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INDEPENDENT FINANCIAL ADVISERS

YOUR MONEY

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A BULLISH YEAR FOR INVESTORS

It's now about a year since Donald Trump's inauguration, and whilst his administration has been the subject of political scandal, on the markets, all has been relatively quiet. In January 2017, the Dow reached a new symbolic high of 20,000 and continued to go on rising.

The general upswing in the world's major economies and markets made 2017 a year when investors felt more cheerful than they had feared they might be. Many stock markets worldwide traded at all-time highs, European manufacturing bounced back, and the Bank of England finally increased interest rates.

In the UK, the shock election vote failed to dent the rise of the FTSE 100, 250 and All-Share indices which all reached record highs in the first half of 2017. The UK economy grew by a higher than expected 0.4% in the third quarter of 2017, compared with 0.3% in the first two.

Despite the political tension in Spain surrounding the Catalan drive for independence, European markets performed well during the year. Brexit failed to dampen investors' spirits as many had feared.

AN ISA MILLIONAIRE – COULD YOU MAKE IT TO £1M?

The odds on becoming a millionaire through winning the lottery or scooping the Premium Bond jackpot are slim at best. However, with planning, patience and sufficient money available to invest in stocks and shares, by reinvesting all your dividends, and making maximum use of your tax-efficient allowance, it is perfectly possible to become an ISA (individual savings account) millionaire. In fact, hundreds of investors, including many who started to build their tax-efficient portfolios in the 1980s through Personal Equity Plans, have done just that since the ISA scheme was launched in 1999.

ISAs are a great way to invest tax-efficiently, and over the last few years the amount you can save tax-free each year has risen substantially.

The allowance for the 2017-18 tax year is set at £20,000, meaning that couples can put away up to £40,000, divided between their respective ISA accounts. Sadly, it seems that the ISA message hasn't got through to everyone. HMRC has produced data that shows only two thirds of those earning more than £150,000 a year use up their ISA allowance each year.

With pension contributions subject to annual and lifetime limits, ISAs represent an excellent way of topping up retirement income, although the cash or shares could be subject to inheritance tax on death, whereas defined contribution pensions can, in many cases, be passed on to beneficiaries more tax-efficiently.

MAKING THE MOST OF YOUR ANNUAL ALLOWANCE

If you were able to invest your full ISA allowance in a stocks and shares ISA every year, and the ISA limit increased by around

2% each year, and your investments made an annualised return of 5% after fees, you too could join the elite band of ISA millionaires in around 22 years. Of course, we must underline that this is not guaranteed, because stock markets can and do go down as well as up.

HOW WE CAN HELP

ISAs have encouraged more people to save for the future, largely because they are simple, flexible and provide an effective tax shelter. If you're planning to invest this tax year, it's a good idea to put plans in place as early as possible. The longer your money is invested, the more time it has to produce tax-free returns. Don't risk losing out on the valuable tax breaks available; remember you can't carry any unused ISA allowance into the next tax year. We can help you investigate the choices available, and ensure you invest your allowance wisely.

The value of investments and income from them may go down. You may not get back the original amount invested.



THINK ABOUT THE LEVEL OF PROTECTION YOU NEED FOR YOUR FAMILY

If you have a life policy, can you recall the level of cover you have in place? The majority of people take out a life policy when they take out a mortgage, file it away and forget about it. This can be a huge mistake. The level of cover you took out a while ago may not be sufficient to cover your current circumstances.

Figures from a major insurer¹ indicate that 40% of Britons who have life insurance only have enough in place to cover their mortgage. This could result in financial strain on their families, who would still have to pay all other household bills and expenses.

MAKE TIME TO REVIEW YOUR POLICY

No matter what your circumstances, you should think about reviewing your life insurance cover regularly, especially if you've experienced a major life event, such as starting a family. Having enough cover to pay off just your mortgage might have been adequate prior to the added responsibility of being a parent, but now you'll want to ensure there's sufficient insurance in place not only to pay off your mortgage, but also to provide additional funds to ensure your loved ones could continue to have a reasonable standard of living if you were to die.

