money WISE

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INDEPENDENT FINANCIAL ADVISERS

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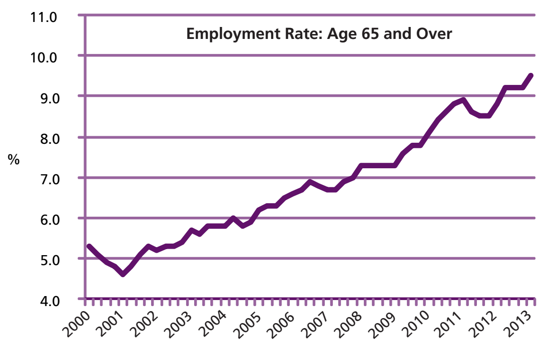
Working after age 65 – choice or necessity?

Many more people are now working well beyond state pension age (SPA) – some by choice, but many because they cannot afford to retire just yet.

In mid 2013, there were 1,003,000 people aged 65 or over in employment, according to the UK Government's Office for National Statistics (ONS), representing nearly one in ten of those aged 65 or over. This trend has been rising almost since the turn of the century, as the graph clearly shows.



Source – Office for National Statistics

Why are so many people working beyond what is currently the male state pension age?

One reason is that there are now more people of this age group in the population, according to the ONS. Then there is the abolition of 65 as a statutory retirement age, which has probably made it harder for employers to ease out some of their older employees. In any case, about a third of people working past SPA are self-employed. If you are self-employed, there is no employer pressure to stop work – the choice is yours.

Insufficient retirement funds

Earlier ONS research indicates that very few people fail to draw their state pension once they are entitled to it, possibly due to insufficient retirement income. "The vast majority of people draw their state pension on time," according to the Pensions Minister.

With radical reforms to state pensions less than three years away, now is the time to examine your planning and make sure you are on track to retire when you want to, rather than when you can afford to.

Remember – even if you need to work, you may have difficulties finding employment. Jobs could turn out to be rare and your health, energy and enthusiasm might end up being a barrier.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Is your estate subject to more tax?

Your estate could now be subject to greater inheritance tax (IHT) as a result of a little-publicised change in the tax rules this year. Many loans and other liabilities at death will no longer reduce the value of a person's taxable estate.

Suppose you have taken out a loan of £250,000 in order to invest in a business valued at £300,000. After a two-year qualifying period, the business could be eligible for 100% business property relief, and it will then effectively be free of IHT.

Previously, when you died, the £250,000 would have been deducted against the value of your taxable estate which would have reduced the amount of IHT due. You would have had the same tax advantage for assets that qualified for agricultural property relief or woodlands relief.

Now, however, if you have incurred a liability to acquire, maintain or enhance such property that is eligible for relief, this liability will initially be set against that tax free property, with only any excess amount deducted against the general value of the estate. So in the example above, your estate would see no reduction in IHT because of the £250,000 liability.

The loan of £250,000 will be deducted from the value of the tax-free business assets, with the effect that the estate will now have jumped £250,000 in value. It would make no difference, as is often the case, if residential property is used as security for the loan. Trusts will also be affected by this change.

The same principle will apply where a person incurs a liability in order to invest in excluded property, i.e. overseas property that is owned by someone who is non-UK domiciled or owned by a trust set up by a non-UK domiciled settlor. Excluded property is outside the scope of UK IHT.

Tightening up

In general, the deduction of liabilities has been tightened up. A liability will now only be deductible against the value of a person's estate if that liability is repaid after death out of the assets of the estate, except where an estate does not repay a liability for a genuine commercial reason.

The new rules will apply to deaths occurring on or after 17 July 2013. The date when the deceased person actually incurred the liability makes no difference. There will therefore be a retrospective impact on many estates.

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Tackling the financial aspects of divorce

Britain has the highest divorce rate in Europe, according to the EU's statistical office Eurostat. Couples are increasingly turning to financial advisers, as well as lawyers, when they split up.

The key areas where a financial adviser's skills and knowledge are critical include:

- **Pensions** A couple's pension rights are often their most important asset or at least their next biggest asset after a property or business. The three main ways to deal with pensions after divorce are offsetting, where each party's pension rights are untouched but their value is accounted for in the division of the remaining property; sharing out a couple's pension rights at the time of divorce; or sharing them out when the pension scheme member retires.

- **The home** is likely to be a matter of contention with particular issues around arranging mortgages for the existing property or separate new ones.

- **Investments** An older couple may have built a portfolio of investments. As each ex-spouse takes their share of the investments, they often discover that their needs have changed following the split. They might need more income or view risk-taking with investments differently.

