Newsletter

Autumn 2013

MoneyMinutes

Winner Pensions Adviser of the Year 2012

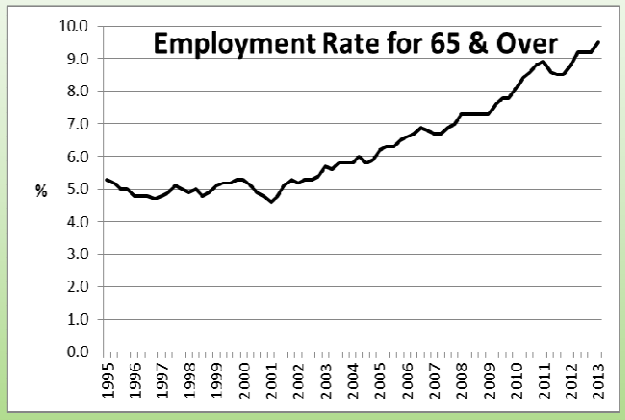
Roberts Clark

In this issue

Keep on Working?

New statistics show full retirement is being delayed for many.

65 is no ceiling
The latest labour market numbers from the Office for National Statistics (ONS), published in June, gained more press coverage than normal for such arcane data. They showed the unemployment rate (7.8%) to be unchanged over the previous quarter, but down 0.4% on a year earlier. Of more immediate interest to the headline writers was the news that the total number of people aged 65 and over in work had reached 1,024,000 – the first time the million barrier had been breached. That was a jump of almost 10% over the last 12 months and continues a long-term trend virtually since the start of the 'Noughties', as the graph above shows.



Not quite what they seem
The near 10% of the 65+ population who are working is distinctly different from their younger counterparts. Unsurprisingly there are nearly twice as many men as women – 13.1% of men aged 65+ are working against 6.8% of women. Earlier ONS data also show that two thirds of the 65+ workforce is in part-time employment (25% for the under-65s) and about a third is self-employed (against about 13%).

Why?
One simple reason for the increase in absolute numbers is that the 65+ population is itself increasing. The removal of 65 as a statutory retirement age will also have helped boost the pensioner workforce.

So far the changes to State Pension Age (SPA) are only affecting women: it will not be until 2019 that SPA starts its two year phased increase to 66 for all. Nevertheless, the ONS did note that the number of 'economically inactive' people who had retired before 65 has fallen by about 6% on a year earlier, a decline ONS ascribed to the increase in women's SPA.

The part-time/self-employed bias of the 65+ employment suggests that much of the effort is directed at topping up pension income. Although the generation retiring now is often considered to be the lucky one, blessed with long-term membership of final salary schemes, this is an over-simplification. Even in the last century, final salary pension schemes were confined primarily to larger employers.

ACTION
If you do not want to join the numbers working past age 65, then your retirement planning needs to be up to the task of replacing your earnings.

Ask for a review of your retirement planning today. The sooner you have a full picture of your retirement resources – which can mean much more than just pension arrangements - the better prepared you will be to take appropriate action.

Lifetime Allowance Protection For High Value Pensions

The Lifetime Allowance for pensions is being reduced again to £1.25m from £1.5m in April 2014. If you exceed the lifetime allowance, you are taxed on the excess each year.

For high earners with (or likely to achieve) large pension contributions of those that are in high value, salary related pension funds. You can **protect your pensions from this reduction.**

Fixed Protection 2014 will protect what you have so far up to the £1.5m level which is then inflation increased each year, but you cannot have further payments into pensions or benefits accrued in pensions.

Individual Protection, shocking though it is, HMRC has not yet published the rules, but they suggest online that you will be able protect what you have built up to date, with inflation and still pay into pensions.

ACTION: Contact us to discuss/ apply for both Fixed Protection 2014 and Individual Protection.

Elderly Care Fees Bill

The government has taken the first legislative steps to long-term care reform.

