Bulletin

Your essential financial briefing

Issue 6

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

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SOVEREIGN WEALTH

How to retire when you *want to*

Whether you want to stop working, go part-time or start a new venture in later life, putting a plan in place now will help you meet your goals.

While much has changed since it was introduced in 1948, the State Pension age – currently 66 for both sexes – continues to shape the way we approach retirement.

Lifestyles, the nature of work, life expectancy and healthcare have evolved beyond recognition since then, while the default retirement age was scrapped in 2011. Changes to pension rules in 2015 also gave people much greater freedom when it came to accessing and using their pension savings. For many people, however, the State Pension age still dictates how they think about and plan for retirement.

While it can be useful to have a target, the idea of reaching a specific age and immediately entering full retirement is outdated and often unhelpful, says Tony Clark, Senior Propositions Manager at St. James's Place. "We're trying to move away from that idea of retiring at a certain age, and towards a point where it's about when you feel ready to make some changes," he explains.

Drawing out the phase

With retirement no longer a one-off event for many, it's now up to individuals to decide when they wish to retire and what they want the following years to be like. It's more important than ever to plan well in advance – after all, your post-work life could last for several decades.

"Getting away from the nominal age helps you to shift your mindset and think about what retirement means for you," says Tony. "You might reach a point in your planning where you're ready to slow things down at an earlier age than you might have expected."

If you'd like to take control of your retirement – whether it's several decades away or rapidly approaching – the first step is to develop an idea of what you want. These days, retirement might be about stopping work as early as you can or reducing your hours and continuing in some form of work for as long as you're able to.

You might have post-retirement goals to aim for, a certain amount of money you want to leave for your beneficiaries or a new venture to start. Or you might simply want the peace of mind you'll never run out of money during retirement, no matter what age you finish work.

"For many people, later life is about getting time back. You're investing now to have the time to do what you want later, whether it's running a business, working, volunteering, leisure or a mix of things," says Tony.

The next step is to sit down with us and identify what you need to do for your goals to become reality. Then review your financial plan and keep coming back to it to check if it still serves your purpose. "Having a plan in place

Think about what 'good' looks like to you

gives you the confidence to know that you can adapt as you need to and feel in control," says Tony.

It's not a race

For many people, the main aim is to make retirement happen as soon as possible. But this is different for everyone – some people think about their 50s as the start of their retirement years, whereas for others it will be their 70s.

It's important to work out whether you really want to get there quicker or if it's more about quality of retirement, regardless of how and when it happens. You may need an extra couple of years to achieve your plans, rather than having to take more risk to get there sooner. "You might aim for 60 but realise then that you haven't saved enough, or decide you want to work for longer – so think about what 'good' looks like to you," says Tony.

The plan you put together will be a broad one, with an investment-risk approach geared towards your own needs and objectives, as well as other elements that ensure you can maintain your pension contributions. They will likely include Income Protection and perhaps Critical Illness Cover – forms of insurance that help you meet your financial needs in the event of being unable to work due to a serious illness, ongoing health difficulties or an accident.

This underlines the extent to which building a plan for retirement isn't just to provide for you later in life, but also to give you peace of mind and support your wellbeing in the short term.

Looking ahead with confidence

The idea of phasing gradually into retirement is increasingly common. More people are reducing the reliance on their earnings over time and making a shift towards drawing on their pension assets. This might occur over the course of a year or over several years, Tony points out.

"We already see it now and it will become a normal approach to retirement," he says. "The value of advice is in helping you imagine what later life might look like, identifying the potential or the opportunities and pulling it all together in a plan that can then be put in place."

If you'd like to talk about your plans for retirement, please get in touch.