- **Life assurance** and other cover will need reappraising and probably reorganising. Where one spouse is paying maintenance for children or to the former spouse it generally makes sense to insure the policy holder's life and probably their health as well. Existing policies and their associated trusts may need adjusting or new ones taken out.

- **Estate planning and wills** are also bound to need some attention. Divorce will automatically invalidate an existing will and most people want to change their wills anyway in these circumstances.

If your marriage or civil partnership breaks down, we are here to advise you on technical financial matters.

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ISAs: drip feeding your investment

In volatile market conditions, spreading your investment evenly over six months could be a sensible idea.

Have you made your full 2013/14 ISA investment yet?

The volatile market conditions of recent times may have caused you to worry about getting the timing right for stocks and shares ISA investment. It is unpalatable to make a lump sum investment which then loses value the following week.

The trouble is that in reality it is virtually impossible to win at the short term timing game except with a degree of luck: the professionals at investment institutions generally do not try. For them, the short term gyrations are just market 'noise': what matters is the long term. It is impossible to land on exactly the right time to buy an investment.

Drip feeding your ISA offers a compromise between biting the bullet with a one-off investment and waiting for the 'right time', something that only becomes obvious with hindsight. For example, you could opt to invest £1,920 each month from October 2013 through to March 2014. That would mean you would have invested your stocks and shares ISA maximum for this tax year of £11,520 and, unless you were extremely unlucky, you would not have invested all of it at the top of the market. But by the same token, you would be just as unlikely to have invested all your money at the market bottom.

Power of averages

By investing the same amount each month, you buy more shares or units in your chosen fund when their prices are low and fewer of them when prices are high. The mathematics behind this – pound cost averaging – mean that your average investment price will be less than the average across the dates you invest. However, if the market rises steadily from October to March, then the one-off investment would have been a better choice. But that requires hindsight…

The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long term investment and should fit in with your overall attitude to risk and financial circumstances.

The Care Bill comes into focus

The legislation to reform the funding of long term care in England has emerged, but it is no panacea.

The Care Bill, now before parliament, is based on the proposals in a 2011 report from the government sponsored Commission on Funding of Care and Support (often referred to as the Dilnot Report). The main points of the Bill are as follows:

- There will be a cap on total lifetime care costs of £72,000, but this excludes accommodation and other general living costs. Once expenditure on an individual reaches that level, the Government will cover the costs of care. The cap will be index-linked.
- The cap is based on the level of fees that your local authority would pay for your care, not what you personally actually pay for care, which could turn out to be much more.
- If you have capital of more than around £118,000, you will have to meet all your costs up to the point at which your costs reach the amount of the cap.
- If your capital resources are less than £118,000 but more than around £17,000, you will have to make a contribution towards the costs of the care until the cap is reached. The amount of the contribution has not yet been announced.
- Your expenditure on long term care that counts towards the £72,000 cap will not start to count until April 2016. Even then, the meter will not start running unless you are assessed as having a "substantial" care requirement.

This legislation should remove the extreme costs, but on some estimates you could still have to spend over £200,000 before the State starts to meet your care costs. Get in touch if you'd like to discuss planning for long term care.

Education – managing degrees of debt

Many prospective university students are now deliberating over whether they should continue in education.

A year after tuition fees were raised to a maximum of £9,000 a year, University admissions body UCAS reports an impact on application numbers. They are well below the numbers in 2011 and 2010, suggesting that cost could be a challenge. Yet in Northern Ireland and Scotland, the figures are practically unchanged compared to previous years. The reality for many others is graduating with a lot of debt. The average student in England who started in 2012 could now accrue debt of £43,500, according to charity Credit Action, although a graduate level job could provide eventual higher earnings.


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For parents and grandparents who want to contribute, planning ahead and saving in a tax-free junior ISA (or Child Trust Fund if relevant) could mean £3,720 (2013/14) a year being put aside until the child reaches 18.

For those with substantial assets and more complex inheritance tax planning needs, setting up a trust may be worthwhile. While trusts may involve some additional costs, they can provide greater flexibility, and they do not automatically place relatively large sums in the hands of 18 year olds. The 'squeezed middle' are most likely to feel the impact of university costs, as students from low income families can usually apply for maintenance grants. The student loan, therefore, could make sense as repayments are only made when graduates earn £21,000, above which 9% of their salary is automatically deducted.

University education is a great benefit for many students, but it is preferable if it does not involve a mountain of debt. We are here to advise you on reducing the impact of high fees.

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The FCA does not regulate taxation and trust advice.

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