SIMPLYMONEY

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YOUR WINDOW ON FINANCIAL MATTERS

INSIDE THIS ISSUE

LIFE INSURANCE – AN ONGOING NEED FOR COVER?

Life insurance is becoming a widely accepted insurance for the young. Most of those with small children, a mortgage, or both, where dependants would be unable to pay the bills on their own, know its value. It is one of those 'just in case' purchases that we don't really want to face but which is necessary if we want to make sure our loved ones will be looked after, whatever happens.

However, as we get older, the requirements for cover change. Your children grow up and become independent in their own right. Your mortgage gets smaller and is ultimately paid off. The need to insure some of your income or cover payment for services such as childcare, diminish.

If there is nothing that needs to be paid, therefore, you might consider stopping your life cover. If no one is financially dependent on you, why pay for them to receive money when you are gone?

Financial dependence is the key. It may not be quite as explicit as a mortgage repayment but dependence can continue even after the house is yours and the children are gone. Any loss has a serious impact on our lives - and the security of knowing money is the least of those worries can minimise at least the unnecessary elements of stress.

That need is of course much lower, but there are situations you might want to cover. Perhaps it could help to pay the bills for a few months while your partner is dealing with loss and upheaval. Perhaps you are in retirement and want to buy your partner additional income because your own pension would stop on your death. Perhaps you simply want to cover funeral expenses. Or maybe you have a larger problem, such as Inheritance Tax, for which money would otherwise have to be raised from the sale of treasured possessions.

So whatever your age, don't ignore life cover. With the exception of only some of the more complicated circumstances, it is an inexpensive and easy insurance to sort out and of course you won't need as much as you once did. To find out what might be appropriate for your situation, therefore, speak to your financial adviser.

NEWS IN BRIEF

Bank of England announces major change to the Financial Services Compensation Scheme

At present, the Financial Services Compensation Scheme (FSCS) covers the first £85,000 saved with any participating bank or deposit-taker. The Bank of England's Prudential Regulation Authority (PRA) has announced that from 1/1/16 this figure will be reduced to £75,000.

This change has caused a media outcry, with many financial reporters commenting that it seems absurd that the events in the Eurozone should mean a reduction in the level of protection available to UK depositors.

The PRA is required by the European Deposit Guarantee Schemes Directive to recalculate the FSCS deposit protection limit every five years, setting the level to the equivalent of €100,000. Back in 2010, €100,000 was worth £85,000. However, since then, the pound has appreciated against the euro and so the figure has dropped by £10,000.

The limit applies to ALL accounts held with each bank or deposit-taker. Those with funds in major high-street institutions need to be aware that some banks share a licence with others.

WILLS – DON'T LEAVE THINGS TO CHANCE

What links comedian Rik Mayall, actor Roger Lloyd-Pack ('Trigger' in TV's Only Fools and Horses) and artist Pablo Picasso? They all died without leaving a Will.

Rik Mayall left £1.2m, and Roger Lloyd-Pack left £1.4m. Neither wrote a Will, meaning that instead of passing to their wives tax free, their estates had to be administered under the rules of intestacy, leaving each family facing a bill for Inheritance Tax that could easily have been avoided with a valid Will in place.

It cost over $30 million to settle Pablo Picasso's estate, with his assets eventually divided up amongst six heirs.

According to the Law Society, roughly one in three people die without a legal Will in place, leaving their estates to be dealt with under the rules of intestacy. Dying without a Will is something all adults, especially those with children, should avoid.

INTESTACY RULES

Under the rules on intestacy, the estate of anyone who dies without a Will who is in a marriage or civil partnership where there are no children passes entirely to the surviving spouse or civil partner, with other relatives receiving nothing.

If the spouse or civil partner dies without a Will and there are children of that relationship, a surviving spouse or civil partner receives £250,000 and half of the balance absolutely, with the remainder passing to the deceased's children. If a son or daughter has already died, their children will inherit in their place.

WRITING A WILL GIVES YOU CHOICE

Writing a Will gives you the opportunity to leave all your money to your spouse or civil partner free of tax, give money to your wider family and friends, and benefit charities. If you want children to inherit only when they reach a certain age, you can stipulate this in your Will. Taking advice and writing a Will can help you ensure that the amount of Inheritance Tax payable on your estate is kept to the minimum.

