independent financial advisers
moneyweb

ISSUE 27 ■ JANUARY 2025

evolve

Inheritance Tax

Departure from previous rules where pensions were excluded from calculations

Will you use your allowances before the tax year end?
Why now is the time to make a significant difference in your overall personal financial health

A safety net for uncertain times
How would you pay your bills if you couldn't work?

Who pays for long-term care?
Ensure you're well placed to fund any future care needs

moneyweb
11 Betton Business Park, East Ayton, Scarborough, North Yorkshire YO13 9HD
Tel: 01723 378 234 **Email:** enquiries@moneyweb-ifa.com **Website:** www.moneyweb-ifa.com

Moneyweb Limited is Authorised and Regulated by the Financial Conduct Authority.
Moneyweb Limited Registered in England. Company Number: 3485003.

welcome

Welcome to the January 2025 edition of ***Evolve*** from **Moneyweb**.

In a significant shift announced by Chancellor Rachel Reeves during the Autumn Budget Statement 2024, inherited pensions will become subject to Inheritance Tax (IHT) from April 2027. This marks a departure from previous rules where pensions were excluded from IHT calculations. This announcement is expected to impact roughly 8% of estates annually, as those who have heavily saved in pensions to lower their IHT liabilities may now face new tax burdens. Turn to page 16 to read the full article.

As the tax year draws to a close, individuals have a prime opportunity to maximise their annual allowances and enhance their financial wellbeing. On page 08, we look at how to ensure your financial strategy is optimised, which could make a significant difference in your overall personal financial health. Strategic planning can yield substantial tax savings, making it crucial to understand the available options.

In today's unpredictable world, safeguarding financial stability is more crucial than ever. Many of us would struggle to keep up with our essential outgoings, such as mortgage and rent, if we lost an income due to illness or an accident. On page 05, whether you are employed or self-employed, we explain how income protection, a long-term insurance policy, ensures you receive a regular income until you either retire, are fit to return to work or pass away.

Many people prefer to avoid the subject of long-term care. Most find it hard to contemplate going into a care home when they are older, but many will do so eventually. However, planning for these potential expenses is important before they become urgent. The NHS, while a cornerstone of healthcare in the UK, only covers care costs in specific circumstances, primarily when related to medical health needs. The full article appears on page 12.

A full list of the articles featured in this issue appears opposite.

contents

03 Looking back at 2024

04 Invest in the Future: Supporting Local Athletes

05 A safety net for uncertain times
How would you pay your bills if you couldn't work?

06 How does pension consolidation work?
Pensions can be confusing, but there is an alternative way to help keep on top of them

08 Will you use your allowances before the tax year end?
Why now is the time to make a significant difference in your overall personal financial health

10 The role of trusts
Providing timely financial support to your loved ones when they need it most

12 Who pays for long-term care?
Ensure you're well placed to fund any future care needs

14 Planning your path to a fulfilling retirement
Are your finances on the right track as you approach this new chapter?

16 Inheritance Tax
Departure from previous rules where pensions were excluded from calculations

Time to think about creating the life you've always dreamed of?

Our expert advisers offer a holistic approach, crafting personalised plans tailored to your unique goals. Find confidence and peace of mind every step of the way. Ready to take control of your financial future? Contact us today! Telephone 01723 378234 or email enquiries@moneyweb-ifa.com. Visit moneyweb-ifa.com for more info.

Looking back at 2024

2024 has been a very strong year for risk assets such as equities (AKA shares), despite many macroeconomic and geopolitical risks and despite being the largest year for elections in history.

Over the course of the year, we had elections in both the UK and the US – where in both cases the incumbent party lost; this has been a feature of politics after the inflationary period of the past few years. Whilst we expect politics to create a lot of headline noise, in general we are inclined to look through some of the short-term policy proposals and focus on the growth dynamics of major economies.

One of the main reasons that returns have been so strong is that economic growth in major developed markets remains strong, particularly in the US. Economic growth has been driven by economies being at full employment and governments keeping spending high in the wake of the pandemic. Market leadership over the year has been driven by the US stock market, which benefitted not just from a stronger growth trajectory, but also by having stocks linked to the largest theme of the year, which was the emergence of AI as a technological breakthrough.

Interest rates and inflation

Major developed market central banks have now moved to cut interest rates and have signalled that there is more to come. This is supportive of equity markets. The European Central Bank kicked things off with a 25bps cut in June, followed by the Bank of England in July, and the Federal Reserve with a 50bps cut in September. This response reflects the drop in inflation towards their target of 2%. We did see an uptick in UK CPI in November, largely driven by an increase in energy costs. We wait to see if the increase in costs businesses will be subject to associated with the Budget changes announced to employer National Insurance from April 2025 stoke the inflationary fire, as some economists and many businesses are predicting.

Have central banks achieved the fabled soft landing? Where despite monetary policy tightening, economies avoid recessions and inflation normalises, typically a very strong outcome for risk assets and an occurrence that has historically only happened in around one in four tightening cycles. It certainly seems that way, and this is a further reason why risk asset returns such as equities have been very strong over the course of 2024.

