CSC Financial Ltd

CSC Financial Ltd
14 Albany Road,
Rayleigh, Essex
SS6 8TE

Tel: 07584 438968 / 01268 776680
Email: enquiries@csc-financial.co.uk
www.csc-financial.co.uk

YOUR FINANCE *MATTERS*

Issue 11 Q2 2019

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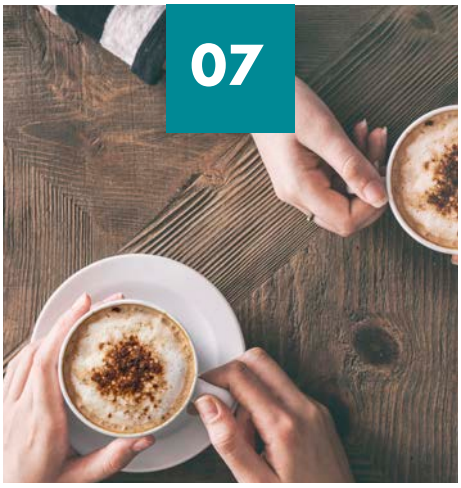


ARE THE BEST THINGS IN LIFE REALLY FREE?

Recent research[1] shows that many of life's most enjoyable events come with a hefty price tag. The research calculates that going to university, buying a house, getting married, having two children and then retiring could, on average, add up to £566,659 over the course of a lifetime. This is a huge sum and illustrates the need for careful planning.

Separating 'wants' from 'needs'

Many people believe that the key to meeting financial goals is to identify what is most important to you. For instance, while you might want to eat out several times a week; affording a home of your own or enjoying a comfortable retirement, might mean cutting down on these nights out.

The problem is that we can all find ourselves trying to save for multiple goals at once and this can feel like an almost impossible task. This is where taking financial advice can really help. We will be able to assist you in putting together a financial plan that addresses both your short and longer-term financial needs.

Getting the savings habit

As a starting point, everyone needs to have some money put away for emergencies like an unexpected bill. This means having some cash that can be accessed quickly. Then it makes sense to think about the bigger and more exciting things in life, and have money saved that steadily builds up for the future. Tax-efficient accounts like ISAs can really help here, and you can invest lump sums or make regular monthly contributions.

Whatever your age, plan for retirement

You should certainly think about your pension savings, even if retirement seems light years away, it will come around quickly enough, and the more you can save now, the longer your money has to grow. If you think about it, failing to save for retirement might mean you're struggling to afford even the basics in years to come.

[1]Royal London, 2019

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.

Department for Work and Pensions (DWP) report on automatic enrolment

This research[2] confirms that the pension message is being heard. The amount of money going into pensions through auto enrolment is up over £4bn in a year, showing that the increase in contribution rates hasn't put people off saving for their retirement.

Women's retirement age rising faster than men's

On average women now work until they are 64, a jump of 3.3 years since 1989, partly due to the controversial rise in women's State Pension age currently under way. Exit from the labour force for men comes at around 65. Figures from the DWP[3] show that 10.4% of individuals are working beyond age 65, double the number in 2000; since 2011, employers have not generally been allowed to force retirement at a specific age.

35 years of the FTSE 100

Research[4] shows that £100 invested in the FTSE 100 index at its inception in 1984 would be worth more than £1,700 now (without adjusting for the effect of inflation) if dividend income had been reinvested. The same £100 left in an easy-access savings account over the same time period would be worth just £340.

[2]DWP, Dec 2018 and [3]Oct 2018
[4]Salary Finance, Nov 2018

PENSIONS: TAPERED ANNUAL ALLOWANCE BREACHES DOUBLE

For most people, the Annual Allowance for pension contributions on which tax relief is available is £40,000. However, for those with an annual income of more than £150,000 this figure is tapered.

The taper means that for high-income individuals their annual allowance is reduced by £1 for every £2 of adjusted income above £150,000 to a minimum allowance of £10,000. Those affected can choose to reduce the pension contributions made by them or their employers, or face paying an annual charge.

In the 2015–16 tax year, 8,890 individuals reported breaching the allowance and paid £19,933 in average excess. By the following year, this figure had doubled to 18,930 reported cases paying an average charge of £29,635[5].

The application of the taper rules can be complex, so it pays to take advice.

