ANGLO INTERNATIONAL
PERSONAL FINANCIAL MANAGEMENT

MoneyMatters

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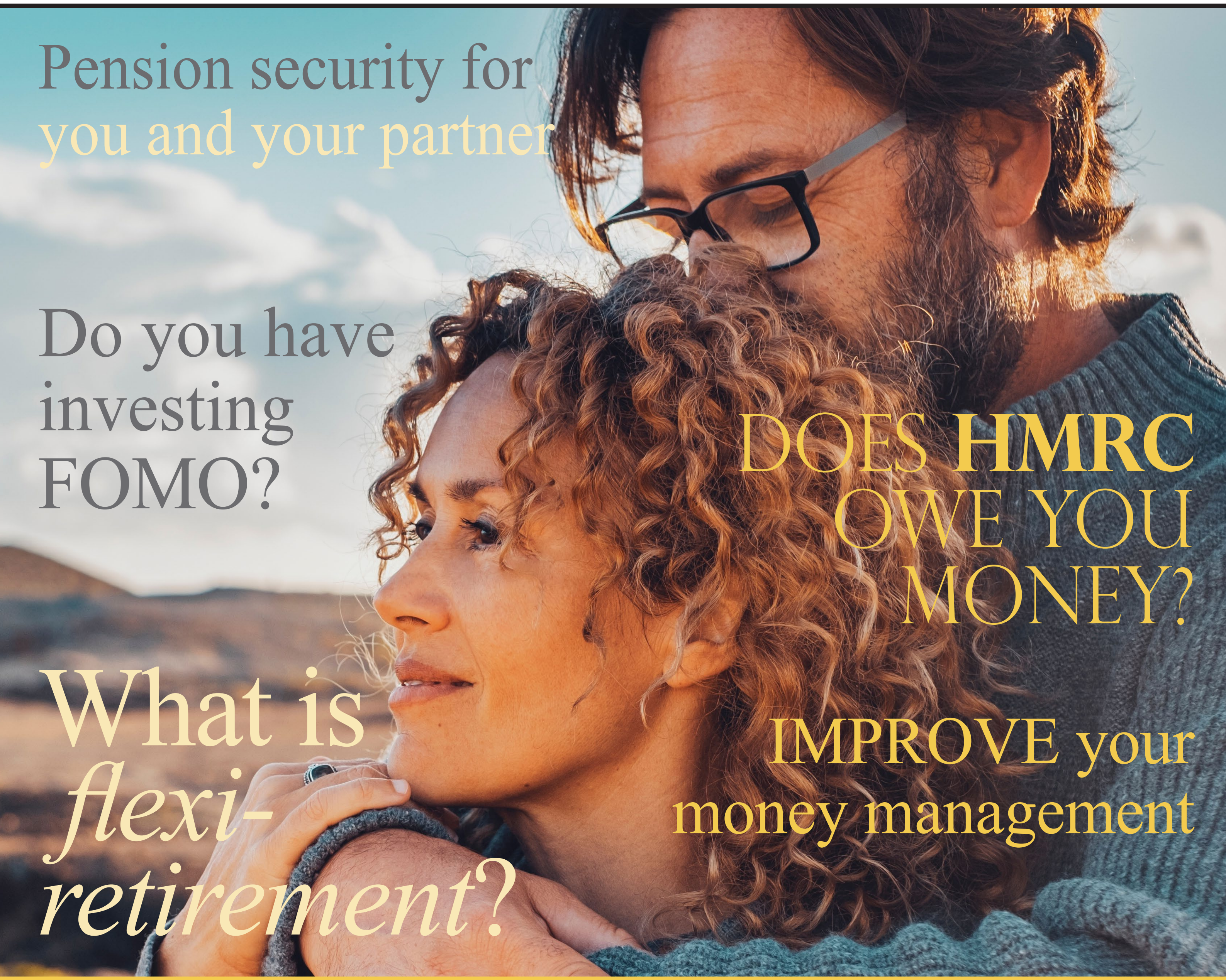

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Anglo International Group Limited – Independent Financial Advisers
The Investment & Mortgage Centre, 170 Epsom Road, Guildford, Surrey GU1 2RP
T: 0800 193 1066 F: 01483 566 005 E: info@angloifa.com

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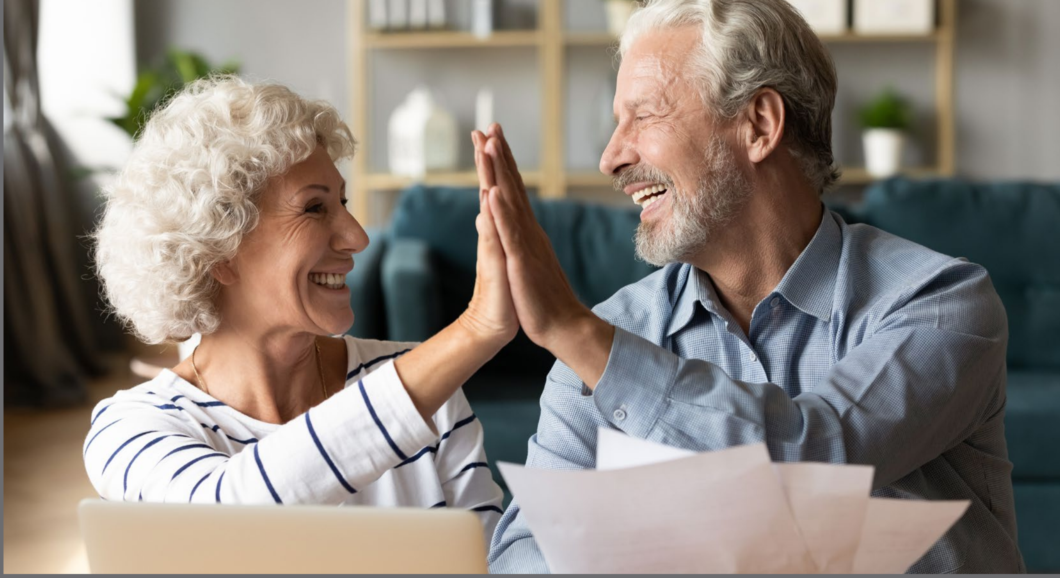


DOES **HMRC** OWE YOU MONEY?

Thousands of pensioners claim money back from HMRC after being overtaxed on their withdrawals. We explain how to avoid a shock bill and get a refund.

The over-taxation occurs when too much tax is taken off withdrawals from pension pots. It typically happens when a retiree accesses their pension for the first time and pays an emergency rate of tax.

Almost £1.3 billion has now been reclaimed by people overtaxed on pension withdrawals since 2015 when pension freedoms came into effect. The freedoms mean retirees do not have to buy an annuity and are free to take either a regular income from their pension pot or ad-hoc withdrawals as they please.

