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Kingfisher

Independent Financial Planning

JANUARY/FEBRUARY 2014

CASHING IN ON ALTERNATIVES IN 2014

WILL YOU ENJOY YOUR RETIREMENT?

DESPERATELY SEEKING INCOME

IS YOUR NEST EGG CRACKED?
Making sufficient financial preparations for the future

IT'S GOOD TO TALK
Don't leave tricky money conversations hanging in the air this New Year

IN SICKNESS OR IN WEALTH
Could you lose thousands from your wages due to sickness?

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IN THIS ISSUE

We hope the latest issue of our magazine brings you financial inspiration at the start of the New Year.

Now is the perfect time to re-evaluate your current financial planning provision and, in particular, if you are making high levels of pension contributions you need to make sure that you know whether you will be affected by the impending new lifetime allowance (LTA) limit changes. On page 04 we look at why thousands of pension savers could be impacted by the forthcoming changes unless they act swiftly.

It has been a torrid time for cash savers over the past five years. The Bank of England base rate has been on hold at its 300-year low of 0.5% since March 2009. Even though there have been murmurings of a possible rise in interest rates on the horizon, on page 08 we consider some alternatives to explore to generate a return from your savings.

No one likes to pay more tax than they have to but one of the challenges of wealth is the high taxation it attracts. With real-terms tax increases the prospect for the foreseeable future, the pressure is on to make the most of every available tax-planning opportunity. Turn to page 09 to read all about it.

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

Need more information? Simply complete and return the 'Information Request'.

WE HOPE YOU ENJOY READING THIS ISSUE. TO DISCUSS YOUR FINANCIAL PLANNING REQUIREMENTS OR TO OBTAIN FURTHER INFORMATION, PLEASE CONTACT US.

WILL YOU ENJOY YOUR RETIREMENT?

How to improve your golden years no matter what your current stage of life

Retirement may seem a long way off for you at the moment but that doesn't mean you should forget about it. Consider our 4 tips, which could help you increase your retirement income – no matter what your current stage of life – and pursue the retirement you envisage.

1 How much State Pension will you receive?

The State Pension is a valuable foundation on which to build your retirement income, together with any workplace or personal pension provision you have. If you work, you're required to contribute, and if you don't work, you might be making voluntary contributions or being credited as though you were contributing. You can log onto **www.gov.uk/calculate-state-pension** to get a State Pension forecast.

you can visit www.gov.uk/find-lost-pension to track your lost pension or pensions.

2 Track down your missing pension(s)

You might move jobs a number of times during your working life and pay into a number of pensions. It can be hard for you to keep track of your pensions. If you do lose track, you can visit **www.gov.uk/find-lost-pension** to track your lost pension or pensions.

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3

How much have you saved for your retirement?

If you don't know, what are you expecting to live on later in life? When thinking about your income in retirement, you need to consider the sort of retirement you want and how much money you'll need. We can help you to review how much you've saved for retirement so far and explore your options if you're not saving enough.

4

Think about the 'what if' scenario – who inherits your pension pot?

Make sure your pension paperwork is up to date or there could be confusion over who the beneficiary should be. This is particularly important if you're not married and you want to safeguard your partner's position. Most pension providers have an Expression of Wishes form where you can state a preference for who should receive your pension pot once you're no longer here. There are typically different choices depending on the type of pension and also whether you've started to take an income yet. ■

WANT TO MAKE MORE

OF YOUR MONEY IN 2014?

FOR MORE INFORMATION PLEASE TICK THE APPROPRIATE BOX OR BOXES BELOW, INCLUDE YOUR PERSONAL DETAILS AND RETURN THIS INFORMATION DIRECTLY TO US.

