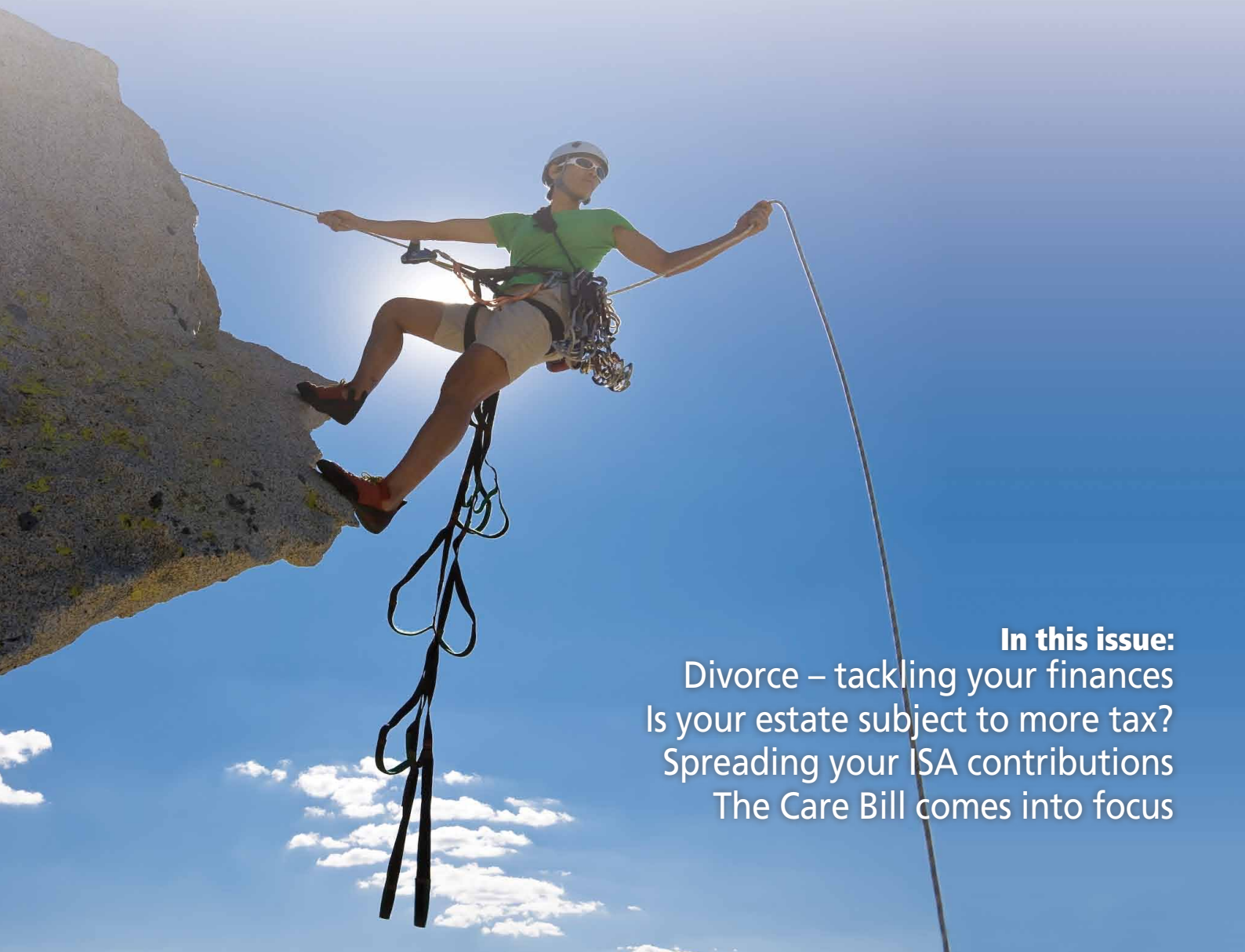


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financial **FOCUS**

Working after age 65 – choice or necessity?



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Higher education – managing degrees of debt



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Many prospective university students are now thinking long and hard about whether they should continue in education.

A year has passed since universities' tuition fees were raised to a maximum of £9,000 a year and this has had an impact on application numbers, according to University admissions body UCAS.

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 higher earnings over a lifetime.

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.

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. Tax and student loans laws can change.

The FCA does not regulate taxation and trust advice.



Tackling the financial aspects of divorce

Britain has the highest divorce rate in Europe, according to the EU's statistical office Eurostat. So, with divorce and separation an occurrence in many households, couples are increasingly turning to financial advisers, as well as lawyers, to sort out their financial affairs when they separate.

A family breakdown can lead to a wide range of outcomes, partly depending on whether the couple are married or not. An unmarried dependent partner is considerably less protected than a married spouse, which often comes as a surprise to many people when they split up. A dependent partner, however, could have some rights, as may any children.

If a married couple – or civil partners – separate or divorce, the protection is much greater. Nevertheless the position will vary considerably according to whether the split is a clean break or there is an ongoing financial dependency.

The key areas where the 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. There are three main ways to deal with pensions after divorce. The most popular is offsetting, where each party keeps their pension rights untouched but their value is taken into account in the division of the rest of the property. So, in a simple example, John may have a pension fund worth £500,000, and the family home after deducting the mortgage is worth the same amount. Under an offsetting agreement John would keep his pension and his former wife would take the home (subject to some adjustment for tax).

A less common approach is for the divorce court to earmark one spouse's pension so that part of it is paid directly to the other spouse when the pension scheme member retires.

Alternatively, the courts can demand each individual's pensions rights be subject to a division at the time of divorce. Each option has its pros and cons and there can be complications in valuing the pension rights themselves.

