COUNTRYWIDE
FINANCIAL SOLUTIONS

Countrywide Financial Solutions
19a Clifton Street, Lytham FY8 5EP

T 01253 797266 F 01253 794002

E financial@countrywidelfa.co.uk

www.countrywidelfa.co.uk

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YOUR MONEY SUMMER 2017

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SCAMS AND ONLINE FRAUD UPDATE

Recent figures from the Office for National Statistics[1] show that online fraud is now the most common crime in the UK, affecting more than one in ten people.

Sadly, frauds and scams are becoming more varied and more sophisticated all the time, meaning that it's important to exercise care and be vigilant. Criminals are using all available channels to contact potential victims, meaning that text messages, emails, phone calls and online sites are all regularly used to scam people.

For example, a recent phone scam has been exposed where targets would receive a call from a local number. The fraudsters would say "Can you hear me? Responses are then recorded, and if you answered "Yes", this was edited and used to make it appear that you had agreed to a non-existent purchase.

Other scams involve sending fake emails purporting to come from HMRC, requesting that recipients access information about a tax rebate. When they log on to the fake site, they are asked for banking details and find that as a result, money is removed from their accounts by fraudsters. Be vigilant.

[1] Office for National Statistics, 2017

'FLEXIBLE' RETIREMENT COULD MEAN WORKING INTO YOUR LATE 70s

A recent report[2] shows that those who are planning a 'flexible' retirement, reducing their working hours in their later years and topping up their earnings with pension income, could have to work on into their late 70s or even later to achieve a good standard of living.

Why is this likely to happen? Nearly four million workers, many currently in their 20s and 30s, are only saving at the minimum rates set by the government under their automatic enrolment pension rules. This low level of saving will mean that these savers wouldn't have enough in their pension pots to enable them to retire comfortably.

The report concluded that someone contributing to their auto-enrolment pension at the legal minimum level, who wanted a pension that provides protection against inflation and a pension for a widow or widower, could still be working into their 80s before they had built up sufficient in their pension pot to be able to retire.

From April 2019, the legal minimum contribution for auto-enrolment will be 8% (including a 3% employer contribution).

SAVING MORE FOR THE FUTURE

However, by contributing more than the legal minimum requirement, this outlook can be significantly altered. A contribution of 10% would mean that an individual could retire around three years earlier, whilst a contribution rate of 12% means an individual could retire about six years earlier.

The report concludes that as a rule of thumb, even for workers who delay saving into a pension until their thirties, each extra 1% reduces by one the number of years they will need to work. It also calculates that it should only cost workers just over £4 a week to boost their contributions by 1% (based on an average salary of £27,600 a year and taking tax relief on contributions into account).

So, if you want to have more choices in later life about when you retire, thinking about your pension provision and getting some professional advice is becoming increasingly important.

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

[2] Royal London, 2017

PARENTS ARE WORRIED SICK ABOUT FALLING ILL

Recent research[1] shows that 43% of parents are concerned about what would happen to their finances if they or a member of their family developed a serious illness, and 76% of those surveyed admitted they had no back-up plans that would replace the income they could stand to lose due to ill health.

Becoming a parent means dealing with huge financial responsibilities, so it can really pay to have a plan in place that would provide protection if the family found themselves facing illness and a consequent drop in income.

Experiencing a long-term illness or injury can be difficult enough on its own without the added pressure of financial worries. This is where taking out an income protection plan makes good financial sense, as it would mean that when they are needed most, funds are available to ensure that bills continue to be paid.

