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YOUR WINDOW ON FINANCIAL MATTERS

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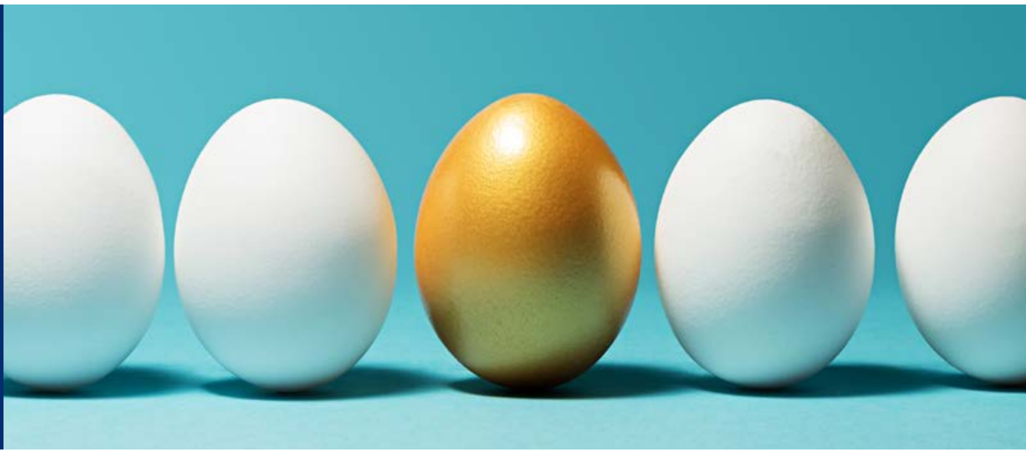

INVESTING FOR INCOME IN RETIREMENT

Today, savers reaching retirement have more choices than ever before about how they use their pension pots to fund their retirement. Instead of simply using their pension money to buy an annuity that provides a guaranteed income for life, many choose to invest throughout their retirement years. The challenge this brings is to deliver a continuing income, while ensuring they don't run out of funds later in life.

INCOME DRAWDOWN

A growing number of retirees are choosing to go into income drawdown, where their pension pot is invested and they take an income from it. Those who choose to invest will need to consider some practical points, such as whether they would like a fixed amount each month, or prefer to access ad hoc amounts as and when they need them. It's also important for investors to consider how much risk they are happy to take with their money.

RISK

Investing means introducing risk to your money. Being prepared to assume a certain degree of risk can help you grow your cash. Conversely, there is of course the possibility that you could lose some, or all, of your money. Stock market performance is unpredictable. Investing is all about adopting a longer-term view, diversifying risk, and giving your money time to grow.

DIVERSIFICATION

The key for drawdown investors is to build a diversified portfolio of funds which aims to produce a reliable dividend yield, without taking undue amounts of risk. In practical terms, this means investing across a range of sectors and stock markets to spread the risk. That way, a poorly-performing investment should not greatly damage your overall returns, and your money has greater opportunities for growth. A portfolio that includes a combination of different assets has been shown historically to perform better than one that is only invested in one type of asset.

ASSET CLASSES

The process of deciding where to invest your money is referred to as asset allocation. The main categories of assets are cash, equities, bonds and property, and each has its own risk profile.

KNOW YOUR NUMBERS FOR THE NEW TAX YEAR

Tax-free Savings for Individuals

ISA allowance	**£20,000**
Junior ISA allowance	**£4,260**
Lifetime ISA (counts against £20,000 ISA Allowance)	**£4,000**
Help to Buy ISA (you can contribute up to £200 per month*)	**£2,400**

*Additional £1000 in 1 year

Once your portfolio is established, it's important to schedule regular reviews so that your investments can, if necessary, be altered or rebalanced in response to economic and market forces.

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.

TAX TRAPS THE BANK OF MUM AND DAD SHOULD AVOID

With the Bank of Mum and Dad regularly helping to finance property transactions for their offspring, it's important for parents to be aware of the tax consequences of doing so.

INHERITANCE TAX (IHT)

Although it's tempting to give children large amounts of cash for a home, this requires careful thought and planning. IHT is a tax payable on money, savings or any other assets you pass on when you die, and potentially on some gifts you make during your lifetime.