[5]HMRC, FOIA request

Planning your pension in the new world of work

Not long ago, work meant a 9-to-5 role, probably spent with the same employer and ending abruptly when you reached retirement age. Things are very different today. People tend to move jobs more frequently, and many more of us are self-employed, thanks to the rise of the gig economy.

Those past State Pension age are much more likely to still be in employment, perhaps choosing to work fewer hours or even embark on a new career. Equally, the change in pension rules that came into effect in 2015 means that if you want to retire at 55, you can do so. Thanks also to strides in modern medicine, many can look forward to a retirement that could last a good few decades.

Taking control of your future

Whatever your stage of working life, we believe it's never been as important as it is now, to take professional advice about your pension. To enjoy a comfortable retirement, especially if you plan to retire early, you need to have saved enough to make this a reality. The tax breaks available on pension contributions (subject to the Annual and Lifetime Allowances) act as a clear incentive to save as much as you can comfortably afford.

Know your numbers

Reviewing your pension arrangements with us will help keep your plans on track, as will drawing up a budget of your likely income needs in retirement. Getting a State Pension forecast makes sense too.

Plans to match your needs

Pension plans come in various forms to suit the needs of different types of worker, from the basic State Pension to Self-Invested Personal Pensions (SIPPs), personal or private pensions, and workplace pensions schemes, to name but a few.

So, whether 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. After all, your retirement should be a time to enjoy life, not a time spent worrying about money.

PENSIONERS MISSING OUT ON STATE BENEFITS

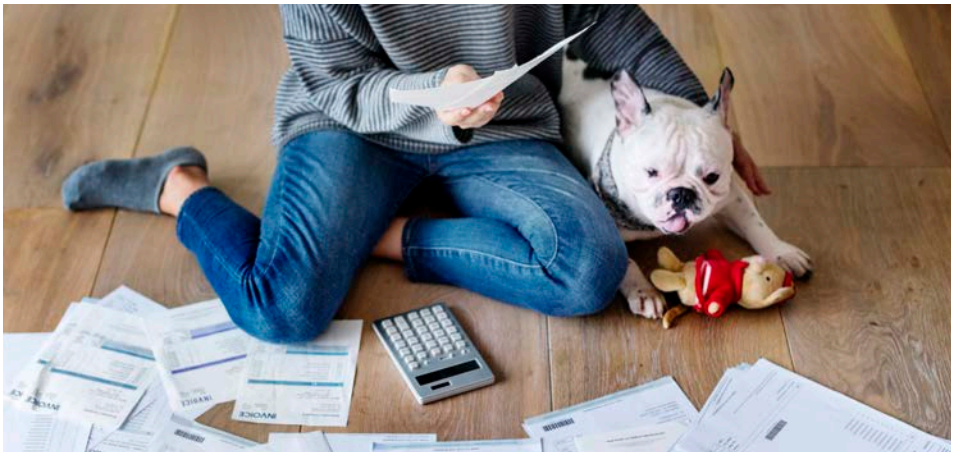
A study conducted over nine years shows that seven in ten households with pensioners aren't claiming all the benefits they are entitled to. Researchers calculated that the average sum unclaimed is £1,058[6], the highest figure recorded in the last five years.

Three key benefits regularly overlooked are Guarantee Credit, Savings Credit and Council Tax Reduction. Council Tax Reduction is managed by local authorities.

[6]Just, 2019

Financial mistakes even the experts can make

We're all human, lead increasingly busy lives, and can be prone to making mistakes. When it comes to our money, it can be easy to lose track of the big picture; here are just a few financial mistakes we can all avoid.



Not keeping an eye on statements
Checking your bank and credit card statements regularly will help you budget better, get rid of expenditure you no longer need, and alert you to any signs of fraud.

Allowing your insurance policies to automatically renew
Although it can seem a chore, it makes sense to keep your insurance policies under regular review to ensure that you're paying a fair price and have the cover you need.

Letting your mortgage drift
If your fixed-rate deal is nearing its end or has already ended, then it makes sense to ask us to recommend a new one. When your deal ends, you will generally find your lender moves you to their Standard Variable Rate, which could mean you'll end up paying far more than you need to each month.