- **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** With people divorcing later in life, it is increasingly likely that a couple will have 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. Where they previously might have wanted to maximise capital growth for the future, the higher priority might now be to generate an immediate income. Likewise, a person who is now on their own for the first time in many years might develop a different view of the risks they are willing and able to take with their investments.

- **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. This might involve adjusting existing policies and their associated trusts or it could mean taking out new ones.

- **Estate planning** and wills also generally require some attention. Divorce will automatically invalidate an existing will and most people prefer to change their wills in any case under these circumstances.

The fact is there are a lot of technical financial issues surrounding divorce and we are here to advise you should your marriage or civil partnership come to an end.

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. Tax and divorce/separation laws can change.

The FCA does not regulate will writing and taxation and trust advice.



With radical reforms to state pensions less than three years away, now is the time to examine your planning”



Working after age 65 – choice or necessity?

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

In mid 2013, there were 1,003,000 people aged 65 or over in employment, the first time the threshold of one million has been passed, according to the June 2013 Labour Force Survey of the Government’s Office for National Statistics (ONS).

While the million plus figure dominated the headlines, more telling was the fact that it represented nearly one in ten of those aged 65 or over. This trend has been rising almost since the turn of the century and the proportion in work is now over double that at the start of 2001. When you consider the economic turbulence there has been in the UK since 2000, the performance of this senior slice of the labour market is all the more surprising.

Why are so many people working beyond what is currently the male SPA?

One reason is that there are now more people of this age group in the population, according to the ONS. You would therefore expect the numbers employed to increase – the first wave of the post-war baby boomers is now 65 or over.

Then there is the abolition of 65 as a statutory retirement age, which took full effect in October 2011. It has probably boosted the in-work pensioner count by making it more difficult for employers to ease out some of their older employees.

In any case, about a third of people working past SPA are self-employed, which is more than double the proportion of the pre-SPA working population. If you are self-employed, there is no employer pressure to stop work – you decide when to retire.



Insufficient retirement funds

A major reason for staying in harness was hinted at in some earlier ONS research: insufficient retirement income. One indicator is that very few people fail to draw their state pension as soon as they are entitled to do so. "The vast majority of people draw their state pension on time," according to the Pensions Minister.

Another clue is that about two thirds of those working beyond SPA are part time, against around a quarter for the general workforce. What's more, the two most common occupations for men working past state pension age are farmers and taxi drivers. For women, the most popular jobs are cleaners and administrative assistants. With the arguable exception of farming, people tend to take these jobs to earn necessary money.

So if you do not want to have to join the band of over a million people still in work beyond their 65th birthday, then your retirement plans need to allow you the luxury of unemployment.

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.

A point to remember is that even if you need to work, you may have difficulties finding employment. It is not only that jobs could be rarer than you expect; your health or just your energy and enthusiasm might turn out to be a barrier.

Remember, by 6 October 2020 state pension age will be 66 for both men and women. Please get in touch with us to discuss your options.

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.

Why your estate might now be subject to more tax

You could find that your estate is now subject to a good deal more inheritance tax (IHT) as a result of a change in the tax rules this year that has received very little publicity. 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. Until now, when you died, the £250,000 would have been deducted against the value of your taxable estate and this 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.

However, from now on, 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, and the effect will be 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 – it is the actual purpose of the loan that is now relevant. Trusts will also be affected by this change.

Tightening up

There has also been a tightening up of the deduction of liabilities generally. 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. There is an exception where an estate does not repay a liability for a genuine commercial reason. Again, this avoidance measure could impact upon quite normal arrangements.

For example, an elderly parent receives a loan from her children, and upon her death the children simply write off the loan because they are the sole beneficiaries of the estate. Because of this new rule, it will now be necessary to go through the motions of repaying the loan so it will qualify as a deduction for IHT.

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 to the situation. There will therefore be a retrospective impact on many estates, even where the deceased had no intention of avoiding inheritance tax.

In future, you will need to be careful to show how borrowings have been used, especially where a mixture of spare cash and loans is used to fund, say, a business acquisition and the purchase of other assets, all within a short time scale.

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. The FCA does not regulate taxation and trust advice. Levels, bases of and reliefs from taxation may be subject to change and their value depends on the individual circumstances of the investor.



“In future, you will need to be careful to show how borrowings have been used”

Spreading your ISA contributions

In volatile market conditions, drip feeding your investment 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.

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.

Where there's no will...

What happens if you die without a will?

The answer is the rules of intestacy apply, which can result in a distribution of your estate very different from what you might expect. For example, if you die leaving a surviving spouse or civil partner but no children, and crucially no will, some of your estate – in some cases a substantial portion – could pass to your brothers

and sisters or even their offspring. These are the curious rules of intestacy in England and Wales and the regulation is similar in Scotland and Northern Ireland.

The Government is planning to reform the English and Welsh intestacy regime, which it hopes will eventually "ensure the laws on intestacy become closer aligned with public expectations". What better way to explain why you need an up-to-date will today? The FCA does not regulate will writing.

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.



Minimum wage and maximum pension

The National Minimum Wage will rise by 1.9% on 1 October 2013 – faster than current average weekly earnings growth – to £6.31 an hour for anyone aged 21 or over. For a 35 hour working week that equates to earnings of £221 a week (just under £11,500 a year) in round numbers.

It may not sound much, but £221 a week is about £75 a week more than the expected maximum amount under the new single-tier state pension, before any adjustment for state pension benefits built up before its April 2016 start date. Something to think about...

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