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GUIDE TO

NEW YEAR WEALTH PLANNING

NAVIGATING THE FINANCIAL ASPECTS OF YOUR UNIQUE LIFE'S JOURNEY

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WELCOME

Navigating the financial aspects of your unique life's journey

Welcome to our *Guide to New Year Wealth Planning*. The start of a new year enables you to reassess and critique your financial plans and goals to ensure that you know where you are and where you should be. It means you can also put in place new strategies or update existing ones to achieve the outcomes you are expecting. It means you can work towards and meet deadlines and allocate sufficient time to completing these financial objectives.

When it comes to setting financial goals, they should be specific, measurable, achievable, relevant and time-bound. Having said this, one of the main reasons why some people don't achieve their financial goals is because of the loss of commitment due to decreased motivation, lack of interest or changes in priorities. But most of us want a life full of meaning and adventure without compromising our financial futures, and a little pain now in terms of planning can mean we avoid a whole lot of pain later on.

Hot financial topics for the New Year
Inside our guide, we look at some of the hot financial topics you should consider at the start of a New Year to enable you to navigate through the maze of legislation, avoid paying unintended tax and make the most of your money for you and your loved ones. If you would like to review your current financial position or want to discuss future plans you may have, please contact us – we look forward to hearing from you.

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WHAT ARE YOU PLANNING FOR IN 2017?

How to look forward to what you want to accomplish

When was the last time you wrote down your goals? More importantly, when was the last time you revisited them?

A new year can be seen as a fresh start and a marker to look forward to what you want to accomplish – personally, professionally and hopefully financially. Maybe you have already thought, 'This is the year I must start contributing more to my retirement,' or, 'This is the year I'm finally going to say goodbye to credit card debt.'

Regardless of what life stage you are in, the start of a new year is the perfect time to take stock of your financial plans and to ensure that you have the right goals and strategies in place to achieve them. Remember the old adage, 'People don't plan to fail, but they do fail to plan.'

Tangible and realistic

You are likely to have short-term, mid-term and long-term personal financial goals. The key to ultimately achieving them is to set tangible and realistic goals and to follow them, and tracking your progress is essential to obtain your financial goals this year and beyond.

If you are married, you and your spouse or registered civil partner should both share the same financial goals. Otherwise, achieving them is almost impossible. Developing your financial plans together and reviewing your progress together to make sure both of you are contributing to the same goals is essential.

Financial goals

Determining what short-term, mid-term and long-term personal financial goals you have is the first step. This could be building an emergency savings fund, buying a new or second property, accumulating funds for your children's schooling and further education, or building an investment portfolio and saving for your retirement.

Once you and your spouse have agreed on your target objectives, the next step is to determine a good estimate for how much money you'll need for each of them. To obtain a clear understanding of the amounts involved and the options available to achieve these requires professional financial advice.

Decisions, decisions

For example, if you are saving for higher education for your children, what percentage do you want to pay? Also, do you want to pay for a state school or a private school education? Retirement savings needs depend greatly on the lifestyle you plan to lead once you are retired, as well as when you plan to retire.

Estimated average

There are a number of factors you need to consider before deciding on what kind of approach is most suitable for you. These include the purpose of the investment, the length of time your money can be tied up for and your attitude to risk.

It's also important to prioritise each of your personal financial goals in order of importance and then determine how long you have to save or invest for each of them. Retirement could be many years away, but your short-term goals could be in a year or two. You then need to estimate how much interest or capital gains you'll expect to see where you are saving or investing your money. While capital gains are never guaranteed, you can use an estimated average for these purposes to arrive at target figures.

A mistake some people also make is that once their plans are in place, they forget to look at them again or not as frequently as they should. It's important to continue to refine your plans going forward and use these reviews to allocate any other amounts you may receive, for example, from bonuses or inheritances. Realistically, will you really be able to accomplish everything? Probably not. You never know what could come up, but 'you'll always miss the shots you don't take'. Think of your financial goals like that.

ASSESSING CURRENT AND FORECASTED WEALTH

Making the most of your money to achieve your financial objectives

To be in a position to navigate the financial aspects of your unique life's journey, you need to regularly track your progress towards key goals such as paying off your mortgage, buying a second home, building a retirement fund or setting up an Inheritance Tax trust.

Clarity over your goals is key, as are your objectives and motivations. The process of cash flow modelling illustrates what might happen to your finances in the future, and enables you to plan to ensure that you make the most of your money to achieve your financial objectives.

Current and forecasted wealth

Cash flow modelling shows your current position relative to your preferred position and your goals by assessing your current and forecasted wealth, along with income inflows and expenditure outflows to create a picture of your finances, now and in the future. This detailed picture of your assets includes investments, debts, income and expenditure, which are projected forward year by year using calculated rates of growth, income, inflation, wage rises and interest rates.

In order to implement a detailed plan that outlines how to deliver your financial future, communication is vital. The process and planning is only as good and as comprehensive as the information you provide.

Right asset allocation mix

Cash flow modelling can determine what recommendations and best course of action are appropriate for your particular situation and the right asset allocation mix, and the growth rate you require is calculated to meet your investment objectives. This rate is then cross-referenced with your attitude to risk to ensure your expectations are realistic and compatible with the asset allocation needed to achieve the necessary growth rate.

Where cash flow modelling becomes particularly useful is the analysis of different scenarios based on decisions you may make – this could be lifestyle choices or perhaps investment decisions. By matching your present and expected future liabilities with your income and capital, recommendations can be made to ensure that don't run out of money throughout your life.

Ensure you remain on track

A snapshot in time is taken of your finances. The calculated rates of growth, income, tax and so on that are used to form the basis of any cash flow modelling exercise will always be assumptions. Therefore, regular reviews and reassessments are required to ensure you remain on track.

Nearly all decisions are based on what is contained within the cash flow: from how much to save and spend, to how funds should be invested to achieve the required return, so there is a lot that needs to be managed.

