Fidelius
Wealth Management

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YOU HAVE ONE LIFE, SO INVEST WISELY

IDENTIFYING MULTIPLE RISK PROFILES FOR MULTIPLE GOALS

FESTIVE GIFTS
Building wealth for a solid financial future

INFLATION MATTERS
Impact of rising prices on investments

WEALTH NAVIGATOR
Planning the best route for the next generation

AVOID THE MAD MARCH RUSH
Get a head start on your tax planning resolutions

Fidelius Wealth Management
Tel: 0345 241 6500
Email: advice@fidelius.co.uk • Web: www.fidelius.co.uk

EXPERIENCE
LIFE TO THE FULL

Welcome to our latest edition and our customary collection of articles designed to help you create and protect your wealth to be able to experience life to the full.

As a parent, guardian or grandparent, you'll want to provide the best future for your children or grandchildren that you can. Christmas is an excellent time to encourage children to start thinking about the value of money. Many children have hundreds of pounds spent on them at Christmas, but could that money be put to better use? Turn to page 04.

Although the current tax year does not end until 5 April 2019, tax planning shouldn't be a mad March rush. Now is the perfect time to get a head start on your tax planning resolutions to enhance your own, your family's or your company's tax-efficient plans for the future. On page 03 opposite, we have set out some tax tips and actions that may be appropriate to certain taxpayers.

Throughout our lives, we will have many different lifestyle and financial goals that we would like to achieve. Although we all have different goals, there are some key goals that we'll have in common, especially when it comes to retirement. What do you want from your investments? Supplementing your income? Building your retirement pot? Read more on page 06.

A pound saved is a pound earned. But thanks to inflation, over time, the value of the pound saved could be much less than when it was earned. One cannot ignore the corrosive impact of rising prices on investments. On page 11, we look at ways investors can easily fail to prepare for the risk of inflation eroding the purchasing power of money, especially in a low-inflation environment.

A full list of the articles featured in this issue appears opposite – we hope you enjoy them.

We don't know what the future holds, but a little preparation goes a long way when it comes to planning for the future. We hope you enjoy this latest edition. If you want to discuss any of the topics featured, we're here to help. To review any area of your financial plans, please contact us.

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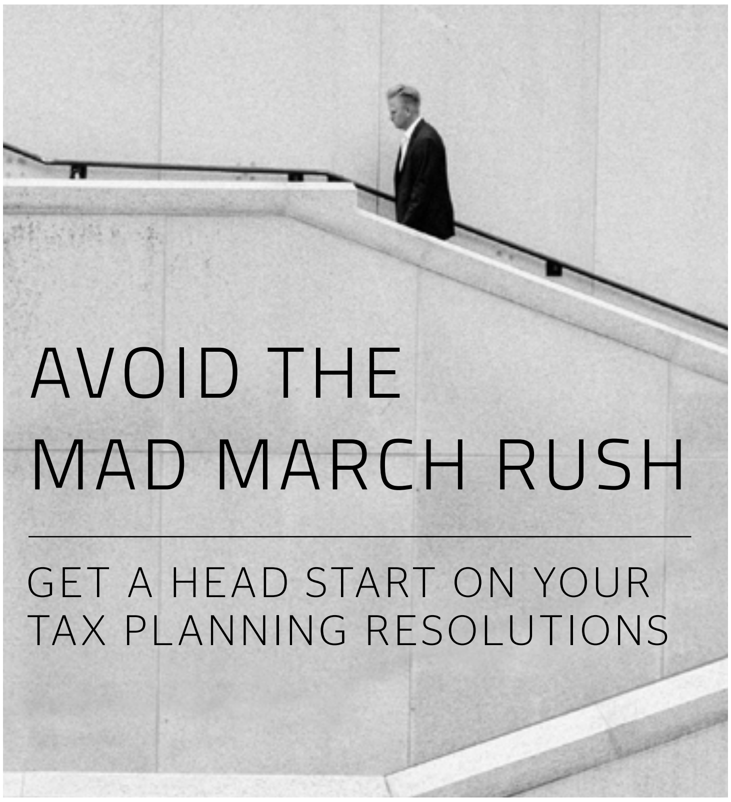

AVOID THE MAD MARCH RUSH

GET A HEAD START ON YOUR TAX PLANNING RESOLUTIONS

Although the current tax year does not end until 5 April 2019, tax planning shouldn't be a mad March rush. Now is the perfect time get a head start on your tax planning resolutions to enhance your own, your family's or your company's tax-efficient plans for the future.