2025

As we look ahead into 2025, there are a number of things that interest us. For now, we expect economic growth to remain resilient; however, we are monitoring developments in the labour markets for any sign of weakness that could usher in a more risky environment for markets.

We expect that central banks will continue to cut interest rates, but the speed of those interest rate cuts will depend on the unfolding growth and inflation mix. Typically, rate cuts without a recession are positive for growth assets.

With macroeconomic and geopolitical volatility remaining elevated, we still believe that diversification is vitally important to investors. As such, it pays to have exposure to multiple drivers of returns, which is why our firm belief is that a well-diversified portfolio, invested within a risk mandate you are comfortable with, are the two most important factors to achieve long-term growth. ■

Invest in the Future: Supporting Local Athletes

Our Invest in the Future programme continues to flourish, offering sponsorship and support to exceptional young athletes. This year, we welcomed two inspiring talents – golfer Jack Northgraves and cyclist Chris Boyes – into the Moneyweb family, while continuing our commitment to equestrian Emily Hamilton and rugby star Steph Else.

- **Steph Else:** Representing Gloucester-Hartpury and England, Steph's accomplishments this year include captaining the U20s in the Six Nations tournament and joining the senior England squad for pre-season.
- **Emily Hamilton:** Emily's year has been equally triumphant, with first place wins and aspirations to compete at higher levels in eventing.
- **Jack Northgraves:** A Yorkshire golfing sensation, Jack has had standout moments this year, including a runner-up finish at the Danny Willett Salver and competing in the English Amateur Championship. He's now gearing up for an exciting college golf career in Kansas.
- **Chris Boyes:** This Scarborough-based road cyclist earned a well-deserved promotion to Category B this season and has his sights set on international competitions.

Office Expansion: A New Chapter

At Moneyweb, growth isn't just a financial term – it's a way of life. This year, we took a significant step by acquiring the building adjacent to our current office. This expansion represents more than just added space; it's an investment in our team and our ability to serve clients more efficiently.

The refurbishment is set to create a collaborative, innovative workspace that will enhance employee wellbeing and productivity. While the renovations are underway, we're already envisioning the possibilities this new chapter will bring. The expansion will mean we have larger meeting areas and more client-friendly facilities. Stay tuned for the big reveal in 2025!

Tree Planting: Sustainability in Action

Sustainability is at the heart of everything we do. This year, we took our total trees planted to 650 as part of our ongoing efforts to reduce our carbon footprint. Each tree represents a step towards a greener future, and our commitment doesn't stop here.

We already have dates booked in to plant more trees in 2025 as we look to add to the 77 tonnes of CO_2 we are offsetting each year.

Charity Plans for 2025

Building on the momentum of our 2024 success, 2025 will see a refreshed approach to fundraising at Moneyweb. Instead of uniting behind one cause, each team member will champion their own chosen charity. This personal touch ensures a wide-reaching impact and means everyone can fundraise for a charity close to their own heart.
Plans are already taking shape. Several staff members have signed up for Tough Mudder and more exciting initiatives will be revealed soon, promising another impactful year of giving back.

If you'd like to discuss any of these initiatives or get involved, feel free to contact us at Moneyweb. Together, we're not just planning for the future – we're building it. ■

A safety net for uncertain times

How would you pay your bills if you couldn't work?

In today's unpredictable world, safeguarding financial stability is more crucial than ever. Many of us would struggle to keep up with our essential outgoings, such as mortgage and rent, if we lost an income due to illness or an accident.

Whether you're employed or self-employed, income protection is a long-term insurance policy designed to ensure you receive a regular income until you either retire, are fit to return to work or pass away.

Surprisingly, only a small fraction of the UK population – less than one in ten, to be precise – has this type of cover in place, according to research[1]. This is despite the alarming statistic that 42% of UK adults are concerned about their household's ability to cope financially if they cannot work[2].

Gender protection gap

There is also a notable gender protection gap. A significant 29% of women surveyed indicated that they couldn't afford protection, in contrast to 23% of men. Moreover, over a quarter of women admitted they would have to rely on their partner's income if they found themselves unable to work. This reliance underscores the importance of personal financial independence and protection planning.

Replace a portion of your income

Income protection insurance offers regular payments that replace a portion of your income. These payments are made until you can return to work, retire, pass away or reach the end of the policy term – whichever happens first. Typically, the policy covers between 50% and 65% of your income, addressing a wide range of illnesses that may prevent you from working, both in the short and long term.

Claim as many times as necessary

A significant advantage of this type of insurance is its flexibility. You can claim as many times as necessary during the policy's lifespan. However, it's important to note that there is often a pre-agreed waiting, or 'deferred', period before payments commence. Typical waiting periods range from four weeks up to a year, with longer waiting times generally resulting in lower monthly premiums.