Implementing a lifetime cash flow plan can enable you to:

- Produce a clear and detailed summary of your financial arrangements
- Define your family's version of the 'good life' and begin working towards it
- Work towards achieving and maintaining financial independence
- Ensure adequate provision is made for the financial consequences of the death or disablement of you or your partner
- Plan to minimise your tax liabilities
- Produce an analysis of your personal expenditure planning assumptions, balancing your cash inflows and your desired cash outflows
- Estimate future cash flow on realistic assumptions
- Develop an investment strategy for your capital and surplus income in accordance with risk/reward, flexibility and accessibility with which you are comfortable
- Become aware of the tax issues that are likely to arise on your own death and that of your partner

Make the right financial decisions

With every financial corner you turn, it is important to 'run through the numbers', which will help you make the right financial decisions. It is important

to be specific. For example, it is not enough to say, 'I want to have enough to retire comfortably.' You need to think realistically about how much you will need – the more specific you are, the easier it will be to come up with a plan to achieve your goals.

With every financial corner you turn, it is important to 'run through the numbers', which will help you make the right financial decisions.

If your needs are not accurately established, then the cash flow will not be seen as personal, and therefore you are unlikely to perceive value in it.

Small tweaks or something significant
Some years, there may not be any change, or just small tweaks. However, in other years, there may be something significant; either way, you will need to ensure things are up to date to keep your own peace of mind knowing your plans are still on track.

Cash flow modelling helps you stay in control of your financial future by giving a more holistic planning approach and clearer picture of the consequences of change on an ongoing basis. It also helps to give an idea of when certain key decisions should be made, such as retiring early or downsizing a property.

LOOKING AHEAD TO YOUR RETIREMENT YEARS

Making sure you can sustain the level of income you need

From stopping work altogether to a slow and gradual reduction of commitments – retirement means different things to different people. Making sure you can sustain the level of income you need as you move away from full-time employment or your business interests is key to a long and happy retirement.

Increased complexity

While pension rule changes in recent years have increased their flexibility, they have also increased the complexity. But pensions still offer a very favourable tax status, and there are now more ways than ever to generate income from pension assets when you retire: from buying an annuity to taking a lump sum or making regular withdrawals while continuing to invest.

In April 2015, the Government introduced the most radical changes to pensions in almost a hundred years. The pension freedoms (announced by the previous Chancellor, George Osborne, in Budget 2014 and introduced on 6 April 2015) now mean that instead of being required to buy an annuity with your money purchase pension pot, if you're aged 55 and over you have more flexibility to take your money how you wish. Generally, 25% of the pot is tax-free, and the remainder is subject to Income Tax at your current rate.

Financial structure

A critical aspect of retirement planning is how you structure your financial affairs to make sure you have sufficient money if and when you stop working. Making sure you have enough money in retirement to enable you to spend your time the way you want to and do those things you always intended is at the heart of planning for your retirement.

We are all living longer – the State Pension Age has steadily increased and pensions legislation is ever-changing. As we enter a new year, it makes sense to reassess your situation and to ensure you have in place a flexible retirement strategy that will enable you to enjoy yourself and still look after your family.

Other considerations

Retirement planning also involves more than just thinking about pensions. Individual Savings Accounts (ISAs), general investments, property, National Savings and cash deposits can all play a part in a retirement plan too.

The pension changes mean that we'll be increasingly in charge of our pensions, both while we're building up our retirement pot and when we start to draw an income. It's therefore more important than ever to plan our retirement saving from an early age.

Getting started

If you're not saving for retirement, it's time to get started. The sooner you start, the more time your money has to grow. Make saving for your retirement in 2017 one of your top priorities. Remember, it's never too early or too late to start saving.

But remember that if you already have a retirement strategy in place, it pays to be prepared as retirement nears. Around two years before you want to stop working is a good time to start thinking about your retirement options and the choices you'll need to make. You should obtain professional financial advice because these are decisions that can shape your income for the rest of your life.

The Chancellor, Philip Hammond, said the decision was taken 'to prevent inappropriate double tax relief,' and the Government would consult on further details for the plans.

PENSION POWER

Take full advantage of tax relief – annual and lifetime limits

Pensions are a highly tax-efficient form of saving, and if possible you should take full advantage of funding your pension contributions to the maximum allowable. You receive tax relief on contributions that you pay into your pension. Tax relief means some of your money that would have gone to the Government as tax goes into your pension instead. You can put as much as you want into your pension, but there are annual and lifetime limits on how much tax relief you get on your pension contributions.

Tax relief on your annual pension contributions

If you're a UK taxpayer, in the tax year 2016/17 the standard rule is that you'll get tax relief on pension contributions of up to 100% of your earnings or a £40,000 annual allowance, whichever is lower:

- For example, if you earn £20,000 but put £25,000 into your pension pot (perhaps by topping up earnings with some savings), you'll only get tax relief on £20,000
- Similarly, if you earn £60,000 and want to put that amount in your pension scheme in a single year, you'll normally only get tax relief on £40,000

Subject to Income Tax
Any contributions you make over this limit will be subject to Income Tax at the highest rate you pay.

However, you can carry forward unused allowances from the previous three years, as long as you were a member of a pension scheme during those years.

But there is an exception to this standard rule. If you have a defined contribution pension, the annual allowance reduces to £10,000 in some situations.

From 6 April 2016, the £40,000 annual allowance reduced if you have an income of over £150,000, including pension contributions.

Money Purchase Annual Allowance (MPAA)
In the tax year 2016/17, if you start to take money from your defined contribution pension, this can trigger a lower annual allowance of £10,000 (the MPAA). That means you'll only receive tax relief on pension contributions of up to 100% of your earnings or £10,000, whichever is the lower.

Whether the lower £10,000 annual allowance applies depends on how you access your pension pot, and there are some complicated rules around this.

