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YOUR WINDOW ON FINANCIAL MATTERS

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WHY THE SELF-EMPLOYED NEED A PENSION NUDGE

Working for yourself has never been so popular. According to figures from the Office for National Statistics, there are around 4.8 million self-employed workers in the UK. Whilst many of this number are young people seizing the opportunity to go it alone, some are in their 50s, 60s and even 70s.

Being your own boss has many advantages, including the freedom to choose what type of work you do and when and where you do it. But it does mean that you need to make your own arrangements for your pension. Currently, four out of five self-employed people are approaching retirement with no pension provision in place.

MAKING PENSIONS A PRIORITY

If you're self-employed, the day-to-day pressures of working for yourself can put saving for retirement at the bottom of your 'to do' list. However, it's worth remembering that the new flat-rate state pension only adds up to around £8,000 a year, so if you want to enjoy a more financially-comfortable retirement, you will need to make your own pension arrangements too. The sooner you can start saving for a pension, the longer the money invested in your plan will have to grow.

It's worth considering the tax breaks currently available on pension savings. For example, you'll get tax relief on your contributions usually up to £40,000 a year. If you are a basic-rate taxpayer, when you pay £80 into your pension, £20 will be added by HMRC giving a total gross contribution of £100 added to your pension. Higher-rate taxpayers can apply for relief at their highest marginal rate. Being self-employed can mean that your income is unpredictable, however the good news is that you can carry forward any unused tax allowance from the last three tax years.

How much should you aim to put aside to ensure you build up an adequate pension? The simple answer is probably as much as you can reasonably afford. If you were in an employer scheme, your employer might typically contribute 4% and you might be contributing a further 3% yourself. Under auto-enrolment the full rates (from April 2019) will be 3% minimum employer contribution and 5% employee, plus tax relief.

Everyone's circumstances differ, so it makes sense to get advice on the level of contributions you can make and the likely returns they would produce for you.

EXPLORING THE BENEFITS OF SAVING REGULARLY

As an investor, sometimes it's hard to cut through the noise of bygone or upcoming political and economic events, we've certainly had our fair share lately. There are always investment opportunities, even in times of uncertainty.

The benefits of saving regularly make a compelling long-term investment story. Not only does regular investment suit some people's income streams but it also instils a great discipline. Committing to investing a small, affordable amount each month helps build future financial security.

Investing in a pension or a tax-efficient product such as an ISA can provide an opportunity to kick start a regular investment discipline.

Phased investment, such as pound cost averaging, can smooth returns over the longer term, and can reduce the impact of market timing and volatility on purchase prices.

This strategy enables the investor to average-out the peaks and troughs of the share or unit price, smoothing out purchase prices because of the regular contribution throughout the varying market conditions.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

WHAT THE ELECTION RESULT MIGHT MEAN FOR YOUR MONEY

The election result was a major surprise in many quarters. On the news that the UK had a hung parliament, the FTSE100 rose whilst the pound fell back. Theresa May was left looking for political allies to form a government. An alliance was quickly proposed with Northern Ireland's Democratic Unionist Party, meaning that she could remain in Downing Street, but what now?

It looks likely that many policies that would have been forthcoming if the government had achieved a stronger mandate may now fall by the wayside. These could include the so-called "dementia" tax proposals that were criticised during the campaign and the removal of the state pension triple lock. Further raising of the state pension age could also be put on hold, being too controversial for a government with a slender majority to tackle.

Measures that didn't make it into the Finance Bill once the election had been called will need to be resolved. These include the reduction in the tax-free dividend allowance which was due to fall from £5,000 to £2,000 with effect from next April and the Money Purchase Annual Allowance for those already taking money from their pension but wanting to continue to save, which was due to reduce from £10,000 to £4,000.

Clearly, there are many problems that need urgent attention such as tackling the lack of affordable housing for young people, the continuing funding crisis in the NHS and the escalating requirement for social care provision for the elderly. However, pressing as all these issues are, the election was ostensibly called to deal with one major thorny problem, Brexit.

