BULLETIN

YOUR ESSENTIAL FINANCIAL BRIEFING

Welcome to this series of topical articles to help you navigate your financial world

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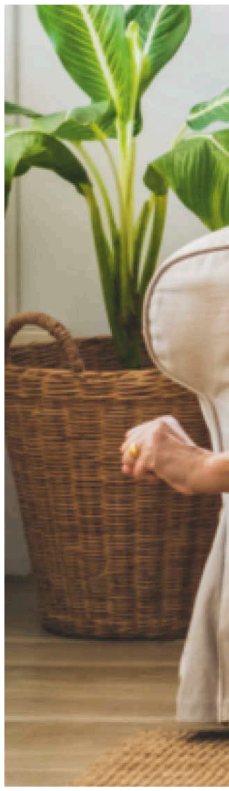
Corcillium
WEALTH MANAGEMENT

Why is a regular financial health check in retirement essential?



When the time comes to access your retirement income, you'll have new challenges to contend with

A regular health check can offer peace of mind, help to keep you on track and spot any issues before they become serious. Getting one is a no-brainer – and increasingly so in our later years.

The same applies to your finances – and never more so than in retirement. Just as your physical and mental health can become more complex in later life, so too can your financial plans.

Remaining invested in retirement, as many people now do, offers plenty of opportunities. But it also requires oversight and decision-making throughout a period that could last for up to three decades or more. Here's why…

A NEW SET OF RISKS

Once you move into retirement and start to take an income from your pension pot, you're exposed to a new set of risks – such as sequencing risk and longevity risk – which tend to have impacts that only become clear when it's too late.

Regular reviews – with a view to recognising and mitigating the effects of those risks – are therefore essential, says Danni Brotherston, Head of Advice Policy and Development at St. James's Place Wealth Management.

"Ongoing advice is important before retirement, but arguably even more so in retirement – especially if you remain invested or you're heavily reliant on other assets to provide an income."