Not seeking professional advice about retirement
With many of us set to enjoy several decades in retirement, it's important to get the right advice about saving enough money during our working lives. When it's time to access our pension pots, we can all use professional help to make sure that our money lasts as long as we do.

Not thinking ahead
Putting a Lasting Power of Attorney in place and making a Will are important steps to safeguard family finances. They provide the valuable peace of mind of knowing that your wishes will be followed, and your family provided for when you are no longer able to.

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.

Will writing and Lasting Powers of Attorney are not regulated by the Financial Conduct Authority (FCA).

Scams update – new warnings issued

January saw the introduction of the long-awaited ban on nuisance calls about pensions. Those who flout the cold-calling ban face a potential fine of £500,000. According to data released by the FCA[7] (compiled by Action Fraud), there were £197m of reported losses last year.

Pension scams can have devastating outcomes, with fraudsters conning victims out of thousands of pounds worth of savings. Scammers stole an average of £29,000 per victim last year, according to data compiled by the Financial Conduct Authority. The total figure is based on frauds reported; it's thought the actual sum could be substantially higher as many people feel ashamed of being conned and don't report their loss.

What to look out for

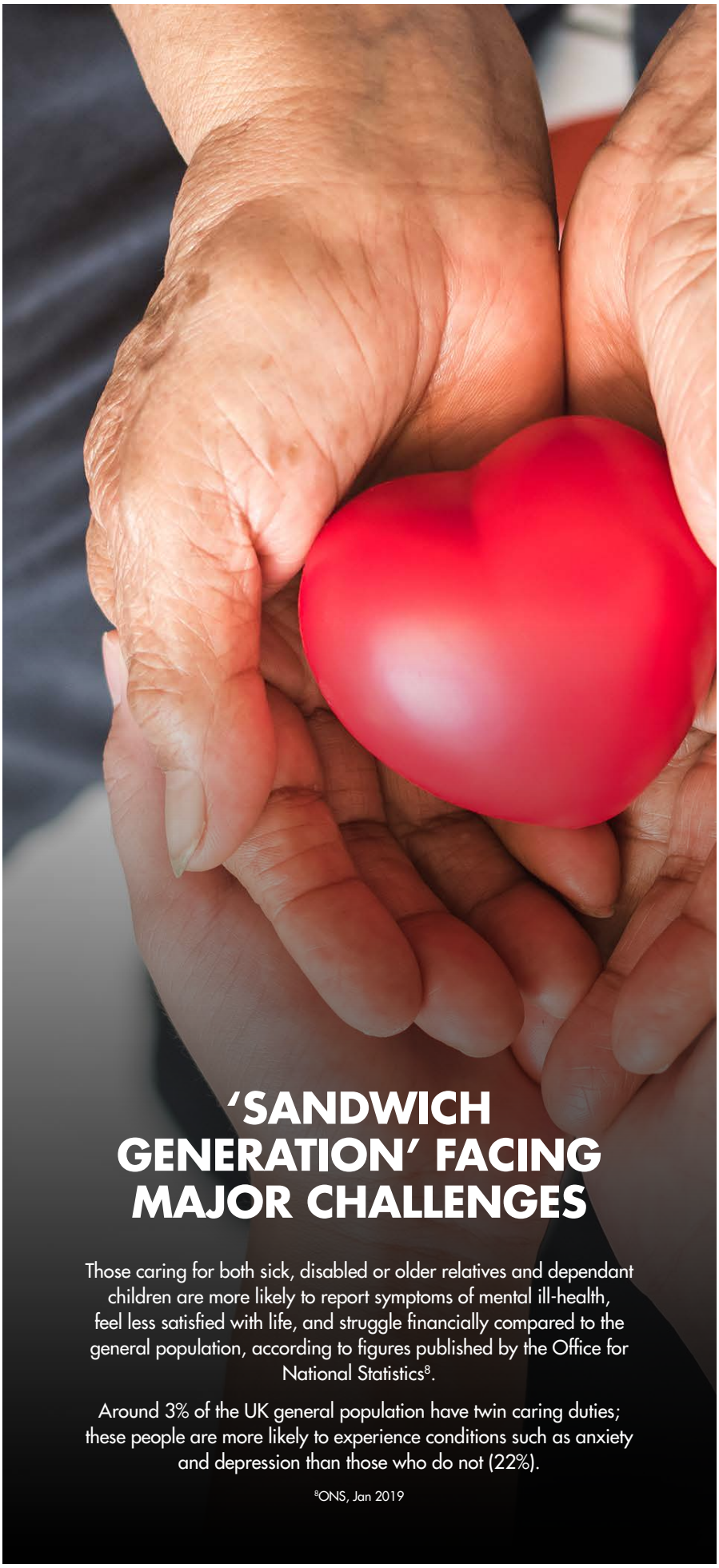
Members of the public are still being urged to stay alert, as cold-calling is only one of the ways that scammers use to search out their victims. Pensions remain a tempting target for fraudsters, and some will inevitably look to find a way around the ban or simply ignore it altogether.