WHY ARE SAVERS OVERTAXED ON PENSION WITHDRAWALS?

Pension savers are allowed to take money out of their Self-Invested Personal Pensions (SIPPs) and workplace schemes as they wish from age 55 (rising to 57 in 2028). So, for instance, they could withdraw £500 one month, £1,500 the next month, and nothing for the rest of the year.

Pension withdrawals are subject to income tax, bar the 25% tax-free cash. HMRC taxes the first flexible withdrawal someone makes in a tax year on a "Month 1" basis. This means the amount withdrawn is taxed as if that will be the pension saver's income every month for the rest of the tax year. In other words, a lump sum withdrawal is treated as though you will take the same income every month.

While those who take a regular income or make multiple withdrawals during the tax year should be put right automatically by HMRC, anyone who makes a single withdrawal will likely be left out of pocket.

HOW CAN RETIREES AVOID BEING OVERTAXED?

One way to avoid being overtaxed and having to apply for a refund is by making your first pension withdrawal a small one, if possible. This should mean HMRC is able to apply the correct tax code to the second, larger withdrawal.

HOW CAN PENSIONERS CLAIM A TAX REFUND?

If you are hit with emergency tax, you can complete a form and apply for a refund, or wait for HMRC to put you in the correct position at the end of the tax year.

- If you are taking only some of your pension pot, you should fill out the P55 form.
- If you are taking the whole lot, and have no other income sources for that tax year, fill out P50Z. If you do have another income, complete form P53Z.

Refunds are usually paid within 30 days and are sent directly to your bank account.

NOTE: If you are taking a steady stream of income via drawdown then you shouldn't need to take any action, as HMRC will adjust your tax code to ensure that over the course of the year, you are taxed the right amount.

What can you do if Labour change the Inheritance Tax rules?

What is next for inheritance tax (IHT) under a Labour government and how can you reduce your IHT bill?

New Labour Chancellor Rachel Reeves has already gone after pensioners with the winter fuel allowance and is rumoured to be looking at inheritance tax (IHT) and Capital Gains Tax.

IHT has become a massive revenue source for the Treasury, it dragged in a whopping £7.5bn in the financial year to the end of March 2024.

Labour didn't bring IHT to the fore in the 2024 General Election, but they also didn't rule anything out.

Whatever happens between now and the autumn Budget on October 30th, it's worth considering the basics of estate planning:

- How much will I be affected by inheritance tax?
- Who are my beneficiaries?
- Should I start gifting more, bearing in mind future expenses like care costs or rising living costs?
- Is my Will up-to-date?
- Do I need to register a Lasting Power of Attorney?
- Have I discussed my plans with my family and solicitor?

Should you be thinking about any of these points or if you haven't thought about any of these, it's never too soon or too late to start.

HERE ARE THE CURRENT IHT RULES.

IHT is generally paid at a tax rate of 40% on the value of your estate, such as your property, investments and possessions over the £325,000 allowance (the normal nil rate band).
There's also an additional allowance of up to £175,000 if you pass on your family home to children or grandchildren.

You can combine your allowances if you're married or in a civil partnership and transfer assets between each other free of IHT.

On death, the surviving spouse doesn't have any IHT liability, and they may be able to use up any IHT allowances which were unused by their late spouse/partner.

Our financial advisers are well versed in helping clients organise their estates to keep more money for loved ones and less for taxes. They keep up to date with the latest IHT rules allowing you to understand the complex regulations with confidence.

Remember, all investments can go down as well as up in value and you could get back less than you invest. However, you have a greater chance of getting back less than you put in with companies eligible for BR as they're generally riskier and more volatile than larger, more established companies.

Contact us to discuss your financial plan
If you have any questions about your financial plan or would like to understand how we could support you, please get in touch.

5 IDEAS TO REDUCE YOUR IHT BILL

1 ENSURE YOUR WILL IS UP TO DATE AND REGISTERED

A professionally drafted Will makes things easier for those who have to work through your assets and it may save tax.

2 MAXIMISE YOUR GIFTING ALLOWANCES

Each tax year you can gift away up to £3,000 IHT free. You can also give away up to £5,000 when your child gets married and gift £2,500 for each grandchild. There is also the unlimited gifts option where you can give from your surplus income, but these amounts should not impede on your quality of life. Maximising your annual gifting allowances can reduce your tax liabilities.

3 USE YOUR PENSION

At the moment, pensions fall outside of the estate for tax purposes. You can have as many beneficiaries as you want and in most circumstances, there's no IHT for them to pay.

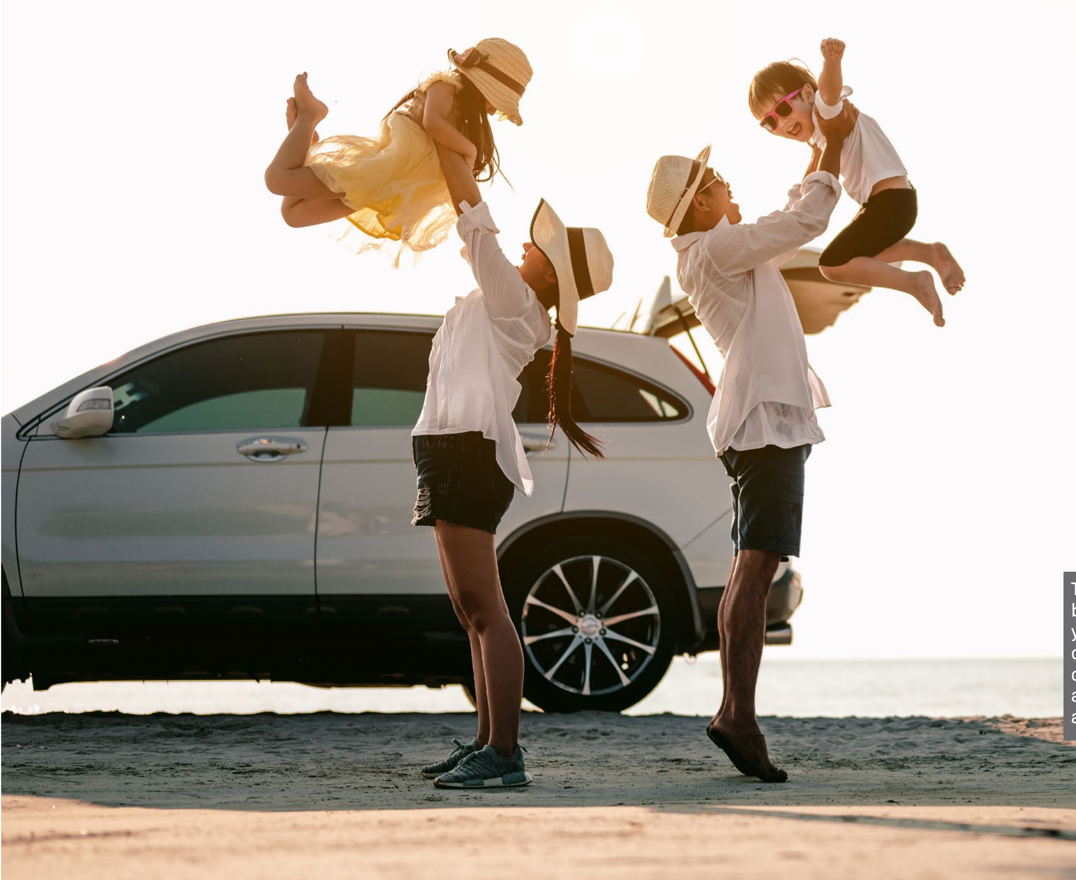
Should you die before you're 75, your beneficiaries' can normally withdraw what they like from any remaining pension pots without paying any tax at all. When you live beyond age 75, any withdrawals will be taxed at the beneficiaries' marginal rate of income tax.