We have set out some tax tips and actions that may be appropriate to certain taxpayers. Reviewing your tax affairs now will ensure that available reliefs and exemptions have been fully utilised, together with future planning which could help to reduce your tax bill.

It is important to ensure that, if you have not done so already, you take the time to carry out a review of your tax and financial affairs to identify any tax planning opportunities and take action before it's too late. Personal circumstances differ, so if you have any questions or if there is a particular area you are interested in, please contact us.

HERE ARE OUR TIPS TO HELP YOU GET AHEAD ON MANAGING YOUR TAX AFFAIRS IN 2018/19

Pension contributions (spouses and children) – consider contributing up to £2,880 towards a pension for your non-earning spouse or children. The Government will add £720 on top – for free.

Individual Savings Accounts (ISAs) – fully utilise your tax-efficient ISA allowance. The allowance for 2018/19 is £20,000 per person, whilst the Junior ISA allowance is now £4,260 for children under 18.

Capital gains – use the capital gains annual exemption of £11,700 (2018/19) to realise gains tax-free. The allowance cannot be transferred between spouses or carried forward.

Pension contributions – maximise contributions amount and tax relief. Take full advantage of increasing pension contributions by utilising the annual allowance, which is £40,000 (tapered if you earn over £150,000) or the value of your whole earnings – whichever is lower. Unused annual allowances may also be carried forward from the previous three tax years.

Remuneration strategy – if you run your own company, it's a good idea to determine your pay and benefits strategy. For 2018/19, the dividend nil-rate band is reduced from £5,000 to only £2,000 – it's really important to consider the tax implications of your chosen approach to salary, benefits, pensions and dividends.

Gifting – you can act at any time to help reduce a potential Inheritance Tax bill when you're no longer around. Make use of the Inheritance Tax annual exemption that allows you to give away £3,000 worth of gifts outside of your estate. If unused, the exemption can be carried forward one year.

Transfer income-producing assets – consider transferring income-producing assets between your spouse or registered civil partner in order to use the Income Tax personal allowance and lower Income Tax bands of the transferee.

Overpayment and capital loss claims – submit claims for overpaid tax and capital loss claims for the 2014/15 year before 5 April 2019, after which such claims will be time-barred.

Landlords – for 2018/19, the restriction on deductibility of mortgage interest and other finance costs doubled from 25% to 50%. If you plan to take steps to mitigate the impact (such as incorporation, for example), you may save more tax by taking those steps sooner rather than later. In future years, the restriction will apply to 75%, and then from April 2020, 100% of finance costs incurred by individual landlords. ◀

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SAVE TAX – WE'RE HERE TO HELP

Not all of these tax tips will be relevant to you, your family or your business. However, where an idea is of interest or to review your situation, please contact us for a discussion on how this could form part of your tax-efficient plans for 2018/19 and the future. We look forward to hearing from you.

FESTIVE GIFTS

BUILDING WEALTH FOR A SOLID FINANCIAL FUTURE

As a parent, guardian or grandparent, you'll want to provide the best future for your children or grandchildren that you can. Christmas is an excellent time to encourage children to start thinking about the value of money. Many children have hundreds of pounds spent on them at Christmas. But could that money be put to better use? Rather than buying yet more toys for your children or grandchildren, why not consider setting up a tax-efficient Junior ISA for them?

With today's kids likely to need thousands of pounds to get them through university and onto the property ladder, a Christmas gift that will help with some of these expenses is well worth considering.

If the investment is allowed to grow, it could build up into a sizeable sum. The money could then be given to the child as an adult. Depending on the amount invested, the capital may be enough to cover tuition fees and possibly board and lodging as well, or a deposit for their first property.

JUNIOR INDIVIDUAL SAVINGS ACCOUNT (JISAS)

A JISA is a tax-efficient children's savings account where you can make contributions on the child's behalf, subject to an annual limit. Any gains do not incur Capital Gains Tax and they will not be considered part of the parents' or grandparents' estate for Inheritance Tax purposes.

Nevertheless, the child will automatically get access to the money when they turn 18 and can choose what to do with it.

THERE ARE TWO TYPES OF JISA – A CASH JISA AND A STOCKS & SHARES JISA:

- **Junior Cash ISAs –** these are essentially the same as a bank or building society savings account. But Junior Cash ISAs come with one big advantage: your child doesn't have to pay tax on the interest they earn on their savings, and you don't have to either
- **Junior Stocks & Shares ISAs –** with a Junior Stocks & Shares ISA account, you can put your child's savings into investments like shares and bonds. Any profits you earn by trading shares or bonds are tax-efficient

A child's parent or legal guardian must open the Junior ISA account on their behalf. Money in the account belongs to the child, but they can't withdraw it until they turn 18, apart from in exceptional circumstances. They can, however, start managing their account on their own from age 16.

