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ISSUE 8 ■ SPRING 2020

# evolve

## Preserving your legacy

How to keep your wealth in the family

## Portfolio diversification

Don't put all your eggs in one basket

**Moneyweb News**
Charity of the Year

**Inflation matters**
One of the biggest threats to the health of your investment portfolio

**Future retirement security**
More younger women opting out of pensions

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# welcome

Welcome to the Spring edition of *Evolve*. An awful lot has changed since our last issue, and we are in what feels like an entirely new reality. We hope you are keeping well and managing the home office, home school, home exercise routine. The world we live in is in uncharted territory, and sometimes it can feel difficult to keep track of and adjust to changes in our personal, business and financial lives. In this issue, we have tried to look beyond COVID-19 to calmer waters ahead perhaps, when some normality returns.

Are you worried about leaving an inheritance to your loved ones and then having them pay tax on your legacy? No one likes to think about a time when they won't be here, but unfortunately the reality is that some people aren't prepared financially. Estates that pass on to a spouse, registered civil partner or charities are exempt from Inheritance Tax (IHT), even if the value of such estates is higher than the threshold limits. Estates that pass on to anyone else, including siblings, children and grandchildren, attract IHT. Turn to page 08.

Planning for retirement can be both exciting and daunting. It's essential to structure your affairs to make sure you have enough money when you eventually retire. To give your pension pot a boost, on page 04 we look at one option to consider if your pension savings are more than your annual allowance, which is to take advantage of the 'carry forward' rules for unused annual allowances from previous years and still receive tax relief.

We are truly living in historical times. Stay well, keep active and keep in touch – we're happy to be by your side through this, and we will come out the other side.

We hope you enjoy this issue. A full list of the articles featured in this issue appears opposite.

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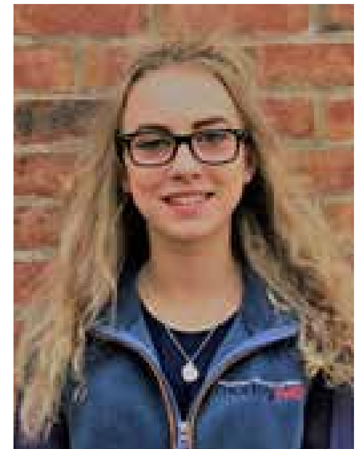
# Quick-fire questions

## Josie Page – Client Services



**1. If you could only eat one meal for the rest of your life, what would it be?**
Salad

**2. If you could have any one superpower, what would it be?**
Read minds

**3. If you could be an animal, which would it be?**
Dog

**4. If you could travel around one country, which would it be?**
China – maybe not just at the moment!

**5. What would be the number one thing to do on your bucket list?**
Meet Eminem

**6. What is your favourite TV show?**
Skins

**7. What is your biggest fear and/or phobia?**
Heights/planes

**8. Which would be more important to you if stranded on a desert island: company or supplies?**
Company

**9. Sweet or Savoury?**
Savoury

**10. Would you rather be ten years younger, or ten years older?**
Younger!

# Moneyweb News

## Charity of the year

Here are just some of the reasons why we have chosen Scarborough, Whitby and Ryedale Mind as our charity of the year for 2020:

