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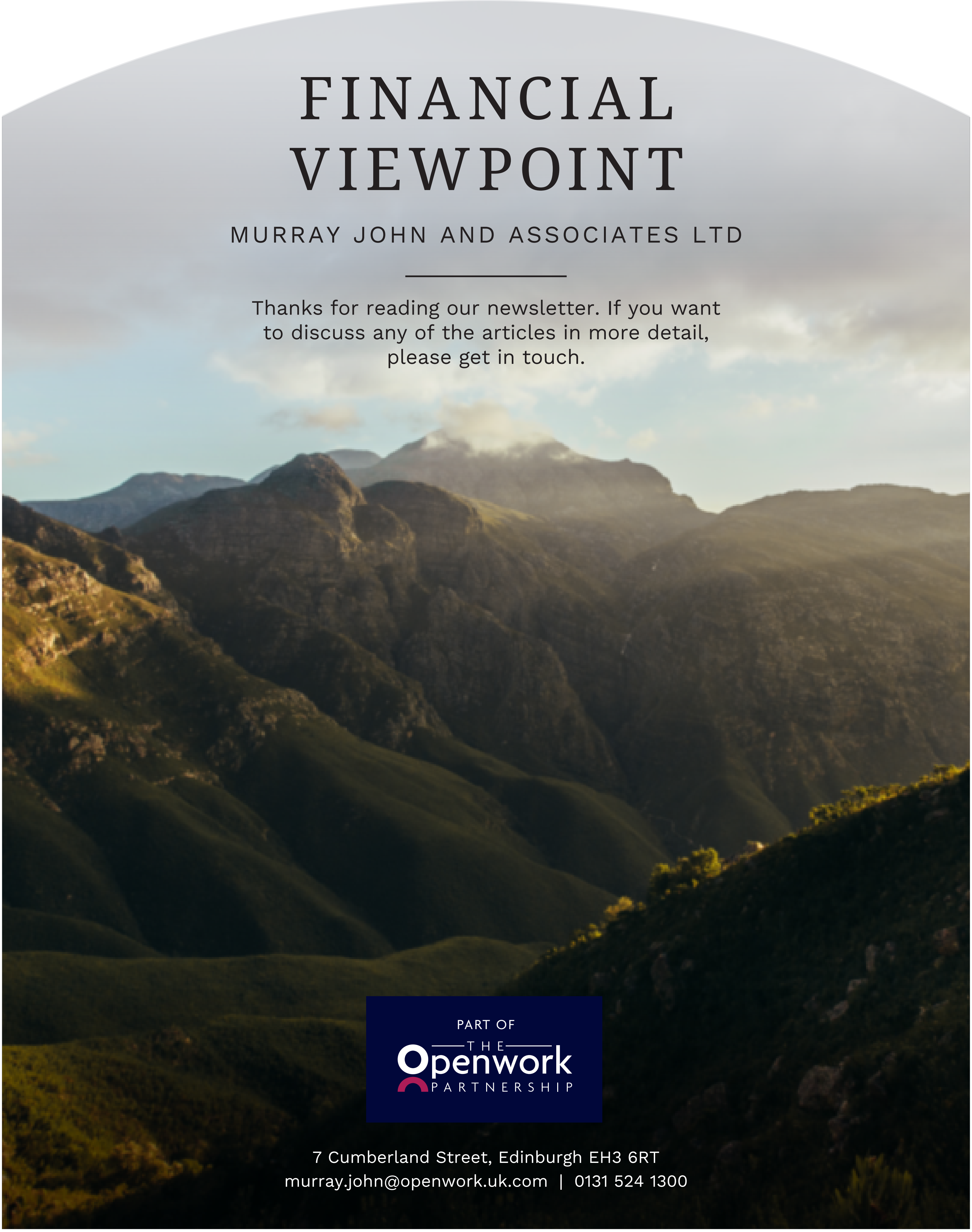

FINANCIAL VIEWPOINT

MURRAY JOHN AND ASSOCIATES LTD

Thanks for reading our newsletter. If you want to discuss any of the articles in more detail, please get in touch.

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The benefits of starting a pension early

It's never too early to start saving for retirement. In fact, the sooner you start saving, the more time for your money to grow.

Starting a pension early is one of the best things you can do for your financial future. By taking advantage of the benefits of early retirement savings, you can ensure that you have a secure financial future and enjoy your retirement years to the fullest.