INCOME PROTECTION POLICIES

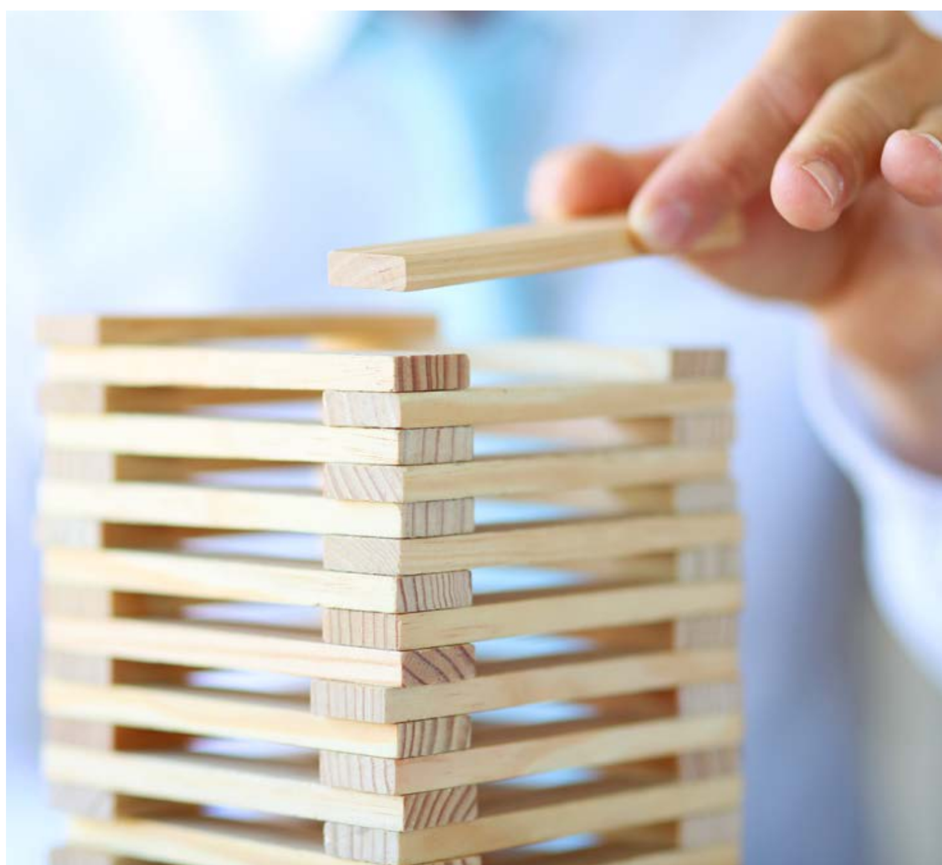
These policies pay out if you're not able to work and earn money due to illness or injury, and, in some cases, forced unemployment. They are designed to cover core monthly financial commitments such as a mortgage or rent, food and bills, providing valuable protection for breadwinners, the self-employed, and employees who receive limited or no sick pay from their employers.

The maximum amount you can claim is usually your net monthly earnings after tax, minus any state benefits you may receive. This could be around 55% of your gross earnings and is usually tax-free. Policies pay out after a chosen deferred period, typically between four and 52 weeks, and can continue until you return to work or the policy term comes to an end. Some policies also provide benefits if you go back to work in a reduced capacity on a reduced salary.

There's a wide range of policies and benefits available; we offer advice that will help you make the right choice for your family circumstances.

If the policy has no investment element then it will have no cash in value at any time and will cease at the end of the term. If premiums are not maintained, then cover will lapse.

[1]Aviva, 2017



BUILDING YOUR PORTFOLIO

Before you begin, there are some important points you should consider. You'll need to ensure that you have ready access to a cash fund to cover everyday living expenses and unforeseen expenditure. Obviously, there's no point rushing into investment if you've got substantial debts, or if you know you're going to have to make major financial commitments that will take up all your spare cash.

An important step in the process of defining a good strategy that will work for you is to take into consideration any existing savings and investment plans and pension arrangements you may have.

In simple terms, building a portfolio is a means of seeking higher overall returns for your money than you can currently expect to get from cash accounts. You'll need to be prepared to leave your money invested for at least five years and, along the way, accept a degree of risk. You should also expect that from time to time, markets will go down as well as up, as this is all part and parcel of investing.

DEFINING YOUR GOALS AND ATTITUDE TO RISK

The next step is to think about the right mix of investments to suit your future goals and just as importantly, your attitude to risk. You will need to establish how much risk you're comfortable with and the impact that has on the rate of return you can realistically expect to earn.

The next step is choosing which equities, funds and bonds might be right for you. It's important to ensure you have a spread of investments across different market sectors, in different geographies, to diversify your risk. Don't forget, a great way to start is by investing via an ISA, making your returns free of income and capital gains taxes.

Taking the decision to invest money can seem like a major step, but with help and advice, building up a portfolio of investments is an achievable ambition.

The value of investments and income from them may go down. You may not get back the original amount invested.

YOUNG SAVERS IN THE DARK ABOUT PENSIONS

Despite being widely regarded as the most media-savvy generation, it seems young savers are in the dark about the recent pension freedoms and have only a sketchy understanding of important facts such as when they will receive their state pension.

Many are facing financial burdens like paying off student loans and saving for a deposit for their first property, meaning that thinking about their retirement is a distant prospect that is many decades away, not yet on their radar.

6 April 2017 marked the anniversary of both the new state pension (2016) and the new pension freedoms (2015). However, data from a recent survey[1] carried out by a major pension provider suggests that the message about taking responsibility for our retirement planning has yet to reach younger savers. Less than one in five respondents under 35 are confident that they will receive a state pension. Worryingly, two-thirds were unaware that the state pension age for those currently under 35 will be 68, and thought they would receive it at an earlier age.

WHAT YOUNG PEOPLE NEED TO KNOW

The most important thing to remember is that being young means that you have time on your side. Investing a little money today and ensuring that it is topped up each year to keep pace with increases in the cost of living, can help ensure that by the time you reach retirement, you have saved sufficient to enjoy your retirement years.

Subject to age and earnings criteria, by February 2018 at the latest if not already, your employer must, by law, automatically enrol you in a pension plan. The government has also set out a minimum contribution that you and your employer make; yours gets topped up by tax relief. You can contribute more if you want to, or have your own personal pension plan as well.