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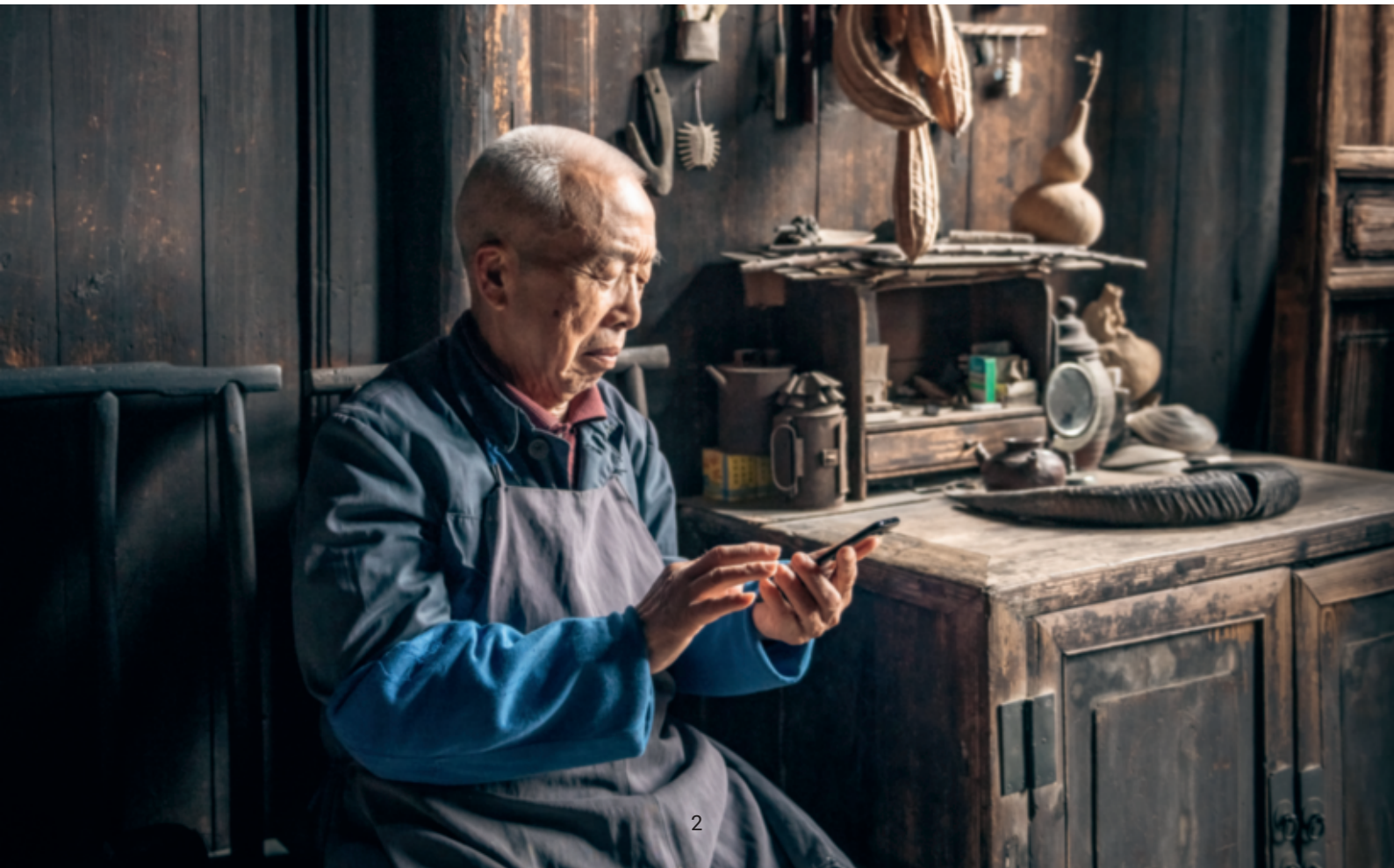


The most important care considerations *for women*

In old age, women may need social care for longer than men – and have to find the funds to pay for it. Here's what you need to think about.

There is an acute care dilemma facing women that is likely to require careful planning in later life if a solution is to be found.

The problem is relatively easy to explain, but difficult to resolve: women live longer than men on average, so are likely to need care for longer.

However, women are also generally worse off than men in retirement and could struggle to meet the high costs of social care.

This is backed up by some startling statistics. Men spend an average of 62.9 years in good health and 16.5 years in poor health, according to official figures from the Office for National Statistics.[1]

By contrast, women spend an average of 63.3 years in good health and 19.8 in poor health. This data was compiled for the period 2017-2019 and so pre-dates the COVID-19 pandemic.

The majority of those in care homes are older than 80.[2] With more women living for longer over that age than men on average, they are more likely to require care for age-related chronic illnesses, which might not necessitate residency in a care home, but may require care in their own home.

In short, such statistics indicate that the likelihood women will end up needing care is markedly higher.

The difficulties of funding care

Paying for care is expensive and should form a significant part of your planning for later life.

That also applies if you are assessing how you pay for the care of a loved one. In both scenarios, we can offer advice and support.