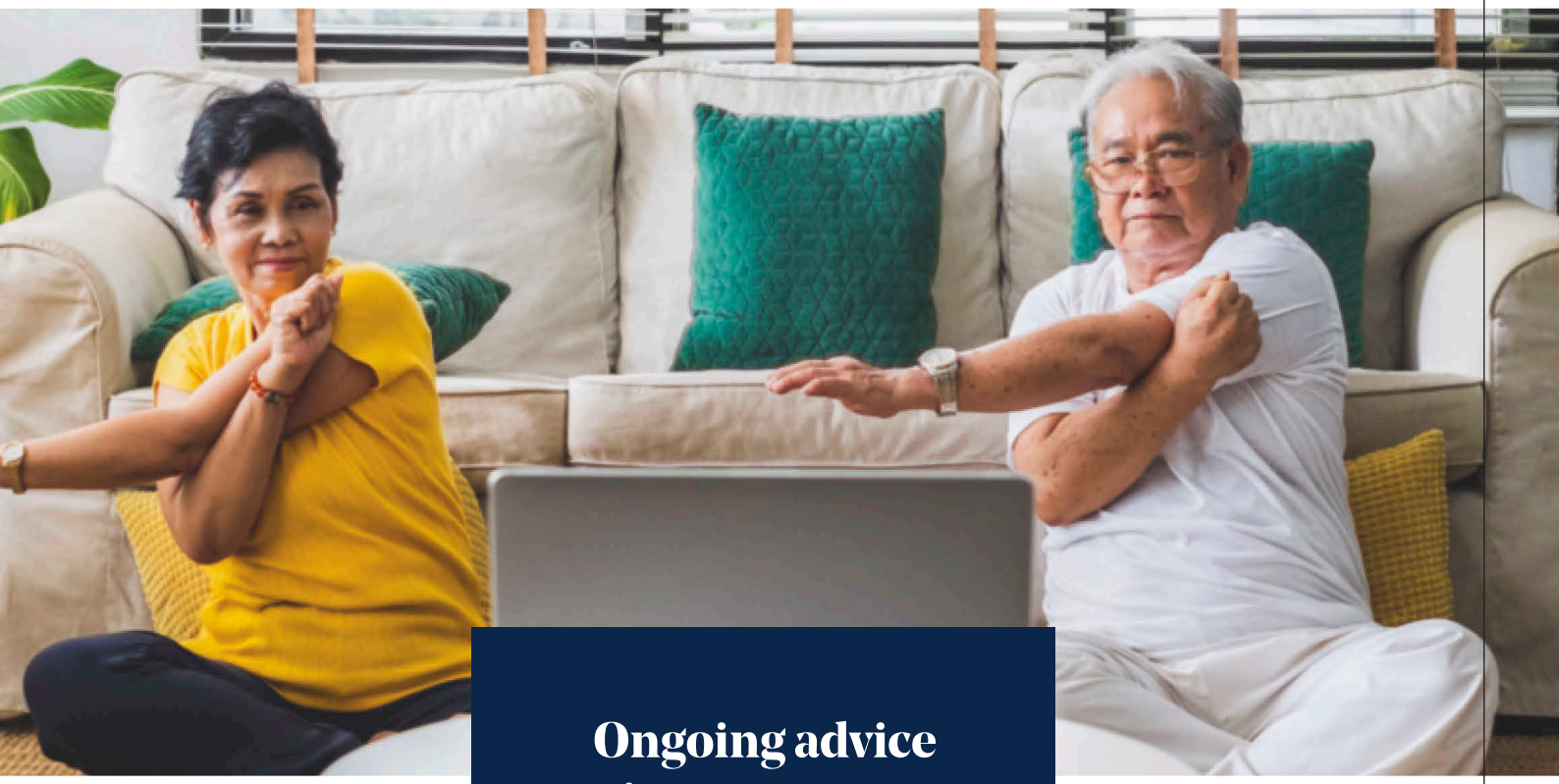
UNFORESEEN EVENTS

Changes in personal circumstances and/or the macroeconomic environment can have a material impact on the chances of your achieving your goals – and should trigger a review of your retirement arrangements to check you're not adversely affected.

The coronavirus pandemic has been one such catalyst.

Resulting in significant market volatility, it has, for example, raised the spectre of whether retirees should continue to withdraw the same level of income when markets are down as they were before the outbreak.

"Markets have fallen during the crisis," confirms Brotherston. "But a lot of people have also been spending less. So, there might be scope to take a reduced income



Ongoing advice is even more important in retirement

from their portfolios to help offset some of the negative effects of volatility."

COVID-19 has forced us to adjust our financial plans in other ways too.

In a climate of widespread redundancies, some people will have been faced with the prospect of retirement a bit earlier than expected. Others are opting to work for longer, taking a more phased approach to retirement, or even returning to work as they look to bolster their savings.

"You need to evaluate the impact *all* these types of events can have on your financial objectives and vulnerability – all the way through retirement," argues Brotherston.

This includes everything from the gifting of an inheritance and divorce, to changes to your health. In fact, she adds, changed circumstances in retirement are often linked to health – and the effect a decline can have on life expectancy and expenditure.

"Your health might deteriorate over time, particularly if you develop a condition," Brotherston explains. "This can mean that a solution that was right for you early on in retirement may not be one that's right later on."

SHARING THE LOAD

Most financial advisers undertake a formal review with their clients once a year, with additional reviews as events and circumstances demand them.

Regularly reviewing your plans at least once a year will help your investments to continue to reflect your risk appetite and ensure that everything remains in line with your objectives.

"Everyone has different priorities, and an adviser who really knows you can help you to make the right decisions – by adapting your strategy to your personal wants and needs," Brotherston says.