Announced as part of the Autumn Statement 2016, the MPAA will be reduced from £10,000 to £4,000 and come into force from April 2017.

This announcement will affect taxpayers (employees and self-employed) who have withdrawn amounts from their pension fund and then want to top the fund up again. The £10,000 limit was introduced in April 2015.

The Chancellor, Philip Hammond, said the decision was taken 'to prevent inappropriate double tax relief,' and the Government would consult on further details for the plans.

In a consultation released alongside the Autumn Statement, the Government says: 'The Government believes that an allowance of £4,000 is fair and reasonable and should allow people who need to access their pension savings to rebuild them if they subsequently have opportunity to do so.

'Importantly, however, it limits the extent to which pension savings can be recycled

to take advantage of tax relief, which is not within the spirit of the pension tax system. The Government does not consider that earners aged 55 plus should be able to enjoy double pension tax relief i.e. relief on recycled pension savings.'

This change will impact on those individuals who may have needed to withdraw funds unexpectedly and then want to top them up when their circumstances change.

The main situations when you'll trigger the MPAA are typically:
- If you start to take ad-hoc lump sums from your pension pot
- If you put your pension pot money into an income drawdown fund and start to take income

You will not trigger it if you take:
- A tax-free cash lump sum and buy an annuity (an insurance product that gives you a guaranteed income for life)
- A tax-free cash lump sum and put your pension pot into an income drawdown product but don't take any income from it

You can't carry over any unused MPAA to another tax year.

Defined contribution pensions
The existing lower annual allowance of £10,000 only applies to contributions to defined contribution pensions. So, if you also have a defined benefit pension (this pays a retirement income based on your final salary and how long you have worked for your employer and includes final salary and career average pension schemes), you can still receive tax relief on up to £40,000 of contributions a year.

For example, if you earn £20,000 a year and you contribute £8,000 to your defined contribution pension for the tax year 2016/17, you'll receive tax relief on these contributions, plus you can still receive tax relief on up to £12,000 of contributions to your defined benefit pension.

If you earn £50,000 a year and you contribute £12,000 to your defined contribution pension for the tax year 2016/17, you'll receive tax relief on just £10,000 (and the other £2,000 will be subject to Income Tax). In addition, you can contribute up to £30,000 to your defined benefit pension and claim tax relief on this.

Tax relief if you're a non-taxpayer
If you are not earning enough to pay Income Tax, you can still receive tax relief on pension contributions up to a maximum of £3,600 a year or 100% of earnings, whichever is greater, subject to your annual allowance. For example, if you have relevant income below £3,600, the maximum you can pay in is £2,880, and the Government will top up your contribution to make it £3,600.

For defined benefit pension schemes, your pension scheme may decide to pay the tax on your behalf and recover it from you by reducing your pension.

TAKE YOUR PENSION TO THE MAX

Why monitoring the value of your pensions is important

A lifetime allowance puts a limit on the value of pension benefits that you can receive without having to pay a tax charge. The lifetime allowance is £1 million for the tax year 2016/17. Any amount above this is subject to a tax charge of 25% if paid as pension or 55% if paid as a lump sum.

It applies to the total of all the pensions you have, including the value of pensions promised through any defined benefit schemes you belong to, but excluding your State Pension.

From 6 April 2018, the standard lifetime allowance will be indexed annually in line with the Consumer Prices Index (CPI).

Charges if you exceed the lifetime allowance
If the cumulative value of the payouts from your pension pots, including the value of the payouts from any defined benefit schemes, exceeds the lifetime allowance, there will be tax on the excess – called the 'lifetime allowance charge'.

The way the charge applies depends on whether you receive the money from your pension as a lump sum or as part of regular retirement income.

Lump sums
Any amount over your lifetime allowance that you take as a lump sum is taxed at 55%. Your pension scheme administrator should deduct the tax and pay it over to HM Revenue & Customs (HMRC), paying the balance to you.

Regular retirement income
Any amount over your lifetime allowance that you take as a regular retirement income – for instance, by buying an annuity – attracts a lifetime allowance charge of 25%. This is on top of any tax payable on the income in the usual way.

For defined contribution pension schemes, your pension scheme administrator should pay the 25% tax to HMRC out of your pension pot, leaving you with the remaining 75% to use towards your retirement income.

Lifetime allowance charge and Income Tax combined
For example, suppose someone who pays tax at the higher rate had expected to get £1,000 a year as income but the 25% lifetime allowance reduced this to £750 a year. After Income Tax at 40%, the person would be left with £450 a year. This means the lifetime allowance charge and Income Tax combined have reduced the income by 55% – the same as the lifetime allowance charge had the benefits been taken as a lump sum instead of income.

For defined benefit pension schemes, your pension scheme may decide to pay the tax on your behalf and recover it from you by reducing your pension.

If you wish to avoid the lifetime allowance charge, it's important to monitor the value of your pensions, and especially the value of changes to any defined benefit pensions as these can be surprisingly large.

The 'annual allowance' is a limit on the amount that can be contributed to your pension each year, while still receiving tax relief. It's based on your earnings for the year and is capped at £40,000, which still remains unchanged following the Autumn Statement 2016.

SELF-INVESTED PERSONAL PENSIONS

Freedom to choose and manage your own investments

A self-invested personal pension (SIPP) is a pension 'wrapper' that holds investments until you retire and start to draw a retirement income. It is a type of personal pension and works in a similar way to a standard personal pension. The main difference is that with a SIPP, you have greater flexibility with the investments you can choose.

With standard personal pension schemes, your investments are managed for you within the pooled fund you have chosen. SIPPs are a form of personal pension that give you the freedom to choose and manage your own investments. Another option is to pay an authorised investment manager to make the decisions for you.

SIPPs are designed for people who want to manage their own fund by dealing with, and switching, their investments when they want to. SIPPs can also have higher charges than other personal pensions or stakeholder pensions. For these reasons, SIPPs tend to be more suitable for large funds and for people who are experienced in investing.