It is especially important for women to start planning for the possibility of needing care in later life – either for themselves or for female relatives – because women are more likely to have lower pension wealth and therefore can require a more concise plan to meet the costs.

According to the workers' union Prospect, the gender pension gap in 2019-20 reached 37.9%.[3]

Among the reasons cited for the imbalance are the gender pay gap that still exists across almost all industries and the impact of women taking breaks from paid employment or reducing hours to look after family.

But what can you do? While the gender pay gap is gradually narrowing for younger ages and auto-enrolment means women are seeing more build up in their pension pots, it is likely to take decades until there is any form of pension equality.

This is especially relevant right now for older women. Although the world is thankfully changing, traditionally it has been the man who has overseen the finances – which will be the most likely position for a woman in her 80s or 90s now.

If she outlives her partner, there are two potential issues: how much money she has to live on, and knowing where it is and how to manage it.

Women live longer than men on average, so are likely to need care for longer

Putting a plan in place

Paying for social care in later life is one of the most pressing political debates of the 21st century, with successive governments promising to address the many issues facing the elderly and their families.

With so much to think about, taking advice is essential. Whether you talk directly to us alone or with a trusted family member, we can help you can work out what assets you have to tap into to pay for care.

While a pension is likely to be the main source, there are other options to consider. There are also state allowances on offer for family members who give up or reduce their working hours to care for a loved one.

We will look at the mechanics of how you put care in place and identify what you're entitled to.

We may recommend you consult Care Sourcer, a confidential support service that can work with you to help you understand and find elderly-care services.

Its impartial experts can assess your information and care requirements and suggest options that are right for you and your family – and where that care is available.

To get advice on paying for social care and find out more about Care Sourcer, please get in touch.

The services provided by Care Sourcer are separate and distinct to those offered by St. James's Place.

Sources:

[1] *Health state life expectancies, UK: 2017 to 2019, Office for National Statistics, 25 January 2021*

[2] *Care homes analysis, 12 May 2020, UK Government Social Care Working Group (SWGC), published 3 July 2020*

[3] *What is the gender pension gap? Prospect, 21 Sept 2021*

Be tax smart to help boost your *retirement savings*

By using the allowances, reliefs and exemptions you're entitled to, you can make your money work harder.

There are plenty of reasons why someone a long way from retirement might not feel ready to think about their pension savings.