4 GIVING TO REGISTERED CHARITIES

Charitable gifts are completely IHT free and if 10% of your taxable estate is left to registered charities, it can reduce the IHT charge on the rest of your estate to 36%.

5 INVEST IN BUSINESS RELIEF (BR) COMPANIES

Investing in certain types of companies may allow you to qualify for 100% relief from IHT. Providing the shares are held for a minimum of two years and still held at death, the shares still qualify when the shareholder passes away. Where any shares are not held for two years, a surviving spouse or civil partner can inherit the portfolio without restarting the holding period.



This article isn't personal advice. Inheritance tax can be complicated, if you're not sure of a course of action, you should ask for financial advice. We can advise you on how to make use of tax allowances, but if you need complex tax calculations, we recommend consulting an accountant or tax specialist. Tax rules can change, and any benefits depend on personal circumstances.

RECORD TAX PAID FROM SAVINGS INTEREST; WHAT OPTIONS DO SAVERS HAVE?

Interest rates sit at a 16-year high at present, which means HMRC will bring in record revenues on people's savings.

HMRC's tax take will be an estimated £10.4bn on savings interest in 2024/25. The previous tax year, it was £6.6bn.

This is a huge increase of 58% and an incredible 740% increase since 2021.

So, just what can savers do to shelter their savings?

What has driven this tax revenue increase?

From the table below we can see that after 2020 revenues were declining to 2022, then they began to rise massively.

Tax year	Amount raised
2019/20	£1.6bn
2020/21	£1.4bn
2021/22	£1.2bn
2022/23	£3.4bn
2023/24	£6.6bn
2024/25	£10.4bn (estimation)

Past performance isn't a guide to future returns.
Source: HMRC Income Tax liabilities, June 2024

This article isn't personal advice. If you're not sure whether an investment is right for you please seek advice. If you choose to invest the value of your investment will rise and fall, so you could get back less than you put in.

There are two reasons for this:

1. Freezing of personal allowances

Jeremy Hunt, the then Chancellor in 2022, froze income tax thresholds until 2028. This included allowances such as the personal allowance, higher-rate threshold, additional rate threshold and the personal savings allowance.

High inflation saw wages increasing and tax thresholds remaining fixed, more taxpayers moved into higher tax bands and therefore paid more tax. A phenomenon known as 'fiscal drag'.

This stealth tax policy brings more money into the Treasury, without having to actually raise tax rates.

The frozen personal savings allowance is £1,000 for basic-rate taxpayers and £500 for higher-rate taxpayers. Additional-rate taxpayers don't have a personal savings allowance at all.

2. High interest rates

The second factor is interest rates remaining around the 5% mark for the last 2 years.

For people with larger sums in savings products, like those in retirement, they'll have earned higher rates for some time, unfortunately leading to higher tax bills.

What can savers do?

The new Chancellor Rachel Reeves will not be looking to unfreeze the thresholds, particularly after she set out her financial thoughts in the Commons on 29 July 2024.

So, here are a few ways to start saving on tax right away. Cash savings options are likely to be the best choice, particularly if you need your money within five years.

If your plans are longer-term, more than five years, investments often give you a higher return than cash savings. But unlike the security offered by cash, with investing nothing is guaranteed and there's a chance you could get back less than you invest.

CASH ISAS

The interest you make on your savings in a Cash ISA is sheltered from UK tax, you can invest up to £20,000 which is the annual ISA allowance.

Due to higher interest, Cash ISAs have exploded in popularity over the last two years, with savers today holding a record £372bn.

The Cash ISA also lets you spread your money across fixed-rate, easy-access, and limited-access products. All are offered by different banking partners.

INVEST BY ADDING TO YOUR PENSION

If you want to invest for your future, consider adding to your pension.

Putting money into a pension can cut the amount of tax you pay. You can reduce how much income tax you pay by adding money into a workplace or personal pension, such as a Self-Invested Personal Pension (SIPP) and for higher earners, the tax breaks can be even more attractive.

Remember, you can only usually access money in a pension from age 55 (rising to 57 from 2028).

As a UK resident under 75, you can typically pay up to £60,000 into pensions each tax year and receive tax relief from the government. You will receive tax relief on personal pension contributions up to 100% of your earnings, or £3,600, which is the ceiling for this relief depending on which is higher.

People who may have already taken money from their pension, or are a high earner, may have a lower annual allowance.

The amount of tax relief you get on your pension contributions depends on which tax bracket you find yourself in.

Government Gilts

WHAT ARE GOVERNMENT GILTS? HOW DO YOU BUY THEM? SHOULD YOU INVEST IN THEM?

WHAT ARE GOVERNMENT GILTS?

A gilt is a UK government bond. When you buy a gilt, you are lending money to the UK government in return for regular interest. They then give the amount you lent to them back once the bond's maturity date is reached.

The borrower, being the UK government, promises to pay back the loan (gilt) at a fixed date and to pay interest during the gilt's lifetime.

UK Government bonds are typically considered as one of the 'safest' forms of bond. That's because the government usually has significant influence over its currency, so can print money to pay back investors should it need to.

HOW DO BONDS (GILTS) WORK?

The key elements of bonds, such as gilts, are as follows:

• Issuer - This is the entity which is borrowing the money – i.e. the government, company or other organisation.

For instance, if £100 million will be borrowed, £100 million of securities will be issued by the issuer. These will usually be launched at "par" (face value) or £100.

• Coupon – The percentage rate at which the issuer will pay interest per year.