The Junior ISA limit is £4,260 for the tax year 2018/19. If more than this is put into a Junior ISA, the excess is held in a savings account in trust for the child – it cannot be returned to the donor. Parents, friends and family can all save on behalf of the child as long as the total stays under the annual limit. No tax is payable on interest or investment gains.

When the child turns 18, their account is automatically rolled over into an adult ISA. They can also choose to take the money out and spend it how they like.

PENSIONS

A pension is one of the greatest gifts you could give children this Christmas. Children's pensions benefit from the same advantages as adult pensions. That means the pension fund benefits from the favorable tax treatment, in terms of tax relief on contributions along with the tax advantages of the fund.

INVESTMENT ACCOUNT

For tax reasons, this approach may best be suited to grandparents. A grandparent can set up a designated account for a grandchild and invest a capital sum in it. The account remains under the full control and ownership of the grandparent, with any income and gains taxed as the grandparent's own.

When the grandparent deems appropriate, the account can be gifted or assigned to the child. Where this occurs, the grandchild is legally entitled to the money at age 18, and can use it as they see fit – which may not necessarily be for education purposes. The transfer of ownership of the monies would be treated as a Potentially Exempt Transfer (PET). The value of the gift will be outside the grandparent's estate after seven years. Many parents and grandparents want to set up their children or grandchildren to enjoy a secure financial future. Yet paying down student debt is not necessarily the best option if they have a spare capital sum to invest. They could also consider helping their children or grandchildren to save towards a deposit for a property or start a pension for them so that they have security in later life. ◀

> 'A PENSION IS ONE OF THE GREATEST GIFTS YOU COULD GIVE CHILDREN THIS CHRISTMAS. CHILDREN'S PENSIONS BENEFIT FROM THE SAME ADVANTAGES AS ADULT PENSIONS.'

GIVE A FESTIVE FINANCIAL GIFT THIS CHRISTMAS

Time is a powerful ally of all investors, so where you are investing on behalf of children, you start with a great advantage – the power of compounding as profits are re-invested year on year. If you would like to discuss the options available to you, please contact us. We look forward to hearing from you.

THE VALUE OF INVESTMENTS AND THE INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

A PENSION IS A LONG-TERM INVESTMENT, WHICH IS NOT NORMALLY ACCESSIBLE UNTIL AGE 55.

LEVELS, BASES OF AND RELIEFS FROM TAXATION MAY BE SUBJECT TO CHANGE, AND THEIR VALUE DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE INVESTOR.

YOU HAVE ONE LIFE, SO **INVEST WISELY**

IDENTIFYING MULTIPLE RISK PROFILES FOR MULTIPLE GOALS

Throughout our lives, we will have many different lifestyle and financial goals that we would like to achieve. Although we all have different goals, there are some key goals that we'll have in common, especially when it comes to retirement.

What do you want from your investments? Supplementing your income? Building your retirement pot? It's essential we tailor your investments to suit your goals. To understand your personal investing goals, you need to take into account all the needs and preferences that may shape your financial life.

When setting goals, you are forced to think hard about the various life aspects you care about and how much they will cost in future. This helps to put your expectations in perspective, so that you can align your savings with future requirements. It also prevents you from underestimating the amount of money you require for the future or being misled about your savings ability.

INCREASING YOUR CHANCES OF ACHIEVING YOUR GOALS

The simple act of writing your goals down and sharing them with others increases your chances of achieving them. What are your objectives for the money you're investing? Do you want to accumulate money for a longer-term goal, such as a child's or grandchild's university education, or perhaps a comfortable retirement for yourself?

You might even have several goals, and each of those goals may require different investment approaches to achieve them. Before you decide to invest your hard-earned money, it is important to fully understand why you are investing and what you want to achieve.

PRIORITISING YOUR INVESTMENT GOALS

Growth: how much investment growth is appropriate and realistic to accomplish your objectives and meet your needs?

Cash flow: your portfolio ideally must sustain the ability to generate sufficient cash flow throughout your retirement.

Combination of growth and cash flow: you would like your portfolio to have the necessary growth to provide consistent cash flow. As with the pure growth goal, it's vital to understand what potential returns to expect.

Capital preservation: this aspect of goal-based investing refers to preserving the nominal value of your assets. Nominal values aren't inflation-adjusted, and this goal may be more appropriate for shorter-term cash flow needs than for longer time horizons, as capital preservation over a long period can mean watching your purchasing power diminish.

