Haighwood
Financial Services

VIEWPOINT

HAIGHWOOD FINANCIAL SERVICES

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Tax-free investing
It's time to talk

With the first wave of Child Trust Funds maturing this year, there's a great opportunity to talk to your children about the benefits of saving and investing.

If one of your children has recently celebrated their 18th birthday then there's a good chance they'll have some money in a Child Trust Fund (CTF), which they can now access for the first time. It could be worth thousands of pounds depending on how much you've contributed over the years. Although this might sound like a brilliant present, the responsibility that comes with receiving a large amount of money could be a bit daunting.

CTFs were set up by former Labour Chancellor Gordon Brown in September 2002, and every qualifying child was given a £250 voucher (or £500 if you were on a low income). The idea was to help make sure children arrived into adulthood with some savings and were encouraged to save, as well as understand why it's important. The scheme lasted until January 2011, when it was replaced by Junior ISAs.

So if you have children aged nine or older then they will probably also have a CTF, which will mature when they turn 18. Rather than leave it to chance, these accounts provide the perfect opportunity to get them thinking about money and start learning about saving and investing. Here are five things you might like to talk about to get the conversation going.

Key points

— If you have children born between 1 September 2002 and 2 January 2011 then they probably have a Child Trust Fund (CTF).

— Encourage them to think about what they'd like to do with the money before they turn 18 and that they've started to develop some financial skills.

— There are lots of investment options and it's important to make the right decisions so that they can continue to enjoy the tax-free benefits.

— Consider using a conversation with your children about their CTFs to explore other family financial planning matters, such as inheritance.

1. Discuss their goals

Like any financial planning exercise, a good place to start is by talking to your teenager about what they'd like to do with the money. For example, they could use some of it to help pay their university fees. Alternatively, they may be more interested in putting the money towards more longer-term aspirations like a deposit for a house or flat. You might even decide to enjoy spending some of the money together now as a family.

2. Explore the options

When a CTF matures, you can either cash some or all of it in or transfer the money into an adult ISA. If you do not inform your provider what you would like to do, they will hold the money in a 'protected account' until you contact them. The funds will still be tax free, and any terms and conditions that applied to the CTF before it matured will still apply.

3. Start the investment journey

With so many different markets and products available today, investing can seem like a complex process. Yet there are some basic principles that stand the test of time, such as making sure you spread your risks and keeping a long-term perspective. Your children might also be interested to know that they can invest in ways that reflect their personal values about society and the environment.

4. Consider switching before maturity

The investment management charges on CTFs tend to be high compared with Junior ISAs. Meanwhile, with interest rates at record lows, cash CTF savers are being paid paltry returns. That's why it might make good financial sense to transfer any account before it matures. As well as potentially lower fund charges, ISAs also tend to offer more flexibility and choice when it comes to deciding how you'd like to invest.

5. Talk about inheritance

When you talk to your children about their CTFs, you could mention how you plan to pass on your own wealth. Decisions about inheritance are usually best taken together as a family, which will give everyone the chance to put across their point of view about what's important to them. Open and honest discussions with your children can help you all develop a sense of trust and common purpose.

Next steps

If your children have CTFs and you'd like us to help you work out what to do then please get in touch. As well as exploring all the tax-efficient savings and investment options, we can get them thinking about their own financial futures as they enter into adult life.

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.

Lost property

Even if you don't know the provider, it's easy to locate a lost CTF. Go to the GOV.uk website and fill in the HM Revenue and Customs (HMRC) form. This tells HMRC to check where the account was originally opened. You'll need a Government Gateway user ID and password. If you don't have a user ID, you can create one when you fill in the online form. Alternatively, The Share Foundation charity runs a free CTF tracing service.

www.gov.uk/child-trust-funds/find-a-child-trust-fund

findctf.sharefound.org

OW2992 Exp. 26/04/2021

Cohabiting couples should make a Will

When Tom and Pete bought their first property together, things couldn't have been going better. They both had good jobs, were pulling in decent salaries and were excited about spending the rest of their lives together.

They chatted about making a Will a few times, but somehow life always got in the way. Until one day, 10 years later, Pete got a call that would change his life forever. Knocked down by a car while crossing the road, Tom had tragically passed away.