More time to save

One of the most significant benefits of starting a pension early is the additional time you have to save money. The longer your money is invested, the more time for it to grow, which can help you accumulate a larger retirement fund. Starting early also means that you can take advantage of compound interest, which is interest earned on both the principal and the accumulated interest. Over time, compound interest can significantly increase the value of your pension fund.

Lower monthly contributions

Starting a pension early can also help you keep your monthly contributions lower. Because you have more time to save, you can spread your contributions over a longer period. This can make it easier to budget for your retirement savings and ensure that you are putting away enough money to reach your retirement goals.

Employer contributions

If you are enrolled in a workplace pension scheme many employers offer to match employee pension contributions, (up to a certain percentage). This 'free money' can help you save even more for retirement.

Tax benefits

The government offers tax relief on pension contributions, which means you can put more money into your pension each month. For example, if you're a taxpayer, you can get up to 60% tax relief on your contributions.

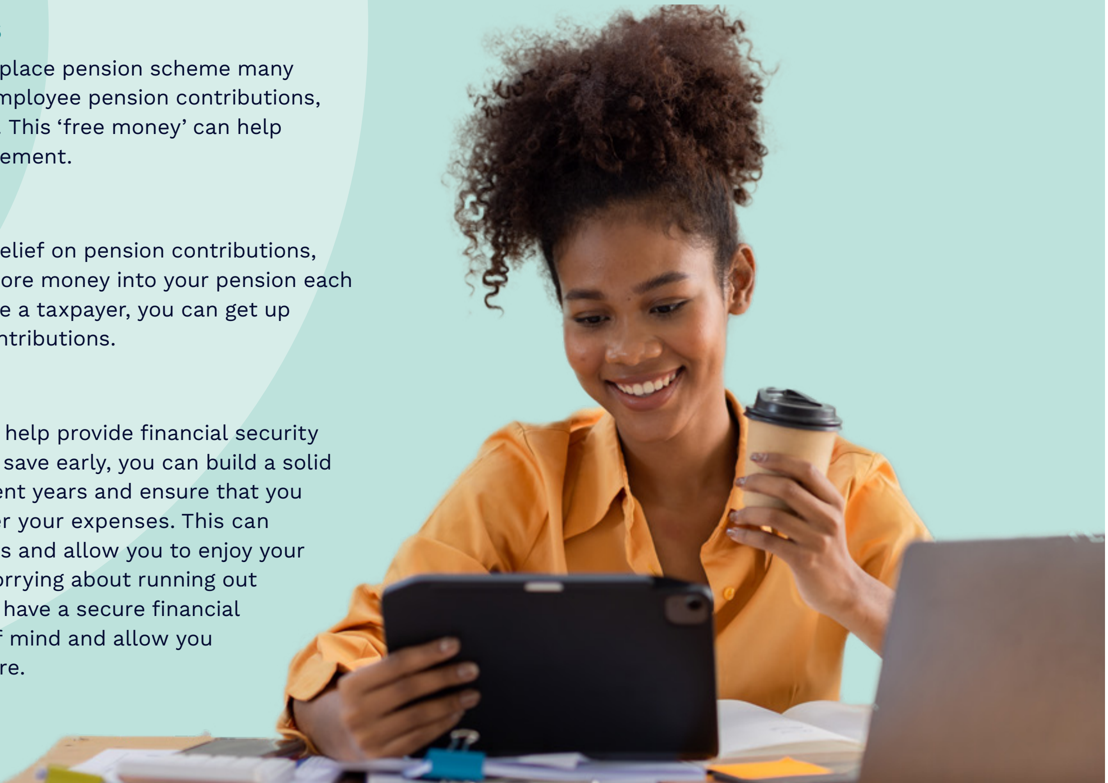
Financial security

Starting a pension early can help provide financial security in retirement. By starting to save early, you can build a solid foundation for your retirement years and ensure that you have enough money to cover your expenses. This can help alleviate financial stress and allow you to enjoy your retirement years without worrying about running out of money. Knowing that you have a secure financial future can give you peace of mind and allow you to enjoy your retirement more.

Tips for starting a pension early:

- **Set up a regular contribution**
  The best way to make sure you're saving for retirement is to set up a regular contribution. This could be a fixed amount each month or a percentage of your salary.
- **Increase your contributions as you earn more**
  As your income increases, you can increase your pension contributions to make sure you're on track for a comfortable retirement.
- **Take advantage of tax relief**
  The government offers tax relief on pension contributions, which means you can put more money into your pension each month.
- **Consider employer contributions**
  Many employers offer to match employee pension contributions, which is free money that can help you save even more for retirement.