For example, if you bought one unit of a gilt when issued at 100p per unit, that paid a coupon of 5%, you'd get 5p every year.

• Maturity – the loan repayment date

A set date for the repayment of the money is known as the maturity or redemption date. The bonds are usually redeemed at "par" or face value of £100.

As gilts are traded, they can be bought and sold below or above the price at which they were first issued.

Perception of whether the gilt can be repaid moves the price, but it also depends on the interest rates central banks set. When the base interest rate moves, the price of a gilt generally moves as well.

GILT PRICES AND INTEREST RATES HAVE AN INVERSE RELATIONSHIP

• If interest rates go up, gilt prices usually fall, but that means the yield, what you get as a percentage of the price you paid goes up. That's because the interest on offer in your gilt has become less attractive compared to the higher interest rates on offer in new gilts.

• If interest rates fall, gilt prices usually rise. This is because newly issued gilts will offer lower yields than existing gilts. This will increase demand for the existing higher-yield gilts, raising their price.

WHY DO INVESTORS BUY GILTS?

Their popularity with investors tends to rise along with interest rate increases. As interest rates rise, gilt prices tend to fall.

If a gilt's price falls, its income yield rises, if the price of a gilt falls below its par value (£100), you get a government-backed capital return if you hold it until its maturity date. However, a capital loss is still possible if you sell before maturity.

THEY OFFER A BIG TAX ADVANTAGE

There are two forms of return when you invest in gilts. The income and any capital gain from the initial price. Each element is taxed differently for private investors.

Income interest paid by a gilt is taxed as additional income.

Any capital gains, from the price (par value) are tax free. Remember, if you sell at a capital loss this can't be used to offset other gains. You also don't pay any stamp duty or stamp duty reserve tax when you buy a gilt.

If you hold gilts in an ISA or Self-Invested Personal Pension (SIPP), you won't pay any UK income tax on them. Tax rules can change and the benefits depend on your individual circumstances.

Example 1:

This example visualises buying 1,000 units of a gilt trading at 91.5p each, with a nominal interest rate of 0.625% and set to mature in two years. At the time of purchase, this would cost £915. In two years, the government will repay the capital at 100p per unit meaning you would receive £1,000 in exchange for your 1,000 units.

For this gilt, it works out at over 5% annual return, excluding any dealing commission. Most of this return comes from capital gains rather than income.

Of course, each gilt is different and investors could get a different ratio between income and capital returns, as per the following example.

Example 2:

This example has a gilt with a higher coupon, where most of the return is issued as income rather than capital.

Buying 1,000 units of a gilt with a nominal interest rate of 2.5% which is set to mature in two years. The gilt is currently trading at 99.5p per unit, meaning that 1,000 units would cost £995 (excluding dealing charges).

You will receive a coupon payment of £25 per year or £50 over the two-year period. At maturity, the government will repay the capital at 100p per unit meaning you would receive £1,000 in exchange for your 1,000 units.

For this gilt, it works out at over 2.7% annual return, excluding any dealing commission. Most of this return comes from income rather than capital gains. Remember, income is taxed whereas capital gain is not.

WHAT SHOULD YOU BE AWARE OF?

Gilts are generally seen as low risk, so, therefore, offer lower returns than other assets. You could get better performance from investing in a corporate bond or other asset although these can be higher risk.

If you're considering investing in gilts, be sure that you are maintaining a level of diversification in your overall portfolio that suits your investing goals.

> *"UK Government bonds are typically considered as one of the 'safest' forms of bond."*

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The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

What is flexi

Flexi-retirement is working while having additional more free time, part-working and part-retiring. So, why is it growing in popularity?

Since 2015, changes to the rules around accessing private pensions mean that, when you reach age 55 (increasing to 57 from 2028), you can withdraw money from your pension pot, as and when you need it, this process is called pension drawdown, flexi-access drawdown or income drawdown. The good part is that you can do this while you generate income from working in whichever shape or form you prefer.

More than 40% of 55-64 year olds plan to move into 'flexi-retirement' before they reach 65, according to Aviva's Age of Ambiguity, Study 8.

With the agreement of your employer, you can alter the pattern of your work in the lead-up to full retirement. You might reduce your current hours, step back to a less stressful position, or start a new part-time role.

WHAT IS THE ADVANTAGE OF FLEXI-RETIREMENT?

1 Increase income

For those using income drawdown, working part-time can be a way to gain additional free time without reducing their current income, lowering their standard of living or losing future pension savings.

Coming to terms with income drawdown and flexi-retirement can be daunting. So taking your time and considering getting independent advice from an expert is a good approach.