CONSIDER CRITICAL ILLNESS

With a growing family to provide for, many people also opt to take out critical illness insurance. This type of cover is designed to pay out a tax-free lump sum in the event of a diagnosis of a serious illness (as defined in the policy). Income protection cover is also worth considering. If you were unable to work due to an illness or injury, it would pay out a tax-free monthly income.

Protection policies can safeguard your finances, your home and your family in the event of incapacity, a serious illness, accident or death. We can help make sure that as your life changes, your cover changes to match your circumstances.

¹Direct Line, 2017

HOW THE INTERGENERATIONAL DIVIDE AFFECTS FAMILIES

According to the chief executive of the Financial Conduct Authority, millennials are frequently running up high-cost debt to pay for their basic living expenses. Andrew Bailey has warned that: *"There is a pronounced build-up of indebtedness among the younger age group. We should not think of this as reckless borrowing, this is directed at essential living costs."*

Unlike past generations, almost half of those aged 25 to 34 are tenants, while one in ten lives rent-free with family. Only four in ten have managed to buy their own home. The rise of the gig economy and the long-term stagnation in wages mean that millennials are often finding themselves under huge financial strain, struggling to pay off student debt while trying hard to accumulate a deposit on a home.

A recent survey² shows that, increasingly, it's grandparents who are stepping into the breach and helping their grandchildren financially.

One in ten grandparents has given their grandchildren a lump sum, with the average being £15,000, with half these donations designed to help them purchase a property.

THE SQUEEZED MIDDLE

Often dubbed 'the sandwich generation' because they are sandwiched between caring for their children and looking after their ageing parents, those in the squeezed middle have a lot of calls on their time and money.

Many worry about looking after or arranging care for elderly relatives, whilst at the same time often feeling under pressure to continue working past their normal retirement date to help their children financially. This can often include allowing grown-up family to live at home rent-free, or even helping to pay their day-to-day living expenses. The worry here is that in looking after others, they are neglecting their own financial needs, and not saving enough for a comfortable retirement.

Openly discussing wealth matters as a family can help establish priorities, clarify goals and ensure that plans are put in place to support each generation as their needs dictate.

²OneFamily, 2017





INTEREST RATES UP BUT NEXT HIKE PROBABLY SOME WAY OFF

The Bank of England (BoE) raised interest rates for the first time in more than ten years on 2 November but stressed that it only expects “very gradual” further increases over the next few years.

The nine members of the Monetary Policy Committee (MPC) voted 7-2 to raise the official bank rate from 0.25% to 0.5% in early November. This move effectively reversed the emergency quarter percentage point cut from August 2016, which was made in the aftermath of the Brexit vote.

Whilst making the announcement, Bank of England Governor Mark Carney signalled that he expects to sanction two further rate rises over the next three-year period in order for the BoE to fulfil its obligation of keeping consumer price inflation at around 2%.

Carney said: “Our forecast is conditioned on a market curve which has two additional rate increases over the forecast horizon, and we in fact need those two additional rate increases in order to get that return of inflation to target”.

Perhaps ironically, the latest inflation data released in mid-November unexpectedly showed that the Consumer Prices Index 12-month rate held steady at 3.0% in October 2017, the same level as the previous month’s five-and-a-half-year high. This led to some suggestions that the BoE may have been hasty in its decision to raise rates.

It also raised questions about how quickly the BoE might follow up on November’s hike. The consensus view suggests there will be another quarter percentage point rise towards the end of next year, although a large minority of economists do feel that rates will remain unchanged across the whole of 2018.

DIVIDEND ALLOWANCE REDUCTION REMINDER

After a bit of to-ing and fro-ing, the reduction of the tax-free allowance for dividend income from £5,000 to £2,000 will commence from April 2018, and is expected to raise up to £900m per year for the Treasury. Despite being dropped from the Finance Bill 2017 because of the General Election, it was re-introduced into a second Finance Bill, which received Royal Assent in November.

The reduction will affect individuals with non-ISA dividend income in excess of £2,000. The government estimate two thirds of people with dividend income will not be affected, but of the 2.27 million individuals who are, they can expect an average loss of around £315 in tax year 2018–19.