Most SIPPs allow you to select from a range of assets in which to invest, including:

- Individual stocks and shares quoted on a recognised UK or overseas stock exchange
- Government securities
- Unit trusts
- Investment trusts
- Insurance company funds
- Traded endowment policies
- Deposit accounts with banks and building societies
- Some National Savings and Investment products
- Commercial property (such as offices, shops or factory premises)

These aren't all of the investment options that are available – different SIPP providers offer different investment options.

Certain types of collective investments
Residential property can't be held directly in a SIPP with the tax advantages that usually accompany pension investments. But, subject to some restrictions (including on personal use), residential property can be held in a SIPP through certain types of collective investments, such as real estate investment trusts, without losing the tax advantages. Not all SIPP providers accept this type of investment though.

New rules introduced in April 2015 mean you can now access and use your pension pot in any way you wish from age 55. However, SIPPs aren't appropriate for everyone, and you should seek professional advice if you are considering this option.

Although tracking down a lost pension can provide a valuable boost to retirement income, those who delay could receive a smaller amount than expected.

MISPLACED PENSION POTS

Do you have any forgotten or lost pension policies?

It's not always easy to keep track of a pension, especially if you've been in more than one scheme or have changed employer throughout your career. The extent to which pension policies are being forgotten has been revealed in research from Aviva. A survey of almost ten thousand people who hold a pension has revealed that just under one in eight (13%) admitted they have at least one pension that they had forgotten about[1]. This is equal to more than 2.5 million pension policies currently sitting in the back of people's minds[2].

Have you received a refund?
If you left an employer before April 1975, it's likely you will have received a refund of your pension contributions. If you didn't pay into the scheme, you probably won't be entitled to anything, unless you were in the scheme for at least 15 to 20 years.

If you left the employer between April 1975 and April 1988, you will have a pension, provided you were over age 26 and had completed five years in the scheme. If not, you will almost certainly have had a refund of your pension contributions and have no further rights.

If you left the employer after 1988, you will be entitled to a pension, as long as you completed two years' service. If you left the pension scheme with fewer than two years' service, you probably received a refund of your contributions at the time you left.

Misplaced or forgotten?
Among those with a forgotten pension, the majority believe they have misplaced one pot (77%), although 17% think they have forgotten about two and 6% have forgotten three or more.

According to government figures, there is an estimated £400 million in unclaimed pension savings[3]. At the same time, almost three in five (59%) UK adults are worried about not having enough money to last them in retirement[4].

Annual statement
Most pension schemes of which you've been a member must send you a statement each year. These statements include an estimate of the retirement income that the pension pot may generate when you reach retirement.

If you're no longer receiving these statements – perhaps because of changes of address – then to track down the pension there are three bodies to contact: the pension provider, your former employer if it was a workplace pension, or the Pension Tracing Service (an online service available to help you find contact information).

Boost to retirement
Although tracking down a lost pension can provide a valuable boost to retirement income, those who delay could receive a smaller amount than expected. Forgotten pensions may have been subject to charges and not invested in the best way suited to the policyholder, making it worth less than it would have been if it was actively managed.

The research revealed the lack of engagement around pensions. More than a quarter of savers (28%) admitted to never reviewing their retirement savings, while almost a fifth (19%) of those with a pension said they review it less than once every five years[5].

Fund choices
Since the introduction of auto-enrolment, the number of pension savers who are unaware of their fund choices or have never reviewed them has risen to almost 1.5 million people or 15% of private sector

employees, up from 9% at the start of 2013[6].

It's also important to be aware of the potential consequences of having a number of different pension pots with small amounts of money in each. It's likely that there will still be charges taken out of those pots for their management and administration, and that can have implications if you are no longer contributing into them.

Source data:

[1] YouGov survey of 9,910 people in the UK (January–December 2015) who hold a pension carried out on behalf of Friends Life, now part of the Aviva group

