential to regularly review them."

Please get in touch if you need help accessing your retirement pot.

The value of an investment with St. James's Place will be directly linked to the performance of the funds you select, and the value can therefore go down as well as up. You may get back less than you invested.

You can't take your money with you, but you can decide where it goes when you're gone. Taking time to plan properly when you're still alive will help to prevent the start of a family feud upon your death.

RISING TIDE OF LEGACY DISPUTES

How you divide your wealth and who you leave it to when you die is a highly emotive subject.

According to a report by Direct Line in 2019, 12.6 million people would be prepared to go to court to challenge the will of a parent, partner or loved one. The fact that so many people would consider such strong action shows just how deep feelings run.

There are thousands of caveats (complaints) lodged each year to block a grant of probate – the legal document generally needed by an executor to administer your estate after death.

Many cases end up in protracted and expensive legal battles, and while most are settled out of court, hundreds still end up before a judge.

This sort of legal wrangling is the last thing that most people want for their family when they die.

REASONS TO WRANGLE

There are lots of different factors fuelling the decision to challenge the way a loved one has bequeathed their assets.

Though in recent years divorce rates have been trending downwards, figures from the Office for National Statistics show that they saw a rise in the 1960s, '70s, '80s and '90s, leading to more second and third marriages and larger, more complicated, families. Simply put, there are more people that may end up feeling hard done by.

In addition, figures from HM Land Registry in January 2020

Everything you need to know about financial legacy planning

How to leave a financial legacy that builds, not breaks, your family's bonds

The best way to avoid a dispute over your estate is to talk to your family and to make detailed plans

showed the huge upward trend in property prices over the past 25 years, meaning there's more to fight about. In January 1995 the average property price in the UK was just over £55,000. According to HM Land Registry, it had jumped to just over £231,000 by January 2020.

Many homes are worth far in excess of this average, and if there's a second home to consider the overall value of property assets can be significant.

It's also true that we're living longer, and as many parents see their children attaining their own financial freedom, they may decide to bequeath money elsewhere.

Without an upfront conversation, this decision can come as an unpleasant surprise and possibly lead to a dispute about your estate.

A POSITIVE AND PAINLESS FINANCIAL LEGACY

The best way to avoid a dispute over your estate is to talk to your family and to make detailed plans. This also lets you get an idea of where your help might be needed most and what sort of expectations people might have.

For example, if your children have been successful and created their own financial freedom, it might make sense to increase the amount you bequeath to your grandchildren. If you have a second home, do you want to leave it jointly to your children or give it to one child who might receive a smaller share of your other assets?

This approach may help prevent arguments over ownership between your children in later years. It will also make it less complicated to pass it on to the subsequent generation in the future.

Whatever you decide, make sure it is recorded in a professionally drafted will. Research carried out by Macmillan Cancer support in 2018 shows that around two-thirds of UK adults do not have a will. In this scenario your estate will be split up in accordance with intestacy laws. This could lead to arguments, confusion and disappointment for your family and loved ones, and your own wishes will not be legally enforceable.

Once you've got a will drafted, make sure to keep it up to date, and keep talking to your family to avoid any big surprises when you die. This upfront approach will reduce the chance of anyone trying to contest it once you're gone.

REDUCING IHT LIABILITY

Family and loved ones aren't the only people who would like some of your estate. The taxman is also after a slice.

The amount HMRC collects through Inheritance Tax (IHT) doubled from less than £2.5 billion in 2009/10 to more than £5 billion in 2018/2019[1]. HMRC figures show that each year, between 20,000 and 30,000 people trigger an IHT charge when they die[2].

There are significant tax breaks and allowances available to help you to distribute your assets to others in life and in death. But it's very easy to pay more tax than necessary, so structuring your plans in a tax-efficient way is essential if you want your family to get as much money as possible. Do get in touch if you need any help in this area.

The levels and bases of taxation and reliefs from taxation can change at any time and are dependent on individual circumstances.

Will writing involves the referral to a service that is separate and distinct to those offered by St. James's Place. Wills are not regulated by the Financial Conduct Authority.

Sources:

[1] https://www.statista.com/statistics/284325/united-kingdom-hmrc-tax-receipts-inheritance-tax/

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/903290/IHT_Commentary.pdf