Since the new rules surrounding taxation of dividends came into effect in April 2016, dividends in excess of the allowance, are subject to new tax rates - basic rate 7.5%, higher rate 32.5% and 38.1% for additional rate. The whole concept was introduced in an attempt to incentivise more people to reinvest their dividend income and to deter tax-minimising strategies.

Among those hardest hit will be small business owners. The reform in 2016 and imminent further reduction in the allowance have placed a significant impact on these owners who are basic-rate taxpayers and take a large portion of their annual remuneration as dividends.

Information is based on our understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation, are subject to change.

TAX-FREE ALLOWANCE
FOR
DIVIDEND INCOME
TO REDUCE
FROM **£5,000**
TO **£2,000**
FROM **APRIL 2018**

UK RETIREES INCREASINGLY RELIANT ON THE STATE PENSION

About 15 million people in the UK may be facing a bleak retirement according to a major new survey from the Financial Conduct Authority¹. It recently carried out research into the personal finances of just under 13,000 consumers in the UK.

The Financial Lives survey found that 31% of UK adults don't have private pension provision, meaning that they may have to rely very heavily on their state pension in retirement. The full state pension is currently £159.55 per week, but is only available at that rate to those who have a complete record of National Insurance contributions or credits.

Particularly concerning is the number of people aged over 50 who are not contributing to a pension, and have only a few years left before they reach their likely retirement date. When asked why this was, 32% said they thought it was too late to set up a pension, 26% said they were unable to afford it, and 12% said they would be relying instead on their partner's pension.

There's a gap between men and women too. Whilst 33% of men expect to retire on just the state pension, the figure rises to 53% for women.

The report highlights that many people find pensions very confusing, and have no idea what they will have to live on when they retire, and, of course, the big imponderable question

is how long they are likely to live. Few people who took part in the survey had a clear idea as to how much they realistically needed to save to build up a reasonable pension pot.

HOW TO GET TO GRIPS WITH YOUR PENSION

The sooner you can start saving into a pension, the more time your money has to benefit from compound interest and the growth in the value of the investments held in your pension plan. If you leave it too late, you will need to make significantly higher contributions just to achieve a reasonable standard of living in retirement.

Even small contributions made regularly can help boost your pension pot, and you'll get tax relief too. This means that for a basic rate tax payer, a contribution of £800 is topped up by a further £200 from HMRC which is added by your pension provider to your pension pot. Don't forget your workplace pension. If you save into a workplace pension, your employer should make contributions alongside yours, providing a welcome boost to your pension.

So, if you're self-employed, an employee, work part-time, run your own business or have accumulated pension pots with past employers, we can offer you advice about saving for a good pension. After all, retirement should be an enjoyable and fulfilling stage of life, not a time spent worrying about money.

A pension is a long term investment, the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

¹FCA, Financial Lives Survey, Oct 2017

HIGHLIGHTS FROM THE AUTUMN BUDGET

- Stamp duty abolished immediately for first-time buyers purchasing properties worth up to £300,000
- To help those in expensive areas, the first £300,000 of the cost of a maximum £500,000 purchase will be exempt from stamp duty, with the excess of up to £200,000 incurring 5% duty
- Not applicable in Scotland unless Scottish government decides to follow suit
- Pension lifetime allowance to increase in April 2018 to £1,030,000
- Higher-rate tax threshold to increase to £46,350 from April 2018 (Scotland may differ)
- ISA limit for 2018/19 to remain at £20,000
- JISA and CTF allowance will be uprated in line with CPI to £4,260 in 2018/19
- The National Living Wage and the National Minimum Wage will increase from April 2018
- The tax-free personal allowance will rise with inflation to £11,850 from April 2018
- An extra £3 billion to prepare for Brexit over the next two years
- £6.3 billion of new funding for the NHS in England
- Fuel duty will remain frozen for an eighth year
- A new railcard for those aged 26 to 30
- Business rates will switch to being increased by the Consumer Prices Index (CPI) two years earlier than planned
- Capital gains tax relief for overseas buyers of UK commercial property to be phased out

IF YOU WOULD LIKE ANY ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.

It is important to take professional advice before making any decision relating to your personal finances.

Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only.

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