Authorised push payment scams

These involve fraudsters convincing victims to move money from their bank accounts into the fraudster's account. Often the caller impersonates a bank employee and requests that you move money to another account for your own safety. The caller can be very convincing and will sound as if they are genuinely trying to help you. In many instances victims have been persuaded to divulge their pins, usernames and passwords, something that your bank would never ask you to do.

There have been appeals for government to work with the finance industry to put additional safeguards in place; in the meantime, everyone needs to redouble their efforts to protect their personal financial data.

[7]FCA, Feb 2019



'SANDWICH GENERATION' FACING MAJOR CHALLENGES

Those caring for both sick, disabled or older relatives and dependant children are more likely to report symptoms of mental ill-health, feel less satisfied with life, and struggle financially compared to the general population, according to figures published by the Office for National Statistics[8].

Around 3% of the UK general population have twin caring duties; these people are more likely to experience conditions such as anxiety and depression than those who do not (22%).

[8]ONS, Jan 2019

Money – why it's good to talk

Do you discuss your finances with your nearest and dearest? In many families, having a frank discussion about wealth still remains a taboo.

However, with younger people needing to learn the money management skills that will stand them in good stead throughout their lives, and the older generation often requiring help with their finances in their later years, it's important for children and parents of any age to be able to communicate effectively about family wealth issues.

Overcoming the barriers

Some families find it difficult to discuss wealth. It's not uncommon even today for married couples not to know how much money their spouse earns. Well-off parents can sometimes shy away from letting their children know too much about their wealth, in an effort to prevent them becoming complacent about what they might inherit in the years to come and losing their work ethic. Older people don't always like to dwell too much on the future, finding it difficult and distressing to raise issues like death and inheritance with their loved ones.

However, taking the time to discuss important financial matters with other family members will help to ensure that the right financial plans are in place to safeguard family interests.

Here to help

Openly discussing wealth matters with your family and us can help establish priorities, clarify goals and ensure that plans are put in place to support each generation according to their financial needs.

We are increasingly being asked to be part of these conversations, not least because we offer sound practical advice in a dispassionate manner. If you'd like us to help your family, then please do get in touch.

...taking the time to discuss important financial matters with other family members will help to ensure that the right financial plans are in place to safeguard family interests

Women risk becoming pension poor on divorce

There are no hard and fast rules governing how assets should be divided when a couple divorces, although there is a broad starting point of 50:50. However, new research[9] shows that women who divorce can often end up with less than half the property wealth of married couples and less than one-third of the average pension wealth. The study showed that the average divorced woman over 50 has pension wealth of £131,000 compared with £454,000 for the average married couple.

Dividing pension assets

Many people think that on divorce a pension solely belongs to the party who is named on the policy, but that's not the case. A pension has to be considered along with other financial assets owned by the couple when reaching a financial settlement. Pension assets can be apportioned in various ways:

- offsetting the value of one spouse's fund by transferring a lump sum, or other assets, to the other spouse
- splitting the pension fund into two separate pensions, or
- arranging that when a pension comes to be paid, a portion goes to the other spouse.