Few employers offer extended support

It's crucial to differentiate income protection from critical illness insurance, which provides a one-off lump sum upon diagnosis of a specified serious condition. When unable to work due to illness or an accident, many people might assume their employer will continue to provide some income support. The reality is that employees often transition to Statutory Sick Pay within six months, with few employers offering extended support beyond a year.

Evaluating your employer's support

It's essential to verify what support your employer offers if you become incapacitated. The loss of income can quickly erode savings and make it difficult to cover essential household bills, especially if you're self-employed and lack sick pay benefits. This is where income protection insurance becomes invaluable, providing the peace of mind that your financial obligations are met, even in the face of adversity. ■

Will you and your family remain secure during unexpected life events?

Income protection insurance is essential to creating a comprehensive financial plan. It ensures that you and your family remain secure during unexpected life events. Contact us for further information if you have concerns or want to explore the options available.

Source data:

[1] The survey data was collected and analysed by Censuswide Research. The total sample size was 4,043 UK adults, including 1,000 self-employed and 1,000 private renter respondents. Fieldwork was undertaken between 17 – 29 April 2024. The survey was carried out online. The figures have been weighted and represent all UK adults (aged 18+).

[2] The survey data was collected and analysed by YouGov plc. The total sample size was 2,059 adults. Fieldwork was undertaken between 2 – 8 February 2024. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL, OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

How does pension consolidation work?

Pensions can be confusing, but there is an alternative way to help keep on top of them

In today's fast-paced world, many individuals have multiple pension plans collected over their working life. Whether through changes in employment or setting up personal pensions as a self-employed professional or contractor, managing these pensions can become challenging. Not only does this involve significant administrative effort, but the financial implications of juggling numerous plans are also considerable. Some pension schemes may suffer from uncompetitive pricing and underperforming investments, eroding retirement savings.

Streamlining your finances

One of the primary motivations for consolidating pensions is the simplification of managing your finances. When you have several pensions, keeping tabs on each one's investment performance, risk profile and asset allocation becomes a complex chore. Add to this the various charges associated with each pension, and the task grows more challenging.

For individuals with limited time or expertise, consolidating pensions into a single, more manageable pot could be a sensible option. Doing so may streamline your financial management and reduce the administrative fees that can reduce returns, especially if your pensions include outdated charging structures.

Evaluating costs and performance

While consolidating your pensions can potentially save on fees, it's equally important to consider the investment performance of each fund. Some pensions may be underperforming, and transferring to a scheme with better growth potential could be beneficial. However, comparing charges and performance is not straightforward and requires professional advice to assess the best action.

Understanding the potential pitfalls

Despite the advantages, pension consolidation has its risks. Consolidating could mean forfeiting valuable benefits and guarantees. For example, some pension plans offer an enhanced pension commencement lump sum, allowing more than the standard 25% tax-free withdrawal. Others might have a protected pension age or guaranteed annual returns, providing a safety net regardless of market conditions.

Additionally, older schemes may offer favourable annuity rates or built-in life insurance. These elements are not always easily identifiable, underscoring the importance of a thorough

professional financial review to avoid losing valuable benefits.

Making informed decisions

Deciding to consolidate your pensions is a significant decision that should not be taken lightly. The funds accumulated over the years could represent a substantial portion of your retirement income. Therefore, understanding all your options and their potential impacts on your savings is crucial for ensuring a financially secure future. With the right decisions, pension consolidation could lead to a more comfortable retirement for you and your family. ■

Need help navigating the complexities of pension management?

If you're considering pension consolidation and want to ensure you make informed, confident decisions regarding your financial future, contact us today for expert guidance tailored to your unique circumstances. Let us help you navigate the complexities of pension management with peace of mind.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

> **“DESPITE THE ADVANTAGES, PENSION CONSOLIDATION HAS ITS RISKS. CONSOLIDATING COULD MEAN FORFEITING VALUABLE BENEFITS AND GUARANTEES. FOR EXAMPLE, SOME PENSION PLANS OFFER AN ENHANCED PENSION COMMENCEMENT LUMP SUM.”**

Will you use your allowances before the tax year end?

Why now is the time to make a significant difference in your overall personal financial health

As the tax year draws to a close, individuals have a prime opportunity to maximise their annual allowances and enhance their financial wellbeing. Ensuring your financial strategies are optimised could make a significant difference in your overall personal financial health. Strategic planning can yield substantial tax savings, making it crucial to understand the available options. This article explores various avenues to optimise allowances while also highlighting potential pitfalls to avoid.

Importance of ISAs

One of the most efficient ways to handle investments is through an Individual Savings Account (ISA). With an ISA allowance of £20,000 for the 2024/25 tax year, individuals can spread this across cash, investment, innovative finance or lifetime ISAs. This offers flexibility and ensures that any gains from investments within an ISA remain free from Income Tax, tax on dividends or Capital Gains Tax (CGT).

