FINANCIAL FOCUS

PAVEY GROUP FINANCIAL SERVICES NEWSLETTER

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PAVEY group FINANCIAL SERVICES

Seize the day

Planning for a comfortable life after years of hard work

Over time, with life expectancy and the cost of living rising, it could mean that some retirees are at risk of running out of pension income in later life. So what can you do to make sure that you have a big enough pension to meet your needs for the whole of your retirement?

To begin with, we all know when planning for retirement, the earlier we start saving and investing, the better off we'll be, thanks to the power of our money compounding over time. And even if we start saving later in life or we've yet to begin, it's important to know that we're not alone and that there are steps that can be taken to increase our eventual retirement savings.

It's no secret – retirement changes your life

After years of hard work, retirement is an exciting period in life. You might be looking forward to taking a trip to sunnier climes, dedicating more time to a favourite hobby or spending more time with family and friends. However, to ensure that you are able to continue to pay the bills and live comfortably when you are no longer drawing an income, you need to start putting money aside as soon as possible. The thought of it may be daunting, and it can feel like an impossible mission.

The process of building a retirement pot typically involves a combination of consistent saving and long-term investments, but saving and investing for your retirement can look pretty different during your twenties versus your forties.

On your way to a comfortable life after work

With discipline and determination, you can be on your way to a comfortable life after years of hard work. Building a retirement pot requires more certainty in your financial planning and less risk-taking. But first, you need to figure out how much you need in order to set a goal.

Retirement is personal and full of surprises, so it's important to decide what you want yours to look like first, and then plan how to make it a financial reality. We've provided some tips to help boost your savings – no matter what your current stage of life – to enable you to pursue the retirement you deserve.

1. Retirement goals

Setting up a retirement goal requires you to find out how much income you need when you have stopped working. To get an indication of this, use the following questions to help you:

- At what age do I plan to retire?
- How many years do I have to plan for whilst I'm in retirement?
- What is my desired monthly income during retirement?

2. Risk appetite

Are you a 'conservative' investor who cannot afford to lose the initial capital you put up? Can you sacrifice the certainty of having your principal protected in order to gain higher potential earnings?

If you do not already have a large sum of retirement savings, you shouldn't take too much risk when you invest, since you may not have the luxury of time to recoup any investment losses as you approach your retirement target age.

3. Time horizon

If appropriate, generally a bigger portion of your retirement pot can be apportioned for higher-risk investments if you start early in your career. As you progress closer towards the retirement years, it's usually prudent for your pension pot to focus increasingly on lower-risk investments or savings with the objective of providing more stable returns.

It's important to consider allocating your investments into products suitable for different investment horizons (short, medium and longer term) depending on your risk appetite. For example, a short-term investment could include some riskier assets such as single equities or investing in a fast-growing speciality fund. You should always be reminded that with higher expected returns come higher risks.

4. Inflation

If you choose to save your way to retirement by putting cash into a savings account, the value of your money could potentially be eroded due to inflation. Therefore, in order to ensure that the money you have now preserves its purchasing power during your retirement years, you need to choose savings or investments that have the potential to provide you with higher returns.

5. Diversification

While putting all your retirement savings into a bank account can be potentially risky, so too can investing all of your savings in shares. The key to growing your retirement fund will typically include having different asset classes in your portfolio, which is otherwise known as 'diversification'. Diversification not only helps you manage the risk of your investments, but it also involves re-balancing your portfolio to maintain the risk levels over time.

6. Affordability

Building a retirement pot is a long process. By starting late, you may find that you need to set aside a larger amount for your retirement. This could reduce your current disposable income and may cause you to reduce your current quality of life.

Therefore, you'd want your retirement sum to be an affordable amount for your current lifestyle. We can work with you to help you take a look at your current commitments to make saving for your retirement a sustainable habit. ■

HOW MUCH MONEY DO YOU NEED TO RETIRE?