- All of Scarborough Whitby and Ryedale Mind's staff and 75% of their volunteers have close personal experience of mental health problems
- 97% of their volunteers with mental health problems say supporting others is a positive contributor to their recovery
- A quarter of people living in Scarborough Whitby and Ryedale will experience some kind of mental health problem in the course of a year. Anxiety and depression are the most common mental illnesses
- Of the 160,000 people living in the Scarborough Whitby and Ryedale areas, 40,000 people in the region will experience a mental health problem each year
- Depression affects one in five older people, and the population of elderly people living in North Yorkshire is increasing
- Mental health issues cost Britain more than £105bn per year in social and economic costs
- The number of people working in the NHS absent from work with mental health problems has doubled at hospital trusts across England in the past four years
- Funding for NHS Trusts to provide mental health services has fallen by more than 8% in real terms since 2010. Many people who are not being supported by them rely on the voluntary sector such as SWR Mind, yet they are not seeing an increase in available funding
- Men and women living in poverty are at twice the risk of experiencing a mental health problem as those people living on average incomes
- Scarborough is classed as the most deprived district in North Yorkshire, ranking 83rd out of England's 326 Local Authorities. There are 14 specific areas in the borough of Scarborough that are ranked within the 20% most deprived in England
- One in four people using mental health services has no contact with their family, and one in three has no contact with friends
- Mental illness is now nearly half of all ill health suffered by people living in Britain who are aged under 65, and it accounts for 23% of the total burden of disease. However, only a quarter of people experiencing mental health problems receive any form of treatment
- Despite the existence of cost-effective treatments, mental health receives just 13% of NHS health expenditure
- Suicide rates show that British men are three times more likely to die by suicide than British women. Suicide is the biggest killer of men under the age of 35 in the UK
- The UK has one of the highest rates of self-harm anywhere in Europe – 400 per 100,000 people
- Mental health is not a demographic. Anyone, anywhere could be affected. As an organisation, SWR Mind's main goals are to ensure that no one has to go through mental ill health alone.

# Time to give your pension pot a boost?

Planning ahead for the financial future you want

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

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

## Very useful for high earners

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

To be able to carry forward unused annual allowance from a previous tax year, you must have been a member of a registered pension scheme at some point in that tax year (a 'member' includes active, deferred and pensioner members). This can apply even if no contributions were made during that year or if there was a nil pension input amount.

## Individual's relevant UK earnings

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

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

## Maximum allowable contribution

To take advantage of carry forward rules, you must make the maximum allowable contribution in the current tax year (£40,000 in 2019/20). You can then carry forward any unused annual allowances from the three previous tax years.

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

| Tax year | Annual allowance |
|---|---|
| 2016/17 | £40,000 |
| 2017/18 | £40,000 |
| 2018/19 | £40,000 |
| 2019/20 | £40,000 |

## Automatically carry forward any unused annual allowance

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

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

## Are you on track for your retirement?

For individuals who are high earners and likely to be most impacted by the annual allowance, the opportunity to sweep up earnings from the three previous tax years may be a welcome retirement funding opportunity. Let us help you build a tax-efficient income for a great retirement. To find out more, please contact us.

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# Portfolio diversification

## Don't put all your eggs in one basket

Portfolio diversification is the foundational concept of investing. It's a risk management strategy of combining a variety of assets to reduce the overall risk of an investment portfolio.

Traditional wisdom says: don't put all your eggs in one basket. By ensuring your portfolio is well diversified across different asset classes, geographies, styles and size, you spread your risk exposure. If something goes wrong with one security, it only accounts for a small proportion of your investments and therefore won't be too detrimental to your overall wealth.

### Lowering volatility

The ultimate aim of portfolio diversification is to lower the volatility of a portfolio because not all asset categories, industries or stocks move together. By holding a variety of non-correlated assets, you can reduce specific investment risk.

Diversification is also important because investing in markets can be volatile and unpredictable. In practical terms, diversification is holding investments which will react differently to the same market or economic event. It's also your best defence against a single investment failing or one asset class performing poorly.

### Smoothing out returns

When the economy is growing, stocks tend to outperform bonds. But when things slow down, bonds often perform better than stocks. By holding both stocks and bonds within your portfolio, you reduce the chances of your portfolio being subjected to corrections when markets swing one way or the other.

Diversification also safeguards you against adverse market cycles and reduces volatility. In other words, by owning a large number of investments in different industries and companies, industry and company-specific risk is minimised. This decreases the volatility of the portfolio because different assets should be rising and falling at different times, smoothing out the returns of the portfolio as a whole.