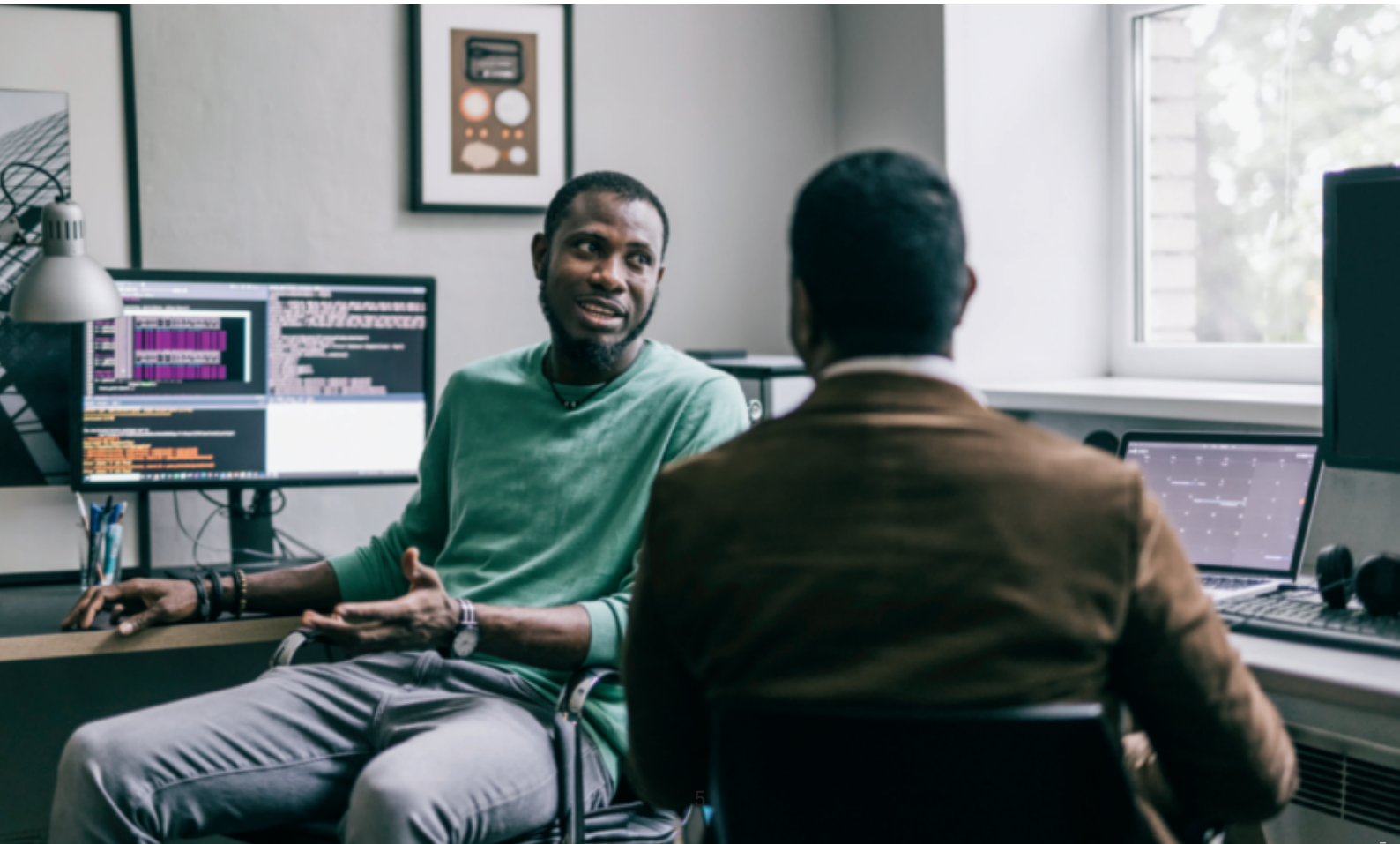
But there are also strong arguments for taking action sooner rather than later. Perhaps the most compelling is that if you put a bit of work in now, you make life a lot easier for yourself in years to come.

There's also the current economic climate, as inflation rises and household finances are squeezed. With much uncertainty in the short term, it's wise to use the opportunities available now to lay solid foundations for later.

Smart tax moves

Take tax, for instance. The allowances, reliefs and exemptions to which you're entitled can make an enormous difference to your retirement pot. Even if the immediate economic outlook isn't as bright as we'd all like, those tax advantages are there to be seized.

There is a condition here: you'll need to use them while they're available, because in some instances it's a case of 'use it or lose it'. Get it right, though, and you can take pleasure in knowing that some smart tax moves will do a lot of heavy lifting for your retirement plans, giving you peace of mind now and in the future.



It starts with your pension. If you've taken out a pension plan with your employer, they are likely contributing to it as well. Subject to certain limits, you'll also get tax relief on your contributions – a dry way of saying that the government will increase the amount you pay into a pension.

For Basic Rate Taxpayers every £80 that you pay into your pension, the government gives you another £20 in tax relief (which means a £100 contribution costs you just £80). Higher-rate taxpayers get 40% tax relief, so they have to pay in only £60 for every £100 contribution, while those on the 45% Income Tax rate can claim relief at 45%. (This is on the basis that any tax relief over the basic rate is claimed via their annual tax return).

"This is a different way of thinking about tax and making sure it works for you – if you make the best of it. It's an incentive to save more, because the more you save, the more you benefit," says Tony Clark, Senior Propositions Manager at St. James's Place Wealth Management.

Bargain hunting

This is an area where FOMO – fear of missing out – could be a powerful factor.

"Tax is usually seen as money being taken away from us, but a pension is a great way to save for retirement because the tax is coming back the other way and working to your advantage," says Clark.

There are other tax allowances in pensions that are worth using while they're available. For example, if you're able to use the full annual pension allowance – frozen in recent years at £40,000 – but fail to do so, you might miss the chance to carry forward any unused allowance from the previous three tax years. As technical as it sounds, the carry-forward ability has the potential to turn a potential tax burden into savings that can be invested for the future.

The same applies to other ways of saving for retirement. With the annual allowance standing at £20,000, Individual Savings Accounts (ISAs) offer another way to use tax to help boost your later-life options.