- ☐ Arranging a financial wealth check
- ☐ Building an investment portfolio
- ☐ Generating a bigger retirement income
- ☐ Off-shore investments
- ☐ Tax-efficient investments
- ☐ Family protection in the event of premature death
- ☐ Protection against the loss of regular income
- ☐ Providing a capital sum if I'm diagnosed with serious illness
- ☐ Provision for long-term health care
- ☐ School fees/further education funding
- ☐ Protecting my estate from inheritance tax
- ☐ Capital gains tax planning
- ☐ Corporation tax/income tax planning
- ☐ Director and employee benefit schemes
- ☐ Other (please specify)

Name

Address

Postcode

Tel. (home)

Tel. (work)

Mobile

Email

You voluntarily choose to provide your personal details. Personal information will be treated as confidential by us and held in accordance with the Data Protection Act. You agree that such personal information may be used to provide you with details and products or services in writing or by telephone or email.

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WILL YOU BE AFFECTED BY THE IMPENDING NEW LIFETIME ALLOWANCE LIMIT CHANGES?

Thousands of pension savers could be impacted unless they act swiftly

If you are making high levels of pension contributions you will need to obtain professional financial advice to make sure that you know whether you will be affected by the impending new lifetime allowance (LTA) limit changes. Thousands of pension savers could be impacted by the forthcoming changes unless they act swiftly.

YOU CAN SAVE AS MUCH AS YOU LIKE TOWARDS YOUR PENSION BUT THERE IS A LIMIT ON THE AMOUNT OF TAX RELIEF YOU CAN GET.

Your total pension savings

You should check what the value of your total pension savings will be as at 6 April 2014. It is also particularly important to bear in mind how much money you have accumulated in any legacy pension schemes from a previous employer, as your current employer will not necessarily know you have one and will therefore not count this towards your total amount.

According to Standard Life, if you're ten years from retirement with a current pension fund of £700,000 you could exceed your allowance if your pot grows at 7% a year – even if you don't pay another penny into it. Yet it's unlikely you were even aware you had a problem. Of course, growth could be higher or lower depending on your investment performance and we don't know what the allowance is likely to be in ten years' time.

Linked to your final salary

It's even trickier with some company pension schemes that are linked to your final salary. It's easy to underestimate just how valuable a final salary pension is – or how it's tested against the LTA. You could be surprised to learn, for example, that a £25,000 paid-up pension from a previous job already eats up £500,000 of your allowance.

Adding in revaluation for leaving up to retirement, at say 3.3% over ten years, takes the pension up to £34,590 – using up almost £692,000 LTA. You can save as much as you like towards your pension but there is a limit on the amount of tax relief you can get.

An individual's entire pension savings

From 6 April 2014 the LTA will reduce from £1.5 million to £1.25 million. It applies to an individual's entire pension savings (apart from the State Pension). The figure may sound high but many thousands of people could be affected, especially those in final-salary schemes who have built their entitlement through many years' work.

If your pension savings are worth more than the LTA when you take your benefits, you'll have to pay the LTA tax charge on the excess unless you have some form of LTA protection. The rate depends on how this excess is paid to you. If the amount over the LTA is paid as a lump sum, the rate is 55%. If it is paid as pension, the rate is 25%.

Many people had built up pension pots worth more than £1.5 million before 6 April 2006 when the LTA was introduced. LTA protection was introduced so that they didn't have to pay the LTA tax charge on pension funds built up before this date.

It is important that you look at your pensions

There is no one-size-fits-all solution. Each person's individual circumstances will require a different solution. It is important that you look at your pensions to see if they could be impacted and seek professional financial advice. The sooner you act, the better. If you leave it too late then your options might be restricted. To review your current situation or requirements, please contact us for more information.

Two ways you can protect yourself

There are two ways you can protect yourself from paying the LTA charge. The most common is to apply for 'Fixed Protection', which effectively caps your LTA at £1.5 million.

The scheme, termed by HMRC as Fixed Protection 2014, allows savers with pensions likely to exceed the £1.25 million cap to apply now – before the deadline of 6 April 2014 – for an extension to the limit. Applying for the protection will benefit those near to retirement and wanting to maximise the value of their pot, as well as savers who expect the value of their pension to grow without making any new contributions.