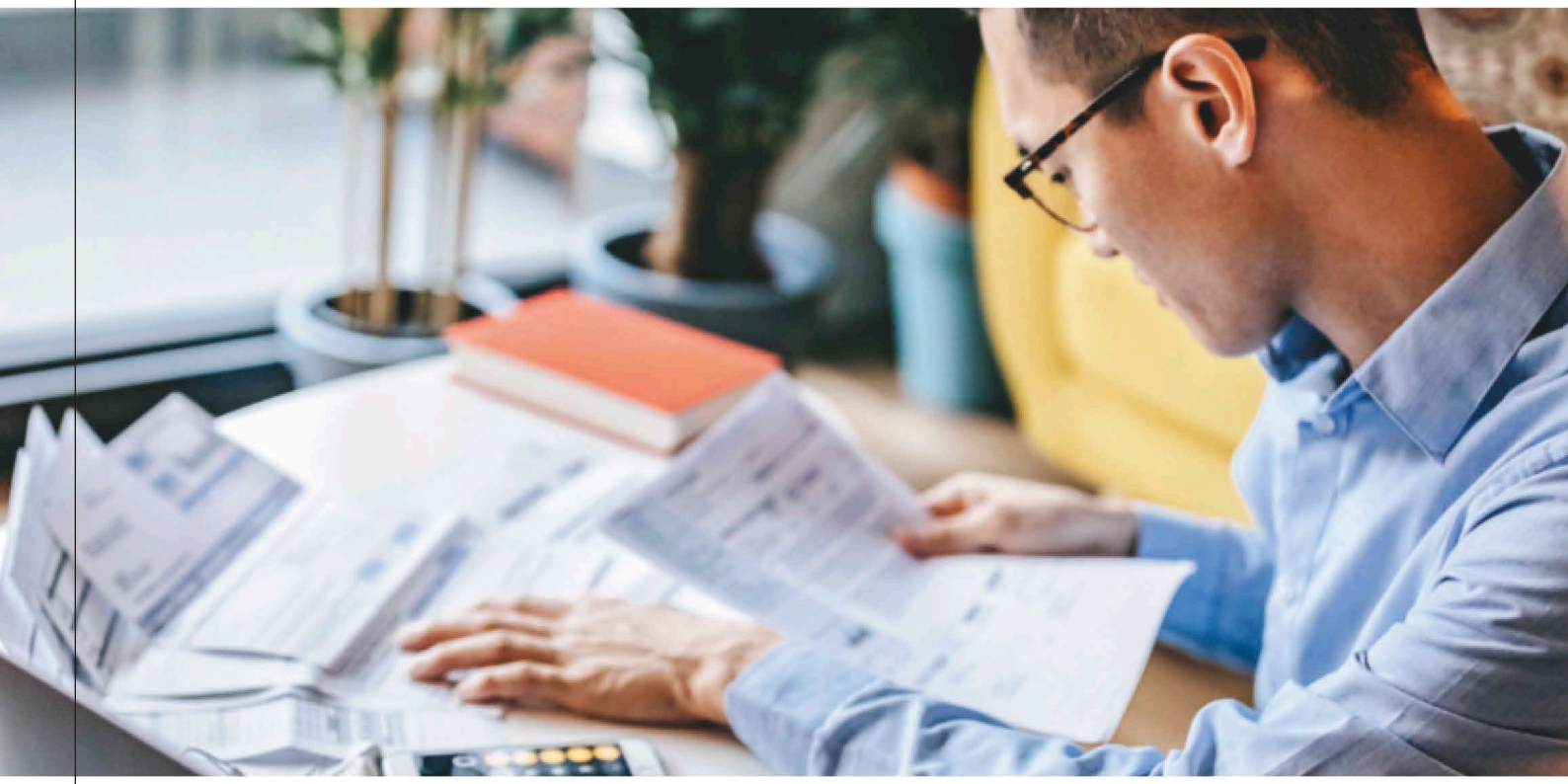
"There are so many moving parts that it's essential to regularly review them."

Please get in touch if you need help accessing your retirement pot.

The value of an investment with St. James's Place will be directly linked to the performance of the funds you select, and the value can therefore go down as well as up. You may get back less than you invested.

Stamp duty holiday: how to be smart about using your savings

Putting the spare cash towards your mortgage can pay off in the long run



Prospective homebuyers received a welcome surprise in Chancellor Rishi Sunak's Summer Statement: a stamp duty holiday that will run until 31 March 2021 in England and Northern Ireland.

Part of a series of measures aimed at reviving the economy amid the COVID-19 pandemic, the increase in the threshold at which stamp duty kicks in means homebuyers could save as much as £15,000 on the purchase of their property.

So how to use these new-found savings? Rather than spending them on some 'nice-to-have' items for your new home, consider how the money could help over the long term.

HOW MUCH STAMP DUTY COULD I SAVE?

Prior to the announcement, stamp duty amounted to 2% on property sold for £125,000 or more. This then increased to 5% for properties above £250,000, with the highest rate at 12%. First-time buyers did not pay any stamp duty on purchases up to £300,000.

Under the new measures, the stamp duty threshold has been increased to £500,000. Homebuyers will pay 5% stamp duty on the portion of a property's value from £500,001 to £925,000, 10% on the portion from £925,001 to £1.5 million, and 12% above £1.5 million.[1]

The chancellor said in the Summer Statement: "The average stamp duty bill will fall by £4,500. And nearly nine out of 10 people buying a main home this year will pay no stamp duty at all."