These work differently from pensions, as the money you pay into a Cash ISA or Stocks & Shares ISA will generally be taxed beforehand. But with no Income Tax due on the interest or dividends you receive, maximising your allowance each year is a simple but effective way to make the tax rules work in your favour and bolster the investment you can expect.

No time like the present

Getting a tax-efficient pension plan up and running in your 20s or 30s won't always be realistic. But tax allowances and reliefs can play a vital role if you find yourself starting late and trying to make up for lost ground.

In contrast, retirement can seem too far away for younger generations to think about using the various long-term savings options available. It's not just about saving for retirement, though; it's also about making sure that whatever happens over the coming years, you'll have options open to you.

"The concept of retirement might be quite different in years to come, so using the opportunities available now is a way of ensuring you have options open to you whatever happens to the tax and pension systems," says Clark.

Putting together a plan with such a lengthy time horizon can be daunting, however.

"Speak to a financial adviser so they can check there are no gaps in your plans and that you're not missing out on allowances and reliefs that can really benefit you," suggests Clark.

If you'd like to discuss getting your retirement savings working harder for you, please get in touch.

This is a different way of thinking about tax and making sure it works for you

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

An investment in a Stocks and Shares ISA will not provide the same security of capital associated with a Cash ISA.

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

5 things you need to know about *Inheritance Tax*

Inheritance Tax is complex. Here, we highlight its key exemptions and allowances – but to ensure you minimise your bill, seeking expert financial advice is a must.

Inheritance Tax (IHT) is one of the government's most reliable forms of income. IHT receipts received by HMRC during the tax year 2020-2021 came to £5.4 billion and have remained around that level for the past four years, according to official statistics.[1]

Yet so much of the tax paid on the value of your estate after you die is avoidable. With careful planning to ensure full use of exemptions, gifting and other tax-efficient investments, it is possible to mitigate and minimise much of the IHT you would otherwise pay.

Failure to put those plans in place can significantly reduce what you are able to pass on to loved ones. Assets such as your family home, bank accounts, ISAs, jewellery, art and antiques are subject to IHT at the standard rate of 40% after the first £325,000.

Here are the five most important things you need to know about IHT – but were too afraid to ask.

1. Taking advice can change your future

IHT is a highly complex area. You will not know every rule, exemption and allowance and how to use them – and you're not expected to. We can help mitigate your IHT as part of broader planning for later life that also includes retirement income, planning for social care, giving money away when you're alive and passing it on when you're dead.

There is no set age for when you should start planning – and it differs for each person – but it will often begin at a point when your savings and assets begin to accumulate. This might coincide with children becoming less financially dependent and mortgage payments reducing or disappearing. Formulating a plan prevents you from making reactionary decisions and reduces the chances of a nasty tax surprise.

2. IHT thresholds and rates can vary

Understanding how thresholds work can instantly minimise a big chunk of what your IHT bill is likely to be.

- There is no IHT to be paid, even above £325,000, if you leave everything above that threshold to your spouse, civil partner, a charity or a community amateur sports club.
- Your tax-free threshold increases to £500,000 if you give away your home to your children, step-children or grandchildren, subject to your estate being less than £2m.
- A reduced IHT rate of 36% is payable on certain assets if you give away 10% or more of the net value of your estate to charity.

3. Gifting is a straightforward way to mitigate your IHT

Gifting helps you support your family at the same time as reducing your IHT liability. You can give away up to £3,000 each tax year (your 'annual exemption'), as well as make any number of small gifts up to £250 per person, and not incur IHT. Almost all gifts become IHT exempt if you survive for seven years. These are the main factors to consider:

- Gifts to your spouse or civil partner are exempt from tax during your lifetime, or upon death.

- A tax-free allowance of up to £3,000 applies to gifts made to other beneficiaries. You can carry the allowance over for one tax year, meaning you could give away up to £6,000 in a tax year.
- Gifts to children or grandchildren to pay for a wedding or civil partnership are exempt from IHT and are considered separate to the £3,000 annual exemption. You can give up to £5,000 to a child or £2,500 to a grandchild. This is a good way to pass on some of the value of your estate in the form of a gift you would probably have made anyway.
- Gifts made from your regular income are tax free, as long as you can prove they do not diminish your own standard of living.
- Gifts above the allowance are exempt from IHT if you survive for seven years after making the gift. Gifts above the nil rate band, made between three and seven years before your death are taxed on a sliding scale – known as 'taper relief'. The longer the time, the less you pay.