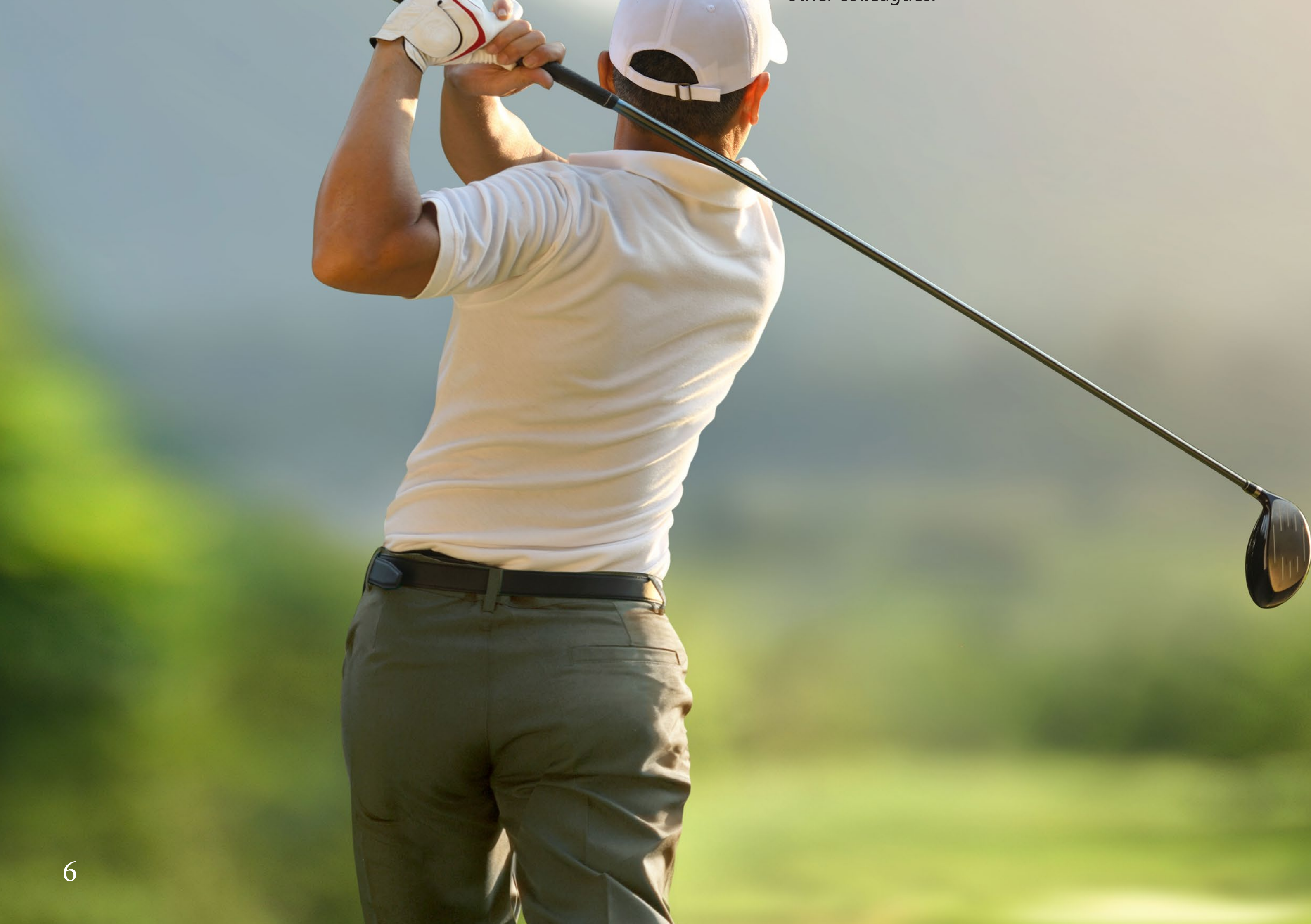
2 Additional free time

Reducing the amount of time you work, for hobbies such as travelling, golf, taking up a hobby etc, can definitely improve your lifestyle. Flexi-retirement can give you the best of both worlds, much more freedom, without losing the connection and social skills you gain in the workplace.

3 Hold onto that experience

As you approach retirement, there's a good chance you've got plenty of experience and knowledge.

You may want to work fewer hours or reduce your responsibilities without foregoing new knowledge or losing the job satisfaction you get from supporting other colleagues.



-retirement?

4 New opportunities
Flexi-retirement can help you expand into new adventures or opportunities. It could be your chance to set up a business, go self-employed, move to a new location or even work in a lower paying sector that helps people.

5 Live to work not work to live
Being able to spend more time with those you love or value is special such as picking up the grandkids from school, flexi-retirement can be a great way of mixing up your work schedule to fit your priorities.

Deciding when and how you retire is a big decision. How do you decide if it's the right thing to do and when?

None of us really know how much we need to save for retirement, the cost of living and inflation over the years makes this very complicated to work out. It's never too late to evaluate your pension to see whether your projected pension income will be sufficient to provide you support over the years to come.

HOW DOES INCOME DRAWDOWN WORK?

1 You can drawdown up to 25% of your pension, tax free
Currently, you can take up to 25% of your pension pot as a tax-free lump sum. You have the flexibility or choice to take this in just one lump sum or spread it across multiple withdrawals. With each tax-free withdrawal, three times the amount taken tax-free is moved into a drawdown pot and withdrawals from there will be taxable.

2 Access to your pension as required
You can continue to take single withdrawals as and when you want, provided you have the funds available in your pension.
You can also set up a regular withdrawal, that allows flexibility to change how much and how often you draw down money.
Your withdrawals outside of your 25% free allowance will be treated as income and taxed according to your individual circumstances.

3 Review your remaining pension regularly
The remainder of your pension stays invested. The value of your pension can increase but it can also reduce and you may get back less than has been paid in.
Good practice is to regularly review your investment options to ensure you are comfortable with the level of risk involved.

Consider your options carefully

Flexi-retirement is not the right choice for everyone. The flexibility of income drawdown means you could be taking on more responsibility, therefore, making sure you take all the time you need to consider your options is a good approach.

HERE WE LOOK AT SOME VALID QUESTIONS TO ASK WHEN CONSIDERING FLEXI-RETIREMENT

- Have I got enough money in my pension to make flexi-retirement a reality?
- What are my plans to occupy my free time? Will flexi-retirement provide me with enough money to fund my new plans?
- Am I comfortable staying in my existing job but working fewer hours?
- Could I enjoy starting a small business or going self-employed?
- Will I miss the camaraderie and social aspect of the workplace?
- How comfortable would I feel to live on less than my present income?
- What impact will taking income drawdown have on my retirement savings?
- What will my income tax liabilities be if I choose flexi-retirement?
- Will my current employer allow me to reduce my hours or move position?

This article is for general information only and does not constitute advice.
The Financial Conduct Authority does not regulate cash flow planning.
A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available.
Past performance is not a reliable indicator of future performance.
The tax implications of pension withdrawals will be based on your individual circumstances. Thresholds, percentage rates, and tax legislation may change in subsequent Finance Acts.

CONTACT US TO TALK ABOUT YOUR FINANCIAL STRATEGY FOR 2024/25.

Improve your money management

Good budgeting of your money should improve your wellbeing but many people don't know where to start.

Whether you're just starting your money management or you are a seasoned budgeter, these tips on budget planning could help you improve your money management.

KEEP IT REALISTIC AND IN PERSPECTIVE:

Don't overestimate what you can budget in a year, and don't underestimate what you can do in 10 years.

Set yourself sensible goals and targets, if they are unrealistic, you will become disillusioned and give up trying to improve your finances. Tailor your approach to be long term, this will let you enjoy the process rather than restricting yourself in the early months and years.

When budgeting with your partner, you will have the benefit of motivating each other and this will drive you both to take control of your money better.

Don't make the budget too austere, don't cut everything out and keep a sensible proportion for having some fun.

Being human, our actions are often determined by how we feel, after a bad day at work or an argument of some kind. When such events occur, we are more likely to make different choices than when everything is going well. A way to navigate this is to automate as much of your money management as possible while retaining some money to have 'living' fun.

HOW CAN THIS BE DONE?

1 Set up two accounts, one for everyday bills and another for personal spending.

2 Arrange all of your regular payments to come out of your bills account.

3 Use the money in your personal spending account to pay for all your weekly variable spending like groceries, drinks, haircuts etc. Work out how much you have left or need to spend in a month after your bills, then divide this amount by four, that's your weekly fun money.

4 Arrange a weekly transfer from your bills account to your personal spending account.

THREE QUESTIONS THAT WILL FOCUS YOUR BUDGETING

When you begin to evaluate and itemise all your regular expenditures, such as your mortgage payments, mobile phones, car costs, TV packages and clothes etc. For each one, ask yourself these three small questions:

1. Do I really need this?
2. Do I really want this?
3. Can I get it for less elsewhere?

Many people never question how much they're paying for things, these regular payments simply just happen. But if you take a moment to review these expenses and you are honest about the answers for each expense, you'll be surprised at the savings you can make.