### Different asset classes

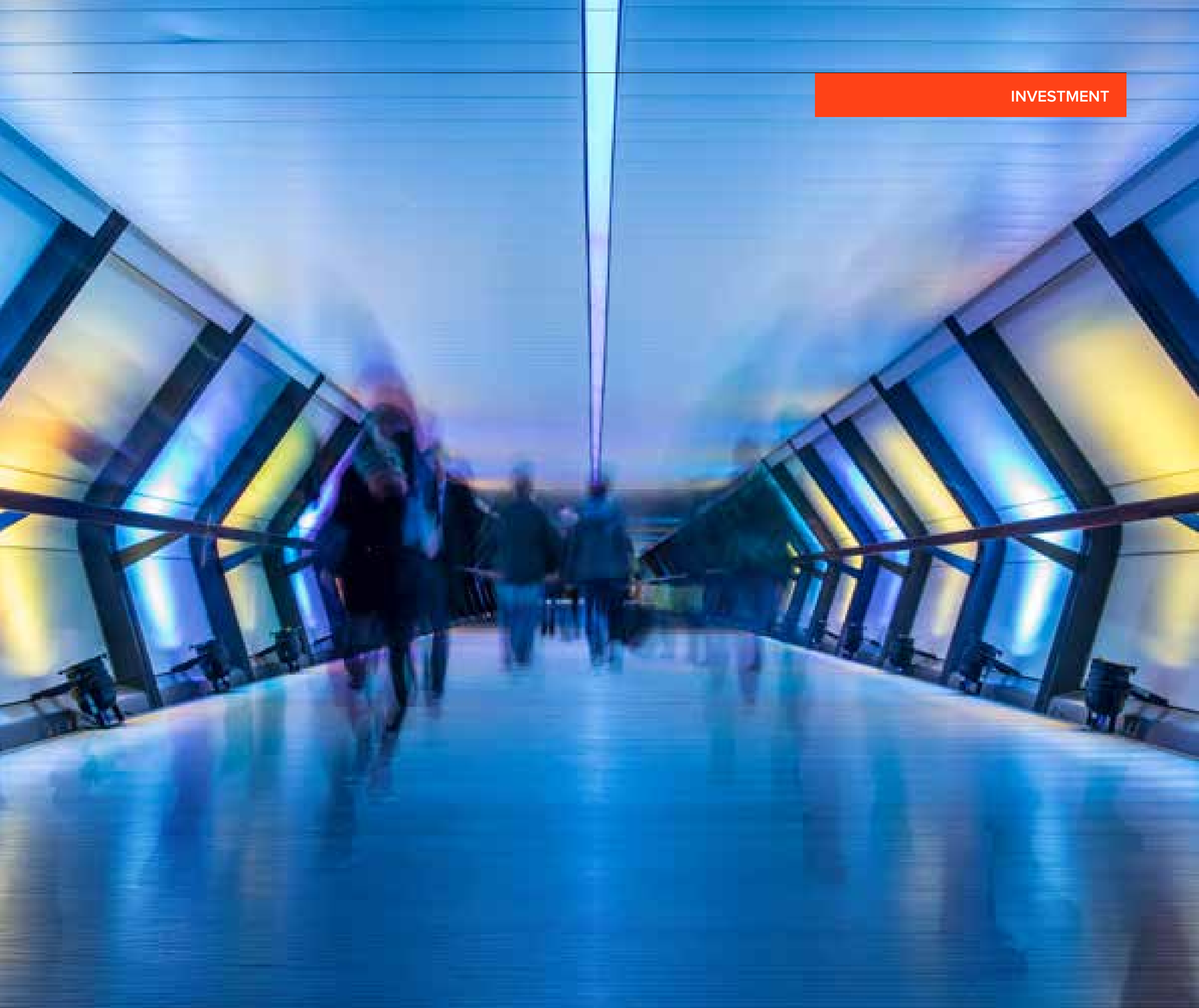
To diversify well, you need to invest across different asset classes and within different options in an asset class. If most of your money is in one or two asset classes, it may be prudent to consider other asset classes. Then, within each asset class, make sure your money is invested across the different options available. The three simple ways to diversify your portfolio broadly are by investing across asset classes, within an asset class and internationally.

Setting the right asset allocation for your financial goals and personal specifications depends on a number of factors. These include your investment time horizon and what you are going to use the money for. If you want to grow the money, you will need to take on some risk; if you are looking to preserve it, you will need to limit risk.