Bear in mind that while investors in buy-to-let and those buying a second home are entitled to the tax cut, they will still have to pay the additional 3% stamp duty surcharge that applies to purchases of additional homes.

In Scotland and Wales, homebuyers will also benefit from a stamp duty holiday, seeing this tax waived on purchases up to £250,000 until 31 March 2021. Previously, only purchases under £145,000 in Scotland or £180,000 in Wales were exempt.[2,3]

Stamp duty is often the second-largest cost you encounter after paying your deposit, and the temporary change could save homebuyers a substantial sum.

MAXIMISING YOUR STAMP DUTY SAVINGS

You may be tempted to use these savings on renovations or new furnishings for your new home. However, if you're smart about using any spare cash, you can save far more over the long term, and may even be able to pay off your mortgage earlier as part of your retirement game plan.

Paul Johnson, Client Banking and Mortgage Manager at St. James's Place, stresses that you can make a significant difference to your mortgage repayments by using your savings wisely.

"It may be tempting to buy a sofa or new carpets. And while this may be nice initially, if you can reduce your mortgage by £15,000, you could save far more in interest payments over the longer term.

"You may also, for example, reduce your loan to value from 85% to 80%, and qualify for lower rates when you apply for your mortgage. The lower the amount of outstanding capital, the lower the interest rate you may pay on your mortgage and the quicker you wipe out your debt."

This money can also be used to 'overpay' your mortgage – the majority of standard mortgages enable you to overpay by up to 10% a year. "Ultimately, as well as the interest rate, flexibility is important," says Johnson.

"It's important to talk to your St. James's Place Partner about the right mortgage for you, and how to maximise any overpayments to look beyond short-term gains."

Please get in touch if you need help to understand your options and advice on the wisest strategy for making overpayments and minimising the interest you pay. It's important that you secure the right mortgage for your circumstances.

It may be tempting to buy a sofa or new carpets. But if you can reduce your mortgage by £15,000, you could save far more in interest payments

Your home may be repossessed if you do not keep up repayments on your mortgage.

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.

Sources:

[1] Stamp Duty Land Tax: temporary reduced rates, HM Revenue & Customs, July 2020

[2] Help for homebuyers and employment support, Scottish Government, July 2020

[3] Land Transaction Tax rates and bands, Welsh Government, July 2020

You can't take your money with you, but you can decide where it goes when you're gone. Taking time to plan properly when you're still alive will help to prevent the start of a family feud upon your death.

RISING TIDE OF LEGACY DISPUTES

How you divide your wealth and who you leave it to when you die is a highly emotive subject.

According to a report by Direct Line in 2019, 12.6 million people would be prepared to go to court to challenge the will of a parent, partner or loved one. The fact that so many people would consider such strong action shows just how deep feelings run.

There are thousands of caveats (complaints) lodged each year to block a grant of probate – the legal document generally needed by an executor to administer your estate after death.

Many cases end up in protracted and expensive legal battles, and while most are settled out of court, hundreds still end up before a judge.

This sort of legal wrangling is the last thing that most people want for their family when they die.

REASONS TO WRANGLE

There are lots of different factors fuelling the decision to challenge the way a loved one has bequeathed their assets.

Though in recent years divorce rates have been trending downwards, figures from the Office for National Statistics show that they saw a rise in the 1960s, '70s, '80s and '90s, leading to more second and third marriages and larger, more complicated, families. Simply put, there are more people that may end up feeling hard done by.

In addition, figures from HM Land Registry in January 2020

Everything you need to know about financial legacy planning

How to leave a financial legacy that builds, not breaks, your family's bonds

The best way to avoid a dispute over your estate is to talk to your family and to make detailed plans

showed the huge upward trend in property prices over the past 25 years, meaning there's more to fight about. In January 1995 the average property price in the UK was just over £55,000. According to HM Land Registry, it had jumped to just over £231,000 by January 2020.

Many homes are worth far in excess of this average, and if there's a second home to consider the overall value of property assets can be significant.

It's also true that we're living longer, and as many parents see their children attaining their own financial freedom, they may decide to bequeath money elsewhere.

Without an upfront conversation, this decision can come as an unpleasant surprise and possibly lead to a dispute about your estate.

A POSITIVE AND PAINLESS FINANCIAL LEGACY

The best way to avoid a dispute over your estate is to talk to your family and to make detailed plans. This also lets you get an idea of where your help might be needed most and what sort of expectations people might have.