However, it is essential to remember that investing outside of an ISA does not automatically incur tax, provided that dividends do not surpass the dividend allowance and any interest from cash, funds, gilts or bonds stays within the personal savings allowance.

As always, strategic planning is key to maximising these benefits.

Pension Contributions: a strategic approach

Boosting pension contributions before the tax year ends can be an effective way to secure future financial stability. Many employers offer to match contributions up to a certain limit, presenting an excellent opportunity for employees to enhance their savings. Moreover, the tax relief on pension contributions varies with the taxpayer's income level, providing more relief to those in higher tax brackets.

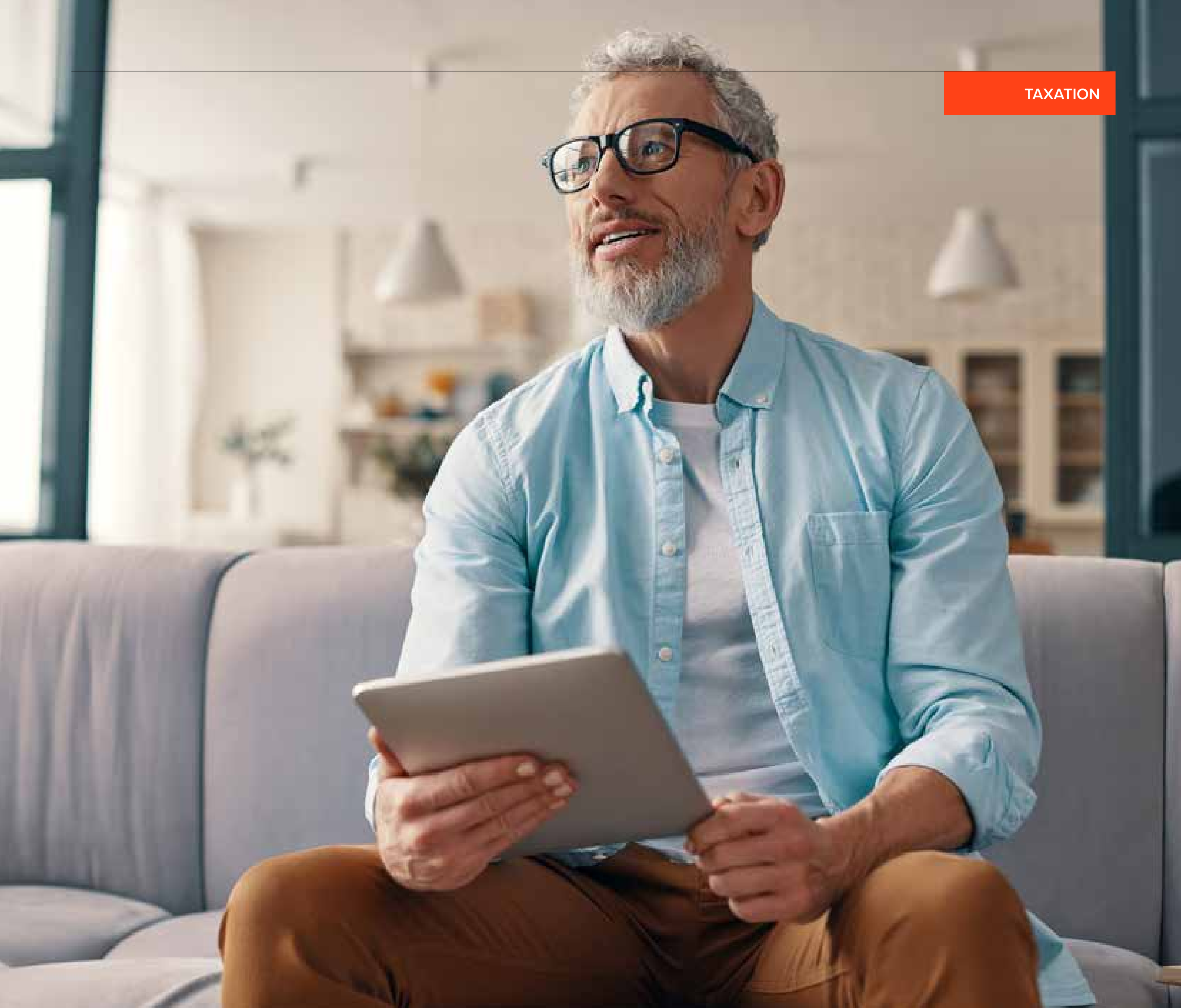
For basic rate taxpayers, every £800 contributed is topped up to £1,000 by HM Revenue & Customs. Higher and additional rate taxpayers can claim even more through their tax return, making pensions a lucrative option for tax efficiency. With a maximum of £60,000 eligible for tax relief per year, understanding these limits can help plan contributions effectively.

Understanding CGT allowances

The annual CGT allowance for the 2024/25 tax year stands at £3,000. This allowance permits the sale of shares, property and other assets without incurring tax on the first £3,000 of gains. For those looking to sell assets with substantial gains, strategically utilising the CGT allowance over multiple tax years can minimise tax liabilities.