### Time horizon and goals

Diversification is also important regardless of your time horizon and goal. Any time you're investing in the stock market, you should aim for a diversified portfolio. As your goals or time frames change, the levers to shift should be determined by how aggressively that diversified portfolio is built. Investments allocated to a long-term goal can lean more heavily on stocks, for instance, than those geared towards near-term goals.

An easy way to determine if your portfolio is diversified is by looking at



your current performance. Diversified investments won't move in the same direction at the same time. If some of your investments are up while others are down, you've got diversification. ■

**Market volatility requires greater diversification and investment expertise**

Investment objectives can rarely be met by investing in a single asset class. A portfolio that actively invests across multiple asset classes has more sources of potential return and can better adapt to changing market conditions. One of the keys to successful investing is learning how to balance your comfort level with risk against your time horizon. To discuss your investment requirements, 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.

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**Setting the right asset allocation for your financial goals and personal specifications depends on a number of factors. These include your investment time horizon and what you are going to use the money for.**

# Preserving your legacy

## How to keep your wealth in the family

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

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

### Deciding on the best way to leave your estate

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

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

### Transfer to a surviving spouse or registered civil partner

An additional nil-rate band is available for individuals on their main residence if it is passed on to a direct descendant. Direct descendants include children (including stepchildren, adopted children or foster children) or grandchildren. This additional IHT-free residence nil-rate band is set at £150,000 in the 2019/20 tax year and will increase to £175,000 from 6 April 2020. As with the existing nil-rate band, any unused

**While few of us enjoy talking about our eventual demise, not having a Will can result in assets passing to the wrong person or in a way that gives rise to a larger IHT bill. That's why it's equally important to keep any Will up to date.**

additional nil-rate band can be transferred to a surviving spouse or registered civil partner.

## More tax-efficient for IHT purposes to gift money

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

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

## Transformative effect on both your and your family's life

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

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

## Further tax-free gifts

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

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

## Taking a significant amount of wealth out of your estate

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

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

## How can I be sure my wealth will reach the right people?

First and foremost, IHT planning will help ensure your family is provided for and your loved ones are taken care of. It also means you can choose where your estate goes so there will be no confusion about your wishes. Professional IHT planning can also help minimise the amount of tax paid, so you can leave more to your loved ones. To discuss your concerns, please contact us.

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# Retirement options

## £19m released each day since pension freedoms launch

**In his 2015 Spring Budget, then-chancellor George Osborne introduced sweeping changes to the way that pensions are taxed.** The new pension freedom rules have led to the over-55s being faced with a variety of different choices when taking and investing their nest eggs.

Prior to April 2015, when most people with a defined contribution pension reached retirement age, the only option available was to buy an annuity, which involved using pension savings to purchase a guaranteed income for life.

### People retiring each year

Roll on five years, it now means anyone aged 55 and over can take the entire amount of their defined contribution pension scheme as a lump sum, paying no tax on the first 25%, with the remaining taxed as if it were a salary at their Income Tax rate.

Before this, tax restrictions ensured that many of the people retiring each year were required to purchase an annuity – a product provided by insurers which turns a pension pot into a secure retirement income for life. The problem with some annuities is that they have become poor value, particularly for savers who bought the wrong kind.

### Peak pension freedoms

Official figures[1] published show that £32.97 billion of taxable payments have been taken from pensions since freedom and choice were introduced. This equates to an average of £18.75 million being flexibly withdrawn every day over the past 1,760 days since pension freedoms were introduced.

In the coming decade, a record nine million people are set to enter the arena of the pension freedoms at age 55[2]. This is more than is expected to be seen in any decade that follows, with the 2020s likely to see peak pension freedoms.

### Increased responsibility

With the popularity of pension freedoms continuing to grow and savers being entrusted with increased individual responsibility, it is worrying that 94% of adults are flying solo, not seeking any financial advice each year[3].

The Money and Pensions Service (MaPS) has launched its strategy with a vision of 'everyone making the most of their money and pensions'[4].

### Take your time and seek advice

If you are considering your pension freedom options, the future has 'got a lot more interesting'. Remember: take your time and seek professional financial advice. The pension freedoms are available from age 55, but there is no need to act at age 55. And your time in retirement may be longer than ever before.

### Pension freedom options

There are a number of different options when you are deciding how to take your defined contribution pension pot.