For example, if your children have been successful and created their own financial freedom, it might make sense to increase the amount you bequeath to your grandchildren. If you have a second home, do you want to leave it jointly to your children or give it to one child who might receive a smaller share of your other assets?

This approach may help prevent arguments over ownership between your children in later years. It will also make it less complicated to pass it on to the subsequent generation in the future.

Whatever you decide, make sure it is recorded in a professionally drafted will. Research carried out by Macmillan Cancer support in 2018 shows that around two-thirds of UK adults do not have a will. In this scenario your estate will be split up in accordance with intestacy laws. This could lead to arguments, confusion and disappointment for your family and loved ones, and your own wishes will not be legally enforceable.

Once you've got a will drafted, make sure to keep it up to date, and keep talking to your family to avoid any big surprises when you die. This upfront approach will reduce the chance of anyone trying to contest it once you're gone.

REDUCING IHT LIABILITY

Family and loved ones aren't the only people who would like some of your estate. The taxman is also after a slice.

The amount HMRC collects through Inheritance Tax (IHT) doubled from less than £2.5 billion in 2009/10 to more than £5 billion in 2018/2019[1]. HMRC figures show that each year, between 20,000 and 30,000 people trigger an IHT charge when they die[2].

There are significant tax breaks and allowances available to help you to distribute your assets to others in life and in death. But it's very easy to pay more tax than necessary, so structuring your plans in a tax-efficient way is essential if you want your family to get as much money as possible. Do get in touch if you need any help in this area.

The levels and bases of taxation and reliefs from taxation can change at any time and are dependent on individual circumstances.

Will writing involves the referral to a service that is separate and distinct to those offered by St. James's Place. Wills are not regulated by the Financial Conduct Authority.

Sources:

[1] https://www.statista.com/statistics/284325/united-kingdom-hmrc-tax-receipts-inheritance-tax/

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/903290/IHT_Commentary.pdf

How will younger people ask for compensation after lockdown?

Younger generations will soon ask to be repaid after bearing the heavy economic costs of COVID-19 lockdowns, says Michael Collins, Investment Specialist at Magellan, which manages the St. James's Place International Equity Fund

Captain Sir Tom Moore ('Captain Tom') is probably Britain's favourite centenarian.

After walking 100 laps of his garden for charity, the veteran raised almost £33 million for the NHS, won a knighthood from the Queen, and received 150,000 cards for his birthday in April.

But older people in general may soon be asked to do more to compensate younger generations for the economic impact of COVID-19.

Younger workers have been hit harder than older ones, especially when it comes to jobs, as people who graduate during recessions are usually handicapped for years as they struggle to find appropriate work.

And more young people than old work in industries such as tourism, hospitality and leisure, which have been the hardest hit by restrictions introduced to slow infection rates.

Plus, when companies make redundancies it's often the young who go first, because they are generally the cheapest to lay off, know less about the companies they work in, and are the least skilled.

So, even though the COVID-19 virus is most dangerous for older people who catch it, the young may feel more hard done by when it comes to its economic impact.

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POLICY STRUGGLES

When you add to this the fact that it's mostly younger people who will have to repay the UK's huge debt burden, how might this stir younger generations to ask for payback?

This emerging struggle is based on the idea of 'intergenerational equity' – a idea that says each generation should be fair to future generations. In financial terms, that means each generation should leave behind an economy that works, as well as manageable levels of public debt.

In this context, here are some areas where we might soon see younger generations asking for compensation.

THE FOUR KEY POINTS

1 The pivotal showdown will be over how to reduce government debt. The young will push governments to prioritise growth and let inflation rise, because inflation reduces the real value of debt, allowing repayments to be made more easily. In this way it favours borrowers (the young with personal debts) over lenders (the elderly with savings). However, this option risks causing higher interest rates that would actually increase the size of debt repayments.

2 The second clash will centre on the job-creating measures that young people are likely to support as they demand a return to the pre-COVID-19 jobs markets. Again, these solutions are likely to risk inflation and perhaps higher interest rates.

3 The third fight will be over fiscal policy more generally – in other words, how the government raises taxes and spends money. On the revenue side, the young are generally against higher income and inheritance taxes, while favouring wealth, property, and capital-gains taxes that generally target the elderly. The spending side of this debate will feature a battle over education, job creation, care for the elderly and healthcare to name four flashpoints, where the young will fight for spending on skills and jobs.