Capital preservation and growth: these two goals are inherently at odds. Realistically, these cannot be pursued at the same time, as terrific as that may sound. Growth cannot be achieved without putting investment capital at risk. It will be necessary to segment the investment monies to nominate the required amount to be set aside with a view to capital preservation, with an amount being maintained separately for investment with a view to achieving growth potential.

Maintain or improve lifestyle: you have worked hard for your retirement and may wish to maintain or enhance your current lifestyle in your retirement years. This means growing your purchasing power over time. Ultimately, this goal requires a growth strategy that must offset the erosive effects of inflation.

Depletion, or spending every pound: although spending every pound before you die isn't a common goal among retirees, it does exist. But as you might guess, it is a risky proposition. There is no way to accurately predict your lifespan. And should you live longer than you expect, you could run out of money sooner than you had planned.

With your goals in place, you then need to know how much risk you can tolerate. Along the way, there will inevitably be periods of ups and downs – and while the former are celebrated, the latter can be frightening, even to the most seasoned investor.

When you know exactly what the money is for, the time you have to achieve those goals and your tolerance for risk, you can construct your investment portfolio accordingly. ◀

HELPING YOU MAKE A PLAN TO REACH YOUR FINANCIAL GOALS

Achieving your financial goals – especially your long-term goals – requires a highly disciplined approach. No matter where you are in life, you will have financial goals you want to achieve. We can help you make a plan to reach them. To find out more or to discuss your future plans, please contact us.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

RELATIONSHIP BREAKDOWNS

A PENSION COULD WELL BE THE BIGGEST SINGLE ASSET IN THE RELATIONSHIP

What is likely to be a divorcing couple's most valuable asset? The family home will spring to most people's minds first. But the value of a pension could well be the biggest single asset in the relationship.

When and how pensions are divided on divorce depends on the circumstances of you and your family. If your marriage has been short and both of you are in your twenties or thirties, then your pensions may not need to be divided formally at all, although their value may still be taken into account in other ways.

CENTRAL PART IN NEGOTIATIONS

If you and your partner are in your 50s, pensions are likely to play a far more central part in your negotiations or the decision a court has to make. It will be necessary to look at them within the overall context of your family finances.

New research[1] shows that a fifth of people with pensions in the UK (20%) have no idea who will inherit their pension pot when they die. Surprisingly, 17% of divorcees don't know who stands to inherit their pension, even though this could be their ex-partner. This figure rises to 28% among people who are separated from their partner.

UPDATE PERSONAL INFORMATION

Of those who were formerly in a relationship that has since broken down, just 24% say they updated their pension policy immediately, while half (50%) said they had no idea they needed to update their personal information. A further 16% did eventually update their policy, but waited for over three months to do so, with men more likely to update a pension policy when a relationship ends. More than a quarter (28%) of men do so straight away, compared to just 20% of women. Three fifths of women (60%) don't know they should be updating a policy, compared to 42% of men.

Co-habitees are also leaving themselves exposed, as there is no guarantee a partner would receive pension savings if they are not named as a beneficiary on the policy. Over a quarter (28%) of co-habitees are unsure who will inherit their pension if the worst were to happen.

SORTING OUT YOUR PENSION

A relationship ending can be a really stressful time, and sorting out your pension may not be the biggest priority. However, it is important that you know who stands to inherit a pension when you die – for all you know, it could be an ex from many years ago.

Likewise, just because you and your partner live together and are in a committed relationship, there is no guarantee they'll receive your pension savings when you die unless you make specific requirements.

STAYING ON TOP OF YOUR FINANCES

1. Make sure you know who stands to inherit your pension pot when you die.
2. If you are co-habiting, many pension policies will require you to name that person on your policy as the beneficiary upon your death.
3. Periodically check all finances, including pension pots, bank accounts and insurance schemes, and ensure the right dependents and beneficiaries are named. ◀

PROTECTING YOUR FINANCIAL POSITION

Obtaining the right professional financial advice is vital in the event of a divorce. Often, pensions aren't even considered in the divorce discussions. But the older you get, the bigger the size of your pension, so it may not be that dissimilar to the value of your property. Please speak to us about any concerns you may have or for further information.

Source data:

[1] The research was carried out online for Scottish Widows by Opinium across a total of 5,000 nationally representative adults in September 2017.

08 INHERITANCE TAX

WEALTH NAVIGATOR

PLANNING THE BEST ROUTE FOR THE NEXT GENERATION

You have worked hard to build your wealth. Passing it on to the next generation fairly, safely, effectively and efficiently takes skill and careful preparation. But some people find the idea of discussing inheritance uncomfortable and subsequently put off estate planning until, in some instances, it may be too late to make a difference.