### Leave your whole pot untouched

You don't have to start taking money from your pension pot when you reach your 'selected retirement age'. You can leave your money invested in your pot until you need it.

### Guaranteed income (annuity)

You use your pot to purchase an insurance policy that guarantees you an income for the rest of your life – no matter how long you live.

### Adjustable income

Your pot is invested to give you a regular income. You decide how much to take out and when, and how long you want it to last.

### Take cash lump sums

You can take smaller sums of money from your pot until you run out. Your 25% tax-free amount isn't paid in one lump sum – you get it over time.

### Take your entire pot in one go

You can cash in your entire pot – 25% is tax-free, the rest is taxable.

## Combine your options

You can also combine different options. However, to do this, you would usually need a bigger pot.

## Be aware of the scammers

Make sure you don't fall victim to scammers. Your pension is likely to represent the biggest single source of your private wealth, so the attraction for scammers is obvious. Since January 2019, it has been illegal to make these cold calls. See the Financial Conduct Authority's ScamSmart website for more advice.

## Don't overlook the tax

Think about the matter of tax. How will this impact on your particular situation? The way in which you access your pension savings can have significant implications on how much tax you may need to pay and on the income in your retirement.

## Professional financial advice

Finally, don't forget the importance of obtaining professional financial advice. You may have been saving for 30 years, so take more than 30 minutes when considering your options. Let us provide you with the professional advice to ensure that you end up with the best options for your particular situation. ■

**Source data:**

*[1] www.gov.uk/government/statistics/flexible-payments-from-pensions*

*[2] www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/annualmidyearpopulationestimates/mid2018*

*[3] www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf*

*[4] moneyandpensionsservice.org.uk/uk-strategy-for-financial-wellbeing/*

## A long life needs a smart plan

The way you take your money for retirement will have a big impact on how long it will last – and how much tax you pay. To discuss your options or to find out more, contact us to arrange a meeting.

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# Future retirement security

More younger women opting out of pensions

**Young women are putting their future retirement security at risk by opting out of their workplace pension[1].** The analysis shows a worrying spike in opt-outs, with 10.5% of women aged 22–29 opting out of their workplace pension. This compares to 8.1% of men in the same age group.

## Significant challenges in saving for retirement

Women in their 20s and 30s face significant challenges in saving for retirement. Many leave the workforce to look after children and often only return to work on a part-time basis. Added to this is managing the high cost of childcare, which means many women don't feel they can afford to save for retirement.

While the difference between male and female opt-outs is stark in the 20–29 age group, it evens out from the age of 30. After the age of 60, the picture changes again with significantly more men than women opting out[2].

## Leading to greater financial problems in the future

The data highlights a spike in women opting out of pension saving in their 20s and 30s, most likely as they face other commitments such as childcare or saving for a house. While this may seem like a good idea for them in the short term to fund other priorities, opting out of a pension will only lead to greater financial problems in the future.

Getting back into the habit of saving for later life may be difficult for some women if they have missed significant contributions. ■

**Source data:**

*[1] In September 2019, Royal London highlighted the over-60s are throwing away up to £1.75 billion in retirement by opting out of pension saving: www.royallondon.com/media/press-releases/2019/september/over-60s-throwing-away-up-to-1.75bn-in-retirement-savings-by-opting-out-of-pensions/*

*[2] Table of Auto-Enrolment opt-out rates by gender.*

## Building a retirement plan that you feel at ease with

We can advise on your retirement planning, whether you are in the process of building your pension pot or getting back into work. There are often a number of choices available, and we can discuss each option. The goal is to build a retirement plan that you feel at ease with and that will give you a comfortable retirement. Contact us to find out more.

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# Have you planned for the unexpected?

## One in eight homebuyers don't discuss their protection needs

**Buying a property is usually the biggest financial obligation many of us will take on in our lifetime,** and it's an obvious moment to pause and consider our protection needs.

The most common types of mortgage protection usually consist of mortgage life insurance with critical illness cover and mortgage payment protection insurance (MPPI). Nobody wants to run into financial difficulty, but homeowners should have provision to continue paying their mortgage if something happens to their main source of income.