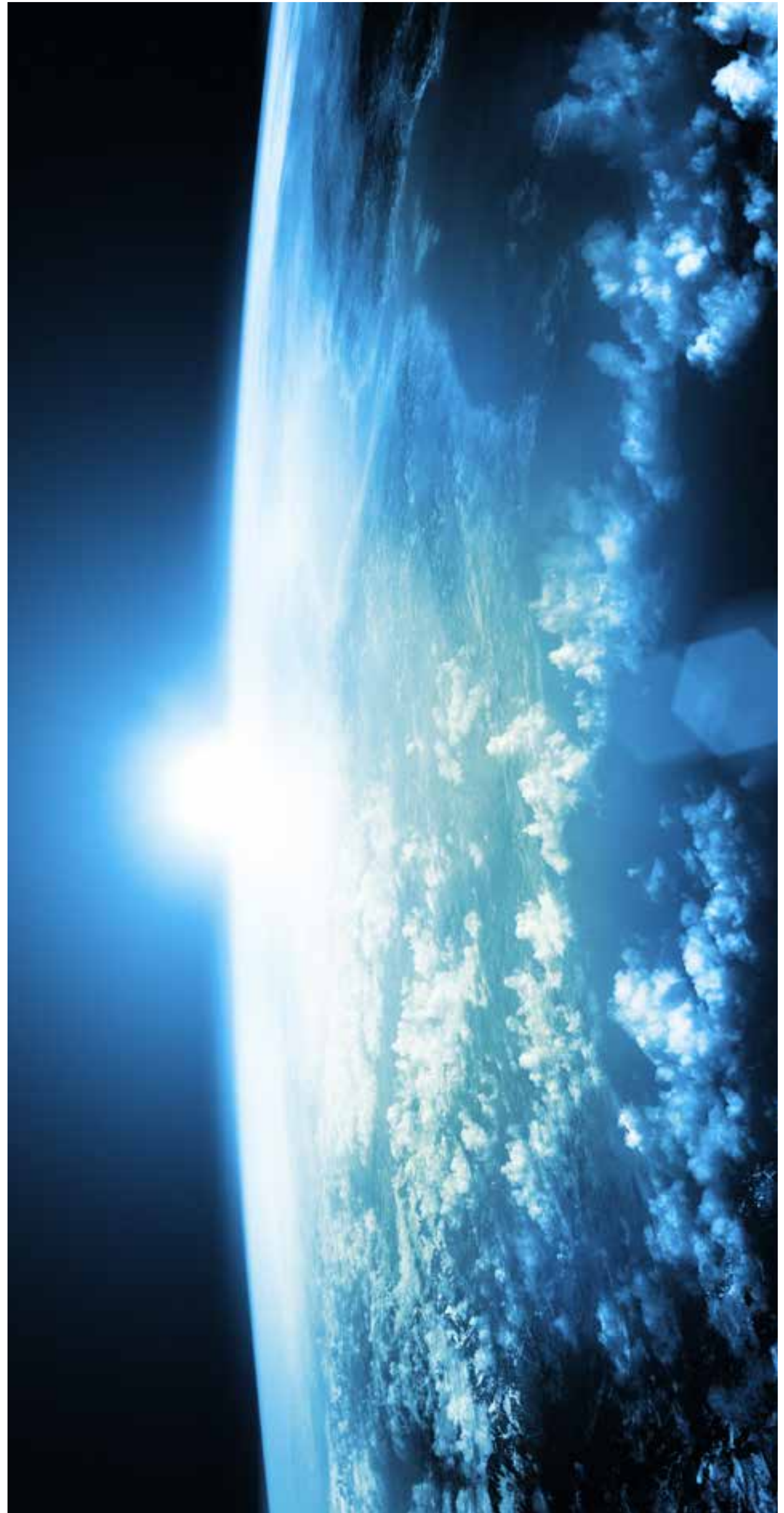
[2] ABI Key Facts 2015 says there are 20.8m individual pension policies in force. 13% of 20.8m = 2.7m

[3] DWP: https://www.gov.uk/government/news/new-pension-tracing-service-website-launched

[4] Research conducted for Aviva by Censuswide, with 2002 General Consumers aged 18+ in GB between 30 September and 5 October 2016. The survey was conducted from a random sample of UK adults.

[5] YouGov survey of 9,498 people in the UK carried out on behalf of Friends Life, now part of the Aviva Group

[6] Aviva's latest Working Lives Report and analysis of data from the Office for National Statistics (ONS).



BUILDING A MORE SECURE FINANCIAL FUTURE

Make the most of your investment opportunities

To make the most of your investment opportunities, it's your goals that count, so keep them firmly in mind when you make financial decisions. It's important to take a consistent, long-term strategy to build a more secure financial future through steady purchases of well-diversified investments.

Main types of investment
There are four main types of investments, known as 'asset classes'. Each asset class has different characteristics and advantages and disadvantages for investors.

Cash
This involves putting your money into a savings account, with a bank, building society or credit union. Your money may not hold its spending power if inflation is higher than the interest rate. Cash is the most basic of all investment forms. Saving money into a deposit account with a bank, building society or credit union is considered cash saving. Cash can be used to save for immediate needs or as a parking place in between investing in other assets.

Why have cash savings?
If you need instant access to your money or are saving for the near future, cash could be a good option. You earn interest on cash. How much you earn varies from

Asset class	Main advantages	Main risks
Cash	Relatively secure	May lose value if the interest rate doesn't keep up with inflation.
Bonds	Regular income	The bond issuer is sometimes unable to repay in full.
Shares	Regular income and opportunity to grow over time.	Share prices can go up and down. A fall in share price will reduce the value of your investment.
Property	Stable and regular income, potential to grow over time.	Property prices can fall, reducing the value of your investment. Property transactions take a long time, so your money may be tied up for longer than you want it to be.

Although tracking down a lost pension can provide a valuable boost to retirement income, those who delay could receive a smaller amount than expected.

one account to another. You can save in cash without paying tax on the interest by saving in a Cash Individual Savings Account (ISA).

What are the risks?
The amount you invest will not go down in actual terms, but you may lose spending power if interest rates you receive don't keep up with inflation rates while you are saving. In other words, the nominal value of your savings will stay the same, but the real value could fall.

Cash deposits are guaranteed against the failure of a bank, building society or credit union from 1 January 2016 to the value of £75,000 per person by the Financial Services Compensation Scheme.

Bonds
A bond is a loan to a government or company. In return for the loan, you receive interest and the amount you invested back at an agreed future date. Bonds are issued by governments and companies as a way for them to borrow money. In return, lenders get paid interest and the full value of their money back at a specified date, called the 'redemption date'.

The market price of a bond will rise as interest rates are expected to fall. Bonds have a fixed interest rate. Imagine you hold a bond with a fixed interest rate of 5% whilst general interest rates fall from 4% to 2%. Your bond would be a lot more attractive when general interest rates are 2%; therefore, its price on the market rises.

What are bonds?
Bonds issued by the UK Government are called 'gilts'. You can buy these directly at the Post Office or the Government Debt Management Office.

Bonds issued by companies are called 'corporate bonds'. They are bought and sold on the stock market. Their price will go up and down, which means that if you decide to sell before the agreed redemption date, you may get more or less than the price you originally paid.

The interest you receive from your bond will be specified before you buy. While the end value and annual interest payments are normally fixed amounts, in some cases (such as with UK Government index-linked gilts) they may be related to a price index.

Index-linked bonds ensure your money keeps in line with inflation, but at times of low inflation a fixed rate bond could provide higher returns.

What are the risks of investing in bonds?
There is still the risk that the issuer may be unable to fulfil its promise to return your money on the redemption date. This could mean that you lose some or all of your initial investment. To help you manage this risk, bonds are rated by credit rating agencies. The rating on a bond is a good guide on how capable the issuer is in paying back their debt i.e. how likely you are to get your money back when the term of the bond ends.