A slow path
Shortly after coming to power, the coalition government set up the Commission on Funding of Care and Support, headed by Andrew Dilnot, and asked it to make proposals on how the care should be financed. The move was by no means the first time a government had asked for an in depth report on the subject. For example, there was a Royal Commission on Long Term Care set up in 1997. Its report, like many that followed, was left on a shelf marked too difficult/ expensive.

Dilnot's care report, issued in July 2011, looked to be heading in the same direction until early this year. Then, in February, the Department of Health announced that it would be introducing reforms along the lines proposed by the Dilnot Commission, albeit with higher personal contributions.

The Care Bill Proposals
The government has now introduced the Care Bill, which will bring the new funding regime into being from April 2016, a year earlier than announced in February. The changes will only apply to England – the other constituent parts of the UK have their own rules, although only Scotland's are significantly different at present. The Bill will be an improvement on the current regime, but it could still result in you incurring heavy care costs before any state help appears:

Care Fees Will Still Cost £000s

There is to be a cap on total lifetime care costs of about £72,000 (in 2016 terms) that you could have to pay. The cap will be index-linked and does not cover 'general living costs'. You will have to meet these from your own pocket if you have the resources – a cost the government estimates at about £12,000 a year.

The cap is not calculated on what you pay for care, but on what the local authority responsible would pay. This means that in practice you are likely to spend much more than £72,000 before reaching the cap, unless you are willing to live in the most basic accommodation available.

If you have capital of more than around £17,000 you will be required to make a contribution to your care costs until either the cap is reached or your capital falls below £17,000. How the contribution will be calculated is not yet known – at present the basis is £1 a week for each £250 of capital.

If you have capital of over about £118,000 you will have to meet all your care costs until the cap is reached and your capital falls below that upper threshold.

ACTION
The new regime is still nearly three years away and important details remain to be clarified. However, with a Bill in front of Parliament, it is now reasonably certain changes will occur.

The limited financial assistance offered by the Care Bill's reforms is another reminder that your retirement planning should ideally make some provision for several years' care costs.

If I Die, Who Will Inherit My Estate?

No will? The State decides

If you do not have a valid will, then the distribution of your estate is subject to the laws of intestacy. These do not always do what you would expect. For example, if you die leaving a surviving spouse but no children, you might expect your widow(er) would receive everything, but that is not always the case. Under the intestacy rules for England and Wales, your surviving spouse would be entitled to:

- Your personal chattels;
- £450,000 outright; and
- One of half the residue of your estate outright.

The other 50% of the residue would go to your parent(s), or if they are not alive your siblings or, if they have also predeceased you, their offspring. In Northern Ireland the rules are very similar, but Scotland's are significantly different.

Turning expectations to reality
After much consultation, the Ministry of Justice has proposed a reform of the English and Welsh intestacy rules, so that the surviving spouse would inherit the whole estate if there are no children. The Ministry has also proposed revisions planned for the estate distribution when there are children involved.

The proposals were accompanied by a draft Inheritance and Trustees' Powers Bill, but it looks unlikely this will arrive in Parliament soon, as it was not mentioned in May's Queen's Speech.

ACTION
The proposed changes will, in the Ministry's view, "ensure the laws on intestacy become closer aligned with public expectations". But the fact remains, even once the Bill becomes law, the new intestacy regime will not replace the need for an up-to-date will, tailored to your wishes.

If you have not made a will, or you have not reviewed your will in the past few years, please make the effort. You cannot (re)write your will after the event!

Our Will Fees	Standard Will	Advanced Will - Including Inheritance Tax / Asset Protection Trusts
25% Discount - Non Face to Face Paid Up Front Today	£105	£180
15% Discount - Non Face to Face Paid On Completion	£119	£214
10% Discount - Face to Face Paid Up Front Today	£126	£216
Standard Fee - Face to Face Paid On Completion	£140	£240

Planning for University Fees

We are now past exam results season and many eighteen year olds have headed off for 'freshers' and their first university term.

Many parents may equally be biting their nails wondering if they can afford to fund their children going to the university of their choice.

