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FINANCIAL SERVICES

Summer Newsletter 2022

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Ways to cope with being in the sandwich generation

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Welcome to the Summer edition of our quarterly client newsletter, which provides topical financial articles.

If you have any questions in relation to the articles contained within this newsletter, please do not hesitate to contact us and we will be happy to provide any guidance required.

Whatever your financial need, we are always pleased to speak with you.

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Any information in this newsletter does not constitute advice and should not be acted upon without taking professional guidance.

The value of investments can fall as well as rise. You may get back less than you invested.

More families are being hit with inheritance tax

Inheritance tax (IHT) is a tax on the estate of someone who has died, including all property, possessions and money. With the increase in house prices and stagnant Inheritance tax limits, more are being hit at 40%.

Whilst estate planning is ever more important, it is not just about passing on money when you die – it's also about enjoying life now and ensuring you have enough to live on.

IHT receipts for April 2021 to February 2022 are £5.5 billion, which is £0.7 billion higher than in the same period a year earlier.

With the increase in house prices and stagnant inheritance tax limits, more are being hit at 40%.

Over the year to December 2021 UK average house prices increased by 10.8% and yet the inheritance tax threshold has stood still at £325,000 from 2009 (and is planned to remain at £325,000 until 2026).

The inheritance tax additional threshold rose in 2020 from £150,000 to £175,000 but it is due to remain frozen at £175,000 until 2026. IHT receipts for April 2021 to February 2022 are £5.5 billion, which is £0.7 billion higher than in the same period a year earlier.

If you intend to leave savings, property or other assets to family or friends after you die, you need to consider inheritance tax (IHT). Anything over the IHT threshold could cost your beneficiaries 40% IHT tax.

By planning ahead, you can minimise IHT to ensure as much of your estate as possible reaches your loved ones.

There are ways to limit the amount of inheritance tax your family may potentially face if it looks like you may be liable.

Don't get caught out! There are ways to limit inheritance tax

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

Inheritance Tax Planning is not regulated by the Financial Conduct Authority.

Tips to limit your inheritance tax

There are ways to limit the amount of inheritance tax your family may potentially face if it looks like you may be liable.

Make a will
This can be the most basic, but often most neglected form of estate planning. Without a will, your estate will be distributed according to set rules, meaning a larger portion may go to the taxman.

Gifting early to avoid IHT
With the Government proposing to change the current probate fee structure from a flat rate fee to one based on the value of the estate, many people are considering reducing the size of their estate to minimise the Inheritance Tax (IHT) and probate fees that will be payable on their death.

Using trusts and life policies
Many families are using trusts to ring fence assets, effectively removing their value from their estates. However, anyone considering giving away assets in their lifetime should take professional advice. Inheritance tax is complex and lifetime gifts can end up being taken into consideration for tax purposes if all the conditions applying to these types of gifts aren't fulfilled.

Inheritance Tax rates
The standard Inheritance Tax rate is 40%. It's only charged on the part of your estate that's above the threshold (Nil rate Band - NRB). The NRB is fixed at £325,000 until 2026 and hasn't changed since April 2009.

The Residence Nil Rate Band (RNRB) – also known as the home allowance was introduced in April 2017. It has stayed fixed from 2020/2021 at £175,000. It is available where a qualifying property is inherited on death by direct descendants and means your threshold can increase to £500,000 (2022/2023).

If you are married or in a civil partnership and your estate is worth less than your threshold, any unused threshold can be added to your partner's threshold when you die. This means their threshold can be as much as £1,000,000 if a second death occurs in 2022/23.

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Are you caught in the middle?

Ways to cope with being in the 'Sandwich Generation'

The "sandwich generation" is made up of people who are simultaneously taking care of their children or grandchildren and helping their aging parents. As our population ages, there will be an increased need for informal care, with caring for a parent being the most common type of caring.

With people living longer, retirement is not the start of a slower pace of life it once was. For many people it is a chance to take on new challenges, but for some it is increasingly likely they will have a parent and/or grandchild needing care.

Here are a few tips to help you feel better equipped to cope:

Take time to recharge those batteries
Self-care is not only essential for the caregiver — it is essential for the well-being of the whole family. It might be a short trip to the gym or coffee with friends. It's important to take those breaks, relax, read a book or go for a walk. If respite is an option, all the better.

Share the load
Ask for help, however small. Anything that can lift the burden will be beneficial. Delegating is important, because it takes something off your plate which can make all the difference to being able to cope.

Hire help
If you can fit it into your budget, why not get help with cleaning, lifts or gardening. If your budget is stretched, perhaps consider asking distant family members to contribute financially.

Keep perspective
Remember that this period in your life won't go on forever.

Talk to others
It can be difficult to maintain a social life when you're busy caring for others as well as trying to meet family commitments – you may feel that you don't want to 'burden' anybody with your worries. It's important to find ways to meet with and talk to people who can understand what you're going through – whether in person or online.