### Older homebuyers the most exposed

Relying on savings isn't viable for many and certainly isn't good for financial resilience. However, one in eight (13%) homebuyers who purchased their mortgage via a mortgage broker did not discuss their protection needs, according to new research[1], with older homebuyers the most exposed, with the potential for the higher risk of health issues impacting their income.

The majority (76%) of homeowners discussed protection products during their initial session, with life insurance being the most commonly purchased product (57%), followed by critical illness (36%) and income protection (31%).

### More likely to suffer from health concerns

However, more than one in ten (13%) did not discuss protection at all, rising to a fifth (20%) of those aged 55 and above – despite this age group being more likely to suffer from health concerns. More than one in four (28%) homebuyers who did discuss protection did not go on to make a purchase, leaving them unprotected as a result.

Of these, 25% rejected the opportunity to take out cover because they felt they couldn't afford the premiums, as the overall cost of buying a home was already expensive. A slightly smaller proportion (19%) felt they could not afford the cost as the mortgage itself was costly.

### Didn't see the value in protection products

Nearly a quarter (23%) didn't see the value in protection products, while 18% thought they would never need them. One in seven (14%) intended to purchase protection through a different route but never got around to it.

Alarmingly, two in five homeowners (42%) could only cover essential bills for up to two months if their household lost its primary income, and a further 30% could only extend to six months. Adequate financial protection is therefore vital to ensure households can keep up their mortgage payments and retain possession of their home should they unexpectedly lose their income. ■

**Source data:**
*[1] Canada Life 10 December 2019*

**Are you prepared for life's unexpected events?**
We can help you protect against financial hardship when life becomes unpredictable. Having the right protection in place will provide you with that important financial breathing space when you need it most. To review your current protection requirements or to find out more, please speak to us.

# Inflation matters

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

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

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

## Taking a bite out of your investment returns

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

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

## Plan to achieve long-term financial goals

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

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

## Navigating the threat that inflation poses

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

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

## Putting a strong investment strategy in place

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

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

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 TAX BENEFITS RELATING TO INVESTMENTS MAY NOT BE MAINTAINED.

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

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

## Are you keep inflation in your sights?

It's important not to underestimate the damaging effect inflation can have on your future wealth. Whatever your investor profile – from first-time investor to experienced retiree – you need to keep inflation in your sights. To find out more or to discuss your portfolio, please contact us.

# Lifestyle protection

One in five self-employed and contract workers unable to survive a week without work

**The world of work has changed enormously over the past 20 years.** Being self-employed, freelance or working on a contract basis has become the norm for all sorts of professions.

Although it has many benefits, working for yourself means that the responsibility for providing a financial safety net shifts from the employer to the individual. New research has highlighted the precarious nature of self-employed people's finances.

## Financial support

A survey[1] of the financial health of self-employed, part-time and contract workers reveals that if an accident or illness prevented them from working, more than one in ten (11%) wouldn't be able to last any time without using long-term savings, while 30% would run out of money in less than a month. And 48% said they couldn't turn to friends or family for financial support, while one in ten said they would be forced to turn to credit cards or payday loans.

Figures from the Office for National Statistics (ONS) show that the number of self-employed workers in the UK increased from 3.3 million in 2001 to nearly 5 million in 2019[2]. While a quarter (25%) of those surveyed said they would seek help from the state, benefits provide little or no support for this group.

## Income protection

Some self-employed people wrongly believe they would be eligible for income protection if they fell ill and couldn't work. However, Statutory Sick Pay isn't available to self-employed workers, and for those workers who are eligible, the maximum that can be claimed is just £94.25 a week versus the average outgoing of £262.83[3] a week for self-employed or contract workers.

More than half (55%) have no life insurance, private medical insurance, critical illness cover or income protection should they find themselves unable to work due to illness or injury.

## More time off work

Nearly half of those surveyed (45%) worry that sickness will prevent them working. They also worry about consistency of earnings (37%), and over a third (35%) of those workers who took time off for illness or injury last year returned to work before they felt they had fully recovered. Half (50%) of these said they did so because they couldn't afford to take any more time off work.