As part of a broader tax-raising initiative, the Chancellor, Rachel Reeves, during the Autumn Budget 2024 confirmed that the lower Capital Gains Tax (CGT) rate will rise from 10% to 18%, while the higher rate will increase from 20% to 24%. This change means you might face higher taxes on profits from selling assets like shares. Previously, those with gains above the threshold had to pay 20% on profits from assets such as shares, or 24% from selling additional property. Rates on residential property will remain at 18% and 24%, respectively.

It's important to note that CGT does not apply to assets within pensions and ISAs, or on your primary residence. Being aware of these exceptions can help you make informed decisions about asset sales and investments.



Top-up opportunities

As the tax year end approaches, topping up existing ISAs is a practical step to ensure every part of the allowance is used. The annual ISA limit operates on a use-it-or-lose-it basis, meaning previous years' unused allowances cannot be reclaimed. Making the most of current opportunities is, therefore, essential.

Be aware of pension access changes

For those who have accessed more than their tax-free lump sum from a pension, the amount they can contribute may be reduced, with the Money Purchase Annual Allowance (MPAA) coming into effect. This underscores the importance of planning when accessing pension funds to avoid unexpected contribution limits. ■

Looking for personalised guidance on maximising your allowances?

Given the complexities and potential changes in tax rules, staying informed is imperative. Personal circumstances can significantly influence the impact of these regulations, and professional advice is often beneficial. For further information or personalised guidance on maximising your allowances before the tax year ends, please do not hesitate to contact us.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

THE TAX TREATMENT IS DEPENDENT ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN FUTURE.

The role of trusts

Providing timely financial support to your loved ones when they need it most

Ensuring the financial security of loved ones is a paramount concern in financial planning. Your life insurance policy is a significant asset, and by putting it in an appropriate trust, you can manage how your beneficiaries receive their inheritance. This approach offers numerous advantages beyond the basic provisions of a standard life insurance policy, enhancing the efficiency and security of the payout for your beneficiaries.

One of the primary benefits of placing a life insurance policy in trust is bypassing the often lengthy probate process. When a policy is written in trust, the payout can be made directly to the beneficiaries without the need for probate. This means that funds are accessible much more quickly, providing timely financial support to your loved ones when they need it most.

Tax-efficiency advantages

Another significant advantage is the potential for tax efficiency. Trusts can help avoid or reduce Inheritance Tax on the payout, ensuring that a greater portion of the policy's value reaches your beneficiaries instead of being lost to taxes. This can make a substantial difference in the financial wellbeing of your dependents.

Control over distribution

Trusts also offer enhanced control over how and when the proceeds are distributed. With a Discretionary Trust, for example, you can specify the terms of distribution, allowing the trustees discretion in determining the timing and allocation of funds. This ensures that your intentions are honoured and provides a mechanism to support beneficiaries according to their specific needs.

Protection from creditors

Assets held within a trust are generally protected from creditors, safeguarding the financial security of your dependents from external claims. This protection ensures that the payout is more likely to reach your intended beneficiaries without being diverted to settle outstanding debts.

Flexibility and adaptability

Trusts provide a flexible and adaptable solution for managing life insurance policies. They can be tailored to meet your specific needs and adjusted as circumstances change, ensuring that your financial planning remains robust and relevant over time. This flexibility makes trusts a valuable component of any comprehensive financial strategy.

Ensuring financial security

Writing your life insurance policy in an appropriate trust is a strategic decision that can significantly enhance the financial security and efficiency of the payout for your beneficiaries. By taking this step, you can ensure that your loved ones receive the maximum benefit from your policy in a timely manner, free from unnecessary delays and tax burdens.

Choosing the right trust for your life insurance

Options available, each with distinct features and benefits.

Discretionary Trusts

In a Discretionary Trust, your trustees are granted a high level of discretion concerning which beneficiaries receive the payout and when. This flexibility allows trustees to make decisions based on your letter of wishes, which guides them in administering the trust according to your intentions.

Flexible Trusts

A Flexible Trust includes both default and discretionary beneficiaries. Default beneficiaries are entitled to any income generated by the trust, though life insurance policies typically do not produce income. Discretionary beneficiaries, on the other hand, receive capital or income only if the trustees choose to allocate it during the trust period. If no distributions are made, default beneficiaries will ultimately receive the benefits.

Survivor's Discretionary Trusts

This type of trust is designed for joint life insurance policies, paying out to the surviving policy owner. For instance, if you pass away before your partner, they would inherit the policy. If both policyholders die within 30 days of each other, the beneficiaries can access the funds as per a standard Discretionary Trust.

Absolute Trusts

An Absolute Trust names specific beneficiaries who cannot be changed, even if circumstances such as new births or divorce occur. This trust type ensures quick payouts without lengthy legal delays and typically offers favourable Inheritance Tax implications.