Shares
You can invest in a company by buying shares. In return, you may get a proportion of any profit the company makes (depending on how many shares you hold). Shareholders are entitled to have a say on the way the company operates, including voting at company general meetings.

Companies issue shares, often referred to as 'equities', as a way of raising money from outside investors. In return, the investor may receive a portion of the company's profit, called a 'dividend'. Investors receive a dividend for each share they own. Shareholders are in effect the owners of a company.

Why invest in shares?
- Historically, shares have been one of the highest performing asset classes over long periods
- Dividends are normally paid annually or biannually
- Dividend payments have usually risen over time. But if a company suffers a loss, dividend payments can decline or even stop

What are the risks?
The value of your shares is dependent on a number of things including the performance of the company and the wider economic outlook. The value can go up and down over time. It is sensible to invest in shares only if you can afford to put money away for a period of years. The fluctuating nature of the value of shares means you do not want to be forced to withdraw your money when share prices are low, as you may get back less than your original investment.

Property
Becoming a landlord is a well-known way to invest in property. The aim is to get an income from the rent you charge and that the house or flat increases in value after expenses so you make a profit if you sell it. Land and commercial buildings, such as shopping centres, are other forms of property investments.

Why invest in property?
Property provides a relatively high and stable rental income with the possibility of making your money grow over time.

What are the risks of investing in property?
Buying and selling buildings can take a long time, and if you invest in property you might not be able to withdraw your cash as quickly as you would wish. Investing in property via a fund generally means it is easier to get access to your cash when you need it.

However, providing this level of access can mean lower returns. The value of properties fluctuates over time, so there is a potential that you could lose money.

You can invest in property by buying a property on a buy-to-let basis. However, the cost and complexity of owning and managing an individual property is high.

There are two ways to invest in property indirectly:
- Invest in shares of companies that own or develop properties
- Invest in a property fund which gives you exposure to a range of assets. These may include property company shares or commercial property, such as offices, shopping centres and warehousing

MANAGING INVESTMENT RISK

Achieving your long-term financial goals whilst minimising risk

One of the most effective ways to manage investment risk is to spread your money across a range of assets that, historically, have tended to perform differently in the same circumstances. This is called 'diversification' – reducing the risk of your portfolio by choosing a mix of investments.

In the most general sense, it can be summed up with this phrase: 'Don't put all of your eggs in one basket'. While that sentiment certainly captures the essence of the issue, it provides little guidance on the practical implications of the role of diversification plays in a portfolio.

Under normal market conditions, diversification is an effective way to reduce risk. If you hold just one investment and it performs badly, you could lose all of your money. If you hold a diversified portfolio with a variety of different investments, it's much less likely that all of your investments will perform badly at the same time. The profits you earn on the investments that perform well offset the losses on those that perform poorly.

Minimising risk
While it cannot guarantee against losses, diversifying your portfolio effectively – holding a blend of assets to help you navigate the volatility of markets – is vital to achieving your long-term financial goals whilst minimising risk.

Although you can diversify within one asset class – for instance, by holding shares (or equities) in several companies that operate in different sectors – this will fail to insulate you from systemic risks, such as international stock market volatility.

Further diversification
As well as investing across asset classes, you can further diversify by spreading your investments within asset classes. For instance, corporate bonds and government bonds can offer very different propositions, with the former tending to offer higher possible returns but with a higher risk of defaults, or bond repayments not being met by the issuer.

Similarly, the risk and return profiles of shares in younger companies in growth sectors like technology, for example, contrast with those of established, dividend-paying companies.

Portfolio insulation
Effective diversification is likely to also allocate investments across different countries and regions in order to help insulate your portfolio from local market crises or downturns. Markets around the world tend to perform differently day to day, reflecting short-term sentiment and long-term trends.

There is, however, the added danger of currency risk when investing in different countries, as the value of international currencies relative to each other changes all the time. Diversifying across assets valued in different currencies, or investing in so-called 'hedged' assets that look to minimise the impact from currency swings, should reduce the weakness of any one currency significantly decreasing the total value of your portfolio.

Individual investors
Achieving effective diversification across and within asset classes, regions and

currencies can be difficult and typically beyond the means of individual investors. For this reason, some people choose to invest in professionally managed funds that package up several assets rather than building their own portfolio of individual investments.

Individual funds often focus on one asset class, and sometimes even one region, and therefore typically only offer limited diversification on their own. By investing in several funds, which between them cover a breadth of underlying assets, investors can create a more effectively diversified portfolio.

Multi-asset fund

One alternative is to invest in a multi-asset fund, which will hold a blend of different types of assets designed to offer immediate diversification with one single investment. Broadly speaking, their aim is to offer investors the prospect of less volatile returns by not relying on the fortunes of just one asset class.

Multi-asset funds are not all the same, however. Some aim for higher returns in exchange for assuming higher risk in their investments, while others are more defensive, and some focus on delivering an income rather than capital growth. Each fund will have its own objective and risk-return profile, and these will be reflected in the allocation of its investments – for instance, whether the fund is weighted more towards bonds or equities.

Long-term view

Stock markets can be unpredictable. They move frequently – and sometimes sharply – in both directions. It is important to take a long-term view (typically ten years or more) and remember your reasons for investing in the first place.

Be prepared to view the occasional downturns simply as part of a long-term investment strategy, and stay focused on your goal.

Historically, the longer you stay invested, the smaller the likelihood you will lose money and the greater the chance you will make money. Of course, it's worth remembering that past performance is not a guide to what might happen in the future, and the value of your investments can go down as well as up.

Time to grow

Give your money as much time as possible to grow – at least ten years is best. You'll also benefit from 'compounding', which is when the interest or income on your original capital begins to earn and grow too. There will be times of market volatility. Market falls are a natural feature of stock market investing. During these times, it is possible that emotions overcome sound investment decisions – it is best to stay focused on your long-term goals.