By giving yourself more time to save, keeping your contributions manageable, taking advantage of tax benefits, and providing financial security in retirement, you can set yourself up for a comfortable and fulfilling retirement. So, if you haven't started saving for retirement yet, now is the time to start!



The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Is it better to gift a property or leave it in your will?

Before passing away, Maggie gifted her house worth more than £700,000 to her son Bruce but still remained living there, paying a token amount of rent. Nine years later, following Maggie's death, Bruce was surprised to be landed with an inheritance tax bill for the property.

What did Maggie do wrong?

Maggie knew if she died within seven years of gifting Bruce her house that he may well end up paying inheritance tax on it. She also knew enough to pay Bruce rent after gifting him the property. However, the amount she paid was well below the market rate and this is where she fell foul of inheritance tax laws. By only paying a token amount of rent, the house remained part of Maggie's estate and Bruce was hit with a hefty inheritance tax bill.

How to decide whether to gift a property or leave it in your will?

There are no easy answers to this. There are a lot of complicated tax rules to consider and the best approach will depend on your individual circumstances. Whatever the situation, it's an important decision and one best made as a family. We've looked at the pros and cons of both to give you an idea of the kind of things you'll need to consider.

Leaving a property in your will

The first thing to do is find out the residence nil rate band (RNRB) allowance for the property in question. If, like Maggie, you're leaving your main home to a child or grandchild, they'll benefit from an extra £175,000 tax-free allowance on top of the standard £325,000. This means you could leave an estate worth up to £500,000 and there'll be no inheritance tax to pay. And if you and your spouse are leaving a joint estate, that doubles to £1m.

Maggie's husband Bill died in 2019 and the executors of the estate can also claim Bill's residence Nil Rate Band. This means that the £675,000 can be claimed as an amount where no inheritance tax is applied, meaning this £675,000 remains inheritance tax free.

The benefits of leaving a property in your will are that you'll retain control of it, it isn't generally at risk from anyone else's divorce, death, or bankruptcy and, currently, there's no capital gains tax to pay for the beneficiary.

Working with a professional financial planner, it would have been possible for Bill to leave 'assets to the value of the Nil Rate Band' and have what is called a 'Will Trust' written into the will. As this is a specialist area, it is important to discuss with a professional and consider the options.

Gifting a property

If, as in Maggie's case, the property is worth more than the RNRB, you may want to consider passing full ownership to a child. You then need to move out or, as Bruce found out to his cost, pay rent at the going market rate.

There are many reasons people choose to gift a property: to minimise inheritance tax; to provide financial help to loved ones sooner rather than later; or to avoid care home fees. If you're considering it for the latter reason, you should be aware that anti-avoidance rules are designed to stop people doing this.

If you gift a property, you'll lose control of it. But once the transfer of ownership takes place, so begins the seven year countdown for removing the property from inheritance tax liability.

Right sizing

Another option for improving your quality of life into old age and helping the kids out at the same time is right sizing. In other words, selling the family home and buying somewhere that is easier to manage and better suits your needs as you get older. This option generally releases equity, which can be used to give loved ones a financial boost while you're still alive. Alternatively, you could investigate a lifetime mortgage as an option for releasing money to gift away now.

Insuring against inheritance tax

Another possibility Maggie could have considered is taking out whole of life insurance. This would have provided a tax-free lump sum on death to cover Bruce's inheritance tax bill. Writing the policy into trust would have ensured any payout wasn't included as part of Maggie's estate.

However, policies can be expensive and HMRC would have treated the premiums as a lifetime gift if Maggie paid them herself. Bearing this in mind and considering Bruce would have been the person to benefit from the insurance cover, it would have made sense for him to pay the premiums if he was keen to go down this road.

Key takeaways:

- When deciding whether to gift a property or leave it in your will, you need to focus on what you're trying to achieve.
- The benefits of leaving a property in your will are that you'll retain control it for the rest of your life, it isn't generally at risk from anyone else's divorce, death or bankruptcy and, currently, there's no capital gains tax to pay for the person who inherits it.
- Gifting a property can be used to minimise inheritance tax and allow you to provide financial support to loved ones before your death.
- Right sizing may improve your quality of life and release equity.
- It's possible to insure against inheritance tax but it can be expensive so it may be more appropriate for beneficiaries to pay the premiums.
- Professional advice can help you and your loved ones understand the various implications of the different options and allow you to make informed decisions.