The costs of a university education can be enormous - £57,000 is not an unreasonable estimate when one adds the maintenance/daily living costs of, say, £10,000 per annum to the tuition fees of up to £9,000 per annum in England.

Whilst there is an attractive loan facility in place to help university students with these costs, many parents are concerned that their children may be leaving university with a substantial debt that may take years to repay. Indeed, due to the addition of interest, the outstanding debt will increase for those with higher incomes in later life. And, of course, that outstanding debt may have a significant impact on another important financial issue for children – namely the desire to purchase a house.

In order to give the child financial assistance, the answer is for parents or grandparents to save. And the earlier the better. For many parents this will involve saving money on a regular basis.

Big Commitment To Their Future

And, when setting up a savings plan to provide for a child's university costs, it is worth bearing in mind that the more tax efficient the investment, the greater the potential return at the required date.

How much is needed?

The amount of cash needed to see a student through university can be substantial. Let's take a parent who wishes to advance fund for the university costs of their three-year old daughter. The need (in current terms) is to fund £57,000, i.e. £19,000 per annum (tuition fees of £9,000 per annum and living costs of (say) £10,000 per annum.) for 3 years, in 15 years' time. Based on a growth rate of 5% per annum net and ignoring tax on any encashed amounts, this would mean that a lump sum of £27,418 would need to be invested now. Alternatively, the parent could pay £215 per month. However, should costs increase by 2% per annum (not unrealistic), the cash needed in 15 years' time would increase to a whopping £76,714.

So what savings vehicle should be used to fund for this? For parents and grandparents, it will frequently be the case that regular saving is the only option so the starting point should therefore be:

Junior ISA or Adult ISAs, Qualifying regular life insurance saving plans, Unit trusts Investments trusts, OEICS and even pension plans.

Action: Plan When Children Are Young
Call us to discuss your needs in planning for the costs of a university education.

Inheritance Tax & Discretionary Trusts - All Change

HM Revenue and Customs has issued a revised Consultation Document on the simplification of the inheritance tax charges on discretionary trusts.

The main proposals are:

- to ignore any chargeable transfers made by the settlor in the 7 year period before the trust is created
- to give a trust a nil rate band equal to the current nil rate divided by the number of relevant property trusts created by the same settlor (i.e. an anti-fragmentation rule)
- to apply an IHT rate of 6% on the trust value over and above the available nil rate band.

If these changes are implemented – and that is a strong possibility – it will prevent settlors from avoiding inheritance tax by establishing a series of discretionary trusts (the so-called "Rysaffe planning").

It is thought that any changes are likely to apply from 6 April 2014 – irrespective of when the trusts were created. Therefore existing trusts would not be immune from any changes.

Any IHT planning that is being undertaken now with a discretionary trust clearly needs to take account of the likelihood of these changes. At the very least clients, for whom "Rysaffe planning" is being considered, should be made aware of the strong possibility of change.

In light of the likely changes, one form of plan that may become more attractive is the loan trust. The loan trust can represent effective planning for an investor who wishes to transfer value outside their taxable estate yet retain the right to some benefits without causing a gift with reservation. The loan trust is a plan founded on a loan from the settlor to a discretionary trust that the settlor has established. As the input into the trust is by way of an interest-free loan repayable on demand, there is no initial chargeable transfer.

Any ten-year periodic charges need to take account of the value of the trust property. These will take account of any outstanding loan to the settlor which will further reduce the value of the trust fund for IHT purposes.

The settlor can take repayment of their loan at any time. Loan repayments will be free of income tax and will not be subject to the inheritance tax "exit charges". In the meantime, any investment growth occurs outside of the settlor's taxable estate.

It is important, however, that in order to avoid problems settlors do make an effective disposal of the loan on their death. They should therefore take action so as to avoid the personal representatives forcing encashment of the single premium investment bond, which underlies the plan, to repay the loan on the settlor's death. With appropriate planning, the bond can stay in force and loan repayments can continue after the settlor's death.