Market timing

Resist the temptation to change your portfolio in response to short-term market movement. 'Timing' the markets seldom works in practice and can make it too easy to miss out on any gains. The golden rule to investing is allowing your investments sufficient time to achieve their potential.

Warren Buffett, the American investor and philanthropist, puts it very succinctly: 'Our favourite holding period is forever.' Over the long term, investors do experience market falls which happen periodically. Generally, the wrong thing to do when markets fall by a reasonable margin is to panic and sell out of the market – this just means you have taken the loss. It's important to remember why you're invested in the first place and make sure that rationale hasn't changed.

> *Give your money as much time as possible to grow – at least ten years is best.*

GENERATING INCOME

Certain innate behavioural traits influence decision-making

Nobody knows quite what the future holds. The good news is that advances in medicine and healthier lifestyles have led to an increase in the average life expectancy of both males and females.

The downside is we now have to find ways of funding a longer retirement and longevity. But low interest rates and bond yields – the traditional sources of income – aren't sufficient to sustain a proper living.

Varying income
Changing life plans and priorities will mean we encounter varying income needs and goals throughout our life, and, when investing, certain innate behavioural traits will influence our decision-making.

With interest rates at historic lows, investors need to consider diversifying across asset classes and internationally to obtain the desired levels of income. Equities, emerging market (EM) debt and high-yield corporate bonds could help generate a real yield, albeit at some risk to capital.

Attractive income
Weak domestic growth and unorthodox monetary policies have pushed down core bond yields and kept bank account cash rates low. Investors are likely to find it difficult to generate a 'decent' real income from many sources previously considered reliable and 'safe'. Dividends from equity holdings provide a stable and consistent source of income.

Alternative income
Emerging market debt provides a high yield. Many EM economies have lower government debt levels than G7 countries, but offer higher yields, providing attractive opportunities for investors.

The investable universe of EM debt has grown significantly in recent years. Active management is key to seeking out the attractive opportunities and avoiding those that are most at risk.

Flows into EM debt also dramatically changed over the course of 2016, with macroeconomic data appearing stronger now than in the first few months of the year

Higher-yielding debt
Given the yields available from both the US and European high-yield sector, and the current low level of defaults, some investors may prefer high yield over investment-grade bonds.

While there are concerns over the high-yield energy sector, the US high-yield market is highly diversified by sector and includes access to many other quality names. Most companies can still comfortably afford their interest payments.

Investment implications
In this current environment, investors need to think beyond traditional sources of income to beat inflation, and if appropriate consider multi-asset investing. This may mean taking on more risk, but a well-diversified portfolio can help reduce volatility.

Equity dividends can be an important source of income and have historically been very stable. Also, think about EM and high-yield debt as part of a portfolio, as they can offer attractive yields relative to core bonds.

LIFETIME INDIVIDUAL SAVINGS ACCOUNTS

Saving flexibly for a first home and retirement

Lifetime Individual Savings Accounts are being launched by the Government to help 18 to 40-year-olds to save and invest flexibly for the long term. The aim is that people will not have to choose between saving for their first home and retirement.

They can use some or all of the money to buy their first home or keep it until they're 60. Similar to normal Individual Savings Accounts, they won't have to pay any Capital Gains Tax or further Income Tax on profits taken.

Government bonus

Individuals can save and invest up to £4,000 each year, and receive a government bonus of 25% – that's a bonus of up to £1,000 a year, and they can use some or all of the money to buy their first home, or keep it until they're 60 – it's up to them.

Lifetime ISA accounts will be available from 6 April 2017 and can be opened between the ages of 18 and 40, and any savings put in before their 50th birthday will receive an added 25% bonus from the Government.

There is no maximum monthly contribution – someone can save as little or as much as they want each month, up to £4,000 a year, with the total amount they can save each year into all Individual Savings Accounts being increased from the current £15,240 to £20,000 from 6 April 2017. The £20,000 ISA allowance excludes contributions to any Junior ISAs which have their own distinct allowance applying to each child.

Saving for a first home

Any time from 12 months after opening a Lifetime ISA, they will be able to use their savings and bonus from one of the accounts towards a deposit on their first home worth up to £450,000 in the UK.

If they have a Help to Buy Individual Savings Account, they can transfer those savings into a Lifetime ISA in 2017 or continue saving in both, but they will only be able to use the bonus from one of the accounts to buy a house.

Saving for retirement

After their 60th birthday, they can take out all the savings tax-efficiently. If they withdraw the money before they turn 60, they will lose the government bonus (and any interest or growth on this). They will also have to pay a 5% charge.

WEALTH PRESERVATION

Inheritance Tax – no longer a tax that only the richest people in society have to face

When you die, the Government assesses how much your estate is worth and then deducts your debts from this to obtain the value of your estate.

Under the current rules, every individual has a £325,000 nil rate band. When we die, our estate's value is calculated, and everything above the nil rate band is subject to 40% Inheritance Tax. If you are married or widowed, your nil rate band could be up to £650,000. In most cases, it falls upon your loved ones to pay any Inheritance Tax before they can inherit what you want them to have.

Main residence nil rate band

The nil rate band has been frozen until the tax year 2017/18. So the thresholds of £325,000 or £650,000 apply to deaths from 6 April 2009 to 5 April 2018. The Government has talked of raising the nil rate band to £1 million, and in July 2015 they announced how they would do this: with the gradual introduction of a 'main residence nil rate band'. By 2020, this will be worth £175,000 per person. This can be added to your existing threshold of £325,000 (if you are single or divorced) or £650,000 (if you are married or widowed) to give an overall allowance of £500,000 each or £1 million per married couple (or widower).

From 6 April 2017, it will enable people who want to leave their main residence to a direct descendant (such as a child or grandchild). However, in other circumstances, they will not be able to use this allowance.