"Set yourself sensible goals and targets, if they are unrealistic, you will become disillusioned and give up trying to improve your finances"

ONCE YOU UNDERSTAND YOUR BUDGET, HOW DO YOU SPLIT IT UP

When you have got your figures worked out, it will be enlightening to see where your money actually goes. Your split may look something like this:

- 55% of net income for direct costs like running the house
- 30% of net income for indirect costs like your car etc
- 15% of net income for your future, if you can use this amount to help pay off any unsecured debt when this is repaid, you can apply the 40/40/20 rule

THE 40/40/20 RULE

If and when you have paid off all your unsecured debts, you can apply the 40/40/20 rule.

- 40% goes to overpaying your mortgage
- 40% goes into your retirement plan
- 20% goes back to you to enjoy and have fun, or into savings

Think of the final 20% as investing in yourself, which may be used to learn new skills or hobbies which could give you more money in the future. Make sure you don't borrow to cover any extra costs, it's important to enjoy each day as well as planning for your comfortable future.

PENSION SECURITY FOR YOU AND YOUR PARTNER

How can you ensure your partner will be financially secure if you pass away before them?

When dealing with the loss of a partner, the stress is high enough without the added problem of financial woes placing even more pressure on the bereaved. By having planned an income or assets they can use should you pass away before them may ease the stress they will experience at such a difficult time.

Here we look at ways your pension could provide security for you and your partner.

1 WILL YOUR PARTNER INHERIT YOUR STATE PENSION?

Under the pension triple lock, the State Pension increases each tax year to align with rising inflation.

To qualify for the full new State Pension, which is around £11,500 in 2024/25, you need at least 35 qualifying years of National Insurance contributions. The new State Pension was introduced in 2016, should you receive the old State Pension, the amount of income may be different.

So, it's worth checking if your partner will receive the full State Pension to cover the loss of your State Pension.

In some cases, a spouse or civil partner may inherit an extra payment on top of their State Pension if they're widowed.

The rules of inheriting State Pension entitlement are complicated and are affected by factors, like:

- The date of your marriage or civil partnership
- Whether your partner paid a reduced rate of National Insurance for married women
- Your partner's existing State Pension entitlement
- The date you reached the State Pension Age

2 .CHECK YOUR DEFINED BENEFIT (DB) PENSION

Should you be lucky enough to have a Defined Benefit (DB) pension, also known as a "final salary pension", you will usually receive a guaranteed income from when you retire for the rest of your life. Often, rising with inflation.

The key benefit of many DB pensions is that they generally continue to provide spouses, civil partners, or dependents with a regular income if the main holder dies.

You can ask your pension provider to explain what income your partner could receive if you die before them.

3 USE YOUR PENSION POT TO BUY A JOINT ANNUITY

When you take your private pension, you will have a pot of money that you can access in different ways. One option is to buy an annuity, which would provide you with a guaranteed income during your retirement.

A joint annuity could be a useful way to ensure your widowed partner continues to receive a regular income.

Usually, the surviving partner would receive a portion of the income that the annuity originally provided. So, it may be important to consider which annuity is right for you.

The income you will receive depends on the annuity rates and they can vary significantly between providers, so shopping could provide you with greater financial security.

4 ENSURE YOUR EXPRESSION OF WISH FORM IS UP TO DATE

Generally, your pension is not covered by your Will, here you use an expression of wish form to inform your pension provider who you want to receive your pension. While an expression of wish isn't legally binding, the pension scheme trustees will consider your request when deciding who should inherit your savings.

Should you hold more than one Defined Contribution (DC) pension, then you will have to complete an expression of wish form for each one. Your partner's long-term security depends on their financial confidence

If you usually make financial decisions for your partner. They may be unsure about how to use the assets inherited from you, which may see them fall short of future financial security.

With this in mind, you might want to consider involving your partner in your decisions now. Working with a financial planner together could mean your partner has someone to turn to when making any financial decisions in the future.

CONTACT US TO TALK ABOUT YOUR LONG-TERM FINANCIAL PLAN

As your financial planner, we can work with you to create a financial plan that suits your concerns and worries about how your partner would financially survive if you were to pass away first.

Is it time to use life insurance for future Inheritance Tax planning?

Tax bill for your family

The government is collecting vast amounts through Inheritance Tax (IHT) and is on the rise, especially as Rachel Reeves, the new Chancellor has suggested the continued freeze on allowances means it's expected to increase even further. It's now very likely that many families could face a bill when house owners pass away, however, life insurance could provide a valuable way to cover this IHT expense.

It is thought a staggering £7.5 billion was collected through IHT, this was a record amount in 2023/24.

An IHT bill could mean less of your wealth to pass onto your loved ones, and it could be very stressful too. The part of your estate that exceeds government thresholds could be liable for IHT at a standard rate of 40%, and your family might need to consider which assets to sell to cover the expense. Where the value of your estate exceeds £325,000, it is likely to be liable for Inheritance Tax

In the tax year 2024/25, the nil-rate band is £325,000, meaning if the value of all your estate assets are below this threshold, no IHT will be due, but if they are above it, then IHT would be due. In addition, many estates can use the residence nil-rate band, which is £175,000 in 2024/25 if your main home is passed on to direct descendants.

This means you can often pass on up to £500,000 before you need to pay IHT. If you're planning with your spouse or civil partner, you can also pass on their unused allowances too.

Importantly, the nil-rate band and residence nil-rate band are frozen until 2028, which is government lead so that more estates become liable for IHT and as a result, IHT revenues are predicted to double over the next decade.

Life insurance could be a useful tool to pay Inheritance Tax

Life insurance doesn't reduce your IHT estate liability, but it could offer a simple way for your loved ones to pay the bill.

When taking out whole-of-life insurance, it's important to pay your regular premiums to maintain the cover. When you pass away, a lump sum will be paid to your beneficiaries, which they can then use to help pay the IHT due.

The cost of your life insurance premiums will depend on different factors, like your age, health, and lifestyle. In addition, the level of cover you require will also affect the cost.

You can select the level of cover that suits your needs, so it's important to calculate the size of your potential IHT bill.

Your estate covers all your assets, from property and investments to material items. After this consider how the value of each asset may change during your lifetime. Remembering, for example, that property values will likely rise.

Also, if you are not using investments and savings to supplement your retirement, they could well increase in value too, especially over the long term.