The intestacy trap

Grieving for the loss of his partner, Pete then found out that, due to the UK's intestacy laws, he wasn't entitled to inherit any of Tom's property, financial assets or belongings, unless they were jointly owned. Despite Pete knowing that Tom had loved him and would want him to inherit, the absence of a Will meant that none of that mattered.

Thankfully, Pete and Tom had owned their property as joint tenants, meaning Tom's share automatically passed to Pete according to the rights of survivorship. However, without children or any surviving parents or siblings, the remainder of Tom's assets ended up being passed on to a distant uncle with whom Tom didn't have any contact.

Now, Pete faces a battle to pay his bills and mortgages without Tom's savings and investments, life insurance policy and even the car that Tom owned but they both used.

Three in five UK adults do not have a Will

How a Will could have helped

Had Tom got around to writing a Will, he would have been able to specify exactly who would receive what from his estate, including his savings, investments, car and other belongings. In addition to writing a Will, Tom could have made his wishes known, by nominating beneficiaries to his pension and writing life policies under trust. By taking these steps, Pete would have been given the extra financial support he now so desperately needs.

As it stands, Pete still has the legal right to claim against Tom's estate as they had been cohabiting for more than two years - but this will be a costly and time-consuming process and a positive outcome isn't guaranteed. If Tom had a Will, this added stress could have been avoided.

Don't put it off

With cohabiting couple families growing faster than married couple and lone parent families, it's clear that more people are choosing not to get married, just like Tom and Pete. However, there's a catch. Cohabiting couples have none of the legal protections afforded by marriage, meaning that a Will is one way to ensure your partner inherits according to your wishes. Despite this, research shows three in five UK adults do not have one.

Let us help

Don't let what happened to Pete, happen to you. Speak to a solicitor or Will writing expert to make sure your loved ones are protected.

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Will writing is not regulated by the Financial Conduct Authority

OW3035 Exp. 03/12/2021

Give your children a head start with financial education

Financial literacy isn't a skill that we are born with. Learning how to manage money effectively means acquiring a few important life lessons that parents can pass on to their children from a relatively young age.

Money does not grow on trees

Encourage children to handle cash as soon as possible to help them recognise its value and to plan how to save some of their pocket money, so that they can save up to buy a new toy or book with their own money. After all, good things come to those who wait, teaching delayed gratification is a great lesson. Children need to realise that you work to earn money and that it simply does not pop out of the wall at the cashpoint.

Lead by example

Talk to your children about how much things cost and set a good example; your financial behaviour will lead the way. It's important for children to understand what budgeting means, to teach responsibility with money. If you demonstrate responsible buying by creating a budget before you go shopping, comparing prices, using money saving vouchers and curbing impulse purchases, you can lead by example.

Dividing money into different pots is a useful way to demonstrate only spending the money you have, as it helps your child to visualise where their money is going. When it's gone, it's gone.

Saving for the future

Junior Individual Savings Accounts (JISAs) are a good way for children to learn about the benefits of saving money for the future. Once the person who has parental responsibility for a child has opened the account, anyone can contribute to it, up to an annual limit (£9,000 this tax year). This means that the child can learn more about money management by saving some of their pocket money and watching it grow, before gaining control of it at age 16. The money cannot be withdrawn until the child is 18, at which point, the account is automatically rolled over into an adult ISA, a valuable facility for those who want to continue saving or investing tax-efficiently.

Teach a life skill

Due to limited curriculum time, only four in 10 children and young adults currently receive financial education lessons. According to The Financial Capability Strategy, children's attitudes to money are well-developed by the age of seven. Research confirms that children who receive a formal financial education are more likely to be money confident and have a bank account, understand debt, be capable of saving and generally have the skills needed to make the most of their money in the future.

Simple things like playing family board games together that promote financial literacy; games such as 'Cashflow 101' and the ever-popular 'Monopoly', which now has junior versions, are a good starting point.

The value of investments can go down as well as up and you may not get back the full amount you invested. This information is based on our current understanding of the rules for the 2020/21 tax year.

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

OW2768 Exp. 05/04/21

Do you know your State Pension age?

Did you know that the State Pension age (SPA) increased to 66 for both men and women in October this year and it's set to rise further? Knowing your SPA, together with how much you can expect to receive, is an important part of your retirement plan that is often overlooked.

Why do I have to wait longer?

In 1908, when the first State Pension was introduced in the UK, you would have to wait until the grand old age of 70 before being able to claim. This was at a time when life expectancy at birth was around 40 years for men and 43 for women, and when only 24% of people reached State Pension age!