Aligning with your long-term financial goals

While placing life insurance in an appropriate trust offers numerous advantages, it's crucial to weigh these benefits against potential downsides. Understanding the implications can help you make an informed decision that aligns with your long-term financial goals.

Irreversibility of the decision

One of the most significant aspects of placing a life insurance policy in trust is the irrevocable nature of the decision. Once the policy is committed to a trust, it cannot be withdrawn or reversed. This permanence means that individuals must be absolutely certain of their choice, as changing circumstances cannot alter the trust once established. The irrevocability demands thorough consideration and foresight, ensuring the decision fits your plans and intentions.

Loss of personal control

Another consideration is the relinquishment of control over the life insurance policy. Once in a trust, any decisions regarding the policy must be approved by the appointed trustees. This can be particularly challenging for individuals accustomed to managing their financial affairs independently. The need for trustee approval can introduce complexities and delays, especially if the trustees have differing views or interpretations of the trust's intentions.

Duration and flexibility of trusts

Trusts are designed to be long-term arrangements. Technically, a trust can last up to 125 years, especially if established for charitable purposes. However, the duration of a trust is typically tailored to fit personal circumstances. For example, a trust might be set to last until a child reaches a certain age or milestone, such as marriage. This long-term nature requires careful planning to ensure the trust remains relevant and effective throughout its lifespan.

While the benefits of life insurance trusts, such as tax efficiency and protection against probate, are enticing, it's essential to consider these potential drawbacks seriously. The irrevocable nature and loss of control may not suit everyone's situation, particularly if future flexibility is a priority. ■

Looking for a solution that best fits your needs and ensures your financial security goals are met?

If you want to explore the benefits of writing a life insurance policy in an appropriate trust, we can provide guidance to help tailor a solution that best fits your needs and ensures your financial security goals are met. Please contact us for further information or personalised advice to take control of your financial future today.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

THE FINANCIAL CONDUCT AUTHORITY DO NOT REGULATE TAX PLANNING.

> **"AN ABSOLUTE TRUST NAMES SPECIFIC BENEFICIARIES WHO CANNOT BE CHANGED, EVEN IF CIRCUMSTANCES SUCH AS NEW BIRTHS OR DIVORCE OCCUR."**

Who pays for long-term care?

Ensure you're well placed to fund any future care needs

Many people prefer to avoid the subject of long-term care. Most find it hard to contemplate going into a care home when they are older, but many will do so eventually. However, planning for these potential expenses is important before they become urgent. The NHS, while a cornerstone of healthcare in the UK, only covers care costs in specific circumstances, primarily when related to medical health needs.

NHS Continuing Health Care (CHC) might cover some or all expenses, but securing this funding can be complex and challenging, especially during stressful times. Despite it seeming evident that certain conditions, such as dementia, require medical care, they are often classified as social care, which typically falls outside NHS funding.

Navigating NHS funding challenges

If NHS funding isn't an option, you can explore alternatives, often involving personal financial contributions. The rules for providing long-term care are complex, and different rules apply in England and Northern Ireland, Scotland and Wales.

In England you'll currently undergo a means test. If your assets exceed £23,250, you'll need to cover the full cost of your care. With assets between the £14,250 and £23,250 tariff limit, the local authority may contribute, but you'll still be responsible for a portion of the costs. Your income is still considered if your assets are below £14,250, but capital is excluded from means testing and the local authority pays for your care.

In Scotland, the upper limit is over £35,000, and you'll need to pay the full cost of your care. The local authority funds some of the care between the £21,500 and £35,000 tariff limit, and you pay the rest. The lower limit is less than £21,500, capital is excluded from the means test and the local authority pays for your care. However, your income is still taken into account.

In Wales, the single limit is £50,000 and over. Above this figure, you pay the full cost of your care.

Capital amounts between the upper and lower limits tariff for England and Northern Ireland, and Scotland are assessed as providing £1 of additional income for every £250 of capital above the lower limit. The tariff income is then added to your other income for the income means test.

Understanding asset implications

A common misconception is that selling your home is mandatory to fund care costs. This isn't necessarily true; if you or close family members live in your home, it's generally safeguarded from being counted in your financial assessment.

However, if your property is left empty when you move into a care home, it might be considered part of your assets, potentially necessitating its sale to cover costs. Gifting assets to avoid care expenses can also be problematic. Local authorities might view this as a 'deliberate deprivation of assets', which can complicate financial assessments significantly, especially if done during a time when care costs are foreseeable.

Planning for an uncertain future

The unpredictability of needing long-term care makes it essential to start planning early. While it's impossible to predict the exact costs or duration of care, cash flow modelling can provide

> "LONG-TERM CARE PLANNING IS ONE OF THE MOST CHALLENGING AREAS TO ADDRESS, WITH MANY IN DENIAL ABOUT THEIR POTENTIAL NEEDS."

insight into how prepared you are for such expenses. Government policies may change, but assuming 'no change' and preparing accordingly is prudent. Exploring different solutions now can alleviate future burdens.

Exploring financial options

Long-term care planning is one of the most challenging areas to address, with many in denial about their potential needs. However, taking proactive steps can ensure you or your loved ones receive the care required without financial hardship. From insurance products to savings strategies, numerous options can be tailored to your circumstances to provide peace of mind. ■

Need guidance or wish to explore financial strategies in more detail?

Understanding the complexities of long-term care costs and planning accordingly is vital. If you need guidance or wish to explore financial strategies in more detail, we are here to help. Contact us today to discuss your personal circumstances or those of a family member, ensuring you have a solid plan for later life care.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

Planning your path to a fulfilling retirement

Are your finances on the right track as you approach this new chapter?

As we approach our 50s and 60s, retirement looms on the horizon, promising a well-deserved break from decades of hard work. Whether your future plans include travelling, indulging in hobbies or spending quality time with family and friends, retirement should be the longest holiday of your life. Ensuring your finances are on the right track as you approach this new chapter is crucial.

Determine your retirement timeline

To accurately gauge how much money you'll need, deciding when you want to retire is vital. There's no set age for leaving the workforce; it largely depends on your circumstances. Most people may not be able to afford to retire until they start drawing from their pension or claim the State Pension. Defined contribution workplace pensions and old-style defined benefit pensions typically set a retirement age, often around 65, though it can vary. However, personal pensions can often be accessed from age 55, rising to 57 by 2028.

Assessing your pension value

Once you've set a retirement date, it's time to evaluate your pensions. Your annual pension statement should provide an estimate of your pension's worth at retirement based on certain assumptions. It also indicates how much income you could expect, often relying on current annuity rates. These projections assume continuous contributions until retirement and are based on predicted investment growth, though actual performance can vary.

Where are your pension savings invested?

Understanding the investment of your pension savings is crucial. If you haven't specified a preference, contributions typically go into a 'default fund' that adjusts the risk level as retirement nears. Initially, investments may be higher-risk, shifting to lower-risk options as you approach retirement to safeguard your pension pot. Regularly reviewing and diversifying your investments can help manage volatility and align with your risk comfort level.

Calculating your State Pension entitlement

Retirement income often comprises workplace or personal pensions and the State Pension. Your National Insurance record determines the State Pension amount, so checking if you're on track for the full amount is wise. A State Pension forecast can estimate your future benefits, keeping in mind the increasing State Pension age due to rising life expectancy.

Planning your retirement income

Evaluate whether the combined income from your pensions and State Pension will suffice for your desired retirement lifestyle. Generally, you may need around two-thirds of your pre-retirement salary after tax to maintain your lifestyle, though individual needs vary.

Boosting your pension contributions

If a shortfall is likely, consider boosting your pension savings. Even small increases in contributions can significantly grow your pension pot, thanks to compounding interest. Many only make minimum contributions under auto-enrolment, but it's beneficial to contribute more if possible, especially with available carry-forward rules.

Maximising tax benefits on contributions

Take advantage of the tax relief on pension contributions, especially if you're a higher rate taxpayer. Through self-assessment, you can reclaim higher rate tax relief on your contributions, enhancing your retirement savings.

Considerations for your dependents

Beyond planning for your own retirement, consider how you will provide for your dependents. Pensions can be an effective way to pass on wealth, avoiding Inheritance Tax as they typically fall outside your taxable estate. However, depending on your age at death, beneficiaries may owe Income Tax on inherited pensions. ■

Do you need guidance or wish to explore your pension options further?

Planning for retirement is a process that requires careful consideration and proactive steps. If you need guidance or wish to explore your pension options further, please contact us. We are ready to help you navigate your retirement planning journey, ensuring your financial future is secure.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

“UNDERSTANDING THE INVESTMENT OF YOUR PENSION SAVINGS IS CRUCIAL. IF YOU HAVEN'T SPECIFIED A PREFERENCE, CONTRIBUTIONS TYPICALLY GO INTO A ‘DEFAULT FUND’ THAT ADJUSTS THE RISK LEVEL AS RETIREMENT NEARS.”

Inheritance Tax

Departure from previous rules where pensions were excluded from calculations

In a significant shift announced by Chancellor Rachel Reeves during the Autumn Budget Statement 2024, inherited pensions will become subject to Inheritance Tax (IHT) from April 2027. This marks a departure from previous rules where pensions were excluded from IHT calculations. Currently, pensions are usually passed on tax-free if you die under the age of 75 – or taxed at the beneficiaries' marginal rate of Income Tax if you die over 75 – but in most cases, pensions don't attract IHT.

This announcement is expected to impact roughly 8% of estates annually, as those who have heavily saved in pensions to lower their IHT liabilities may now face new tax burdens.

Additionally, the IHT tax-free threshold remains frozen at £325,000 (your property, money and possessions) until 2030. If your assets include the family home that you're giving away to children or grandchildren, you also receive up to a £175,000 residence nil rate band. As property and asset values rise, more estates will likely fall above this threshold, incurring IHT at the standard 40% rate.

Chancellor Reeves emphasised that these adjustments aim to make the IHT system fairer, ensuring wealthier estates contribute more to public finances. Also, starting April 2026, reductions in agricultural and business property relief will be introduced. The first £1 million of such assets will remain tax-free, with a 20% IHT levied beyond that.

Retirees may need to reassess their long-term financial plans, as defined contribution pension funds could attract up to 40% IHT. Despite these changes, no adjustments to existing gifting rules were announced. ■

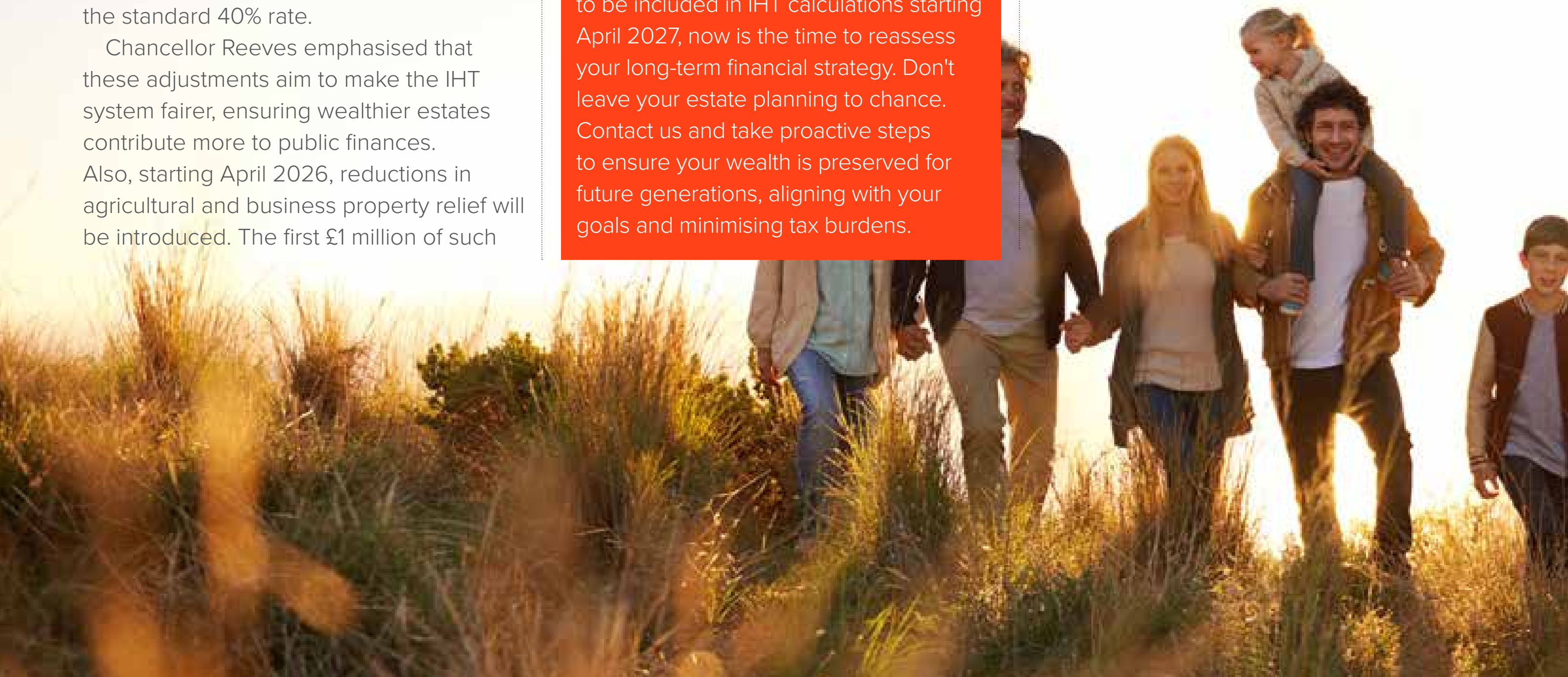
Time to act now to secure your family's financial future?

As the landscape of IHT undergoes significant changes, it's crucial to stay ahead of the curve. With pensions soon to be included in IHT calculations starting April 2027, now is the time to reassess your long-term financial strategy. Don't leave your estate planning to chance. Contact us and take proactive steps to ensure your wealth is preserved for future generations, aligning with your goals and minimising tax burdens.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

THE TAX TREATMENT IS DEPENDENT ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN FUTURE.



moneyweb
11 Betton Business Park, East Ayton, Scarborough, North Yorkshire YO13 9HD
Tel: 01723 378 234 **Email:** enquiries@moneyweb-ifa.com **Website:** www.moneyweb-ifa.com

Moneyweb Limited is Authorised and Regulated by the Financial Conduct Authority.
Moneyweb Limited Registered in England. Company Number: 3485003.