The potential size of your IHT bill is not an easy calculation to make. As a result, the potential size of an IHT bill could be difficult to calculate. A financial planner could help you understand how the value of your estate might change over time, therefore helping you choose the right level of life insurance.

You may want to place life insurance in a trust if it's for Inheritance Tax purposes

When considering using life insurance to provide your family with a means to pay any potential IHT bill, it's a good idea to place the life insurance in trust.

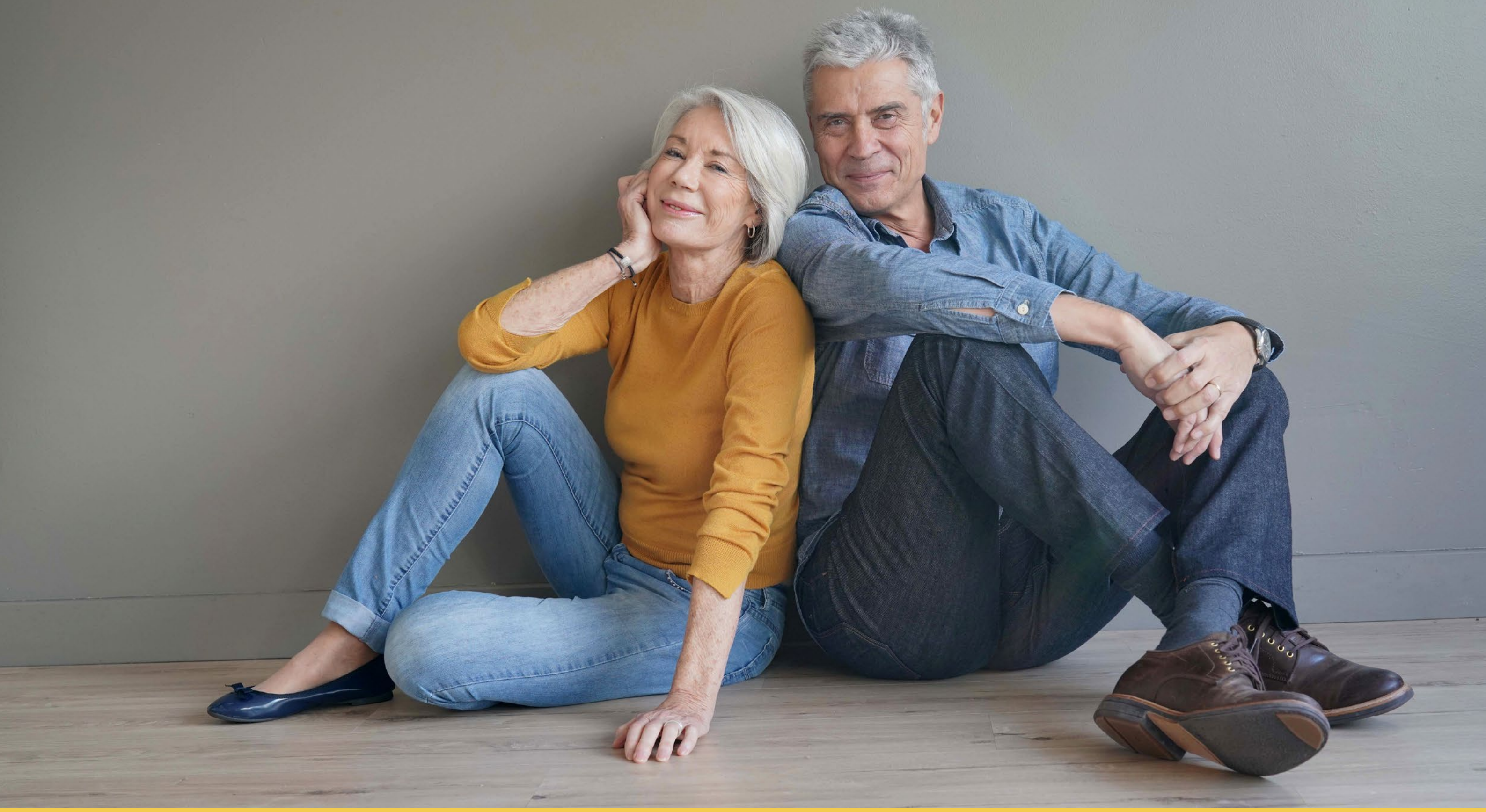
Setting in place a trust means it sits outside of your estate and therefore is not included when calculating how much IHT is due. If you didn't take this step, the lump sum that the life insurance pays out may be included in your estate, making it bigger still for IHT.

Individuals can set up a trust themselves but they can be complex and there are several different types. Seeking the services of a legal professional could reduce the chance of any problems occurring and ensure the trust you set up suits your individual plan.

As part of an estate plan, a financial planner would review your circumstances and consider your thoughts to understand how best you could pass on assets effectively, including steps that may reduce an IHT bill.

Please contact us to arrange a meeting to talk about your estate.

This article is for general information only and does not constitute advice. The Financial Conduct Authority does not regulate estate planning, tax planning, or trusts. Note that life insurance plans typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse. Cover is subject to terms and conditions and may have exclusions. Definitions of illnesses vary from product provider and will be explained within the policy documentation.



WILL THE "4% RULE" PUT YOUR RETIREMENT AT RISK?

William Bengen originally brought the 4% rule to everyone's attention, he is a retired US financial adviser. This rule essentially suggests you can withdraw up to 4% of your pension each year without overdrawing your money. Bengen said 4% was the worst-case scenario for retirees and suggested a withdrawal rate of 7% would often be "safe".

Many retirees fear that they may outlive their pension, in fact, it is thought that almost half of retirees worry about running out of money. So, shouldn't you rely on the 4% rule?

Here we explore some reasons why it may be a good idea to avoid this 4% rule.

With life expectancy increasing, how long will your pension need to last?

Bengen based his 4% rule on covering a retirement income for 30 years, but now there is a real possibility that many of today's retirees will need to fund beyond 30 years.

Recent information from the Office for National Statistics says a man retiring today at age 60 would, on average, need to fund 25 years in retirement. Yet, there's a 25% chance he may live well into his 90s and a 10% chance he could reach his 96th birthday.

Therefore a plan to spread your pension over just 30 years might present a risk that you could run out of money in your later years.

Women may find the risk is even higher. A 60-year-old woman has an average life expectancy of 87, with a 25% chance of reaching 94 and a 10% chance of making it to 98.

As life expectancy continues to rise, retirees may need to draw on their pension for longer and using the 4% rule could mean their risk of running out of money increases.

High inflation could mean withdrawing more than planned

Bengen's 4% rule, did suggest that retirees should adjust their annual withdrawals by the rate of inflation to maintain their spending power.

A period of high inflation could see people ending up needing to withdraw much higher sums to maintain their living standard, leading to the depletion of their pension faster than expected.