As recently as ten years ago, women could claim their state pension at 60, while men had to wait until they were 65, but qualifying ages have now been brought into line. The changes were introduced due to increased life expectancy, as people are now likely to spend a larger proportion of their adult lives in retirement than ever before.

66, 67 or older?

To find out your SPA, visit the government website www.gov.uk/state-pension-age - this will provide you with an exact date. However, you are no longer forced to take your pension at this age, so you could consider working longer if that suits your circumstances.

If you were born after April 1960, your pension age will be 67 and people born after April 1977 will have to wait until age 68 under current proposals, although the government is considering plans for this to be brought forward.

How much will I get?

The State Pension is paid to anyone who has made at least ten years' worth of National Insurance contributions during their working lifetime. The maximum payment is currently £175.20 a week (£9,110.40 a year), but how much you get depends on how many years you contributed for. To check your State Pension forecast, go to www.gov.uk/check-state-pension.

You may also be able to apply for National Insurance credits or pay voluntary National Insurance to boost your State Pension, although the best options will depend on your individual circumstances.

A timely reminder to plan ahead

Why not let the recent increase to the SPA act as a reminder to review all your pension pots, including your State Pension, to consider whether your savings are going to allow you to have the retirement you've dreamed of. We can help you get on track, so why not get in touch?

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Could you 'nudge' your way to a healthy retirement?

Nudge theory was popularized in 2008 by behavioural economist Richard Thaler and legal scholar Cass Sunstein. In simple terms it is about making it easier for people to make a certain decision that is ultimately in their own self-interest.

Day-to-day

In the short term there are some financial nudges you can do to apply nudge theory to your own finances.

Put your decisions into context – During lockdown, local or national (or whatever COVID-19 throws at us next) do you really need to buy another plant, candle or pair of joggers.

Set simple and clear goals – A single goal like save £6,000 for a car is much easier to achieve than multiple goals like save for a home, car, and holiday.

Make it easier to do the things you should do (and hard to do the things you shouldn't) – Putting small barriers in the way of every day things, like not allowing your browser to remember your PayPal password, makes it harder to spend money and you may ultimately decide not to.

Don't ignore information and the facts – check your budget, bank statements and accounts regularly.

Long-term

Do you like going on holiday, eating out and enjoying your hobbies? If so, it's likely your 'future self' will too. Far from sitting in an armchair in your carpet slippers and a tartan blanket, it's much more likely that your future self (who is, after all, still you) will want to enjoy their retirement in style.

So, what's the dream? Well, according to research from Aviva, almost half of people want to travel when they retire, while taking up a new hobby and helping their children and grandchildren out financially come second and third on the list – all suggesting that people want to live their lives to the fullest in their later years. Unfortunately, translating the dream into reality is where it falls apart for some – 23% of people think their retirement is likely to be a financial struggle.

Living the dream

A study has hit on a novel solution to the problem – 'nudges'. In other words, by making small behavioural adjustments to your spending habits, you could enjoy an additional £7,000 every year in retirement income. The key lies in encouraging young people to imagine themselves in the future, rather than viewing their 'future self' as a different person.

Understandably, a lot of young people are focusing on their current financial priorities – after all, we're in the midst of a global pandemic. But that doesn't mean your future financial needs have gone away. So, rather than thinking of your 'future self' as a stranger, treat your pension like a gift you're giving yourself – you just can't open it yet!

Get nudging

COVID-19 hasn't given us many silver linings but reduced living expenses due to remote working and the closure of bars, restaurants and other leisure and hospitality businesses could provide a welcome boost to our savings.

Similarly, you could save around £40 a month by keeping going with the home workouts, like the 72% of people who say they have no plans on going back to the gym. In addition, many kids' clubs have yet to start back up following lockdown, so parents could be making big savings here, too.

Save on subscriptions

Foregoing the latest iPhone could also save you a hefty sum. Keeping your existing handset instead, and switching to a SIM-only deal, could help you move some welcome funds into the pension pot.

Or, you could divert an average £39 per month in wasted subscriptions into your pension. Unused gym memberships, phone contracts and subscriptions to online video streaming services are all common culprits, according to research.

Expert 'nudgers' at your service

If you need a 'nudge' from us to help boost your retirement income, we're just a phone call away.

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