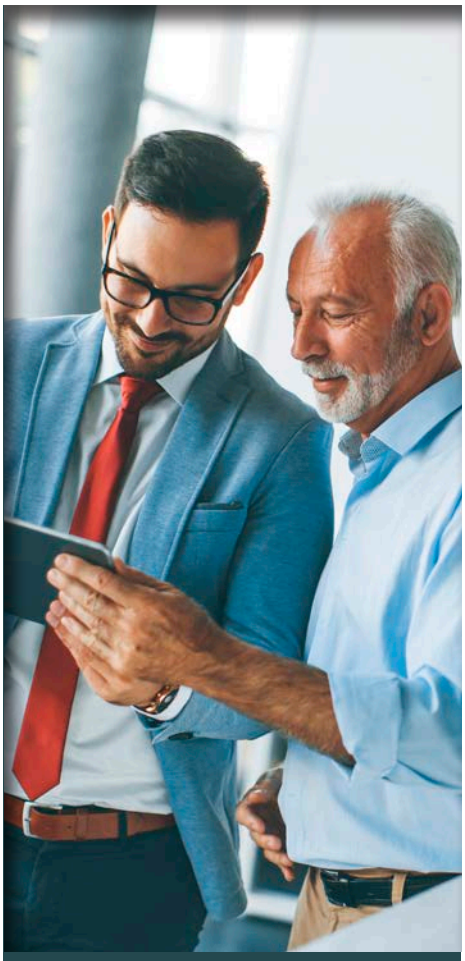
Getting the right advice at the right time

The findings underline the need to get advice when considering how marital assets should be divided on divorce. A pension pot can often represent a substantial sum of money and needs to be considered alongside other major assets such as property.

Post-divorce, it makes sense to discuss your revised circumstances with us. You'll need to reconsider your financial goals, and review your mortgage, pension and investment plans, plus remake your Will. Reorganising your finances can represent a major step in moving forward to a new life.

[9]Royal London, 2019

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.



WEALTH DIVIDE BETWEEN THE GENERATIONS WIDENS FURTHER

More evidence has emerged highlighting the difference in wealth between young and old in the UK.

It's also a welcome indication that employers acknowledge the benefits of retaining the skills of older employees within the workplace, though most employers can no longer force retirement. Analysis[10] shows that one in five baby boomers are now millionaires, with their wealth nearly doubling over the last ten years. The total wealth owned by over 65s has grown from £2.4tn and £4.7tn in the decade between 2006 and 2016. In comparison, those aged between 25 and 54 saw their wealth increase by just 9% in real terms over the same period.

[10]Netwealth, 2019.

SPOUSES UNNECESSARILY PAYING TAX ON INHERITED ISAs

Data[11] shows that six out of seven bereaved partners could be paying tax unnecessarily on ISA savings they inherit.

Since April 2015, bereaved spouses or civil partners have been entitled to an extra ISA allowance. This is achieved by what's called an Additional Permitted Subscription (APS). If the investor died before 6 April 2018, the APS is equal to the value of the ISA on the date of death. If the investor died on or after 6 April 2018, their ISA will become a continuing ISA. In this case, the APS is equal to the higher value of the ISA on the date of the investor's death, or the value of the ISA on the date it stops being a continuing ISA (completion of estate administration / third anniversary of date of death / all funds withdrawn). The surviving spouse, therefore, has the option of having the higher APS value.

Using your APS

You can use the allowance in one go or as separate lump sums. However, time limits do apply.

[11]HMRC data obtained by Zurich, Jan 2019

Tax allowances – use them or lose them!

As a new tax year begins, it's time to ensure that you make plans to use your tax allowances, like topping up your ISA (the tax-free allowance for 2019–20 is £20,000). Don't forget about other tax-efficient investments or to make pension contributions within the allowance rules.

If you're concerned about Inheritance Tax, you should make sure you use your annual tax-exempt gift allowance of £3,000.

For advice on these and other tax-saving strategies, do get in touch.

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.

SIDE HUSTLES – WHAT THEY ARE AND WHY THEY WORK

A side hustle is any type of work undertaken in addition to a full-time job. It's often freelance or piecework in nature and provides extra income. It's not the same as a part-time job, which entails working for someone else who governs the terms of your employment and the hours you work. Side hustles often involve doing things that you're passionate about and tend to take place in the evening or at weekends. Data shows that side hustles have risen by 32% over the last decade[12].

Exploring new avenues

For those who are considering a change of career direction, a side hustle gives the opportunity to try out new ideas and ways of working. The extra cash generated is often used to bolster savings, a deposit for a home, or a cash reserve that can be used to set up a new business.

Side hustles come in all shapes and sizes, from dog walking, freelance writing, teaching or tutoring, to selling things like handicrafts or clothes. They are proving increasingly popular, particularly amongst women who might want to leave a mainstream career at some point and need a Plan B.