Giving away more than your annual IHT exemption of £3,000 (that's in total, not per person) means that if you die within seven years of making the gift, your estate could be liable for inheritance tax if its value exceeds the individual threshold of £325,000. If the estate is liable for IHT, it is payable at 40% on the excess.

However, the year your child gets married you can give them an extra £5,000. In certain circumstances, you can make gifts out of your regular income, but you'd need to show that making these gifts doesn't affect your normal standard of living, so taking professional advice is essential.

INCOME TAX

If you lend your children the money, then if they pay you interest, this is taxable.

CAPITAL GAINS TAX (CGT)

Parents buy a house with their child, and don't live with them, and then when the property is sold, they could be liable for CGT. The property will not count as the parents' main residence for tax purposes, and so CGT is payable on their part of the proceeds on sale.

ADDITIONAL STAMP DUTY

Helping out with the deposit for a child's property may not pose a problem, but part-owning can mean additional stamp duty is payable. If parents buy a property for their child and are named on the deeds and already own a home, this purchase counts as a second home

and may be liable to stamp duty at the higher rate.

The Financial Conduct Authority does not regulate some forms of Taxation advice.

MILLIONS RELYING ON JUST £7K IN RETIREMENT

According to research[1] carried out for the Pensions Policy Institute, many pensioners are relying on their state pension for three-quarters of their income.

It can come as a shock to many that their state pension entitlement increased to £164.35 per week from April 2018, but only for those who have a complete record of National Insurance contributions, meaning that some people will receive less. On top of that, the government announced last July that the state pension age would be increased to 68 between 2037 and 2039.

WHY WE ALL NEED TO PLAN AHEAD

We'd all like to look forward to a comfortable retirement, but sadly many people don't realise until they come to retire that they don't have sufficient money saved to enjoy life to the full. With the onus on all of us to provide for our later years, it pays to make time to check up on how much you'll have to live on in retirement. If there's likely to be a shortfall in your savings, the earlier you spot it, the easier it should be to fix.

If you find yourself facing a likely shortfall, there are various things you can do to address it. The longer you have before retirement, the more time you'll have to boost your pension pot. If you're employed, and haven't joined your workplace scheme, you should think about doing so. By the end of 2018, all employers will have to provide a pension that they, as well as you, contribute to. If you're already a member of a scheme, you could consider increasing your contributions to improve your pension outlook, or take out a personal pension plan.

More and more people are realising that it's never too late to act on their retirement planning, or too early to put their pension arrangements on track. If it's been a while since you assessed your pension plans, why not contact us for a review?

[1] Pensions Policy Institute, 2018

CASH FLOW PLANNING – YOUR ROAD MAP FOR THE FUTURE

Many people spend their working lives planning and saving for their later years. However, when they reach retirement they can be unsure as to how best to allocate their cash. This is where cash flow planning can really help.

WHY IT HELPS TO GET A FORECAST

A cash flow forecast will give you a clear picture of what your future income and capital needs are likely to be. It can help you take the right decisions about timing your retirement, like calculating your likely income depending on whether you choose to retire early or late.

At retirement, it's not unusual for people to find themselves holding large amounts of cash, especially if they have chosen to take a tax-free lump sum from the pension pot. This is often a short-term measure before they buy a property or make investments.

A cash flow forecast can help you decide how much you have available to invest. It can also help you see what the effects of inflation might be, and what income you'll be able to take at different rates of investment return.

A FORECAST FOR YOUR FUTURE

A cash flow forecast is not a once-and-for-all exercise; it's a living document that should be regularly revisited to ensure that it reflects your changing situation. It can help you take a range of lifestyle planning decisions, for instance whether it would be financially beneficial to downsize at retirement, or help you assess when and how much money you can afford to pass on to your family.

It can have a valuable role to play in tax planning, enabling you to put in place plans to reduce the Inheritance Tax that might otherwise be payable on your estate when you die. Mapping out your future cash flow also means you're better able to plan for later life expenditure like the cost of residential or nursing care. We can help you assess your cash flow needs and make the right decisions for your wealth.

MORE WOMEN ARE WORKING INTO THEIR 70s

In yet another sign that retirement is becoming an increasingly fluid concept, figures from the Office for National Statistics show that the number of women working past the age of 70 has doubled in the last four years.