With both major parties supporting Brexit throughout the election, it will go ahead. The Democratic Unionist Party is understandably keen to support a 'softer' Brexit to secure open border arrangement with the Irish Republic.

For now, sitting tight and keeping focused on your long-term financial objectives is arguably the best strategy to adopt.

PARENTS ARE MORE LIKELY TO INSURE THEIR POSSESSIONS THAN THEIR HEALTH

Whilst 75% of UK families have home contents insurance, only 13% have income protection insurance for themselves or their partner.

Yet the data gathered in a recent survey[1] reveals that 43% of parents are concerned that they or a member of their family could develop a serious illness. More than one in four UK families say they have experienced a loss of income due to ill-health, serious illness or death of a long-term partner. Events like these can cause severe financial problems that can be difficult to overcome.

HOW TO BE FINANCIALLY MORE RESILIENT

Being a parent brings huge financial responsibility, so it can really pay to have a plan in place that would provide protection if the family experienced one of life's unexpected and unwanted events.

Coping with a long-term illness or injury can be stressful enough without the added pressure of money worries. Taking out an income protection plan will mean that there are funds available when they are needed most.

These policies pay out if you're not able to work and earn money due to illness or injury and, in some cases, forced unemployment. They provide valuable protection for breadwinners, the self-employed and employees who receive limited or no sick pay from their employers.

TAX-FREE PAYMENTS

The maximum amount you can claim is usually your net monthly earnings after tax, minus any state benefits you may receive. This could be around 65% of your gross earnings and is usually tax-free. Policies pay out after a deferred period, typically between four and 52 weeks, and can continue until you return to work or the policy term comes to an end.

There's a wide range of policies and benefits available; we offer advice that will help you make the right choice for your family circumstances.

[1] Aviva, 2017

BE AWARE – NEW ONLINE SCAMS REPORTED

Reports from Action Fraud, the UK's national fraud and cybercrime reporting centre, show that the number falling victim to holiday fraud has soared by a fifth. In 2016, 5,826 cases were reported, up nearly 20% on the previous year.

Websites offering non-existent airline tickets, online accommodation and timeshares were amongst the types of scams reported. Fraudsters are cashing in on the high summer demand for flights and accommodation, and often offer very cheap deals that appear, and sadly turn out to be, too good to be true. The services promised don't materialise, leaving travellers out of pocket, with no holiday, flights or accommodation.

Victims are asked to pay by cash or bank transfer, as the thieves claim these are the only payment methods that are protected by their bogus insurance schemes. The average amount lost is £1,200.

BOOKING YOUR HOLIDAY SAFELY

When booking, it pays to do your research thoroughly. Check whether the company is a member of a registered trade body. Never pay directly into a private individual's bank account. Paying by direct bank transfer is like paying by cash, and means that the money is often untraceable and not refundable. Paying by credit or debit card is safer. Check all the paperwork you receive carefully, especially any small print.

NEW SMISHING SCAM

Victims are reporting receiving text messages purporting to come from their bank, informing them that new direct debits have been set up. They are advised to ring the number provided if they haven't authorised these. The number provided in the text isn't genuine and if the victim calls, they are tricked into giving away their bank details, meaning that the scammers can access and use their bank account to make fraudulent transfers. To avoid falling victim to these scams, always ring your bank using a number from your bank statement or other secure source.

THE 17 MILLION 'SANDWICH GENERATION'

New research from a major insurer[1] shows that although as a nation we are happier than we were a few years ago, the picture differs markedly by age group.

Those in their 40s and 50s are likely to be less happy and more anxious. This age bracket often faces a variety of financial challenges such as raising and supporting their families, whilst at the same time looking after older family members too. For this reason, they have been dubbed 'the sandwich generation'.