[12] CEBR, Nov 2018

Middle classes most impacted by Inheritance Tax

In a recent consultation, more than 3,500 people gave their views on Inheritance Tax (IHT), and their verdict was that it was uniquely unpopular and complex in its operation.

In addition, the amount of paperwork involved represented an additional burden to families at a time when they were dealing with the loss of a loved one. IHT raised £5.2bn in 2017. This figure is expected to be £6.9bn in 2023–24.

Who pays the tax?

The standard Inheritance Tax rate is 40% and is only chargeable on the part of your estate above that threshold. However, after allowances, spouse and civil partner exemptions and available reliefs, the rate payable is less. For example, estates with a net value of less than £1m will pay IHT at 5% (average percentage after allowances). While estates worth between £3m-£7m pay 20% (average percentage after allowances). Estates valued at £10m or more pay 10% (average percentage after allowances), an indication that those with large estates are more likely to seek advice about making lifetime gifts and setting up trusts to lessen the impact of the tax.

The Office of Tax Simplification has been tasked by the Chancellor to make IHT simpler and more streamlined, and to review the rules on gifting, pensions and property.

Financial advice for new parents

Parents can often find their time entirely taken up with looking after the newest member of their family. It's a life-changing experience that will have an impact on their finances too.

Planning pays

For any couple, one of the biggest adjustments is managing on one salary, so working out a budget together will ensure that they have taken care of the monthly overheads. As well as statutory maternity pay or maternity allowance, you may be entitled to other things like tax credits or child benefits, free NHS prescriptions and dental care.

Protecting what's important

Parents want to do what's best for their children, but many overlook putting insurance plans in place in case anything should happen to either of them. It may be an uncomfortable topic to discuss, but nobody would want to leave their family struggling financially. The monthly cost of a protection plan is a lot less than many people imagine, often no more than a family might spend on a round of coffee and cake on the high street.

Saving for their future

A Junior ISA is a tax-free savings scheme that enables parents to put money aside either into a cash or a stocks and shares account for their child's future. The allowance for the 2019–20 tax year has been increased to £4,368. On their 18th birthday, the child can access their savings.

Those who want to plan even further ahead can open a pension for their child, saving up to £2,880 per year tax-free. Tax relief on pension contributions at 25% means that the amount actually invested becomes £3,600. When the child reaches 18, they can continue to invest in it and access their pension at age 55.

The monthly cost of a protection plan is a lot less than many people imagine, often no more than a family might spend on a round of coffee and cake on the high street

Staying out of the dog house

You may have seen articles in the financial press referring to 'dog' funds, and wondered what the term means. If so, don't be concerned, put simply, a 'dog' fund is one that is regarded as an under-performing fund.

Meaningful comparisons

All investment funds fall into sectors – for example, UK All Companies, Global Equity Income, Japan, UK Smaller Companies or Global Emerging Markets. By classifying funds under these headings, it makes it much easier to make meaningful comparisons. As well as being compared against each other, they can also be compared against the average performance for all the funds in that sector.

If a fund is consistently 10% below the sector average, it can earn the 'dog' tag.

By keeping a close eye on the performance of your assets, under-performing funds can be quickly identified and monitored, and if necessary, changes made to your portfolio.

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

If a fund is consistently 10% below the sector average, it can earn the 'dog' tag

WORRY FOR CARERS WITHOUT PROTECTION POLICIES

With an ageing population and NHS resources under severe strain, it's unsurprising that over seven million people[13] in the UK find themselves actively caring for others. The assistance they provide can take many forms such as personal care, helping with shopping or taking someone to appointments.

Little protection for carers

A recent survey from a major insurer[14] shows that more than seven out of ten of those who care for family members or other people do not have any protection policies in place. This could mean that those they look after might not receive the care they need if they were to fall ill themselves.

A fifth (21%) of those surveyed do not know who would take over their caring duties if they fell ill themselves, and 20% do not know who would give them the care they might need.

Just three in ten of those who look after family or community members have life insurance (28%), while just 12% – approximately 1.2m – have critical illness cover. If you would like to know more about the benefits and costs of protection policies, do get in touch.

[13]Carers Trust
[14]Scottish Widows, April 2018