Seeking early professional financial advice and guidance about the options to mitigate your liability is a sensible move, and there are lots of different options to be considered depending on your individual financial and personal circumstances and preferences.

FUTURE NEEDS AND ASSET REVIEW

By looking at your future needs and reviewing all your assets, including investments, property, businesses, pensions and life assurance – and by gifting and utilising investment reliefs – we can advise you how to plan the most effective way to pass on your wealth. Inheritance Tax is an unpopular and controversial tax, coming as it does at a time of loss and mourning.

But as property prices make Inheritance Tax more of a reality for many in the UK, it can impact on families with even quite modest assets – including those who have been basic-rate taxpayers all their lives. It's important to note that Scottish law is different and applies to the estates of people who die domiciled in Scotland, which differs from the rest of the UK.

FAILING TO PUT YOUR FINANCIAL AFFAIRS IN ORDER

It can be difficult to accept that you have to pay tax on your estate – which has usually been accumulated out of taxed income – and that your heirs will not reap the full rewards of your hard work. However, many people who end up paying Inheritance Tax do so because they have failed to put their financial affairs in order in advance. If you plan proficiently, neither you nor your heirs may have to pay Inheritance Tax at all.

HOW MUCH THE TAX BILL MIGHT BE

The first step in Inheritance Tax planning is to work out how much the tax bill might be. This isn't easy, bearing in mind the ever-changing values of property and other assets, plus changing legislation. Inheritance Tax is levied at a fixed rate of 40% on all assets worth more than the £325,000 nil-rate band threshold per person.

Your tax rate may be reduced to 36% if you leave 10% or more of your estate to charity. Your estate (including any gifts made by you) can pass Inheritance Tax-free to a spouse or registered civil partner living in the UK. This can give you a joint allowance of £650,000.

FAMILY HOME ALLOWANCE

From 6 April 2017, a family home allowance (known as the 'residence nil-rate band') was added to the Inheritance Tax threshold. This is currently £125,000, increasing to £175,000 by 2020/21, and applies where a home is left to direct descendants (such as children or grandchildren) of the deceased. Like the nil-rate band, any unused portion is transferable between spouses and registered civil partners.

There are effective and legitimate ways to mitigate against the impact of Inheritance Tax. But some of the most valuable exemptions must be used seven years before your death to be fully effective, so it makes sense to consider ways to plan for Inheritance Tax sooner rather than later.

MITIGATING AGAINST INHERITANCE TAX

MAKE A WILL

One of the most important things you can do to help reduce the amount of Inheritance Tax you could be liable to pay is to write a Will. If you die without a Will, your estate is divided out according to a pre-set formula, and you have no say over who gets what and how much tax is payable. Dying intestate (without a Will) means that you may not be making the most of the Inheritance Tax exemption which exists if you wish your estate to pass to your spouse or registered civil partner.

If you don't make a Will, then relatives other than your spouse or registered civil partner may be entitled to a share of your estate, and this might trigger an Inheritance Tax liability. You also need to keep your Will up-to-date. Getting married, divorced or having children are all key times to review your Will. If the changes are minor, you could add what's called a 'codicil' to the original Will.

MAKE LIFETIME GIFTS

Gifts made to an individual or to a bare trust more than seven years before you die are free of Inheritance Tax, so it might be wise to pass on some of your wealth while you are still alive. This will reduce the value of your estate when it is assessed for Inheritance Tax purposes, and there is no limit on the sums you can pass on. You can gift as much as you wish, and this is known as a 'potentially exempt transfer' (PET).

If you live for seven years after making such a gift, then it will be exempt from Inheritance Tax. But should you be unfortunate enough to die within seven years, then it will still be counted as part of your estate if it is above the annual gift allowance. You need to be particularly careful if you are giving away your home to your children with conditions attached to it, or if you give it away but continue to benefit from it. This is known as a 'gift with reservation of benefit'.

You can make certain gifts that are given favourable Inheritance Tax treatment:

- Charitable gifts made to a qualifying charity during your lifetime or in your Will
- Potentially exempt transfers (PETs). If you survive for seven years after making a gift to someone, that gift is generally exempt from Inheritance Tax
- You can give away up to £3,000 each year, and you can use your unused allowance from the previous year
- You can make small gifts up to £250 to as many people as you like Inheritance Tax–free
- Weddings and registered civil partnership gifts are exempt up to a certain amount
- You can make regular gifts from surplus income after tax, but these need to be documented and lead to no reduction in standard of living for you as donor

SET UP A TRUST

Some people who make gifts to reduce Inheritance Tax are concerned about losing control of the money. This is where trusts can help. When you set up a trust, it is a legal arrangement, and you will need to appoint 'trustees' who are responsible for holding and managing the assets. Trustees have a responsibility to manage the trust on behalf of, and in the best interest of, the beneficiaries in accordance with the trust terms. The terms will be set out in a legal document called the 'trust deed'.