Inflation started rising in 2021 and reached a peak of more than 11% in 2022. While the figure has fallen recently, it's had a lasting impact on the budgets of households, including retirees.

The Bank of England has stated, that if you retired in 2021 with an annual income of £35,000, average inflation of 8.9% would mean your income would need to rise to more than £41,000 in 2023 to provide the same spending power.

Such inflation might affect your income more than you probably anticipated.

Investment returns are not guaranteed

Bengen also assumes investment returns will help your pension continue to grow in retirement.

But what data did Bengen use? He used historical performance figures from the US stock market, during the 1920s and 1970s, which are not reliable indicators of today's performance. So, his calculations, are not based on up to date figures which means they may not work on the modern day portfolio.

As well as understanding your future returns, reviewing how the value of your pension could be affected during downturns could improve your financial resilience in retirement.

Your retirement income needs may change over time

The 4% rule assumes your income needs to stay the same throughout your retirement. But, in reality, many retirees find their outgoings change.

With a growing elderly population, retirees might want to consider their care needs or similar types of support which they may need later in life.

A more modern approach is a tailored financial plan, which could help you create your own pension rules

With pensions, there's simply no one-size-fits-all solution. How much you decide to withdraw from your pension will depend on many factors, from your retirement plans to what other assets you have.

So, instead of relying on a seemingly simple rule, like the 4% rule, working alongside a professional to create a tailored financial plan could help you devise your own set of rules to give you retirement confidence.

Please contact us to help you create the best rules to suit your needs.

Please note: This article is for general information only and does not constitute advice. The information is aimed at retail clients only.
A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future performance. The tax implications of pension withdrawals will be based on your individual circumstances. Thresholds, percentage rates, and tax legislation may change in subsequent Finance Acts.

DO YOU HAVE INVESTING FOMO?

Have you ever invested due to a fear of missing out (FOMO)?

Fearing that you'll miss the next big opportunity to grow your wealth might lead you to take on more risk or increase your exposure to a particular area or sector.

FOMO started as a term for the disappointment you might feel if you're missing out on experiences or social opportunities. When it's used to refer to investing, you may fear that you're missing out on a chance to invest in a company that has a lot of hype around it.

If it feels like everyone is talking about a particular company or fund, you may feel that you have to be a part of it or regretful if you've missed your chance. This type of bias is normal, but these emotions could also harm your finances.

Learning to control FOMO is an important financial skill and one that could help you get more out of your finances. Here are five useful ways to reduce the effect FOMO has on your decisions.

1Remember, investing is for the long term

Part of the reason that FOMO can take hold is the excitement that you could get high returns when investing in a stock that will quickly rise in value.

Yet, for most people, investing is a long-term strategy. It might not be as thrilling, but being patient and focusing on consistent returns could improve the financial outcome. While returns cannot be guaranteed, the compounding effect of investing over a long time frame could deliver returns and help you reach your goals.

So, if you're tempted to change your investment strategy due to FOMO, consider how it could affect your overall plans.

2. Investment markets are unpredictable

Looking back at missed opportunities could mean you're more likely to act the next time you experience FOMO.

However, with the benefit of hindsight, it's easy to work out the investments that could have delivered big returns. Yet, for every "win" there will be businesses that were hyped as great investment opportunities but failed to live up to expectations.

Try not to focus on past "misses" and look at the bigger picture.

3. Form a diversified and balanced investment portfolio

It can be sensible to suit your investment portfolio to your goals and financial circumstances, but in addition, many investors benefit from a diversified portfolio.

By investing in a wide range of sectors, business and geographical areas, you could minimise the volatility your portfolio experiences. For example, if energy companies are experiencing volatility, stability from technology businesses could help balance it out.

A diversified portfolio will include assets with various risk profiles. So, while you might invest in a low-risk fund, you could also hold some stocks that are higher risk. This could help some of the FOMO you might feel, while still being appropriate for your situation.

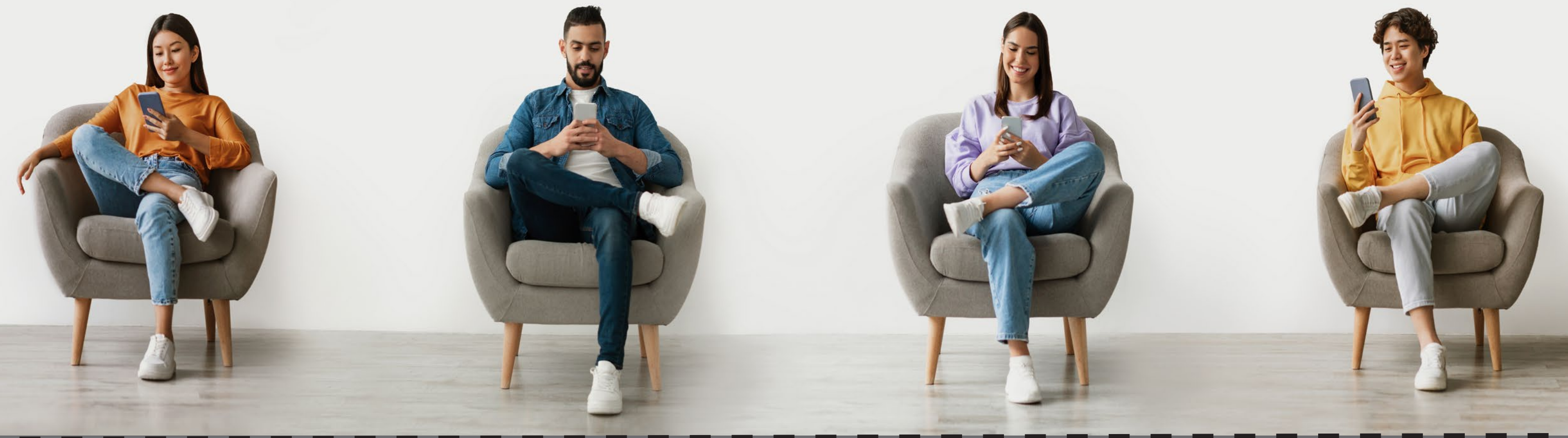
4. Trust in your long-term financial plan

Reviewing your investment decisions in the context of your wider financial plan could reduce the effects of FOMO too.

If you have confidence and trust in your financial plan to reach your goals, you're less likely to risk that by diverting your wealth to an investment that could but isn't guaranteed to, increase your wealth.

5. Seek outside advice

Even though you know about FOMO, it can be difficult to recognise when it's clouding your judgement. Having someone you can trust to offer their perspective can be invaluable. As your financial planner, we can help you assess potential investment opportunities and how they could fit into your financial plan.



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