Is your estate subject to Inheritance Tax?

Single – anyone who is not married or in a registered civil partnership at the time they die. That includes divorced people and registered civil partners whose partnership has been dissolved by the courts. If your total estate is worth £325,000 or less, then no Inheritance Tax will be due. If it is more than that, it is likely there will be Inheritance Tax to pay.

Couples – married or registered civil partners at the time the first dies. If the first to die leaves everything to their spouse (which is now the recommended advice in almost all circumstances), then the whole estate is completely free of Inheritance Tax. When the second member of the couple dies, there will be no Inheritance Tax to pay if the total is £650,000 or less. If your total is more than that, it is likely that there will be Inheritance Tax to pay by your heirs when the second spouse dies.

Widowed – someone whose spouse or registered civil partner is already dead. The tax-free amount depends on what the first to die left on their death. If everything was left to their spouse, then no Inheritance Tax will normally be due on the first £650,000 when the widow dies. If the late spouse left money or property to someone apart from the surviving spouse, then the widow will be able to leave at least £325,000 and up to £650,000 to her heirs with no Inheritance Tax due.

PLANNING FOR INHERITANCE TAX

Taking preventative action is essential

With careful planning and professional financial advice, it is possible to take preventative action to either reduce your beneficiaries' potential Inheritance Tax bill or mitigate it out altogether.

1. Make a Will
A vital element of effective estate planning is to make a Will – unfortunately, a significant number of adults with children under 18 fail to do so. This is mainly due to apathy, but also a result of the fact that many of us are uncomfortable talking about issues surrounding our death. Making a Will ensures your assets are distributed in accordance with your wishes.

This is particularly important if you have a spouse or partner, as there is no Inheritance Tax payable between the two of you, but there could be tax payable if you die intestate – without a Will – and assets end up going to other relatives.

2. Make allowable gifts
You can give cash or gifts worth up to £3,000 in total each tax year, and these will be exempt from Inheritance Tax when you die.

You can carry forward any unused part of the £3,000 exemption to the following year, but then you must use it or lose it.

Parents can give cash or gifts worth up to £5,000 when a child gets married, grandparents up to £2,500 and anyone else up to £1,000. Small gifts of up to £250 a year can also be made to as many people as you like.

3. Give away assets
Parents are increasingly providing children with funds to help them buy their own home. This can be done through a gift, and, provided the parents survive for seven years after making it, the money automatically ends up outside their estate for Inheritance Tax calculations – irrespective of size.

4. Make use of trusts
Assets can be put in trust, thereby no longer forming part of the estate. There are many types of trust available, and they usually involve parents (called 'settlors') investing a sum of money into a trust. The trust has to be set up with trustees – a suggested minimum of two – whose role is to ensure that on the death of the settlors, the investment is paid out according to the settlors' wishes. In most cases, this will be to children or grandchildren.

The most widely used trust is a 'discretionary' trust, which can be set up in a way that the settlors (parents) still have access to income or parts of the capital.

It can seem daunting to put money away in a trust, but they can be unwound in the event of a family crisis and monies returned to the settlors via the beneficiaries.

5. The income over expenditure rule
As well as putting lump sums into a trust, you can also make monthly contributions into certain savings or insurance policies and put them in trust.

The monthly contributions are potentially subject to Inheritance Tax, but, if you can prove that these payments are not compromising your standard of living, they are exempt.

In 2015, the Government announced a significant change to Individual Savings Account (ISA) inheritance rules – a change that has the potential to improve the situation of around 150,000 widows or widowers a year. Under the new rules, additional ISA subscriptions are now available to a surviving spouse or registered civil partner where the ISA holder passed away on or after 3 December 2014. This applies whether or not they inherit the deceased's ISA.

This comes in the form of an Additional Permitted Subscription (APS) ISA allowance (additional to their personal annual ISA), equal to the amount that was held in the ISA on the day the holder died. These changes mean that the APS ISA allowance is now available to their spouse or registered civil partner, even if they are not resident in the UK.

This APS can be invested in either stocks and shares or cash. If you stay with the same ISA provider as your spouse, you can invest the cash value in the investments available to you or use the assets that they held in their ISA as an 'in specie' subscription (a transfer of assets from one person to another without those assets being sold), assuming that you inherit those assets.

The additional allowance can also be transferred between ISA providers, but you will need to select from the new provider's investment options (the in specie option will not be available). However, it is important to note that this additional allowance has to be used within a specific time limit.

Significantly, these allowances are available whether or not the surviving spouse or registered civil partner inherited the deceased's ISA assets, so even if a spouse decides to bequeath the investments held within the ISA to an alternative beneficiary – perhaps passing them on directly to children or grandchildren in their Will – their surviving spouse will still benefit from the equivalent worth of tax-efficient savings potential.

6. Provide for the tax

If you are not in a position to take avoiding action, an alternative approach is to make provision for paying Inheritance Tax when it is due. The tax has to be paid within six months of death (interest is added after this time).

Because probate must be granted before any money can be released from an estate, the executor – usually a son or daughter – may have to borrow money or use their own funds to pay the Inheritance Tax bill.

This is where life assurance policies written into an appropriate trust come into their own. A life assurance policy is taken out on both a husband's and wife's life, with the proceeds payable only on second death.

The amount of cover should be equal to the expected Inheritance Tax liability. By putting the policy into an appropriate trust, it means it does not form part of the estate.

The proceeds can then be used to pay any Inheritance Tax bill without the need for the executors to borrow.

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WANT TO DISCUSS THE OPTIONS FOR ACCUMULATING AND PRESERVING YOUR WEALTH?

There are numerous options available when accumulating and preserving wealth. With our advice, you can be confident of making the right decisions based on your unique financial and family situation to best meet your personal objectives.

To review your situation, please contact us – we look forward to hearing from you.

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