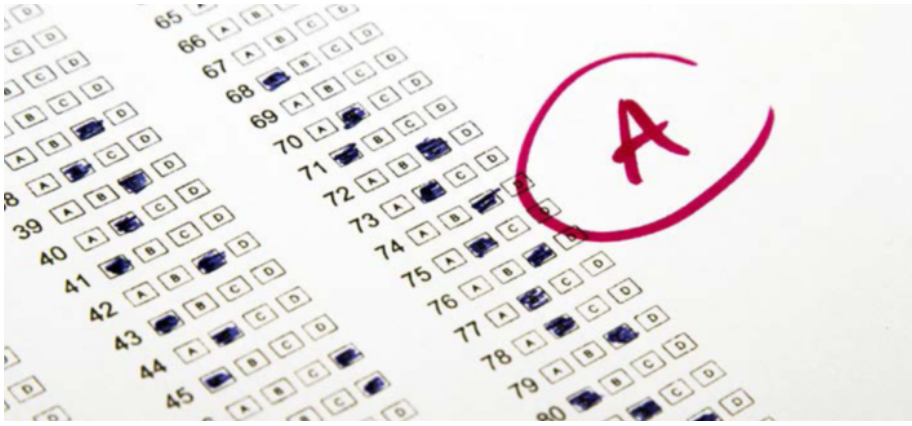
REVIEWING YOUR WILL

If you have written a Will, you should remember to review it as your life changes. Hollywood actor Heath Ledger didn't update his Will, so on his death there was no provision for his girlfriend or daughter Matilda.

Will writing and estate planning services are not regulated by the Financial Conduct Authority

HOW GOOD IS YOUR FINANCIAL IQ?

At election time, it's become almost a ritual to quiz politicians on the cost of every-day items such as a pint of milk. Many get it wildly wrong and they are not alone. Recent personal finance surveys have shown that we all have a few potential blind spots when it comes to money matters.



THE COST OF RAISING A FAMILY

Research by Ipsos MORI and King's College London shows that when asked to estimate the cost of raising a child to 21 the average guess was £50,000. The actual cost has been calculated at more than four times that amount at £229,000[1]. This finding is all the more surprising when you consider that the average guess among those with families was only £40,000.

THE PRICE OF A DEGREE

The same survey reported that people estimated that students today leave university with debts of £21,000 including tuition fees. However, the actual figure according to a recent study is £44,000[2]. When those aged 16-24 were asked, they were able to come up with a more accurate but still too low figure of £30,000.

THE AVERAGE COST OF A HOME

With rising property prices never out of the news headlines, it's hardly surprising that in May when asked in the Ipsos MORI survey what the average cost of a house in the UK was, respondents estimated £190,000. This is very close to the Nationwide's May 2015 house price survey figure of £195,000. Interestingly, whilst we might be on the money when it comes to house prices, a survey conducted by the Principality Building Society showed that less than half the borrowers they asked knew what rate of mortgage interest they were currently paying.

[1] Centre for Economics and Business Research

[2] The Institute for Fiscal Studies

VOLATILITY – WHAT IT MEANS FOR INVESTORS

Since the global credit crisis, investors have become more aware of risk in general and portfolio volatility in particular. At times, there can seem to be a lot of volatility about.

In a world of 24/7 media commentary continuously focusing on economic problems, such as the debt crisis in Greece or the recent share falls in China, it's understandable to feel a little concerned about the investment climate and the volatile state of stocks and markets.

However, it's important to realise that some market volatility is inevitable; markets are likely to move up and down and accepting a degree of risk is part and parcel of investing. What you have to decide as an investor is how much risk is right for you. While the process of building a portfolio includes strategies to reduce risk, it cannot be eliminated altogether.

TAKING THE LONGER-TERM VIEW

The key to investing is to ensure you don't 'put all your eggs in one basket'. Spreading your money around the different asset classes - cash, shares, bonds and property - helps reduce your exposure to risk and volatility. Regularly revisiting your risk appetite is important too. While younger investors are potentially happy to accept a greater degree of risk as time is on their side, those approaching retirement may well find their appetite for risk diminishes and may prefer to opt for a more conservative investment strategy with less exposure to risk.

REVIEWING YOUR PORTFOLIO

While focussing too much on short-term gains or losses is unwise, so too is ignoring your investments altogether. If you haven't reviewed your portfolio for a while, it could be time to discuss matters with your adviser. They will be able to check that your asset allocation is still right for you, and undertake any necessary portfolio rebalancing that the review throws up.