The importance of professional advice

As you can see, estate planning is far from straightforward so it makes sense to work with a financial adviser who can look into different scenarios and help you and your loved ones make informed decisions.

Get in touch

If you'd like help to create a financial plan to structure your assets to be more tax-efficient before your death, we can help. Please get in touch to arrange a time to chat.

Think twice: Why cancelling your financial protection during the current cost of living crisis could be a bad idea

Centuries ago, Benjamin Franklin announced that

"By failing to prepare you are preparing to fail".

This is especially true when it comes to ensuring your personal finances are protected from the rainiest of days. However, with the rising cost of living likely putting pressure on your spending, you may be considering cancelling your cover, even when this could leave you more vulnerable than before. Read on to discover some of the reasons you should consider prioritising your financial protection over other cost of living worries.

Rising costs should highlight the necessity of financial protection

A recent survey by Which? has revealed that 65% of households have resorted to cutting back on essentials, selling items, or dipping into savings to pay their rapidly rising bills.

Financial protection products such as life insurance, income protection, and critical illness cover are sometimes the first things that people decide to cancel when things are tight.

However, without financial protection, one unexpected event or serious illness could plunge you into having to deal with a crisis with no financial support in place.

Life insurance means your family will not face financial hardship

Keeping your life insurance policy can ensure your family benefit from financial support if the worst happens.

Without protection in place, your family could perhaps no longer afford their regular outgoings, leaving them in a difficult financial position at what will already be a stressful time.

Cancelling your policy could jeopardise the financial security of your loved ones.

If you're the main breadwinner, without your contribution to the household, your family may struggle to meet their regular financial commitments.

Income protection could support you while you're unable to work

Injury, illness, or an accident could prevent you from working and earning your living at any time, making it hard to meet everyday expenses.

Even if you receive Statutory Sick Pay (SSP), paid at £99.35 a week in 2022/23, it may not be enough to cover your usual expenses and could force you (and your family) to adapt your lifestyle while you recover. Moreover, if you're self-employed, you aren't eligible for SSP.

Income protection could save you from such stress. If illness or injury prevent you from working, you can expect to receive up to around 60% of your wages.

Just as important as a payout, an income protection plan could give you access to rehabilitation services that grant you the ability to work again. As an example, 78% of Aviva customers who had rehabilitation support returned to work.

You could receive cover during a critical illness

If you cancel your critical illness cover to save money, you could find yourself out of pocket if you're diagnosed with a serious condition. You may have to take an extended period off work on a significantly reduced income.

Critical illness provides a lump sum if you are diagnosed with a specified illness such as the following:
Heart attack / Stroke / Cancer / Multiple sclerosis
Conditions may vary between providers.

While it's unpleasant to think about, you should consider your own circumstances and whether you might be vulnerable if you cancel.

Having protection to offset unexpected healthcare expenses could be essential to preserving your financial wellbeing.

You may not feel you need insurance in all the areas discussed here. For example, some employee benefit packages include life insurance, so it's worth checking to see if this is something you already have through your work.

The type and level of protection that is most suited to you will depend on your circumstances. We can help you decide what would provide you and your family with the most benefit and help you understand which policy is right for you, too.

Potential consequences

If you cancel your protection now with the intention of taking out cover again when your finances permit, you may find the premiums are significantly higher – especially if your health has deteriorated since you took out your original protection. You may also find there are exclusions based on pre-existing conditions.

The short-term savings often may not be worth the potential long-term vulnerability you cause yourself.

Your pension could be your "secret weapon" of protection

According to Pensions Age, 86% of savers are not on track to achieve their retirement expectations.

This serves as a caution that foregoing pension contributions could leave you short when it comes to your retirement funds.

So, pausing or cancelling your contributions now could have a negative effect on the size of your pension pot when you come to retire. This may leave you having to compromise on your later-life plans.

Discussing your pension with us could help to prevent overspending or under budgeting that may affect the funds you'd like use for your retirement.

GET IN TOUCH

We can help to assess your financial wellbeing and assist in finding the right protection for you. This can help to safeguard your finances when confronted with unexpected circumstances. Please get in touch to discuss your needs.

Life insurance plans typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.

A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested. The Past Performance warning can be deleted as we are not illustrating any historic returns in this article.

The tax implications of pension withdrawals will be based on your individual circumstances. HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. Tax concessions are not guaranteed and may change in the future. Tax free means the investor pays no tax. subsequent Finance Acts.

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