You need to bear in mind that there might be tax consequences if you set up a trust. The rules around trusts are complicated, so you should always obtain professional advice.

INSURANCE POLICY

If you don't want to give away your assets while you're still alive, another option is to take out life cover, which can pay out an amount equal to your estimated Inheritance Tax liability on death. It's essential that the policy is written in an appropriate trust, so that it pays out outside your estate.

One option could be to purchase a whole-of-life assurance policy, designed to provide funds to the beneficiaries of your estate in the event of your death, to meet the cost of any Inheritance Tax bill payable.

> 'IF YOU DON'T WANT TO GIVE AWAY YOUR ASSETS WHILE YOU'RE STILL ALIVE, ANOTHER OPTION IS TO TAKE OUT LIFE COVER, WHICH CAN PAY OUT AN AMOUNT EQUAL TO YOUR ESTIMATED INHERITANCE TAX LIABILITY ON DEATH.'

BUSINESS PROPERTY RELIEF

Business property relief can be a very effective way to remove assets from your estate but still have full access to the funds if needed in the future. You can hold shares in the portfolios of certain companies; they are considered business assets and attract 100% relief from Inheritance Tax. You'll only need to hold these shares for two years to qualify for business property relief. Qualifying companies include most of those trading on the London Stock Exchange's Alternative Investment Market.

Investments eligible for Business Property Relief are generally considered higher-risk investments and may not be considered suitable for all types of investors. You could lose some or all of your capital. ◀

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TIME TO CARRY OUT A FULL REVIEW OF YOUR ESTATE'S POTENTIAL LIABILITY?

Inheritance Tax is not completely out of your hands. Whether you are taking a principled stand or a practical one, you do have some control. We can carry out a full review of your estate's potential liability to Inheritance Tax and advise you if there is any scope to reduce your estate's exposure to Inheritance Tax. To find out more, please contact us – we look forward to hearing from you.

WORK PRESSURES

THE GREATEST STRAINS ON PHYSICAL AND MENTAL HEALTH

There is an increasing trend for people to work for longer and delay their retirement, with some staying in work out of financial necessity. But one of the primary concerns people have about working beyond their 50s is the impact this could have on their health, or whether any health concerns might prevent them from working.

Nearly two in five (37%) workers aged above 50 – equivalent to 3.8 million people[1] – anticipate that problems with their health will be the main factor that forces them into retirement, according to new research[2].

HEALTH AND WELL-BEING PROBLEMS

Though the number of workers in this age bracket has risen by more than one million people in the past five years[3], the findings suggest the longevity of this trend is at risk, with many indicating that health and well-being problems are caused or aggravated by the workplace itself.

Work pressures are described by those surveyed as one of the greatest strains on their physical and mental health (21%), alongside money issues (35%) – which are also often linked to working life – and pre-existing medical conditions (24%).

ACHIEVING FULLER WORKING LIVES

Worryingly, more than half (53%) of workers aged over 50 do not feel supported by their employer when it comes to their well-being – a feeling which is much less prevalent among younger colleagues (falling to 34% of workers aged 16–49). As an indication of the type of support employees need to achieve fuller working lives, one in five (21%) agree employers should offer workshops or seminars on health and well-being in later life.

The research also reveals improved health and well-being in the workplace could be achieved by encouraging employees to reassess their priorities, as almost two in five (37%) over-50s workers admit they often put their job above their health and well-being.

THE TWO BIGGEST HEALTH CHALLENGES

While few people say they do not feel confident about their long-term career plans (27%), 38% are not confident about long-term plans for their health. Greater communication is also needed, as more than a quarter (27%) of those surveyed do not feel comfortable telling their employer about any health issues they face as they grow older.

While the onus is partly on employers to do more to promote health and well-being within the workplace, employees also have a role to play. The two biggest health challenges among employees in the 50-plus age group – weight and diet (24%) and physical fitness (18%) – are both issues that individuals can take steps to improve through lifestyle changes. ◀

NEARLY TWO IN FIVE (37%) WORKERS AGED ABOVE 50 – EQUIVALENT TO 3.8 MILLION PEOPLE[1] – ANTICIPATE THAT PROBLEMS WITH THEIR HEALTH WILL BE THE MAIN FACTOR THAT FORCES THEM INTO RETIREMENT, ACCORDING TO NEW RESEARCH[2].