People in full-time employment commonly receive sick pay and life insurance through their employer, but self-employed people need to provide it for themselves. Although many self-employed people and contractors worry about the consequences of an accident or illness preventing them from working, too few are taking steps to protect themselves from any loss of earnings if they are unable to work. ■

**Source data:**

*[1] Research among 1,033 UK self-employed, part-time, contract and gig economy workers between 1 October and 7 October 2019, conducted by Opinium on behalf of LV=.*

*[2] EMP14: Employees and self-employed by industry.*

*[3] Average monthly outgoings of £1,182.76 recorded from 1,033 UK self-employed, part-time, contract and gig economy workers between 1 October and 7 October 2019, conducted by Opinium on behalf of LV=.*

### Do you have a financial safety net in place?

Many self-employed people consider income protection insurance and critical illness cover in case they get too sick or injured to work, or suffer from a serious illness. Life insurance is also common for people who have dependents, such as a partner or children. If you have any concerns or want to review your protection requirements, please contact us.

# Unlocking property wealth

## Are you 'property rich' but want or need more than you have saved?

An increasing number of people aged over 65 are using equity release products to pay off debts and mortgages.

Many people in the UK might be 'property rich' but want or need more than they have saved to enjoy the lifestyle they want. And with more people living longer, there are, on average, more years to fund.

### Managing finances in later life

Equity release allows UK homeowners over the age of 55 to unlock part of the financial value in their home for various reasons, usually to help manage their finances in later life. This can provide money to spend while they are still fit and healthy, or to help fund a particular purchase like a holiday home, or to give a living inheritance to loved ones.

There has been an increase in the number of equity release products available, as well as improved interest rates. Recent data[1] shows that 27% of people in 2019 used equity release to clear their mortgage, loans or debts compared to 15% in 2016. Helping family and friends has risen from 8% to 16% during the same period, while home improvements fell from 32% to 24%. The figures also show that a larger proportion of women (55%) take out equity release plans than men (45%).

### Meeting changing requirements

Over the past four years, the equity release market has grown significantly as more versatile products have been introduced to meet changing requirements. With pension income often being less than hoped for and high levels of consumer debt, an increasing proportion of people are using the equity in their homes to pay off loans and outstanding mortgages.

For homeowners who have no means of repaying their interest-only mortgages, equity release could be one option, giving them the added security of still living in their own home until they die or go into long-term care.

### Proving popular with women

Helping grandchildren with deposits for their first home or the costs of higher education are just some of the reasons why an increasing number of people use equity release to help friends and families.

The data also highlights that equity release is proving popular with women for a variety of reasons. More women are retiring with relatively small pensions due to the fact that they generally live longer than men and earn lower wages. Also, divorce rates for the over-60s are rising.

### Retaining full home ownership

When you unlock wealth from your property, the equity released is tax-free regardless of whether you take it as a lump sum or as smaller amounts over time. However, if you put it into a savings account or investments, you may have to pay tax on any growth.

Equity release may involve a lifetime mortgage or home reversion plan. To understand the features and risks, you should ask for a personalised illustration. With a lifetime mortgage, unlike other forms of equity release, you can release tax-free cash from your home while retaining full ownership of your home and without having to commit to making monthly repayments. ■

**Source data:**

*[1] Customer data from LV=. Figures correct as of November 2019.*

EQUITY RELEASE MAY INVOLVE A LIFETIME MORTGAGE WHICH IS SECURED AGAINST YOUR PROPERTY OR A HOME REVERSION PLAN.

TO UNDERSTAND THE FEATURES AND RISKS, ASK FOR YOUR PERSONALISED ILLUSTRATION.

EQUITY RELEASE REQUIRES PAYING OFF ANY EXISTING MORTGAGE.

ANY MONEY RELEASED, PLUS ACCRUED INTEREST WOULD BE REPAID UPON DEATH, OR MOVING INTO LONG-TERM CARE.

### How much money you could release from your home?

Equity release enables over-55s in the UK to extract tax-free cash from their homes. You can usually borrow between 19% and 50% of the value of your home, depending on your age and health, and you will not have to pay tax on the capital you release. To find out more, please contact us.

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