Loan plans founded on discretionary trusts (i.e. can be paid to another) may therefore be least affected by the new rules proposed by HM Revenue and Customs.

Action
Contact us for more information on the loan trust we recommend.

Roberts Clark Independent Financial Solutions Limited

Midlands & North
Prosperity House
Water Street
Burntwood
Staffordshire
WS7 1AN

Tel: 01543 677444

London & South
Gainsborough House
Sheen Road
Richmond
Surrey
TW9 1AE

Tel: 020 8144 7620

MAKE *Money* - **SAVE** *Money* - **PAY LESS** *Tax*

Online 24 - 7
www.financialadvice.net

Our Timeline

2000 - Trading starts from a converted farm outbuilding. **2001** - Pioneered fee based financial advice with fixed cost quotes for all. **2002** - Need An Adviser.com goes live online - 1st Awards: Winner IFA Firm of the Year and Winner Best Use of New Media. **2003** - Treasury invites us for talks on our unique advice model.

2004 - Expansion and new head office in Staffordshire acquired. Represented now in London, Midlands, Scotland, Northern Ireland, France and Spain. **2005, 2006, 2007** - Finance mentors to BBC TV program. **2006** - Named in first ever Chartered Financial Planner listing and pioneered 'EU Passport' financial advice service to British expatriates in Spain. **2007** - Need An Adviser.com redesign and launch for blind, deaf, colour blind and dyslexic access.

2008 - 'EU Passport' financial advice service to British Expatriates in all 25 EU States. **2009/10** - New Associate Consultants recruited in Scotland, Northern Ireland, Spain and France + 4 more awards Winning IFA Firm of the Year and Online IFA of the Year.

2011 - Treasury Select Committee Lobby Group **Advisers United** launched by us to help lobby for fee based financial advice across the whole financial services industry. NeedAnAdviser for Mobile & Tablets goes live across all websites - Winner Online IFA of the Year and Runner-up IFA Firm of the Year.

2012 - Winner Pensions IFA of the Year + 2 other Awards. 5 New Websites Launched: AnnuityRatesAdvice.com, DivorceandPensions.com, ExpatAdvice.com. EquityRelease-Advice.com, PensionTransferAdvice.com with OnlineWillsShop.com going live in 2013.

2013 - **FinancialAdvice.net** replaces **NeedAnAdviser.com** - brand new design, features and navigation.

Life Cover Can Also Be Critical

Many clients appreciate the need to have life assurance to deliver a cash sum to a deceased's dependants at a crucial time. This is particularly important when the deceased is the main breadwinner in the family. By writing the policy subject to an appropriate trust:

- there will be a speedy payment of death benefits without waiting for probate/letters of administration; and
- the policy proceeds are likely to be free of inheritance tax (provided there is no gift with reservation of benefit.)

But how many people appreciate the need to have lifetime health benefits to protect against critical illness or the inability to work because of ill health? Far too few. From a financial standpoint, the occurrence of these events – especially in the case of serious illness – can have an equally catastrophic impact on the family's finances.

To address this and other "risk-based needs", some insurance policies offer a multitude of benefits – for example critical illness, income protection and death benefits.

The problem here is that if the policy needs to be written under trust, how can critical illness benefits/income protection benefits be paid to the life assured/proposer without a gift with reservation of benefit arising?

The answer is simple – a "split trust". By using a split trust, the life assured can keep back the right to critical illness and/or income protection benefits for their own benefit yet death benefits can be held in trust for the benefit of their beneficiaries.

Protect You and Your Loved Ones

Furthermore, HMRC has confirmed that, subject to the satisfaction of a couple of technical issues, there will be no gift with reservation for inheritance tax purposes with a split trust.

Action:

If you have financial commitments, such as a mortgage, and especially for those who are self-employed with no employer-sponsored cover – it is worth considering whether there is a need for more than just life cover.

If there is – and frequently this will be the case – an appropriate policy (delivering life assurance and critical illness cover) subject to a split trust may be the answer. Call us for more information.