4. Pensions should be considered in IHT planning

Most Defined Contribution schemes will fall outside of your estate, so if you're looking for a tax-efficient way to pass on wealth, pensions could form part of the solution. You might have different pension pots and choose to pass one or more to your children or grandchildren. If you die before you are 75, your pension pot can be paid as a lump sum or income to any beneficiary, free from tax. After 75, beneficiaries will need to pay tax at their marginal rate on withdrawals.

5. Trusts help you stay in control of your money and mitigate IHT

Trusts are a traditional part of IHT planning and remain an effective way to ensure the right people get the right money at the right time. There are several different types of trust and ways of setting them up. In some cases you can access the funds; in some you can't. Trusts can be complex, so you should always speak to us before you begin the process of setting one up.

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

Trusts are not regulated by the Financial Conduct Authority or the Prudential Regulation Authority.

Sources

[1] *Inheritance Tax statistics: commentary, HMRC National Statistics, updated 29 July 2021*

There is no set age for when you should start planning

We can help you think about your finances holistically

How to pass on your pensions and *minimise tax* on your estate after you die

Including your children and grandchildren in retirement planning can help the whole family.

If you have children or grandchildren and hope to leave them something after you're gone, it's vital to factor them into your retirement planning.

That's because pensions and ISA savings can be handed down to the next generation – just like the family home or investment properties. So, when doing the sums and preparing for your own retirement, it's good to think holistically about the whole family's finances and how your pension savings might benefit loved ones when you die.

When retirement planning meets inheritance

Many people think that inheritance matters are something to ponder around the time of writing their Will, and then they can be promptly forgotten about. It's true that having a well-drawn-up Will – one that's kept updated as your circumstances change – is fundamental to ensuring your beneficiaries are looked after.

But rather than building up your assets and then deciding which family member gets what in your Will, it's better to start out with imagining what kind of assets you would like to set aside for each of your loved ones, and then creating a financial plan to achieve this.

This subtle twist in thinking, from looking in the rear-view mirror to focusing on the road ahead, can be powerful when it comes to creating your family's financial future.

Passing on pensions

Many people have been diligent savers and have accumulated surplus pension savings alongside other retirement assets. These could be hugely valuable assets to pass onto the younger generation.

Seeking help from us well in advance of your retirement is essential for helping you assess what you have saved, what you will realistically need and what can be earmarked for your loved ones after you die.

Defined Contribution pensions normally fall outside a person's estate, so they're not taken into account when Inheritance Tax is calculated.

What's more, a pension doesn't have to be earmarked for children or even relatives; you can leave it to anyone. It's becoming more common to skip a generation and leave pensions to grandchildren – in this way, they can become almost like a family trust.

Bear in mind that a person's entitlement to the state pension cannot be passed on. Similarly, Final Salary or Defined Benefit pensions often pay out to a spouse if the member (you) dies.

These pensions can sometimes be converted into a pot of money held in a Defined Contribution scheme, which can be passed onto an heir. If you want to do this, it's mandatory to take advice via a financial adviser if the pension transfer value would be worth more than £30,000.

The finer details around passing on your Defined Contribution pensions depend on the type of scheme, the age you die and whether you've accessed the money, so it's vital that you work with a financial adviser before making any decisions. Otherwise, your best-laid plans may become a headache for your loved ones.

Key points to consider:

- The recipient is handed the pension as a pension, so there could be tax implications if withdrawing any money before they reach retirement age
- Usually, the recipient can choose whether to take lump sums or an income from the pot
- If you die before the age of 75, the recipient will not pay tax on lump sums from the pot
- If you die after the age of 75, the recipient will pay income tax on most withdrawals

Take advice

Factoring inheritance matters into your retirement planning can change how you save. For example, if you have an adult daughter with young children who works part-time, she may appreciate a boost to her pension.

As another example, you might want to contribute to the pension of your adult child or grandchildren. Even though most children do not pay tax, a parent or guardian can still open a pension in their name and add top-ups which are eligible for tax relief.

Giving the under-18s a head start in their retirement planning may seem premature, especially since this generation potentially have university tuition fees and high property prices to contend with.

But the pension provision that they will be offered through the workplace will be less generous than it was compared with previous generations and retirement will be very different in decades to come.