Source data:

[1] Based on 37% of the 10.206m over-50s currently in work (source: ONS Labour Market Statistics, August 2018 (latest available figures) – table A05).

[2] Research conducted by Censuswide on behalf of Aviva in May 2018. Survey respondents included 2,497 UK adults aged 16–75, including 1,219 aged over 50 of whom 520 are still in work.

[3] ONS Labour Market Statistics, August 2018 (latest available figures) – table A05 shows there were 10.206m over-50s in work between April and June 2018, compared to 8.812m between April and June 2013.

FACTORS WHICH PUT THE GREATEST STRAIN ON EMPLOYEES' PHYSICAL AND MENTAL HEALTH

Top five	All workers	Over-50s workers
Money issues	43%	35%
Pre-existing medical conditions	16%	24%
Work pressures	30%	21%
Family issues	25%	19%
Poor diet	15%	12%

Source: Aviva, 2018.

PLANNING ON TAKING ILL HEALTH RETIREMENT?

If you're ill and your illness is so bad that you can't continue to work, you may be able to retire early. If you're planning on taking ill health retirement, we can help you understand the rules. If you would like help considering your options or for further information, please contact us.

GREATEST HEALTH CHALLENGES

Greatest strains on well-being	All workers	Over-50s workers
My weight and diet	27%	24%
My physical fitness	19%	18%
My mental health	19%	11%
Preventing/delaying the onset of health conditions	6%	11%
Managing/treating an existing health condition	7%	9%
Alcohol and/or tobacco consumption	7%	5%
I do not believe anything to be my greatest health challenge	13%	19%

Source: Aviva, 2018.

INFLATION MATTERS

IMPACT OF RISING PRICES ON INVESTMENTS

A pound saved is a pound earned. But thanks to inflation, over time, the value of the pound saved could be much less than when it was earned. One cannot ignore the corrosive impact of rising prices on investments.

Investors can easily fail to prepare for the risk of inflation eroding the purchasing power of money, especially in a low-inflation environment. Therefore, it is wise for portfolios to include assets that help offset the effects of inflation.

MAINTAIN THE PURCHASING POWER OVER TIME

After two years when consumer prices in the UK barely rose, there are signs that inflation may be about to return. If it does, how should you prepare? To help maintain the purchasing power over time, your savings need to grow at least as quickly as prices are rising.

The Bank of England forecasts that consumer price inflation will remain above 2% in each year until 2021. While nowhere close to historic highs, higher inflation stands in contrast to near-record-low interest rates offered on cash savings. Higher inflation represents a hike in the cost of everyday living – and the higher it rises, the less your cash will be ultimately worth.

BIGGEST ENEMY OF CASH SAVERS

Keeping enough cash aside to cover any foreseeable costs you might face is always sensible (typically three to six months of your monthly outgoings). However, relying solely or overly on cash might prevent you from achieving your long-term financial goals, which may only be possible if you accept some level of investment risk.

Worse, in an environment where the cost of living is rising faster than the interest rates on cash, there is a danger that your savings will slowly become worth less and less, leaving you worse off down the road.

SEEKING HIGHER INVESTMENT RETURNS

If you are prepared to take on some investment risk, you could look at investing in a bond fund to look for higher returns. Bond funds invest in a basket of IOUs issued by governments and/or companies looking to raise cash. When someone invests in a bond, they are essentially lending the bond issuer their money for a fixed period of time.

INVESTOR INCOME RISING IN LINE WITH INFLATION

Protection against this threat is offered by inflation-linked bonds, whose coupons and principal will track prices. By linking coupons to prices, the income that investors receive will rise in line with inflation, so they should be left no worse off – unless, of course, the bond issuer fails to keep up with repayments (an unavoidable risk for bond investors).

If prices fall, however, so would the value of inflation-linked bonds and the income from them – in contrast to bonds whose principal and coupons are fixed and which would therefore be worth more in real terms. If inflation falls, protection from it rising can therefore come at a price.

PROTECTION DURING INFLATIONARY PERIODS

To beat rising prices, the total returns from any investment – being the combination of capital growth and any income – must be greater than the rate of inflation. As a result, company earnings may have the potential to keep up with inflation, all things being constant, but there can be no guarantee of this – some companies may fail in inflationary times.

However, company shares (or 'equities') do potentially offer long-term investors a degree of protection during inflationary periods. Ultimately, shares are claims to the ownership of real assets, such as land or factories, which should appreciate in value if overall prices increase.