Check your entitlements
In some circumstances, you may be eligible for Carer's allowance or other benefits. Carer's allowance is a means tested benefit which pays £69.70 per week if you care for someone for at least 35 hours a week and they get certain benefits. You do not have to be related to, or live with, the person you care for (and you do not get paid extra if you care for more than one person).

Plan for the future
It's important to accept that care needs can change over time – if your relative has a degenerative or terminal illness, the initial care that you give may not meet their needs in the longer term. In these instances, it is worth researching the next stage of care beforehand.

Watch out for the pitfalls of a longer term mortgage

Watch out for the pitfalls of longer mortgage terms
Longer mortgage terms are becoming commonplace, but watch out for the pitfalls.

The government's stamp duty holiday was introduced in July 2020 and had two stages – June and September 2021. New data reveals that at both stages, the number of 35+ year mortgages sold increased considerably.

The advantage of a 35-year term mortgage
With house prices continuing to rise and wages struggling to keep up, affordability is a key issue for many first-time buyers looking to take their first step onto the property ladder. Spreading mortgage repayments over a longer term of 35 years or more, can however, help to lower the monthly repayments and make the mortgage more affordable. For many first-timer buyers, spreading the repayments over a 35-year term may be the only way of securing a mortgage.

Changes in circumstance, working less hours or extending the size of a family home might also make a longer-term mortgage more attractive. Those planning to start a family may want to reduce mortgage repayments if one partner is planning to reduce the hours they work, or give up work altogether, while their children are young.

Spreading the mortgage repayments costs over a 35 year term can be tempting for those looking to make their mortgage repayments more affordable, but there are downsides to choosing a mortgage term of this length.

The downsides to a 35-year term mortgage
One of the main concerns with taking out a 35-year mortgage term is the risk that the borrower may still be making mortgage repayments when they retire.

Someone in their 20s will find a 35-year term provides them enough time to repay their mortgage before retiring but this may not be the case if you are securing a mortgage in your 30s (or older). Anyone who plans to retire before their mortgage terms ends should consider their options carefully before choosing a mortgage term of this length.

A significant downside to a 35-year term mortgage is that spreading the mortgage debt over a longer period of time increases the amount of interest you will have to repay.

Those on a 35-year term mortgage will be paying 10 years more interest than those who choose the traditional 25-year mortgage term, this can add thousands to the amount that has to be repaid.

When considering a 35-year term mortgage, you should keep in mind that a mortgage term of this length gives no room for extending the mortgage term if you have a fall in income and need to look at ways of reducing your repayments.

Despite the affordability benefits, borrowers need to carefully consider whether a mortgage term of this length is the right option for them.

The Financial Conduct Authority does not regulate some forms of Buy-to-Let mortgages.

Your property may be repossessed if you do not keep up repayments on your mortgage.

How does inflation affect your savings?

Money held in savings accounts hasn't grown much in recent years due to low interest rates. But with inflation on the rise, your savings are now at risk of losing value in 'real' terms, since you'll be able to buy less with your money.

What can you do to protect your money?
Wait for interest rates to rise. Interest rates are set by the Bank of England (BoE) to help steady the economy. In normal circumstances, it considers raising interest rates to help put the brakes on rising inflation.

During the Pandemic the BoE cut their interest rate and put in place a package of measures to help keep firms in business and people in jobs, and help minimise the longer-term damage to the economy.

While inflation may have a positive effect on your savings - as higher rates tend to filter through the economy - it also means the cost of borrowing on credit cards, loans or mortgages may go up. It's a balancing act to keep the economy growing and inflation under control.

Why do interest rates rise?

The BoE puts up interest rates to help to reduce inflation. Higher interest rates make borrowing more expensive and it encourages saving which reduces how much people spend overall. This helps to push inflation down.

If interest rates rise, individuals will see a higher return on their savings. Although a Bank of England rate rise can take a while to trickle through to customers. The benefits of any interest rate rises can be marginal since rate rises are likely to be slow and steady, starting from a historic low.

Consider investing over the longer term
Investing your money over the medium to long term may give you a better chance of beating inflation. That's because investments, such as funds, shares, bonds and other assets could give your money greater potential to increase in value over time.

Starting to invest may be easier than you think. Funds, can be an effective way to spread your risk. Funds are a ready-made basket of investments that save you having to choose individual investments, such as shares in specific companies. You can choose the level of risk you're comfortable with, and set the amount you would like to invest each month, then the fund will be managed for you.

It's important to note that any investment can fall in value, as well as rise, and you may get back less than you invest.

You need to be prepared for the value of your investments to fluctuate. But the longer your funds stay invested, the more potential your money has to grow - and recover from any setbacks along the way.

The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.

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