We can help you think about your finances holistically, taking account of your whole family's needs and planning tax efficiently for the future. If you would like to talk about retirement and inheritance matters, however small or large, please get in touch.

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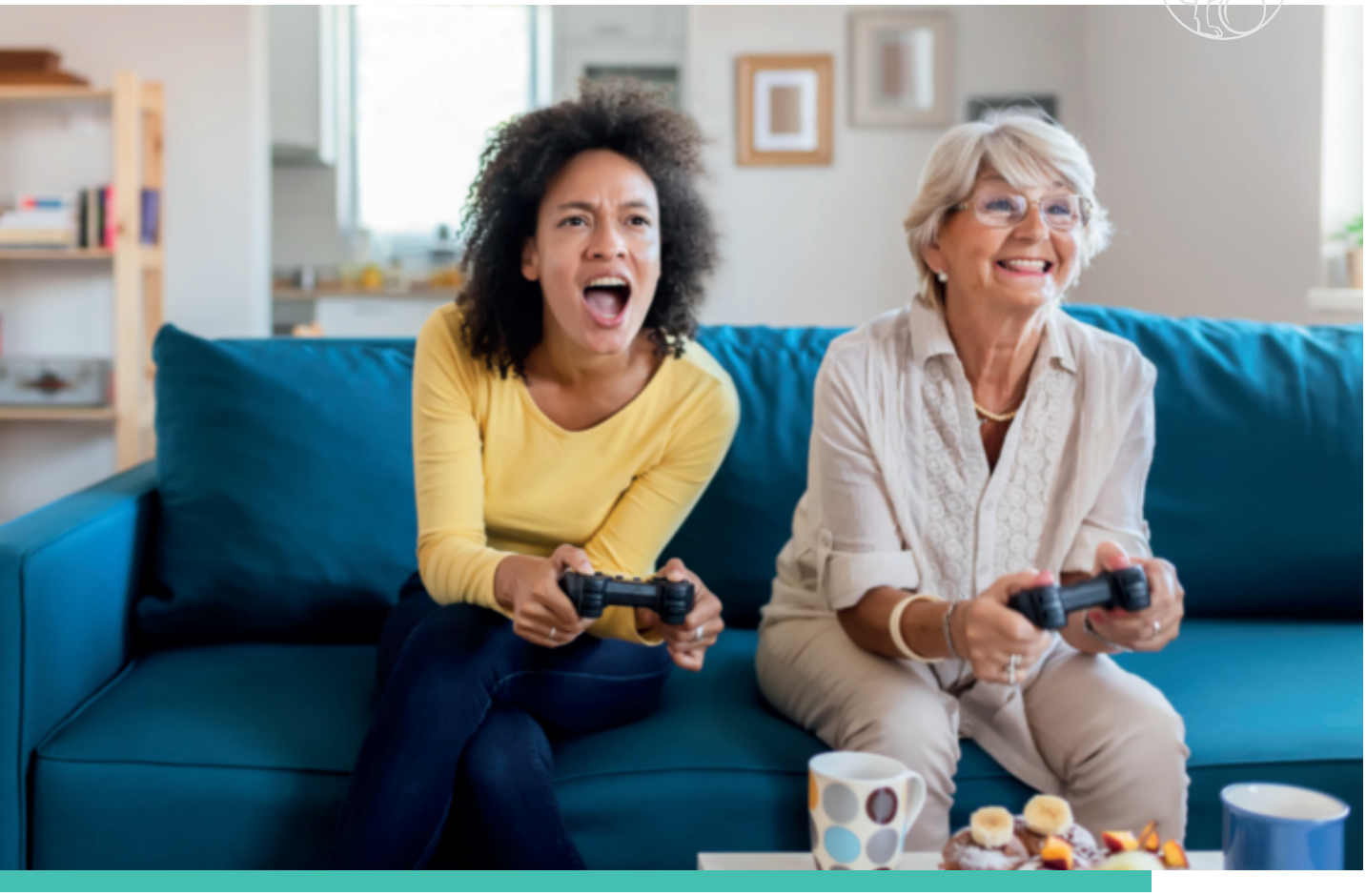
The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

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

St James's Place



Live for today, plan for *tomorrow*

You probably know where you want your inheritance to go when you die. But making sure your legacy gets to the right people at the right time can be hard work.

We can guide you through the estate planning maze and make sure your inheritance plans come good.

Let's start a conversation

SJP12432d V4 (02/22)