The abolition of the compulsory retirement age in 2011 has meant that many more workers, men and women, are choosing to work on past their normal retirement date. For some, it's the desire to keep physically and mentally active into their later years, for others the freedom to work for longer provides a welcome boost to their retirement income. With increased life expectancy, many more people are set to live active lives well into their eighties.

However, as many women do not get the full state pension because they have gaps in their National Insurance contribution records, often brought about by time off to raise a family or look after elderly relatives, this can also be an economic necessity to supplement small pensions.

PLANNING AHEAD GIVES OPTIONS

What is clear for both men and women is that it's important to plan and save for retirement as early as possible in your working life. That way, when the time nears, the options of retiring, working part-time, changing career or doing voluntary work are all open to you.

It's worth asking yourself:

- When do I want to retire? What is my state pension date?
- How much will I need in income and savings to fund my lifestyle in retirement?
- Am I currently saving enough? What will my state pension be?

Retirement planning is something we should all take very seriously. With encouragement on offer in the form of tax relief on pension contributions, and the government's major push to get workers into pension schemes via auto-enrolment, there are more opportunities than ever before to make provision for retirement.

TIME TO TEMPER YOUR RETURN EXPECTATIONS?

Over the last eight years, the stock market has been pretty generous, providing many investors with a period of relatively strong rates of return. Some experts are warning that the next few years are likely to be less rewarding and that investor expectations need to be tempered in readiness for a period of lower average investment returns.

Last year was a good one for many investors because despite a host of issues, including rising interest rates, political unrest and uncertainties surrounding Brexit, markets generally enjoyed buoyant returns. This optimism continued at the start of this year, with strong gains seeing equity indices around the world soar. This run was halted at the end of January and the market subsequently witnessed a correction with indices retreating from record highs.

The catalyst for the sell-off was a US employment report showing stronger than expected jobs growth and an increase in wage levels. Rather than seeing the news as a positive sign that reduced the possibility of a global recession, the data was viewed with apprehension amid fears of rising inflation and impending monetary tightening.

SOMETHING'S GOT TO GIVE

With stock markets having recently risen to all-time highs, some of the caution regarding future returns relates to equities being relatively expensive. Even after the recent sell-off, equity markets could still be susceptible to potentially sharp falls. While many still see scope for further stock market growth, the overriding message does now seem to centre on seeking more realistic rewards.

Macroeconomic conditions around the world seem to have improved in recent months. The latter half of 2017 saw a noticeable pick-up in the pace of global economic growth. This improvement in economic prospects is reflected in the latest forecasts published by the International Monetary Fund (IMF) which suggest that economic activity continues to strengthen across the world.

With stronger economic growth comes the prospect of higher interest rates and inflation. The expectation that monetary policy is set to be tightened at a quicker pace and to a greater extent than previously envisaged has begun to weigh on market sentiment.

UNCERTAINTIES REMAIN, BUT SO DO OPPORTUNITIES

Even though concerns exist, so too do investment opportunities. The value of financial advice includes clearly outlining and achieving your financial objectives and identifying investment opportunities, with the aim of enhancing returns. We aim to manage the inherent volatility of markets, so your savings have the best chance of growing for the future – without giving you sleepless nights in the process and whilst ensuring you aren't taking too much, or too little risk, with your money.

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MORE PEOPLE FEEL POSITIVE ABOUT THEIR PERSONAL FINANCES

A poll carried out by Opinium in January found that despite concerns over major issues such as Brexit, more Britons report feeling positive about their personal finances than they did last year. The survey found that workers think that their disposable incomes will increase by 3% on average, from £349 a month to £360 a month.

Spending priorities for this year include holidays (39%), house renovations (16%), and paying down personal debt (14%). However, savings are important too, with respondents expecting to save more at an average of £221 per month, up 13% on last year.

For savers, an ISA is a simple, tax-free way to save or invest. The advantage of these types of account is that you don't pay tax on the interest or dividends you earn, or the increase in value of your investments. There are several different types of ISA available, designed to help you save for the important things in life like holidays, a deposit for a home, or for your later years. Why not contact us for advice on choosing the one that's right for you?

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