FACING THE FUTURE

Although the sandwich generation earns more than other age brackets, it tends to save less. In many cases, those aged 45 to 54 could be looking at just 15 more years of employment before retirement, so it's vital to keep track of how their pension pots are doing and save as much as possible to ensure a comfortable retirement. At the same time, many parents of this age are facing the prospects of their children going to university and needing help with the fees, or older children wanting money for a deposit for a first home. Whilst many are hoping that their own parents will leave them a reasonable inheritance, with life expectancy increasing and care costs rising year on year, this is by no means certain.

TAKING ADVICE PAYS

If you're part of the sandwich generation there may be lots of calls on both your time and your cash, but it's important not to lose sight of your own financial security. A financial review will help put things in perspective and ensure you have a realistic plan in place for the future. It's important to remember that there are many tax-efficient ways to save and invest; even small sums saved regularly can make a real difference.

[1] Aviva, 2017

REMARRIAGE – WHY YOU NEED TO UPDATE YOUR WILL

If you want to be sure that your wishes concerning your money and possessions will be met when you die, then it's vital to have an up-to-date Will in place.

NOT SAVING ENOUGH

Drawing up a Will is a straightforward process and prevents disputes between relatives, enables you to pass your assets on to future generations and can help you cut the Inheritance Tax bill on your estate after your death. If you have already been married and are embarking on a second or subsequent marriage, then it's important to think about the terms of your Will and how you'd like your assets to be distributed now that your circumstances have changed.

THE LAW IN ENGLAND AND WALES

In England and Wales, a Will is automatically revoked on marriage (unless it is made specifically in anticipation of marriage). This means that when you remarry you no longer have a valid Will in place. So, if you die, your estate will be dealt with under the rules of intestacy.

Under these rules, the estate of anyone who dies without a Will who is in a marriage or civil partnership where there are no children, passes entirely to the surviving spouse or civil partner and other relatives will receive nothing.

If the spouse or civil partner dies without a Will and there are children of that relationship, a surviving spouse or civil partner will receive £250,000, plus half of the balance absolutely, with the remainder going to the children.

THE LAW IN SCOTLAND

In Scotland, marriage does not invalidate a Will as it does in England and Wales. This means that making a new Will is essential if you get married again; if not, your former spouse could inherit if that was what your old Will stipulated. Distributions under intestacy also differ in Scotland, where The Succession (Scotland) Act 2016 has introduced a number of other changes upon which advice from a Scottish solicitor may be needed.

POINTS TO CONSIDER

Following remarriage, thousands of UK households are now made up of blended families, often comprising children belonging to different partners, grown-up offspring, new babies, aunties, uncles and multiple sets of grandparents. If you're part of an extended family you will need to consider carefully how you would like your estate to be distributed on your death.

If you were to leave your estate to your new spouse, it automatically becomes part of their assets. So, if you want to ensure your children from a previous marriage benefit, then you will need to write your Will accordingly. Many people in this position find that the best way to proceed is to create a trust in their Will allowing the spouse to use the assets during their lifetime, with the assets distributed amongst the children on their death.

Planning your estate can be a complex matter, so taking legal advice is essential.

THE TROUBLE WITH THE TRIPLE LOCK

The "triple lock" was introduced in 2010 by the coalition government. It's the government's guarantee that the state pension will increase each year by whichever is the greatest of CPI inflation, average earnings or 2.5%. Its future looks slightly more certain following the Conservative pact with the DUP.

With an ageing population, the cost of retaining this promise represents a heavy financial burden and many believe that future governments will have to revise it. The triple lock is estimated to cost £45 billion over the next 15 years.

In his report on the state pension John Cridland, former Director General of the CBI, recommended that it should be scrapped. Others advocate a "double lock" that drops the link to the 2.5% and instead uses the higher of earnings or inflation. However, the Institute for Fiscal Studies has said that even the double lock would represent an increasingly heavy financial burden.

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation, are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency. Taxation depends on individual circumstances as well as tax law and HMRC practice which can change.

The information contained within this newsletter is for information only purposes and does not constitute financial advice.