If you'd like help in working out how much you need to save for a comfortable retirement, then get in touch.

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

[1]Aviva, 2017

THE ELECTION AFTERMATH – WHERE ARE WE NOW?

Despite Theresa May's optimism at the start of the campaign, her early lead in the polls ebbed away resulting in a hung parliament. She now faces the difficult job of putting together a workable team with viable policies that both her back-benchers and her alliance colleagues, Northern Ireland's Democratic Unionist Party, can agree upon.

Some policies, such as the much-criticised reforms to social care, dubbed the "dementia tax", the ending of the pension triple lock and the removal of the Winter Fuel Payment, will all now be called into question.

In addition, there were several measures that didn't make it to the Finance Bill once the election had been called that have been left in limbo. The reduction in the tax-free dividend allowance was due to fall from £5,000 to £2,000 with effect from next April and the Money Purchase Annual Allowance for those already taking money from their pension but wanting to continue to save was due to reduce from £10,000 to £4,000. Again, these will need to be clarified.

With taxation, the Conservative manifesto pledged to increase the personal allowance to £12,500, and raise the higher-rate threshold to £50,000 by 2020.

BREXIT TALKS LOOM

Then of course, there's the reason the election was called in the first place, the need to begin the Brexit process. Theresa May had hoped to go into negotiations with a strengthened hand, but instead she may need to adopt a more conciliatory tone, and opt for a "softer" Brexit.

Markets don't respond well to uncertainty. So, it seems likely that for the next few months at least, volatility could be set to increase, with the stock and currency markets responding to the twists and turns we're likely to experience as events unfold.

The case for a portfolio spread geographically and by asset class remains very strong. Sitting tight and keeping focused on your long-term financial and investment objectives is, for now, arguably the best strategy.

The value of investments and income from them may go down. You may not get back the original amount invested.

WHY THE SELF-EMPLOYED NEED TO MIND THE PENSIONS GAP

Figures from the Office for National Statistics released last year show that the number of self-employed people in Britain rose from 3.6 million in 2008 to 4.8 million in 2015.

However, when it comes to retirement provision, the UK has come bottom in a recent survey of the self-employed in 15 countries around the world.

The study found that 52% of Britain's self-employed workers don't have a retirement plan. This compares with an average of 36% of workers in the same position in other parts of the world including Continental Europe, Asia, the Americas and Australia.

Being your own boss provides many opportunities, including the freedom to choose what type of work you do, and when and where you do it. But it does mean that you need to make your own arrangements for your pension. Currently many self-employed people are overlooking the need to plan their finances in retirement, meaning that many people have little or no pension provision in place. Unlike employed workers, the self-employed don't have auto-enrolment schemes at their disposal, although the government has been actively considering this as an option.

PUTTING PLANS IN PLACE

If you're self-employed, the day-to-day pressures of working for yourself can mean that saving for retirement is way down the priorities list. However, it's worth remembering that the new flat-rate state pension is only worth just over £8,000 a year, so if you want to enjoy a more financially-comfortable retirement, you will need to make your own pension arrangements too. The sooner you can start saving for a pension, the longer the money invested in your plan will have to grow.

Tax relief on contributions is a great incentive to save into a pension. The government provides relief on your contributions equal to the amount of tax you pay. So, if you are a basic rate taxpayer, a contribution of £100 costs you just £80 of net pay. If you are a higher rate taxpayer, your £100 contribution costs you just £60, as you can claim the additional relief on your self-assessment tax return. Being self-employed can mean that your income is unpredictable; however, the good news is that you can carry forward any unused annual allowance from the last three tax years.

HOW MUCH WILL YOU NEED?

We will all have differing needs in retirement, so it makes sense to draw up a budget that covers the regular bills you will need to pay, includes a fund for emergencies, and covers money you will want to spend on an enjoyable lifestyle.

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ONE IN TEN THINK THEIR PARENTS ARE SPENDING TOO MUCH

In further signs that there is, in some quarters financial friction between the generations, new research[1] shows that as many as one in ten children think their retired parents are spending their inheritance.

One in five adult children is said to be relying on receiving an inheritance; however with longevity increasing, and the cost of residential and nursing care rising, the amount they might receive could reduce substantially.

The older generation has acquired their wealth from the rise in house prices, didn't have to pay for further education and often benefited from final-salary pension schemes. Baby boomers have a strong point when they argue that they have worked all their lives and earned every penny, so they shouldn't feel duty-bound to pass all their wealth on to the next generation.

The debate about inheritance is clearly never straightforward, but perhaps the best advice to young people is to think about planning their own financial futures, basing their plans on their own circumstances, rather than second-guessing what their parents might leave by way of inheritance.

[1] SunLife, 2017

It is important to take professional advice before making any decision relating to your personal finances.

Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only.

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