INCOME STREAM AS WELL AS CAPITAL GROWTH

Equity returns, in theory, should therefore be inflation-neutral, so long as companies can pass on any higher costs they face and maintain their profitability. In turn, a company's ability to make money will typically be reflected in its share price and its ability to provide investors with an income in the form of a dividend.

Opting for a fund which invests in a wide spread of stocks is less risky than putting your money into just a handful of shares.

HIGHER INFLATION SQUEEZES PURCHASING POWER

These vehicles invest in the shares of dividend-paying firms, or companies that tend to share their profits with their shareholders, and investors can opt to either take the income or instead re-invest it. It is vital to understand that dividends are not guaranteed: they depend on companies' profits, and those companies can decide to cut or cancel their payouts altogether – all of which can also cause share prices to fall.. ◀

STAYING AHEAD OF INFLATION

Inflation has been quiet for a very long time. But there are some signs that inflation may be about to return. If it does, are you prepared? It's essential to ensure your portfolio includes some areas that may benefit from or be resilient to interest rate rises. If you would like to discuss your investments or if you have any questions, please contact us.

INVESTMENTS DO NOT INCLUDE THE SAME SECURITY OF CAPITAL WHICH IS AFFORDED WITH A DEPOSIT ACCOUNT. YOU MAY GET BACK LESS THAN THE AMOUNT INVESTED.

SANDWICH GENERATION

FINANCIALLY SQUEEZED BETWEEN ELDERLY PARENTS AND CHILDREN

Faced with the task of caring for elderly parents alongside your children, being in the Sandwich Generation can be a testing time. Finding yourself squeezed between – and often by – these two generations can be very stressful.

As well as facing time pressures, chances are your finances will be stretched too. New research[1] warns that the UK's Sandwich Generation is feeling strained when it comes to their financial responsibilities. It has found this group of around 2.4 million[2] people – typically between 40 and 60 years old – lacks financial confidence and preparedness. And as this age group grows older, the issue is set to intensify.

CONSEQUENCES OF A SERIOUS ILLNESS

More than half (52%)[2] are worried about the consequences of a serious illness affecting themselves or their partner in the next 12 months (versus 35% national average). They are also nearly two times more likely to worry about the prospect of themselves or their partner dying and leaving the family without an income (30% compared to 17% national average)[3].

The research also reveals the Sandwich Generation are unprepared for the longer-term future. Nearly two in five (37%) have less than £125 disposable income each month[3], with nearly half (46%)[3] citing their children as a constant source of unexpected expenses. More than half (54%)[3] say they want to save but can't afford to do so – which also means they struggle to top up their pension pots. On average, this group has around £60,000 to retire on, while expecting their funds to last around 20 years, which would provide a monthly income of less than £260[3].

BEING PULLED IN MANY DIRECTIONS

While your own financial security is important, many of the Sandwich Generation find that their parents' finances also become a pressing issue, especially if they become unwell. It is clear that this group feel they are being pulled in many directions, with pressures to care for older relatives and ongoing responsibilities for their children.

Many people who fall into the Sandwich Generation may have significant financial obligations and, with the rising cost of living, are worrying more about what could be around the corner. Spreading finances too thinly and dwelling on their worries mean the impact of having little or no plans in place could expose them to a real income shock. The Money Advice Service recommends you should have an emergency savings fund buffer for essential outgoings of between three to six months to help maintain financial resilience.

UNDERSTANDING THE OPTIONS AVAILABLE

Getting a better understanding of the options available is essential to being prepared for a more secure financial future. This can provide peace of mind against income shocks, such as not being able to work due to illness, and can help them ensure they are putting away what they need for their retirement.

Nearly three in five (57%)[3] of people within the Sandwich Generation fall short of the Money Advice Service (MAS) recommended amount of savings to be financially resilient, and more than a third (34%)[3] don't feel they could handle a personal financial crisis.◀

Source data:

[1] Methodology for consumer survey: YouGov, on behalf of LV=, conducted online interviews with 8,529 UK adults between 20-26 June 2018. Data has been weighted to reflect a nationally representative audience.

[2] Estimate from CarersUK.

[3] Based on averages from YouGov from consumer survey. This is the average of 'Total amount in pensions' divided by 'Time retirement funds will last'. So, £60,933 divided by 19.82 years.

PREPARING FOR A MORE SECURE FINANCIAL FUTURE

As more baby boomers become both Sandwich Generationers and seniors, the need to understand ageing dynamics and family relationships – and how to financially plan for these – increases dramatically. To discuss any concerns you may have, please contact us. We look forward to hearing from you.

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Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL