Planning for your future

Financial clarity in an uncertain world

2020/21 report

About Kreston Reeves

Guiding you to a brighter future

We help private individuals, families, dynamic businesses and not for profit organisations with more than accountancy, legal, business and financial advice.

In a continually evolving world, we help all generations embrace change through trusted advice, support and guidance.

Our dedication to providing a personal service is what sets us apart – we get to know you, understand your goals, support and advise you on your journey to help you realise your ambitions.

With offices across London, Kent and Sussex, we provide our personalised services across the South East and internationally via our Kreston International network of like-minded firms.

Further information:

Call: +44(0)330 124 1399

Email: enquiries@krestonreeves.com

Visit: www.krestonreeves.com

Your brighter future

Over the next six months we will explore some of the themes in this report through a series of articles and webinars.

To join the conversation visit:

www.krestonreeves.com/planningforyourfuture

#planningforyourfuture

#brighterfuture

#lookingahead

Introduction

Kreston Reeves has a long history advising private individuals and their families. We guide you through times of prosperity, conflict and economic downturns. Never in recent history, however, have we seen such turbulent times, with the reshaping of our relationship with Europe and a resurgent global pandemic. The world is being reshaped before our eyes and it will have profound effects on each and every one of us.

In uncertain times it is vitally important that we understand our own financial position and plan for the future we want. This survey and report explores the financial attitudes, approaches and steps taken by more than 1,000 people across the UK.

This report is not intended to provide personalised financial advice. Independent advice should be taken in relation to your own personal circumstances before any financial decisions are made.

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Executive summary and key findings

There's no better time to plan for the future than in uncertain times. The effects of COVID-19 on our lives and on the global economy are outside our control. So, it makes sense to focus on what you can do to minimise uncertainty and risk in your personal financial planning.

Our research shows that many of us, whether working hard to accumulate wealth for family and retirement, or enjoying the fruits of our labours in retirement, remain optimistic about our finances. However, our research has also shown that without effective planning and preparation, that optimism can be misplaced. Although most respondents feel confident that their financial affairs are in order, only a third think they will have enough funds in retirement to achieve their plans. Whether managing your approach to your savings and investments, your retirement funding, or your health, it really does pay to think ahead.

This report aims to draw some key messages from the experience and views of 1,022 people that can help you shape some key priorities for action. As Mel Brooks once wrote:

" Hope for the Best. Expect the worst. Life is a play. We're unrehearsed."

Key recommendations:

- Plan well in advance – do not leave it to the last minute. Our lives and the world are unpredictable, and without effective planning you may not achieve your aspirations.
- Get professional, independent advice and regularly review your financial position.
- Ensure you have a Will and that it is up to date, reflecting your current circumstances and wishes.
- Understand your potential inheritance tax liabilities and make an active decision whether or not to undertake any planning.
- Do not rely on the state to provide you with your retirement income.
- Consider what happens if you become incapacitated.

Key findings from our research

24% of individuals aged between 35-59 and 30% of those aged over 60 have never taken financial advice.

The majority of people completing our survey review their financial position annually.

Those aged between 35-59 see 'COVID-19 or future pandemics', 'stock market volatility' and 'changeable job security / business success' as the top three threats to financial security. Those over 60 see 'COVID-19', 'stock market volatility' and the 'cost of long-term care' as their biggest threats.

The nation is largely cautious in their attitude to financial risk, with 55% of individuals aged between 35-59 and 53% of those aged over 60 describing themselves as cautious. 55% of those aged between 35-59 and 29% of those over 60 say they are more defensive as a result of COVID-19.

There is an increasing importance of ensuring investments are socially and environmentally responsible, with 63% of those aged between 35-59 saying it is important or very important compared to 43% of those aged over 60.

33% of individuals aged between 35-59 and 64% of those aged over 60 plan to rely on the state pension to fund their retirement.

Individuals aged between 35-59 intend to draw upon a wide range of investments to fund their retirement, including savings, personal investments, property and proceeds from an inheritance. Whereas those over 60 favour pensions (whether state, company or private).

36% of individuals aged between 35-59 and 32% of those aged over 60 believe they have 'just enough' in their pensions to fund the retirement they wish for, leaving them in a precarious position.

40% of individuals surveyed own all or part of a business, adding further complications to financial planning. More than 25% of those who have a business interest do not have a succession plan in place.

51% of individuals aged between 35-59 and 44% of those aged over 60 do not know what their inheritance tax liability is.

42% of individuals aged between 35-59 and 16% of those aged over 60 do not have a Will. Those that don't have a Will largely say 'my affairs are simple, so it is not required' or they 'just haven't thought about it yet'.

68% of individuals aged over 60 do not have a power of attorney in place.

57% of individuals aged between 35-59 and 61% of those aged over 60 have not given thought to financing their potential requirement for long-term care.

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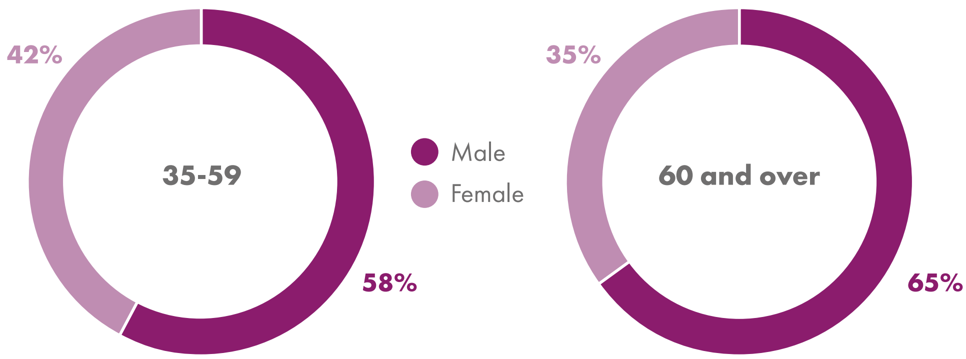
Who we surveyed

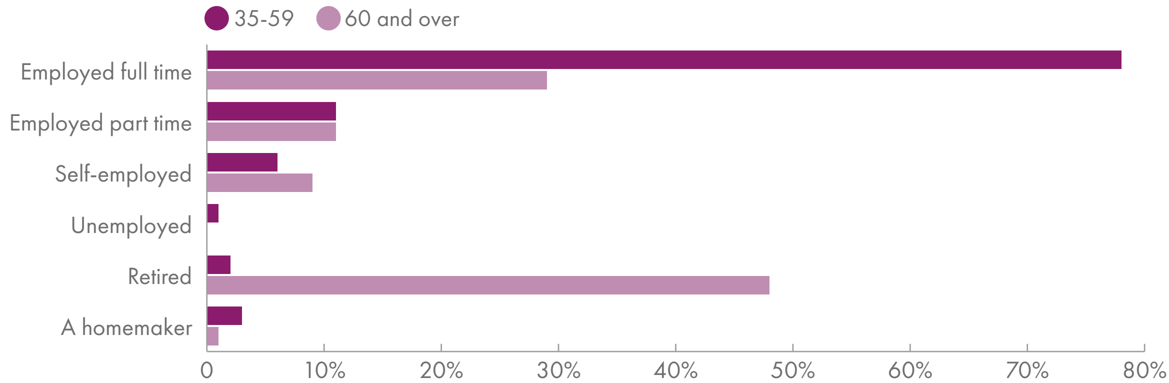
In September 2020, Kreston Reeves surveyed 1,022 individuals to gain a picture of current attitudes towards personal finances, investments, priorities for retirement (including long term planning) and what they believe threatens their financial security the most.

Our survey focused on two very broad age groups: those aged between 35-59 who are more likely to be accumulating wealth, and those aged over 60 who are more likely to be distributing wealth. We call them in this report *The Accumulators* and *The Distributors*.

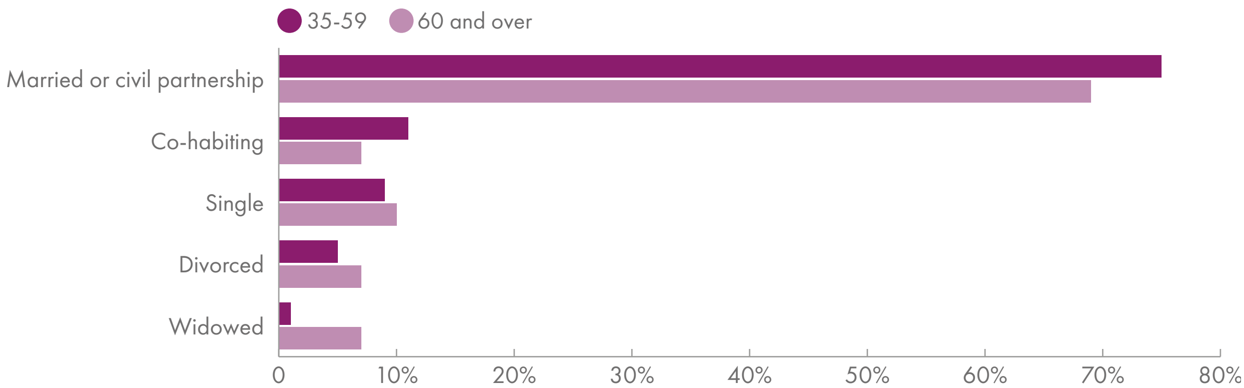
Age and gender



Employment status



Marital status



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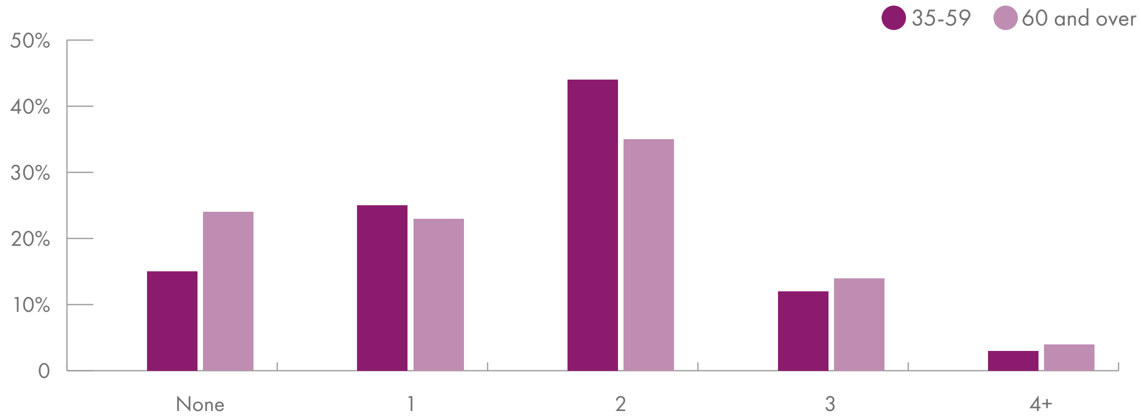
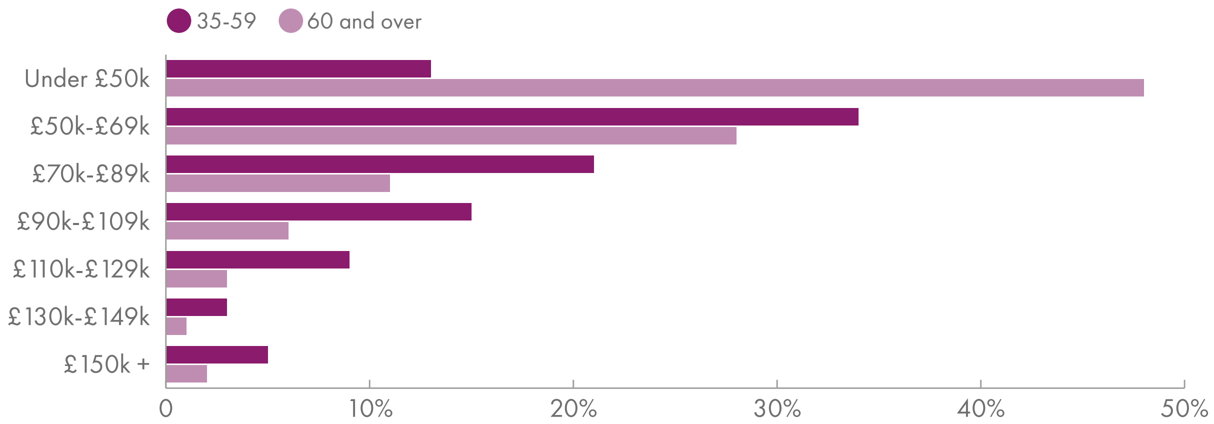
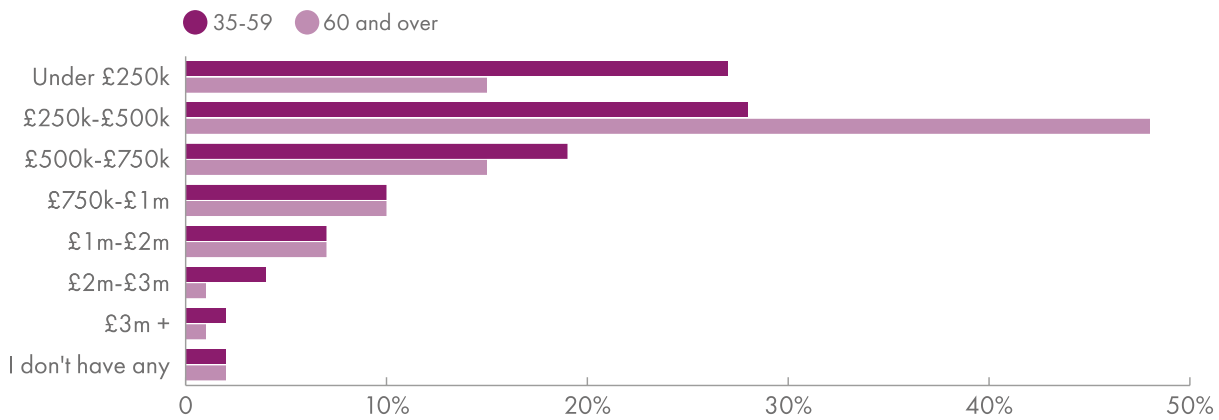
Number of children



Annual income



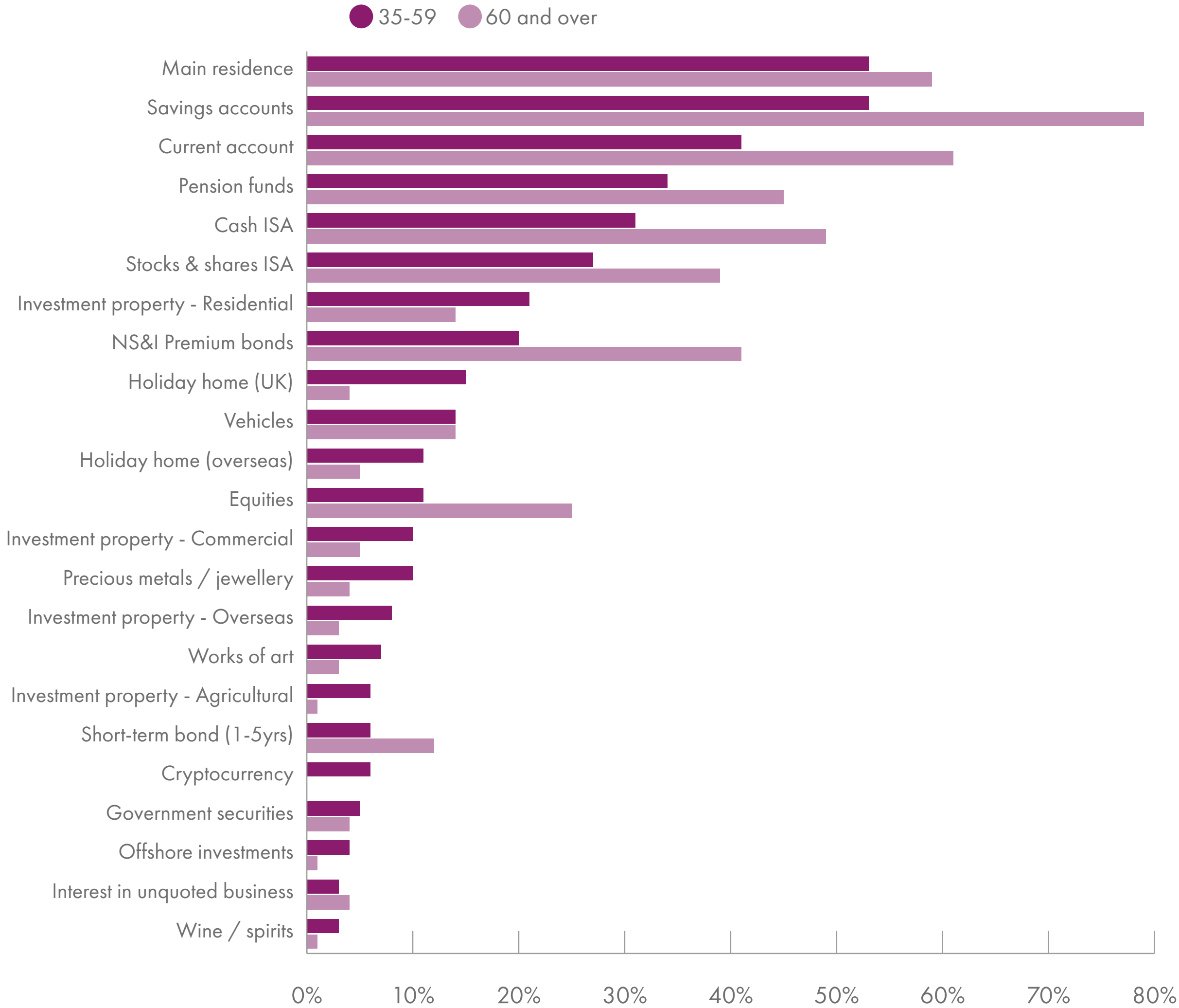
Total value of assets (excluding family home)



A financial snapshot

The survey started by asking individuals how and where assets are held. The spread is considerable but points strongly in a few not entirely unexpected directions.

Where do you hold your assets?



The family home is the primary asset of those surveyed and, particularly for those that are accumulating wealth (*The Accumulators*), one that is likely to still carry a mortgage. Whilst a mortgage will in most instances represent the single largest debt personally held, historically low interest rates currently continue to make borrowing affordable.

It is surprising to see current and savings accounts sitting alongside the family home as a principal asset. Whilst it would be advisable to use easy access savings and current accounts for the purpose of an emergency fund or short-term savings, this should not be viewed as a long-term solution due to low interest rates and the effect of inflation.

ISAs are also popular with all age groups, perhaps a reflection of the generous tax reliefs offered to savers and the flexibility they offer over pensions.

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It is also surprising to see just how few of those surveyed say their assets are held in pension funds – just 34% of *The Accumulators* and 45% of *The Distributors* tell us they have a pension. Pensions remain one of the most tax-efficient ways to plan and prepare for retirement and should be a cornerstone of financial planning.

Since the introduction of automatic enrolment legislation in October 2012, there has been a requirement for all eligible employees to be automatically enrolled into a qualifying workplace pension scheme. However, the figures seem to suggest that many are opting out of these and, therefore, losing the benefit of tax relief at their highest marginal rate, employer contributions, tax-free investment returns and compounded growth.

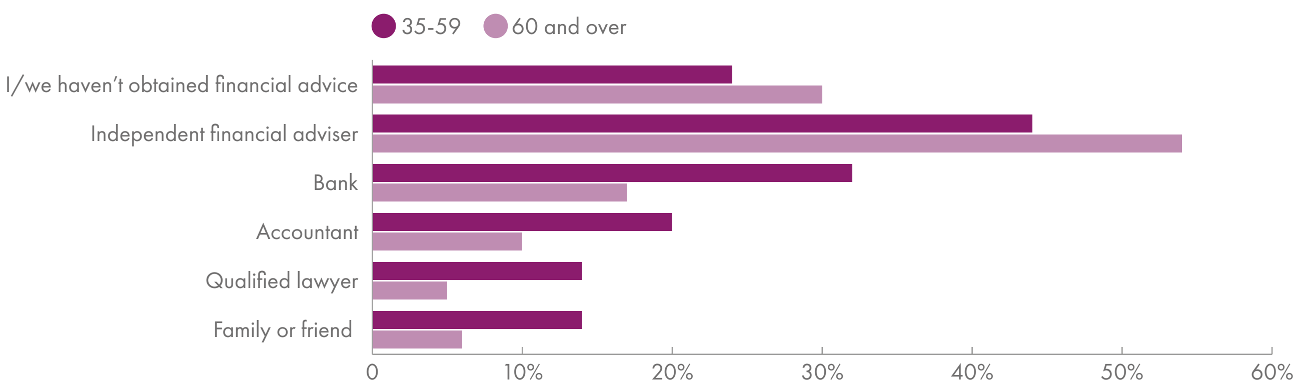
On the other hand, *The Distributors* seem to value pension funds more. If Individuals are not eligible for an employer scheme, due to being company directors or self-employed, they should consider setting up their own pension policies so they can also benefit, but dependent on their own personal circumstances the later this is left, the more restrictions they are likely to face in how much they can pay in.

The Accumulators in our survey hold considerable faith in the property market, with 26% having a holiday home either in the UK or overseas (against just 9% for *The Distributors*) with a further 21% investing in residential property and 10% in commercial property. Some of these are likely to be accidental investors, with homes bought during marriage but retained and let. Nevertheless, with house prices having increased by around 30% over the past decade, property continues to hold our attention.

Those who hold property as an asset need to keep a close eye on changes to the tax regimes that may affect those investments, especially as the tax burden on private landlords is now more onerous.

Our survey also suggests that premium bonds are falling out of favour with younger investors: just 20% of *The Accumulators* hold premium bonds compared to 41% of *The Distributors*. Given the recent lengthening of premium bond odds, it is unlikely that they will attract new investors at previous levels. A low-risk defensive investment portfolio would be likely to fare much better.

Have you and/or your partner previously taken financial advice from the following?



As our survey has shown, investments and assets held are diverse and often complex. It is essential that advice is taken and taken regularly. What is concerning is that almost a quarter (24%) of *The Accumulators* and 30% of *The Distributors* tell us that they have never taken any advice. Of those that do take advice, our survey suggests they turn to a wide range of sources and whilst that is to be applauded, savers and investors need to be sure that advice is truly independent and informed. Rarely is it appropriate to take and act on advice solely from friends or family members.

"Encouragingly, 42% of *The Accumulators* and 66% of *The Distributors* do review their financial position annually."

Where advice isn't taken annually, those who are accumulating wealth appear to review their financial position more regularly reflecting perhaps a more fluid financial position.

Yet, the fragility of the global economy and threats to our long-term financial future has never been greater than in 2020 with the rise of the COVID-19 pandemic and the end of the Brexit transitional period on the very near horizon. The impact COVID-19 continues to have on job security and the volatility of stock markets around the world is a concern for all in our survey. The impact it may have on long-term financial security for some is not under-estimated.

Putting COVID-19 aside, those surveyed continue to face the threats to financial security that have always existed. Both age groups see stock market volatility, inflation and the cost of long-term care as the biggest threats to their financial security. They are also concerned about the impact of politics, long-term injury/illness, bereavement and divorce. For *The Distributors*, the cost of long-term care is a particular worry, but as our survey shows, very few have taken steps to plan for that cost.

In an uncertain world the need to review finances, take independent advice and plan ahead has never been more important.

How often do you review your financial position?

	35-59	60 and over
Annually	42%	66%
Every 1-2 yrs.	16%	8%
Every 2-5 yrs.	22%	7%
Every 5-10 yrs.	6%	1%
When my situation changes	10%	13%
I rarely review my finances	3%	4%
I never review my finances	1%	1%

What do you consider threatens your personal financial security and long-term plans the most?*

	35-59	60 and over
Inflation	23%	28%
Politics	19%	19%
Stock market volatility	33%	39%
COVID-19 or future pandemics	42%	40%
Changeable job security / business success	27%	9%
Divorce	10%	3%
Bereavement	11%	8%
Unexpected injury and or illness	22%	25%
The cost of long-term care	22%	37%
Nothing threatens my financial security	8%	9%
Other	1%	5%

**Respondents were asked to select top 3*

Changing attitudes to financial risk

The attitudes of investors to risk have and will always continue to change over time. As we age, investment strategies will shift from growth to preservation, and in more uncertain economic and political times, we see investors looking to strategies perceived as lower risk. Politics and social drivers also change investor attitudes, reflected in increased interest in environmental, social and governance (ESG) investments.

This survey has been conducted through the lens of COVID-19 and with Brexit on the very near horizon, so it is not entirely surprising to see that the majority of those surveyed consider themselves to be cautious investors. It is often the case, however, that whilst an individual may describe themselves as cautious their investment habits are anything but.

How would you describe your attitude to financial risk?

	35-59	60 and over
Defensive	11%	12%
Cautious	55%	53%
Balanced	29%	31%
Adventurous	5%	4%

We asked how COVID-19 has changed attitudes to financial risk when investing? *The Distributors* tell us that it has not changed their attitudes, perhaps reflecting changes already made to investment portfolios to preserve wealth.

Over half (55%) of *The Accumulators* are, however, concerned, adopting a more defensive approach. COVID-19 again underpins the need for all to regularly review investments to reflect changing personal situations.

How has the Coronavirus pandemic changed your attitude to financial risk when investing?

	35-59	60 and over
I am much more defensive	18%	10%
I am somewhat more defensive	37%	19%
No change	38%	69%
I am somewhat more adventurous	6%	2%
I am much more adventurous	1%	0%

Kim Williams
Financial Planner, offers this advice.

How often should I review my finances?

An investment portfolio should be a work in progress and should be kept under review at least annually. The investments in the portfolio need to be reviewed regularly and rebalanced in such a way that the portfolio remains appropriate for your objectives and changing market conditions.

We believe that the diversification of your investment portfolio is essential as this reduces the risk and makes returns more reliable and predictable. Your own circumstances are also key, as your personal circumstances, views and plans change. Your portfolio is designed to ensure that your money works harder for you and this should accurately reflect your changing needs.

Even if your own personal circumstances have not changed since your last review, it is likely that the landscape of the financial markets and ever changeable legislation and tax rules have.

This has never been truer than at the moment with global implications of the ongoing COVID-19 pandemic, a US presidential election and Brexit; these have all increased market volatility which is why it is important to ensure your future plans are not compromised.

When planning for the future it is important to assess your financial position to ensure that your assets and income will meet your requirements for the rest of your lifetime. Our cashflow forecasting tools take into account potential downturns in the stock markets as well as inflationary erosion to capital whilst the banks offer us a low rate of interest.

With the help of a good independent financial adviser you should have peace of mind you have received unbiased advice to ensure that your portfolio remains aligned with your aims and objectives.

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Jo White,
Director Tax Advisory explains.

How to counter threats to your personal financial security

Plan, review and flex. The most effective way to counter threats to your financial security is to plan, regularly review and adjust to changing circumstances. If there is one thing certain in life, it is that nothing is ever certain. 2020 has shown us that there are always going to be threats outside of our control but we can control how we react and adjust to them to minimise their impact.

During times of uncertainty, it is important to remember not to panic: pause, breathe and look outside the current circumstances and at your longer-term goals. How can you get there? What can you do now to help you prepare for the future? What options are available to you at the moment that can help you achieve them? We often advise businesses to scenario plan but we as individuals can do this too. Have plans in place to prepare for the 'what ifs'. Do everything you can now to plan and prepare for your future.

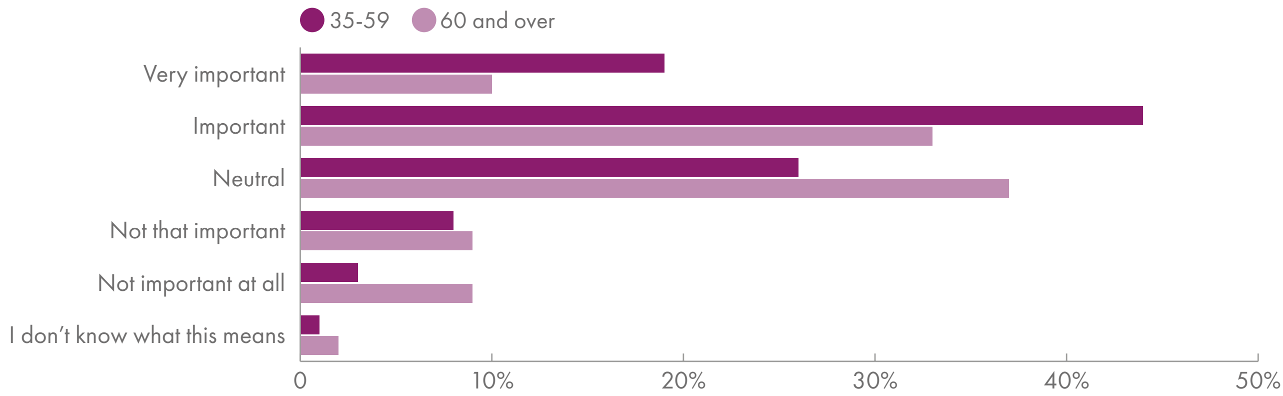
> "The most effective way to counter threats to your financial security is to plan, regularly review and adjust to changing circumstances."

Social and environmentally responsible investments

One of the longer-term trends we have seen at Kreston Reeves is a shift towards investing in a socially and environmentally responsible way. This is reflected in our survey, with 63% of *The Accumulators*, those aged between 35-59, telling us that it is 'important' or 'very important' to them.

There has been a growth in environmental, social and governance (ESG) investment funds to reflect this growing demand, but not all funds interpret social and environmental agendas in the same way.

How important to you is it to ensure you are investing in a socially and environmentally responsible manner?



Lee Hayward,
Chartered Financial Planner explains.

ESG investing

In today's complex financial landscape, it can be hard for individual investors with a social conscience to make the right choices. How do you, for example, determine what impact an energy company has on the planet, or whether a global manufacturer treats its staff and suppliers in developing countries in a way you would like?

The investment community, including Kreston Reeves Financial Planning, has responded by constructing portfolios that carefully balance an individual's investment preferences with their attitude to risk and capacity for loss. The starting point is to spend time with our clients to truly understand their personal situation, priorities and preferences.

We recognise that not all investors are the same. Some will hold passionate views on areas like the environment, treatment of people, and the manner in which a business is run. Others may be happier with a broader mandate and fewer restrictions. Our approach is built on understanding the priorities of our clients to ensure that we achieve the closest match possible from their investment portfolio.

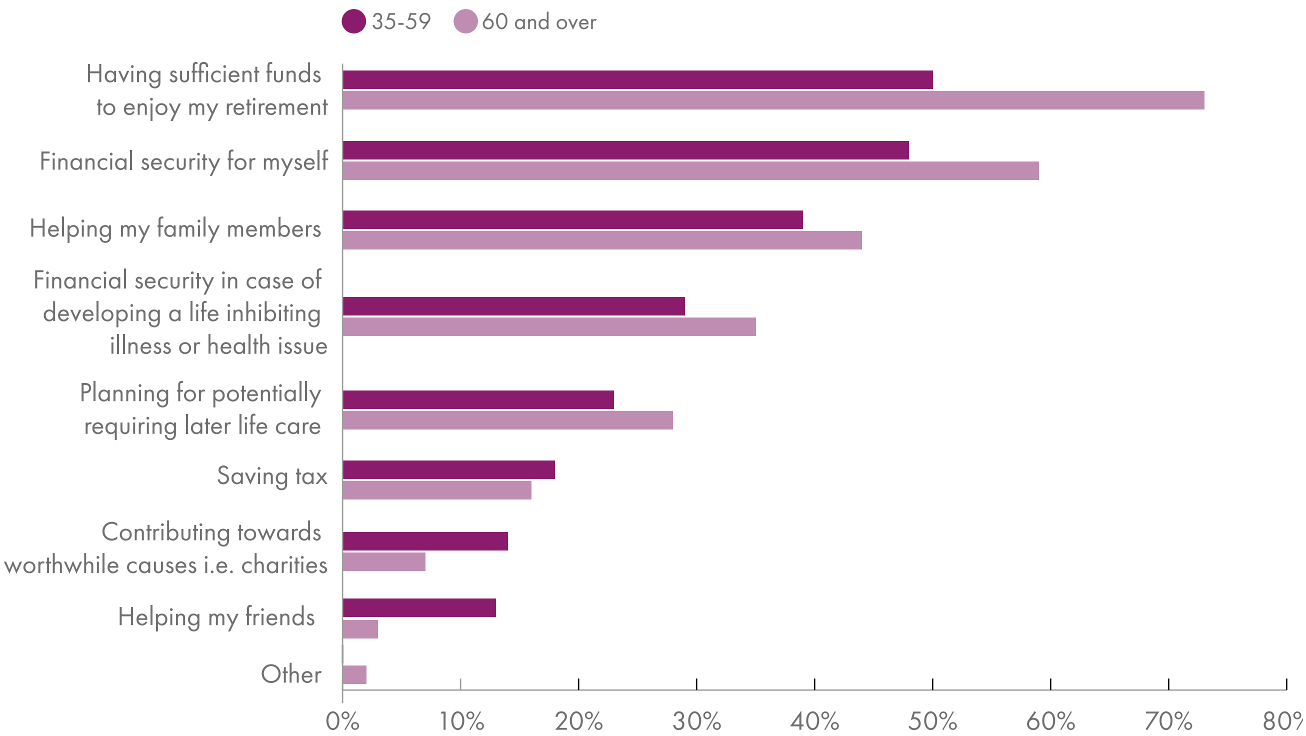
Investment portfolios can consist of a range of funds and/or individual stocks, designed to meet the client's requirements, whilst at the same time addressing the need for diversification in order to mitigate risk. Many funds are given what is known as an ESG rating which considers the environmental, social and governance factors that measure the sustainability and societal impact of a company.

There are, however, many different ways of applying an ESG rating, and whilst the agencies that apply these ratings can be useful points of reference, the data has its limitations, and it is worth asking your financial adviser to explain the process they use when constructing their sustainable portfolios.

Our final question in building a financial snapshot of those accumulating and distributing wealth is to understand priorities when planning for future finances. After many decades of work, it is clear that the financial security needed to enjoy later years is a driving force irrespective of age.

Both *The Accumulators* and *The Distributors* have the same priorities when planning their future finances - they want to be able to enjoy their retirement, they want financial security and they want to help their family members. The most effective way to achieve these priorities is to plan and regularly review your plans throughout your lifetime.

What are your priorities when planning for your future finances?*



**Respondents were asked to select top 3*

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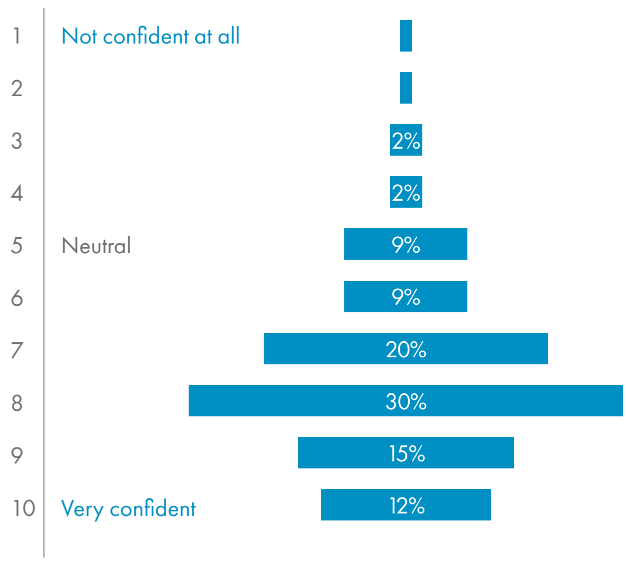
Planning for retirement

We all look to create a secure financial future for ourselves and our families, and this is shown in our survey. But we all have different visions for how we wish to spend our retirements, and those will quite naturally change over time. Funding retirement ambitions, whatever they may be, needs attention, planning and guidance over a prolonged period of time to provide the confidence that those plans are on track, and you will have what you need to enjoy a comfortable retirement.

We are encouraged that the majority of those surveyed in both of our broad age groups are confident that their financial affairs are in order. This is despite 36% of those between 35-59 and 32% of those over 60 saying that they had 'just enough' for their retirement. And a further 10% of *The Accumulators* and 3% of *The Distributers* saying they will not have enough funds. We would, therefore, provide a word of caution: over-confidence can lead to complacency. In a world of change, having your financial affairs reviewed annually or upon change of family or personal circumstance is the only way to achieve real peace of mind.

On a scale of 1-10 how confident do you feel that your financial affairs are in order?



"What is particularly concerning is the over-reliance on the state pension"

Whilst we all have differing priorities on spending our retirements, our survey suggests that we are not all that different.

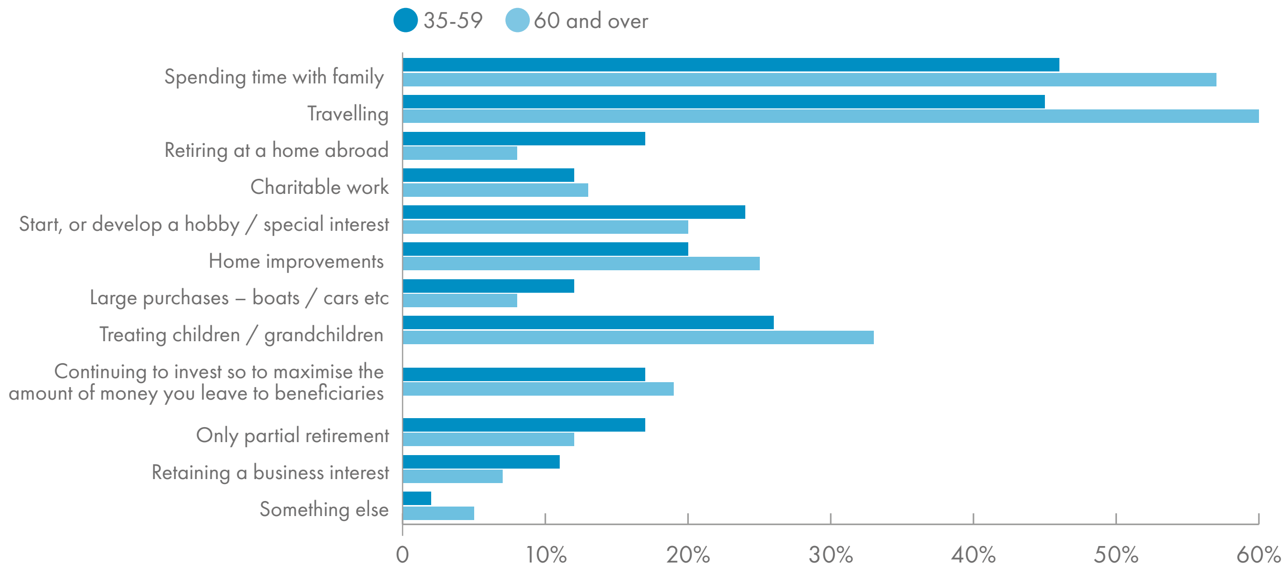
The top priority for *The Distributors* is travelling (60%) followed closely by spending time with family (57%) and treating children and grandchildren (33%). The top three priorities for *The Accumulators* echo the same suggesting that largely these personal priorities remain consistent throughout our lifetime and they are the things that truly and consistently matter to us.

Although order and percentages differ, suggesting a sharpening of the importance of the priorities as we get older, *The Accumulators'* top priority for retirement is spending time with family (46%), followed closely by travel (45%) and then treating children and grandchildren (26%). We all want to spend time with our families and travel – with perhaps the enforced lockdown witnessed in 2020 driving that ambition further. With this being the case, it is important to consider whether your assets and income are sufficient to allow for retirement at an age where health allows for the enjoyment of these priorities.

It is noteworthy that relatively few of those completing our survey prioritise material things when planning for, approaching or in their retirement. The popular image of the recently retired splashing out on a boat or a sports car does not ring true.

Only a small percentage (12%) are prioritising undertaking charitable work on retirement. The not-for-profit sector, hit hard by COVID, may wish to take note and explore ways they could move this up individuals' priority list, perhaps by making it more of an experience and more personal to this otherwise willing group of volunteers.

What are your top priorities for retirement?



How we fund retirement is undergoing a transformative shift, and one that should concern those accumulating wealth.

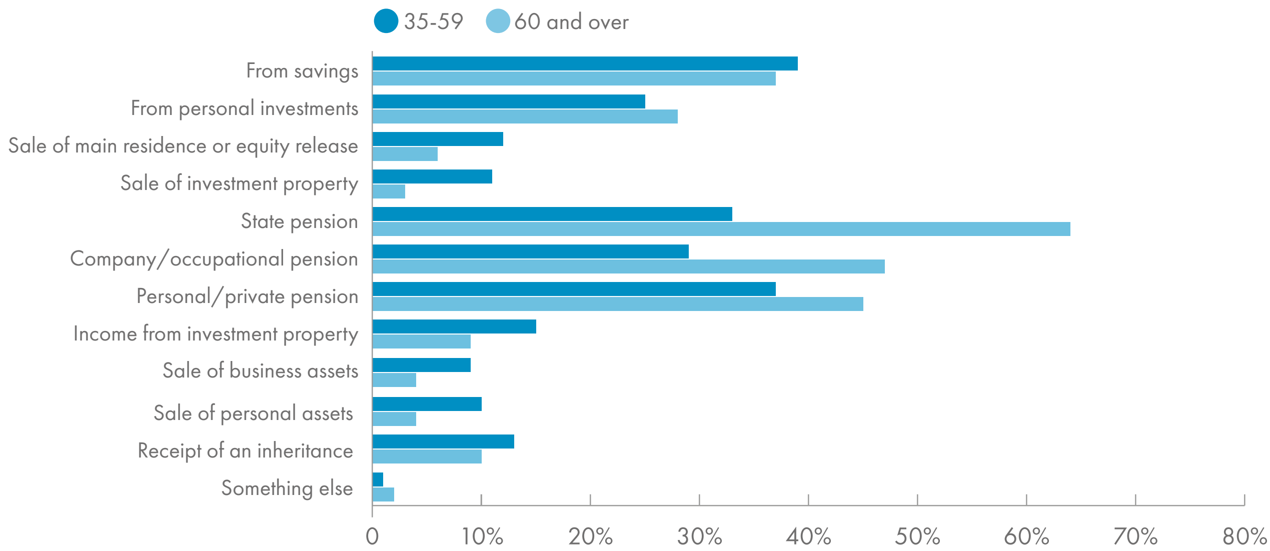
Whilst *The Distributors*, those in or close to retirement, are able to rely on pension scheme membership, *The Accumulators* appear not to have that luxury. Only 29% expect their company/occupational pension scheme to fund retirement ambitions compared to 47% of *The Distributors. The Distributors* also clearly have more faith in, and are able to rely on, the state pension to a greater extent (64% compared to 33%).

Those accumulating wealth appear to be relying on a wider pool of investments to fund retirement, including inheritance, personal investments, savings and property.

Whilst a diverse portfolio will soften exposure to risk it will require a more engaged investor and time is often the most precious of commodities. This also increases the need for professional advice and support to ensure financial goals are achieved.

What is particularly concerning is the over-reliance, particularly of those over 60, on the state pension, which from September 2020 was only available to those over the age of 66, with further age increases planned. For new recipients, the state pension is now £175.20 a week, or £9,110 a year (2020/2021 financial year), which will undoubtedly represent a considerable fall in annual income for most in our survey. The state pension age is ever increasing with decreasing provisions and the possibility of the abolition or becoming means tested. The state pension should be seen as an element of retirement planning and not the answer in itself.

How do you intend (or are you) funding your retirement?



Recent pension freedoms typically allow individuals to access pension benefits from age 55, subject to specific scheme rules. Upon attaining this age, pension scheme members will be able to typically take up to 25% of their pension as a lump sum and then designate the remaining into drawdown or use some or all of the funds to purchase an annuity. It is a move that has raised concerns from the pensions industry, leaving individuals with potentially insufficient funds in retirement and at increased risk of pension fraud.

Due to increased longevity and both decreasing interest and gilt rates, annuity rates have been decimated in recent years making them less attractive and pension drawdown the more frequently used approach. Professional independent financial advice should always be sought prior to accessing pension benefits.

The total amount of the pension pots of our survey naturally vary, and there is a very real risk that those with smaller pension pots will not have enough to fund their retirements.

By way of example:

- A pension pot of £200,000 may allow an individual to take a £50,000 lump sum, leaving an annual income of £7,214, or a £9,652 income without a lump sum payment.*
- A pension pot of £400,000 may allow an individual to take a £100,000 lump sum, leaving an annual income of £12,817, or a £19,142 income without a lump sum payment.*
- A pension pot of £600,000 may allow an individual to take a £150,000 lump sum, leaving an annual income of £21,547, or a £27,359 income without a lump sum payment.*

Almost a third of those over 60 (32%) do not know the total value of their pension. This may be because they are already confident that they have enough and most of their planning has been carried out in earlier years.

**Please note these figures are for illustrative purposes only and correct as of September 2020 using various assumptions: a single life annuity is purchased at age 65 with a 5 year guarantee, level in payment and that the annuitant resides in Central London and is in good health. You should obtain quotations based on your own individual circumstances.*

What is the combined total value of all your pensions?

	35-59	60 and over
Under £100k	14%	17%
£100k-£200k	17%	10%
£200k-£400k	20%	17%
£400k-£600k	16%	8%
£600k-£800k	7%	6%
£800k-£1m	5%	4%
Over £1m	4%	3%
I don't know	14%	32%
I don't have a pension	3%	3%

Our survey indicates that the majority of *The Distributors* and *The Accumulators* have enough in the pensions to fund the retirement they hope for. However, the fact that over a third (36%) of *The Accumulators* and just under a third (32%) of *The Distributors* tell us that they have 'just enough' is worrying and leaves them in a precarious position and one that needs even more careful and regular review. Those that have selected 'no' or 'don't know' need to plan more now to safeguard their future.

Do you think you will have enough funds in retirement to achieve your plans?

	35-59	60 and over
Yes	34%	57%
Just about	36%	32%
I intend to reduce my lifestyle	12%	4%
No	10%	3%
Don't know	8%	4%

Terry Burgum,
Chartered Financial Planner, outlines the questions individuals need to ask themselves when planning for a secure financial future.

Lifetime cash flow planning

When planning for the future, consider your specific objectives. How can your assets be used to meet your future needs?

Whether the funds need to be retained for your long-term financial security, such as retirement planning, or needed to meet shorter term aims, such as helping your children through university or to buy their first home, you will need a financial plan built just for you.

As your financial planners, we would use lifetime cash flow planning to build such a plan. This exercise looks to project the levels of capital and income needed to provide for your future financial security, and once sufficient funds are earmarked for your essential needs, you can then start to consider the levels of expenditure you may want to make for the fun things in life.

Once your plan is established, it is then all about how to make the money work both smarter and harder for you.

Consider additional pension contributions to take advantage of the valuable tax relief available to reduce your immediate tax bill, as well as the long-term tax efficient growth potential and inheritance tax benefits associated with pensions.

You may have the ability to use brought forward unused allowances from previous years to maximise the benefits via a large single ad hoc contribution. However, make sure you do not exceed your annual and lifetime allowances, or you may face punitive tax penalties.

ISAs will enable you to avoid unnecessary tax going forward, whilst other tax efficient options, such as investment bonds, may allow you to defer future tax liabilities to manage your tax position efficiently.

Whatever the tax wrappers you use, selecting the appropriate underlying investments is key to avoid taking unnecessary risks whilst offering sufficient potential to meet your lifetime goals. A full understanding of your attitude to risk, capacity for loss and future financial plan will enable us to match the right investments for your personal plan.

Building and exiting a business

40% of individuals in our survey own all or part of a business, and with that comes a degree of complexity in financial planning for later life.

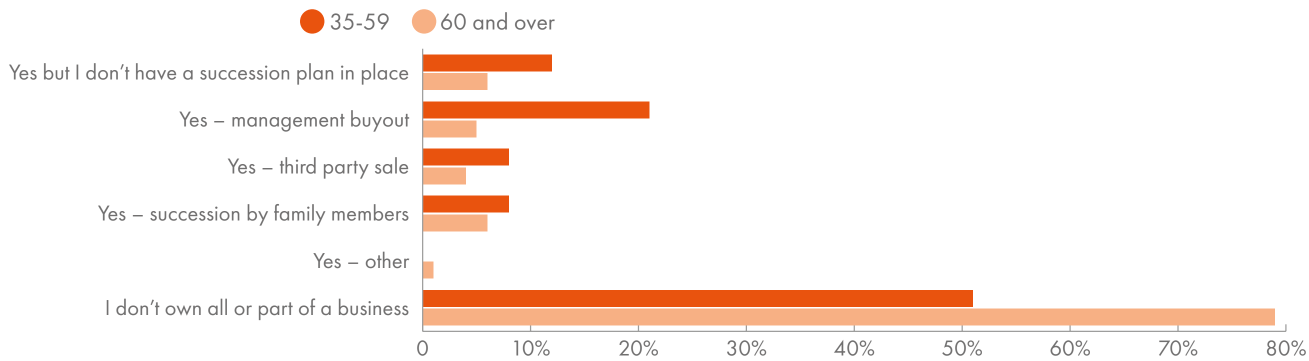
Very few entrepreneurs start a business with an exit in mind. Those starting a business will often be focused on growing that business and not necessarily on what happens when they might want to retire. In a family business, succession is likely to be a greater priority to ensure its continued success.

More than 25% of those who own all or part of a business, do not currently have a succession plan in place. Planning and preparation for this succession and exit is a vital part of your personal financial planning and will make things much smoother when the time comes.

An exit can take a number of forms, from winding-up the business, passing on the next generation, selling to an existing management team or a sale to an unconnected third party. All of these have their own implications and complications.

Whilst we can never be certain what the future holds, considering the options available to you, and the actions that would be needed is important to ensure that you achieve your objectives, and to do this as tax efficiently as possible.

Do you own all or part of a business and if so, do you have a succession plan in place?



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"More than 25% of those who own all or part of a business, do not currently have a succession plan in place."

Daniel Grainge,
Partner and Head of Tax, offers the following advice.

Exiting a business

When selling a business there are a number of tax issues to consider, including the capital gains tax implications on the sale, the impact on your inheritance tax exposure and how to invest the proceeds tax efficiently.

Careful planning is required to minimise the capital gains tax exposure on the sale, and some of this planning needs to be in place for at least two years prior to a sale. If you can secure business asset disposal relief (formerly entrepreneurs' relief) this can halve your capital gains tax rate on disposal. The gains that can qualify for this relief are capped at £1m during an individual's lifetime and therefore if the business is worth more than £1m having multiple owners can reduce the tax exposure.

The value of trading businesses is, generally, exempt from inheritance tax. Once the business is sold the value becomes subject to inheritance tax. Pre- or post-transaction planning is therefore vital to minimise the inheritance tax implications of selling a business.

Finally, if the proceeds are significant, how you hold the funds could make a big difference to the amount of tax you pay on the income or gains, and your ability to pass value efficiently to family members. You could consider investing the funds via a personal investment company or family investment company. These structures can provide long-term income tax, capital gains tax and inheritance tax benefits.

Realising significant value from a business sale can be an ideal time to reassess your whole financial situation and implement planning that will ensure yours and your family's financial security for the long-term.

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Inheritance tax planning

Under the current rules, every individual in the UK can leave £325,000 plus potentially a further £175,000 under the residence nil rate band, a total of £500,000, free of inheritance tax (IHT). That means a married couple can potentially leave £1,000,000 without incurring an IHT liability. Anything over that amount will incur IHT at 40%.

This means that a couple with combined estates of £1.5m face a potential inheritance tax liability of £200,000 if they do not undertake any inheritance tax planning.

In many situations it is possible to mitigate inheritance tax through careful and considered planning, although this needs to be balanced against income and capital requirements to maintain your lifestyle and provide financial stability in later life.

Our survey asked whether individuals know what their potential IHT exposure is. The results are evenly split: 49% of *The Accumulators* do, as do 56% of *The Distributors*. Meaning that 51% of those aged 35-59 and 44% of those over 60 do not know what their IHT exposure is.

The fact that the older section of a survey had a greater understanding of their potential IHT exposure is not surprising. Our experience suggests that it is generally in the mid to late 50s that clients start to consider what steps could be taken to mitigate their exposure.

We then asked those that do know to tell us what their exposure is. The results of this question are on the following page.

Daniel Grainge,
Partner and Head of Tax, offers the following advice.

Minimising inheritance tax

Generally, gifts are potentially exempt from inheritance tax, and will be exempt if the person making the gift lives for seven years from the date of the gift. As a result, in order to be as effective as possible, inheritance tax planning, should start early.

Where a gift is more than three years before death, taper relief can reduce the inheritance tax that is payable on lifetime gifts. It is important to note that taper relief only reduces the tax that is payable, and not the value of the gift. Taper relief does not, therefore, have an effect if the value of gifts made in the seven years before death is less than the inheritance tax threshold.

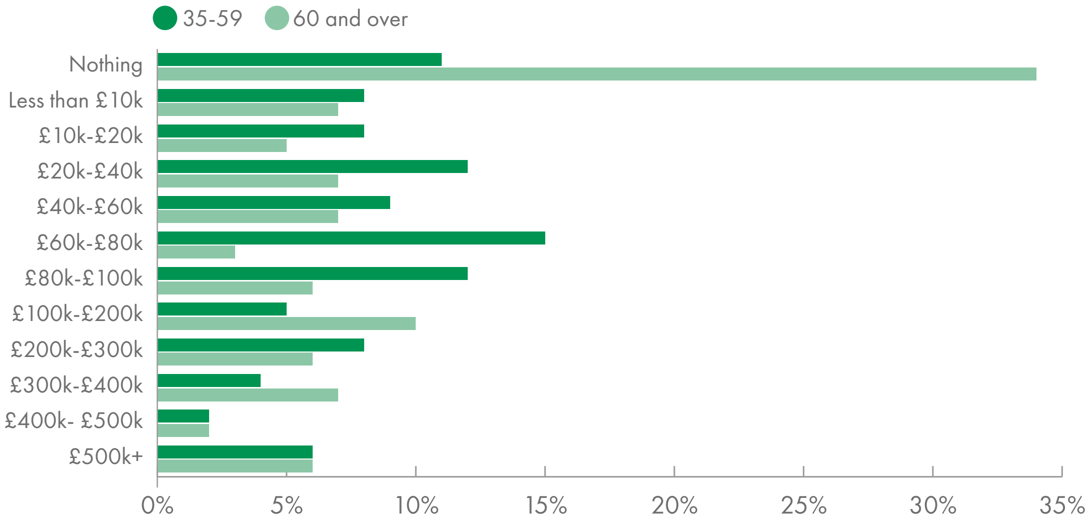
If you are making gifts of assets other than cash you must consider whether there are any other tax implications, for example capital gains tax and stamp duty land tax. For a gift to be effective for tax purposes, it must be made with 'no strings attached' and you cannot continue to benefit from the asset that has been given away.

Many people when considering gifting assets are concerned about giving up control. These concerns can be managed to a certain extent by the use of trusts. Trusts can also be used to provide an element of flexibility that cannot be achieved with outright gifts.

When considering inheritance tax planning there are some key things to remember:

- Balance your personal needs against the desire to save inheritance tax.
- Use your annual exemption of £3,000 per year.
- Gifts of surplus income are potentially exempt from inheritance tax.
- Trusts can allow you to transfer value, reducing your inheritance tax exposure, whilst retaining control of an asset.
- The earlier you start the more opportunity there is to save inheritance tax.

What is your inheritance tax exposure?



The IHT exposure that our respondents say they have does not correlate with the value of the assets reported. This suggests that whilst people may think they know what their IHT exposure is, their assessment is not very accurate.

The need for expert, independent advice to quantify the potential IHT exposure and set out the options that are available to mitigate that liability, whilst maintaining sufficient income and assets to maintain their lifestyle, is critical.

Our survey then asked what steps, if any, people had taken to mitigate their IHT exposure. There are some effective ways to mitigate IHT, some of which have already been taken by our respondents, including gifts to family members and friends (39%), and establishing a trust (28%).

In addition, in the case of *The Accumulators*, life insurance may be used to settle outstanding debt or to provide for a surviving partner or children. Life insurance can also be used as a tool to fund an inheritance tax liability. Whilst this does not reduce the inheritance tax exposure it provides the funds to settle the tax bill and may prevent the need for assets to be sold. If life cover is in place to provide funds to settle inheritance tax the policy should be carefully structured to ensure the proceeds themselves are not subject to inheritance tax.

25% of respondents had made gifts to charity. Gifts to charity, both during lifetime and on death, are exempt from inheritance tax, but do not reduce the inheritance tax on the remainder of your estate. However, if you bequest at least 10% of your estate to charity the rate of inheritance tax on the remainder of your estate reduces from 40% to 36%. If you are already leaving a significant amount to charity, increasing the gift can increase the post-tax amount received by your beneficiaries.

Those people with property overseas (9% who own a holiday home, 7% who have an investment property overseas) need to take particular care regarding their inheritance tax exposure. This is because the asset could be subject to tax in both the UK and the other country. Ownership of overseas property, and associated tax, must be considered when drafting an individual's Will.

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Planning for later life

A Will is the simplest way to divide assets and provide for those close to you on death. If you die without a Will, it is government legislation that decides how your estate is distributed.

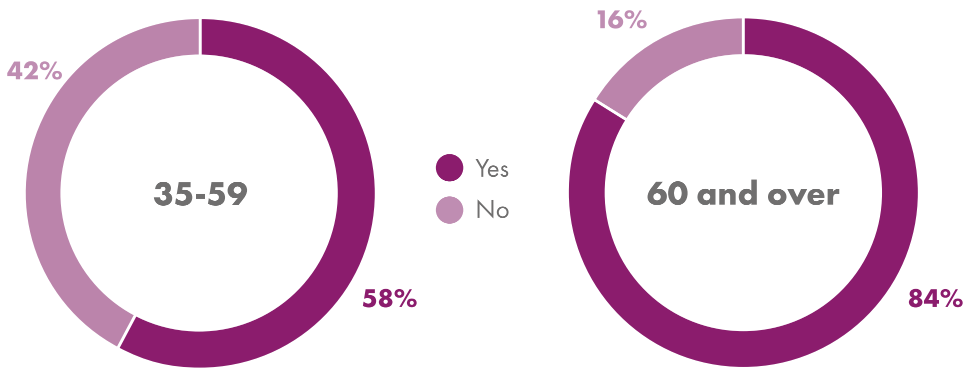
A Will allows you to nominate guardians for your children, provide for unmarried partners, bequeath individual items to family and friends, and to specify an individual to deal with your estate. For business owners, a Will can also provide some direction as to what should happen to that business if you were to die, although care is needed in the interaction with company or partnership documentation.

The structure of a person's Will can affect their inheritance tax liability. In particular, business owners should carefully consider the structure of their Will to ensure that the valuable business property relief is secured.

It is encouraging, therefore, that the majority (84%) of *The Distributors* in our survey have a Will in place. It is, however, concerning that 42% of *The Accumulators* do not – especially since 79% of those who don't have a Will also have children.

It is important that Wills are reviewed and updated on changes to family and financial circumstances, for example, on changes to marital status, purchase of a new home or upon arrival of grandchildren. It is important to note that your Will does not determine who receives your pension assets. You should therefore review your pension nomination form to ensure this reflects your current wishes, and review this regularly.

Do you have a Will?



Gemma Spencer,
Solicitor explains.

What happens if you die without a Will?

If you die without a Will you are doing your family a disservice. Everyone should sign a Will and keep it updated. You will avoid delay, safeguard your assets, potentially save inheritance tax and definitely save on probate fees. Consulting a legally qualified expert will make the process straightforward and ensure your wishes are fulfilled.

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Solicitors remain the most popular route to creating a Will for both *The Distributors* (74%) and *The Accumulators* (49%) but there are alternatives. Some banks now offer Will writing services and our survey shows this option has been accessed by a number of *The Accumulators* (23%). Kreston Reeves offer our clients a professional Will writing services by our qualified in-house solicitors.

We were not surprised to see a small group (7%) tell us that they have created their own Wills. But in today's often complex family arrangements self-created Wills rarely suffice, leaving your last wishes open to challenge. We would always recommend a Will is prepared by a qualified professional.

Who was your Will prepared by?

	35-59	60 and over
A solicitor/a qualified lawyer	49%	74%
Bank	23%	5%
Will writer	16%	11%
Online	5%	2%
Myself	7%	7%
Other	0%	1%

Gemma Spencer,
Solicitor explains.

A solicitor or Will writer?

The past decade has seen a proliferation of disputed Wills and claims against Will writers, so it is more important than ever to use a solicitor who specialises in Will drafting and giving holistic legal and inheritance tax advice, especially if there are business or foreign assets. If it is suitable, we may recommend including a trust in your Will to protect your assets, family and maximise inheritance tax reliefs.

We asked those who do not yet have a Will, why?

Creating a Will asks us to confront our own mortality, something most of us are naturally reluctant to do. We will find many excuses to delay that reality.

Survey respondents said that they are unlikely to die soon. Unfortunately, as COVID-19 has shown, we do not know what is around the corner and a Will make things easier for family and friends. We would recommend that everyone, even those with small estates, have a Will and keep it up to date and whatever your age. If you haven't made a Will, we would strongly recommend you look into getting one sooner rather than later.

The most concerning answer given, however, is the belief that affairs are so simple that a Will is not required. In our experience that is rarely the case. Wills are contested more frequently and over much smaller legacies, adding to the distress of family members and considerable cost.

What is the reason for not having a Will?

	35-59	60 and over
I am not likely to die soon – I've got plenty of time	15%	8%
My affairs are simple so it is not required	29%	35%
I haven't had time to consider it	22%	10%
I can't afford to	5%	4%
I just haven't thought about it yet	23%	29%
Complex personal situation	3%	6%
Other	3%	8%

Powers of attorney

A power of attorney is a legal document that allows someone to make decisions for you and act on your behalf if you are no longer able to make those decisions yourself.

There are two types of powers of attorney. An ordinary power of attorney that covers your financial affairs but only while you have full capacity and are cancelled when you lose capacity. And lasting powers of attorney (previously called enduring power of attorney) that allows management of health, medical, end of life and care decisions, as well as financial matters, which last for your lifetime and are not cancelled if you lose the capacity to make your own decisions.

Powers of attorney are a vital legal document allowing an individual to retain their dignity safe in the knowledge that decisions over finances and healthcare are being made with your wishes and best interests at the centre.

It is therefore worrying that so few (32%) of *The Distributors*, those aged over 60, in our survey have created powers of attorney, and surprising that so many of *The Accumulators*, those aged between 35-59, have.

Do you have a power of attorney?

	35-59	60 and over
Yes to manage my finances	23%	14%
Yes to manage my health	16%	3%
Yes to manage both my finances and health	12%	15%
No	49%	68%

Social care in England is, unfortunately, rarely free of charge. Most individuals needing care will at some point have to make a contribution. An individual's local authority will typically assess care needs and means test, taking into account income, savings and the family home. Individuals with more than £23,250 of capital will need to contribute to the cost of their own care.

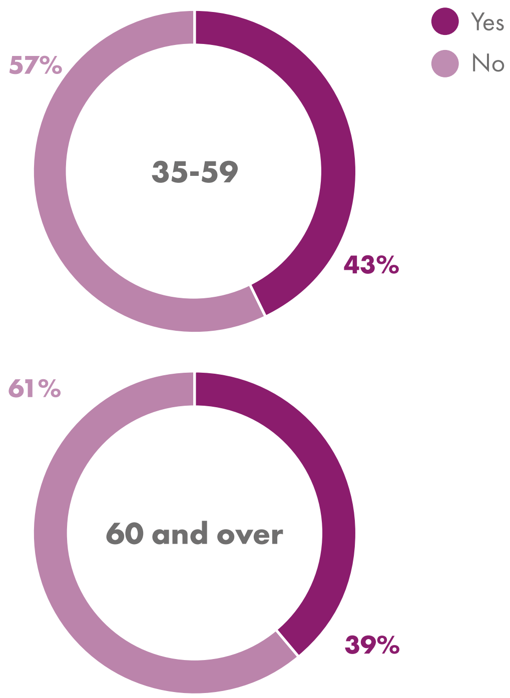
Given the cost of long-term care, it should be an essential part of an individual's financial planning. Our survey suggests it isn't. 61% of *The Distributors* and 57% of *The Accumulators* have not yet considered the need to plan for future care. The earlier an individual starts to plan, the more that can be done.

Sarah Mannooch,
Solicitor and Director of Legal services, adds.

The power is in your hands

We are all vulnerable to a crisis event at any time in our lives. As we become older the risk increases but everyone regardless of age should consider a power of attorney as part of their disaster planning, to cover the finances, any business and their heath. Put those you love and trust in a position where they can legally take care of you and your money and don't leave it to statutory bodies to handle everything. The power is in your hands so use it and gain complete peace of mind.

Have you considered the need for long-term care planning?



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Lee Hayward,
Chartered Financial Planner and member of the Society of Later Life Advisers, offers the following advice.

SOLLA Society of Later Life Advisers

Planning for long term care?

The subject of residential and nursing care funding continues to be a high-profile and emotive issue, with a government anxious to keep control of social spending, and the natural desire for individuals to retain their assets rather than see them eroded by care costs.

Poor health, which may force early retirement, can be costly, and it is when this misfortune strikes that many realise the limitations of the financial assistance available from the NHS and local authorities. Finances may be put under severe pressure by the need to fund care costs in later life.

If carefully considered in advance, steps can be taken to assist individuals, their families, or their attorney's or deputies with funding the cost of care.

An adviser with relevant expertise in this area will consider the support options that might be available, review state benefit entitlement and recommend investment strategies to meet the cost of care. A holistic view will be taken exploring risk preferences, capacity for loss and tax efficiencies.

Whilst technical ability and knowledge of the ever-changing legislation regarding Adult Social Care Funding is essential, there is of course a human side to giving advice in this area, and our Society of Later Life (SOLLA) accredited advisers specialise in providing this hugely important aspect of the planning process.

> **"Finances may be put under severe pressure by the need to fund care costs in later life."**

Your top 10 personal finance actions

The events of 2020 have presented challenges for everyone. These challenges have resulted in many of us reflecting on our personal financial circumstances. Regardless of your level of wealth, it is essential to plan for the future. We have created a simple personal finance action list to help you.

1. Set financial goals and do an annual check up

Consider your personal financial priorities:

- What do you want to achieve in your lifetime?
- What lifestyle would you like in retirement?
- What would you like to be able to leave your family?
- What can you do now to help you prepare and get there?

Your plans and priorities are likely to change throughout your lifetime. Review your finances and goals annually and adjust accordingly to keep on track.

2. Write a Will and keep it up to date

If you have not written a Will, now is the time to do so. If you have young children, you may wish to appoint guardians in your Will.

For those who do already have a Will - when did you last review it? Have you had any changes to your personal circumstances since it was written?

This may be the right time to review and determine if it needs to be updated to ensure it remains up to date and continues to reflect your wishes.

3. Consider a Lasting Power of Attorney (LPA)

An LPA is a legal document and is a safe way of maintaining control over decisions should you no longer be able to make them yourself.

There are two types of LPAs, 'Property and Financial Affairs' and 'Health and Welfare'. We recommend you sign both versions as it is vital your finances and future welfare are covered to protect your best interests.

Have you got a Power of Attorney in place?

4. Review, update and invest in your pensions

As our report shows, pensions are a significant way to fund your retirement.

Review your state pension

A large proportion of individuals are unaware of how much they may be entitled to under the current new state pension or previous entitlements and what date they would qualify for it. Check this for free at: www.gov.uk/check-state-pension.

Collate your old pension arrangements

Many individuals have old pension policies, perhaps from previous employers, to which they no longer contribute. These accumulated benefits could make a real difference towards funding your retirement – you can track these down using the government's free 'Pension Tracing Service'.

Update your pension beneficiary forms

Where the benefits under a pension are paid at the discretion of the pension trustee they do not usually form part of your estate for inheritance tax purposes and are not usually inherited under your Will.

It may be the case that nominated beneficiaries are able to retain the tax advantageous pension wrapper in the form of a beneficiary's pension.

Who do you wish to inherit your pension policies? Complete an 'Expression of Wish' form with your pension providers to ensure this is documented and keep this updated.

Invest in your pension

Investing in company and/or private pensions throughout your lifetime is one of the most effective and reliable ways to plan for and fund your retirement. Review your pension fund regularly. Will this enable you enough funds for the retirement you are aiming for? If not, consider investing more or finding alternative funding methods.

5. Review and consider your insurance policies

Existing insurance policies

Review your existing policies regularly to ensure you are adequately covered in the event you have to claim. If you cannot locate your original policy documents, contact your insurance provider.

Check if your life insurance policies are written in trust. Where policies are written in trust it may mean that when funds are paid out they may not automatically form part of your estate and may not be subject to inheritance tax.

Consider new insurance policies

There is currently a 'protection gap' in the UK meaning a large proportion would be left financially vulnerable should they or their spouse pass away prematurely or suffer an illness or injury that would affect their earnings.

If you haven't already taken out cover, consider life insurance, critical illness, or income protection cover to protect yourself and your family.

6. 'Future plan' your role in a business

We recommend that those who own all or part of a business consider its future plans, their ambitions as part of the business, and how a future exit might be structured. This will help ensure that both the business and you are ready for the exit, maximising value where appropriate, and minimising the various tax exposures.

Business owners should also consider the formalities associated with the business (for example a partnership agreement or shareholders' agreement) and how this interacts with their personal affairs, in particular their Will. There are significant tax exemptions for qualifying business assets, and these should be considered when drafting your Will and business documents.

You may wish to consider a Business Lasting Power of Attorney and Key person insurance to ensure your business interests are protected.

7. Understand your inheritance tax exposure

Complete a periodic review of your financial position from an inheritance tax perspective and understand your current potential exposure. Consider lifetime giving as a way to mitigate your estate's liability sooner rather than later to make the most of the seven-year period for a gift to be exempt from inheritance tax.

Make sure you understand the tax implications before gifting assets to family or friends. Inheritance tax, capital gains tax and stamp duty land tax may all be relevant on a non-cash gift. For cash gifts only IHT needs to be considered.

Consider your income and capital before making gifts. Making gifts must not be to the detriment of your general living – consider what you need for the longer term as part of this process.

8. Making charitable donations

There has been overwhelming support for some charitable causes recently. If you are doing so it is worth remembering that you may be able to elect to make donations via gift aid, enabling the registered charity to receive an extra 25% at no extra cost to you if you pay sufficient tax.

If you are a higher or additional rate taxpayer you may also be eligible to claim the difference between the rate of tax you normally pay and the basic rate on your gross donation, so should always note this figure for entering within your self-assessment tax return. There may also be inheritance tax benefits of leaving 10% of your estate on death to charity.

9. Review your expenditure and budget

As a result of current circumstances many households' income and expenditure has changed. For many there will be cost savings in the areas of transport, holidays, eating out and entertainment, which may present an opportunity to increase or start savings arrangements. Consider how to invest your money.

10. Create an 'in case of emergency' document

It can often be the case that family members are unaware of where important documents are held and/or who to contact upon event of incapacity or death.

This situation can be alleviated by containing this information all in one document, listing appropriate wealth managers, accountants and solicitors, with their contact details along with anything else you think may be relevant or could help should something happen to you.

It is incredibly important to plan for your future throughout your lifetime, whether for yourself or for the benefit of your loved ones. Whether you are accumulating, growing, managing, preserving, protecting or transferring your wealth, we are here to support you for what really matters. Guiding you and your family to a brighter financial future.

This action list is not exhaustive and is intended as general information of the key elements to consider. Independent, professional advice tailored to your own particular situation should always be taken before making any decisions.

Contact us today so that together we can discover what steps you need to take to achieve your personal financial goals whether you are accumulating or distributing wealth.

Daniel Robertson
Financial Planning

Daniel Grainge
Partner and Head of Tax

Sarah Mannooch
Director of Legal services

Call: +44(0)330 124 1399
Email: enquiries@krestonreeves.com
Visit: www.krestonreeves.com

How we can help

We help generation after generation build wealth in their personal, family and business lives. Our wealth management advisers can help you every step of the way...

Dedicated to guiding you to a brighter future

Managing and maximising your finances, while pursuing your personal and business goals, is always a challenge at all stages of your life.

Your wealth management requirements will change and evolve alongside your life ambitions; whether it be minimising tax on your growing assets, protecting and maximising your family wealth for you and future generations, or building a flexible plan to accommodate changing circumstances later in life.

Whatever your goals, careful planning and the right advice in respect of tax, legal matters and financial planning is essential so that you can maintain wealth, enjoy life and achieve financial security for you and your family.

This is where we can help. Our dedicated advisers and solicitors offer a unique and comprehensive blend of personal tax, financial planning and legal services to guide you to achieve all your finance goals.

So, whether you are looking for help with your investments, personal tax planning (including inheritance tax), trusts, powers of attorney, retirement and pension planning, creating a Will, preparing for later life or help with business succession, we have specialists that can help.

Further information:

Call: +44(0)330 124 1399

Email: enquiries@krestonreeves.com

Visit: www.krestonreeves.com

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