4 The fourth clash will be over the priority given to combating climate change. While older generations won't necessarily oppose demands of the young to phase out fossil fuels, dealing with climate change is politically complicated. Some campaigners hope not just to reduce the use of fossil fuels, but to change the shape of the UK economy in a wider-ranging way, in what has been called a 'Green New Deal'.

How these four struggles are resolved could change the course of economies in coming decades.

DIVIDING LINES

A political battle between generations was arguably coming anyway, because the Baby Boomers (people born from 1946-1964) were already leaving behind larger public debts. Since the financial crisis of 2008, many countries around the world have borrowed more than they used to.

But COVID-19 has accelerated this struggle by damaging the jobs market and leaving the UK with much higher levels of debt.

Ultimately, while the dividing lines around this issue are clear, the outcomes of the battle will depend on how much fight the young have in them.

If it's anywhere near as much as the fight within Captain Tom Moore, the struggle could be a big one.

Where the opinions of third parties are offered, these may not necessarily reflect those of St. James's Place.

Beyond cash: how parents can help children buy their first home

Older generations looking to give their children or grandchildren a boost on to the property ladder don't need to drain their retirement pot

Do you know who the UK's eleventh biggest mortgage lender is, currently dominating a large chunk of the market? You might be surprised to learn it's not a major financial institution – it's the so-called 'Bank of Mum and Dad'.

Parents in the UK were expected to lend a hefty £6.3 billion towards helping their children get on to the property ladder in 2019, according to Legal & General's *Bank of Mum and Dad* report, and the average contribution was £24,100, rising to £31,000 in London.

For many younger people battling stagnant salaries and soaring house prices, help from older generations is the only way to purchase a property. The Office for National Statistics published its 'House price to workplace-based earnings ratio' in March 2020 and this showed that UK house prices have soared by 42% in the last ten years, while average earnings have risen by just 17%.

EAGER TO HELP

The most obvious way for parents and grandparents to help their child or grandchild buy their first home is to gift a sum of money towards a deposit.

But Paul Johnson, Client Banking and Mortgage Manager at St. James's Place, warns of the risks involved in handing over large amounts of money.

"We're finding that some parents are delaying their retirement, or cashing in pension pots and using their tax-free cash from their pension to help their children, when they shouldn't be," he says. "Parents who do this may risk impacting their own retirement plans."

"Also, while there may be no immediate implications from gifting, any large amount could be subject to Inheritance Tax (IHT) if the parent dies within seven years of making the gift."

Meanwhile, rising life expectancy means that retirement pots have to last longer than ever. "Giving a large chunk of money often isn't the best way to help," Johnson adds. "Especially since there are various other options that can be explored."

ALTERNATIVES TO GIFTING

There are other ways to help – Family Assistance Mortgages, for example – that take into account parents' or grandparents' finances and don't require them to hand over large amounts of cash.

Parents may jointly apply for a mortgage with their younger relative, so their income is included in the lender's assessment and will increase the child's borrowing potential, Johnson says. In this case, it's vital to consider the legal and tax implications.

Giving a large chunk of money often isn't the best way to help – especially since there are various other options that can be explored

In a joint borrower sole proprietor arrangement, the older relatives will not be named on the property ownership deeds, meaning they will not be liable for the Stamp Duty surcharge on the purchase, nor Capital Gains Tax when the property is sold.

Or it may be that the best option is for a parent or grandparent to use a portion of their savings to reduce the homebuyer's repayments and secure the mortgage.

"A parent's savings may be deposited into an account that sits alongside the mortgage to reduce the repayments, for example, by lowering the interest rate payable," says Johnson.

These family offset accounts are a good solution when an older relative wants to help, but does not want to gift money they may later need themselves.

In both cases, the older generation keeps ownership of their investments and savings – and the ability to benefit from them in the future. However, terms and conditions apply, so independent legal advice should be sought.

There are other arrangements available where, for example, a parent can use their own property as security to help young relatives. These guarantor mortgages come with their own risks, however – notably that, should a child miss their monthly mortgage payments, a lender could potentially force the parent to sell their own home.

If you're a parent or grandparent looking to help a younger relative buy a property, then it's crucial that you take legal and financial advice before you enter into any type of contract.

Please get in touch to understand your options – and for advice on the range of family assistance mortgages available, and managing the application process from start to finish.

The home on which the mortgage is secured may be repossessed if repayments are not maintained.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are dependent on individual circumstances.

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