There are a number of restrictions to be aware of. Individuals in defined-contribution pension schemes cannot add new benefits to their existing pot. Pension savers in defined-benefits schemes can only build up benefits in line with inflation on an annual basis. No new pension arrangement may be started, other than to receive a transfer of rights from an existing pension arrangement.

An attractive alternative solution for individuals

The second way to avoid the 55% tax penalty is to apply for 'Individual Protection'. This option may be an attractive solution for individuals who will not receive any alternative remuneration from their employer if they opt out of their pension scheme. Savers can apply for this protection from 6 April.

It is possible to apply for both Individual Protection and Fixed Protection. This would give you a LTA of £1.5 million (Fixed Protection) and contributions must stop. If you choose to restart contributions in the future, your Fixed Protection would be lost. But you would still benefit from your Individual Protection allowance rather than the standard £1.25 million LTA.

The annual allowance, meaning the amount of pension savings or contributions that can be made in any one year, will also reduce commencing 6 April 2014 from £50,000 to £40,000. The rules for the annual allowance are more complicated than those for the LTA. ■

Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

MISTAKES SOME INVESTORS ARE MAKING

Investors are…

...forgetting about inflation **62%**

...holding too much cash **77%**

...focusing on short-term returns **65%**

...not factoring in longer life expectancy **52%**

...too risk averse **47%**

...not diversifying **62%**

Source: BlackRock Investor Pulse survey, conducted in association with research agency Cicero Group in September 2013

WANT TO REVIEW YOUR FINANCIAL PLANS AT THE START OF 2014?

PLEASE CONTACT US, WE LOOK FORWARD TO HEARING FROM YOU.

DESPERATELY SEEKING INCOME

Yields have dropped across the asset classes, except for equities

He may only have been in the job for just over six months, but Mark Carney, the Governor of the Bank of England, has already signalled his intention to do things differently and this is most noticeable in his concept of 'forward guidance'.

Ongoing problem in the UK's productivity levels

In the past, the Monetary Policy Committee minutes focused their thoughts on the current situation for the economy, the dangers for inflation and their plans for interest rates. However, Mark Carney has added in a commitment (albeit with a few caveats) that they won't even consider increasing interest rates until unemployment drops below 7%. This is designed to help the Bank address an ongoing problem in the UK's productivity levels, which appear to be well behind those of other developed economies.

An investor's point of view

However, from an investor's point of view, the consequences of this promise might be somewhat stark. Based on the Bank's projections, it looks as though rates could stay where they are until the third quarter of 2016 at the earliest. That said, these things are never quite as simple as they appear – and in this case, the market doesn't appear to agree with the Bank. The UK's borrowing costs continue to rise and many traders are predicting that rates will actually go up in late 2015.

Funding for long-term growth

There are now some indications that the Bank may use quantitative easing to bring the market in line, but even if it doesn't, investors could be facing two years of rock-bottom income from their cash investments. As a result, many are being forced to look further afield for a higher income and are discovering the benefits of equity income funds. These are funds that invest in established companies paying regular dividends. Investors can choose to have this income paid directly to them or reinvest it back into the fund for long-term growth.

Achieving a decent income

It's easy to see the appeal of equity income in this environment. Equities are the only major asset class that has managed to increase its yields over the six years since the financial crisis started[1]. In addition, UK equities towards the latter part of 2013 were yielding 3.7%, which is significantly more than cash and UK government bonds did[2]. It is important to remember that this is not guaranteed and past performance is not a guide to the future.

Higher-yielding shares

Of course, the current market situation isn't the only reason to choose a fund that focuses on higher-yielding shares. For a start, these shares actually tend to outperform lower yielding stocks over the years[3] – and their prices don't tend to fluctuate in value as much. In part, this performance may be down to the dividends themselves. Companies don't like to cut their dividends, so even if their share price is falling, they will try to maintain (or even increase) their payments, which helps protect an investor's total returns.

Helping the share price rise again

What's more, when the share prices of these companies fall, their yield (the dividend they pay, expressed as a percentage of the share price) goes up. A high dividend yield that is seen as sustainable can attract more investors and this interest may then help the share price rise again. It's also the case that dividends are normally paid by larger companies and these businesses tend to be comparatively lower risk.