THE COST OF KITTING OUT THE KIDS

Moving from primary to secondary school can be a very exciting time for a child, and, based on research from high street chain John Lewis, it can be an expensive time for parents.

The retailer added up the cost of providing for a child's first year at secondary school. They included new school uniform, books, stationery, technology such as phones and laptops and came to an average figure of £6,800 per child. This figure doesn't include private tuition fees but does include other costs like lunch and end-of-year presents for teachers.

PLANNING AHEAD

With forward planning and good advice it is possible to accumulate a big enough savings pot to see your child or children through to graduation.

When you're looking to save a lump sum, it makes sense to do so as tax efficiently as possible. Individual Savings Accounts (ISAs) are a good way of building up funds, especially as the amount you can save annually tax free (except unrecoverable 10% deducted from company dividends at source) is £15,240 for tax year 2015-16.

You can choose a Cash ISA, a Stocks & Shares ISA, or a combination up to the full allowance. If you have a few years before you need the money, and you're happy to take on some risk, then a Stocks & Shares ISA might be the right choice for you.

In addition to your own ISA allowance, a child under 18 who doesn't have a Child Trust Fund (CTF) is eligible for a tax-free Junior ISA (JISA). You can invest up to £4,080 for them in tax year 2015-16. Withdrawals can't be made from a JISA, so they should be regarded as a longer-term investment as the account can only be accessed by the child when they turn 18. Since last April it has been possible to switch an existing CTF into a JISA.

A good education can give your children the best start in life, so it makes sense to talk to your adviser as early as possible about your family's needs.

PENSION PLANNING - WHAT YOU NEED TO KNOW

Whilst the pension legislation landscape continues to alter, one principle remains constant: we all need to keep an eye on our pension plans to help ensure we're making adequate provision for the future.

AUTO ENROLMENT

Successive governments have, quite rightly, placed considerable emphasis on the need for us all to save more for retirement. There have been a number of steps in this direction, including the introduction of auto enrolment, which gives many more workers their first opportunity to accumulate savings for their future in a workplace scheme.

Employees who are not currently saving into a workplace pension will be automatically included in a scheme, although they have the right to opt out should they wish to.

The government is introducing the changes on a gradual basis. A contribution of 1% of salary from both employee and employer will be increased in stages to 4% in 2018 for an employee, 3% from the employer in most cases and 1% tax relief from the government. Some have argued that the 8% savings figure this gives won't necessarily prove to be enough to fund a decent retirement, but it has to be viewed as a step in the right direction and contribution levels will be subject to review.

INCREASE IN THE STATE PENSION AGE

With the continued increase in life expectancy, the government has to find a way to manage the overall pension bill. To that end, the equalised state pension age scheduled for 2018 is set to increase in stages from 65, eventually reaching 68 between 2044 and 2046.

MOVES TO ENGAGE MORE WORKERS

The tax treatment of pension contributions has long been viewed as a major incentive to save for retirement. In a move designed to make the taxation of pensions simpler and more easily understood by all, the Chancellor has announced a Green Paper entitled 'Strengthening the incentive to save: a consultation on pensions tax relief'. Pensions, he said, could be treated like Individual Savings Accounts (ISAs) for tax purposes.

This review will consider whether the current system that sees pension contributions receiving tax relief, funds being exempt from tax while invested and taxed when paid out, could be overhauled. This could be replaced by a system where contributions don't receive tax relief but are tax exempt while invested and tax exempt when paid out. The government's consultation closed on 30th September and the outcome will no doubt make interesting reading.

TAKING THE RIGHT STEPS

It makes sense to:

- Speak to your adviser about arranging a regular review to help ensure you're keeping your retirement plans on track
- Make pension saving a priority. Think about topping up your contributions whenever your financial circumstances permit, remember, within limits they attract valuable tax relief
- Know your state pension age and get a forecast of how much you'll receive.

KEY DATES

- 31/10/15 - Deadline for submitting paper Self-Assessment returns to HMRC
- 25/11/15 – Autumn Statement 2015
- 1/12/15 - Help to Buy ISA Start Date
- 30/12/15 - Deadline for submission of online return, where a balancing payment under £3,000 is to be collected via PAYE
- 1/1/16 – Date of Financial Service Compensation Scheme reduction to £75,000
- 31/1/16 - Deadline for filing 2014/15 returns, balancing payment due for 2014/15, first payment due for 2015/16
- 5/4/16 - End of the 2015/16 tax year
- 6/4/16 – New dividend allowance and rates apply