It's never too early to start planning for your retirement! With discipline and determination, you can be on your way to a comfortable life after years of hard work. To find out more or to discuss your situation, please contact us.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

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.

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Wealth protection

Planning your legacy

Unforeseen life events and circumstances can potentially impact your finances in a number of ways. Believe it or not, you have an estate. In fact, nearly everyone does.

Your estate is comprised of everything you own – your car, home, savings accounts, investments, life insurance, furniture, personal possessions – the list goes on. No matter how large or how modest, everyone has an estate and therefore shares something in common – you can't take it with you when you die.

Ensure your wishes are carried out

When that happens, you probably want to control how these things are given to the people or organisations you care most about. To ensure your wishes are carried out, you need to provide instructions stating whom you want to receive something of yours, what you want them to receive, and when they are to receive it. You will, of course, want this to happen with the least amount paid in taxes, legal fees and court costs.

An estate plan differs considerably from a Will. A Will is quite a simple document about the distribution of your assets and, potentially, instructions for the care of your children. An estate plan, however, goes much further than a Will, and aims to help your heirs pay substantially less in taxes and fees.

Let's consider some key parts of an estate plan.

Your current circumstances

There are a number of key documents that together build a clear picture of your current circumstances. Aside from the Will, some key documents within an estate plan could include:

- A lasting power of attorney
- A list of all assets and liabilities
- Deeds of any trusts created
- Life policies (which should be included in an appropriate trust)
- Pension Death Benefit Nomination forms
- Records of any gifts made

Before moving on to the next part of your estate plan

Should any of the above be required but aren't available, you should seek professional advice before moving on to the next part of your estate plan. For example, if you've made gifts from your estate but haven't kept a record of them, it's important to do so – this way, the executors of your estate have these details when administering your estate.

Key parts of an estate plan are your objectives and preferences. They could include details of whom you wish to benefit from your estate and when you'd like this to take place – either during your lifetime and/or upon your death. With Inheritance Tax (IHT) currently at 40%, many people are concerned about the amount of tax their estate may have to pay. And as anyone can access information from a probate court upon death, there could be delays, fees and a loss of privacy. You may also have a favourite charity you'd like to transfer your wealth to, or philanthropic goals you wish to include.

Structuring your wealth tax-efficiently

Once you have an accurate record of your estate and have clearly defined your objectives, the final part of an estate plan is to put it into place. You may need professional advice to help arrange your assets to maximise the legacy to your loved ones and minimise the impact of tax, fees and loss of privacy.

We can advise you on your options to make sure these are executed correctly. This may involve helping you invest in assets that are exempt from IHT, creating a trust for loved ones, putting a gifting strategy in place, or simply helping to structure your wealth tax-efficiently.

Reviewing your plan annually is sensible

Once the plan is in place, it's important to keep it up to date. It's usually sensible to review the plan annually or when there's a significant life event, such as a birth or death in the family, a business sale or if your objectives change over time. It can also be good to seek a review of your plan when taxation rules change.

Estate facts

- Inheritance Tax is levied at a fixed rate of 40% on all assets worth more than £325,000 per person (0% under this amount) – or £650,000 per couple if other exemptions cannot be applied
- Parents and grandparents can currently leave property worth up to £850,000 to their children without them having to pay Inheritance Tax. This figure will rise to £1 million by 2020
- The current allowance of £325,000 remains unchanged, but an additional tax-free band worth £175,000 per person on your main residence will be added to the £325,000, making it £500,000 per person. The new tax-free band was set at £125,000 in 2018, eventually rising to £175,000 in 2020

NEED SOMEONE TO TALK TO ABOUT YOUR ESTATE PLAN?

If you want to be sure your wishes will be met after you die, then an estate plan is vital. Whatever your circumstances, we are there to talk things through with and guide you in an appropriate direction. If you require more information or would like to discuss your situation, please contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS.

ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE RULES AROUND TRUSTS ARE COMPLICATED SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

To arrange a complimentary consultation or review, please contact our Independent Financial Advisers on 01803 652030.