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Your Financial Checklist – Things to consider during Lockdown 3.0

With the UK Government currently advising its citizens to remain at home, you may find yourself with some available downtime! Therefore, to help you put your wealth planning “house in order”, we have put together some basic financial steps for you to consider.

Write a Will: According to research by Royal London, 54% of adults in the UK do not have a will whilst 59% of parents either do not have a Will or have one that is out of date. It is especially important for parents to update their Wills so that if the worst were to happen, their children would be brought up by who they choose.

For those that have made a Will, this could be a good time to review it to assess whether it needs to be updated. Another thing to consider is whether you need to set up a Power of Attorney.

Do some budgeting: Whilst in Lockdown 3.0, it is highly likely that you are saving costs on some expenses, such as parking, petrol, train fare, coffees, eating out and entertainment. You may also have been able to put certain monthly subscriptions on hold such as gym memberships.

A good starting point would be to go through your bank statements to review your average expenditure over the months prior to lockdown, to determine how much is available now in disposable income to commit to any future financial planning needs, such as savings, life insurance, topping up pensions or even making gifts out of income to a loved one.

It would also make sense to assess elements of your expenditure that will continue into retirement so that you can accurately target the income you will require in the future.

Consider your life protection cover: Putting in place a basic level of protection is probably more affordable than you think. Given the ongoing Covid-19 pandemic and the increasing numbers of staff being furloughed or made redundant, now could be the time to consider the ongoing protection needs for you and your family. If you do have cover, it’s certainly a good time to review your protection policies to not only ensure that you are adequately covered but that they still meet your requirements, especially if your personal/financial circumstances have changed. For example:

- A new job or changing to self-employment
- Marriage or divorce.
- Children or grandchildren.
- A change in the health of either you or your partner.
- Paying off a debt or other liability.
- Moved to a new house or buying/selling property.
- You may have sold your business and be considering retirement.
- Making financial gifts from your estate.

If you cannot locate your original policy documents, you should contact your insurance provider to find out what exactly you are covered for. You should also check if your life assurance policies are held in trust.

Review your retirement planning: Being at home under lockdown has made many reassess their careers and their retirement plans. Some have enjoyed the advantages of more family time, flexible hours, and freedom from the long daily commute. For others it has been a reminder of the effects of reduced income, insufficient pension savings, and financial worries.

How much income do I need in retirement? Am I on track to achieve this? Here are a few options to consider:

Full retirement: Many people find it difficult to retire. Being a worker one day and then suddenly stopping altogether can be something of a shock and very disorientating. For those putting off retirement, unsure how to fill their days, the last few weeks will have given them a good insight.

Working in retirement: You do not have to stop work if you retire. Today's retirees are healthier and more active than ever before, and even before the pandemic, many were choosing to continue working after retiring. Some people simply work past 65 because they love what they do, while others move into part-time jobs that let them explore hobbies and other interests while still earning, boosting their retirement and savings accounts.

Phased retirement: Phased retirement is a variation on working in retirement, which lets you keep the job you love, with the challenges and responsibilities. However, you gradually reduce the hours you work, phasing into retirement and spending more of your time at home.

Flexibility at the beginning of retirement will allow you and your partner time to adjust to each other's routines – which could be vital for a successful life as a retired couple!

Track down lost pension pots: Another basic task to undertake when retirement planning is to make sure you are aware of all of your existing pension arrangements. Research carried out by The ABI in October 2018 estimates that there is nearly £20 billion held within 1.6 million pension pots with an average size of £13,000 which have been forgotten.

Tracking down 'lost' pension funds that you have accumulated in your working life could make a real difference to your overall pension savings when you reach retirement. If you suspect that you have an old pension pot from a previous job, you are now able to track down the pension scheme's contact details by using the 'Pension Tracing Service' which is a free government service on the following address: https://www.gov.uk/find-pension-contact-details

Update pension beneficiary form (expression of wishes): Pensions do not normally form part of your estate for inheritance tax purposes and are therefore not covered by your will. In order to specify who you want to inherit your pension after your death, you need to have an Expression of Wish form in place, and if any of your pensions pre-date your current relationship, then you may want to review this to ensure they are up to date.

The best chance to ensure your beneficiaries can retain the tax advantageous pension wrapper in the form of a beneficiaries' pension, is to list them specifically on your Expression of Wish form and check the death benefit options of your existing arrangement. You should contact your pension providers to find out your current nomination and to obtain the relevant forms as soon as possible.

State Pension: Most people are unaware of how much they may be eligible to receive as their State Pension, or at what age they will qualify for it. The link below provides further information on how much you could stand to receive and at what date it could become payable. The State Pension could form a valuable part of your retirement income, so understanding your entitlement is essential: https://www.gov.uk/check-state-pension

Consider making gifts: Now might be a time that someone close to you needs some financial support more than ever and you may want to help. Making an outright gift from capital is usually classed as a Potentially Exempt Transfer for Inheritance Tax (IHT) purposes. This means that if you were to die within seven years of making the gift, it would form part of your estate for IHT purposes unless the gift qualifies for an exemption.

One such exemption is the annual allowance of £3,000 per tax year. You can make an outright gift of £3,000 per annum and it is immediately exempt from your estate for IHT purposes. You can carry any unused annual exemption forward to the next year - but only for one year. So, if you did not use your allowance last year, your gift this year could be £6,000, immediately exempt from IHT.

Each tax year you can also give away up to £1,000 per person in consideration of marriage or civil partnership (or up to £2,500 for a grandchild and up to £5,000 for your son or daughter).

Finally, where you have the disposable income to do so, gifts out of income could also be immediately exempt from IHT provided the gifts are from disposable income, that the intention is to establish a regular pattern of gifting and that they do not adversely impact on your standard of living. Please visit https://www.gov.uk/inheritance-tax/gifts for further on gift allowances.

Prepare for Budget 2021: Approaching the end of the tax year is always a time for financial planning. However, this year we also have the Spring budget on 3rd March. The Chancellor Rishi Sunak cancelled the Autumn Statement, and given the current pandemic-driven economic situation, it is very likely that we will see some changes announced in the budget that may well impact your future financial planning.

Below is a brief checklist of just some of the things for you to consider before the end of the tax year or perhaps more prudently before 3rd March.

Pensions

- Pay the maximum you can afford into your pension
- Carry forward unused pension contributions
- Pay into your spouse's pension
- Boost your state pension

Investments

- Use your annual ISA allowance
- Use your Capital Gains Tax Annual Exempt Amount
- Pay into your child or grandchild's JISA or pension plan
- Consider tax incentivised schemes such as VCTs or EIS'

Tax planning:

- Consider bringing forward any capital losses to offset gains.
- Don't forget the marriage allowance
- Gifting to reduce your estate for inheritance tax purposes

Planning for a successful future means different things to different people. Whatever your plans, expert professional financial advice can help bring them to life. As the impact of coronavirus is felt across the UK, you may have concerns about how it could affect you and your money.

To find out more and/or to discuss your future plans, please contact your Kellands Financial Adviser on 0117 900 4000.

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