An option for long-term growth

When the income payments are reinvested, they provide investors with a second source of returns. Over the long term, compound growth can magnify these returns dramatically – nearly 60% of the total return from UK equities can be attributed to the reinvestment of dividends over the past 25 years[4].

Accessing this potential

There are two main types of equity income fund. Some focus on the UK, which has a long-established dividend culture, while others aim to benefit from the greater opportunities offered by a global approach (as a rule, the global funds are considered riskier than the UK-focused ones).

Looking ahead

The start of 2014 could be a good time for investors to explore new options, particularly as inflation will be silently eroding the value of their savings if they leave their money in cash. Equity income funds could give you a steadier ride, while the dividend payments have the scope to provide an income or help boost returns through all conditions. ■

A range of ways to help, based on your requirements

We offer a range of ways to help, based on your requirements. You can choose any of these options or combine them to create a solution that is exactly right for you. Our service can help to ensure your holdings are structured in a tax-efficient manner and a clear plan is established that will help you meet your objectives. To review or discuss your particular situation, please do not hesitate to contact us.

Source:
[1] Datastream 30.9.13
[2] Datastream 9.10.13
[3] Citigroup 30.9.13 in US$
[4] Datastream 1.9.88 to 30.8.13 based on the FTSE All-Share Index

Past performance is not necessarily a guide to the future. The value of investments and the income from them can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

IT'S GOOD TO TALK

Don't leave tricky money conversations hanging in the air this New Year

The Family Financial Tree report from Standard Life looked at the family money tree over four generations and makes some surprising findings. It reveals how families collectively manage and have talked about their personal finances.

The findings, based on survey data of over 4,000 adults in Great Britain, draw compelling conclusions about what is effectively one of the last taboo subjects for families – the uncomfortable discussions around money, inheritance and retirement.

How money flowed across four generations

The research tracked how money flowed across four generations of a family and also established how this flow of cash is reliant on families having some tricky conversations. The report also finds that many of us remain typically British and private about our finances. While we might involve our spouse or partner in discussions and future planning, few people say they communicate freely with others in their family about their finances.

Family financial plans involve all the generations

More than a third of parents (35%) and two fifths (43%) of grandparents would not ask anyone within their family for advice about finances. And despite evidence that a large volume of money is moving freely between generations, only one in four (25%) people say that their family financial plans involve all the generations. However, the attitude of new parents is very different. Almost four in five parents (79%) with children under the age of five would ask the family for money (79%) and three quarters (75%) would ask the family for financial advice.

Three distinct types of families

The research has identified three distinct types of families: 'talkers' and 'gifters', who are likely to benefit from discussing the family money tree, and 'avoiders', who are failing to release the power of the family financial tree.

Which type of family are you?

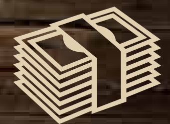
'Talker families' are the 25% of the population who involve all of the generations when planning family finances – they are likely to be open with each other, discussing salaries, upcoming bills and even inheritance.

'Gifter families' are families who gift money between the generations to help with both big and small purchases, whether it be a mum paying for Gran's supermarket shopping or a granddad contributing to his granddaughter's education. 'Gifters' are also likely to be 'talkers'.

'Avoider families', however, are the least likely to benefit from the family financial tree, as they avoid money chat in their household, particularly the more difficult conversations. This means they could be missing out on the combined strength of planning for the future together and could be making decisions based on little information about future commitments or needs. ■

Parents with children under five are much more likely to ask the family for money (79%) or for financial advice (75%)

Research identifies three distinct family types as the 'talkers', the 'gifters' and those that are least likely to benefit as a family, the 'avoiders'



Despite sharing thousands of pounds each year, only one in four (25%) people say that planning family finances involves all generations

Time to start approaching these tricky conversations?

We can help you approach these tricky conversations with your family and seek to understand future family goals and future commitments. Please contact us for more information and to review your particular situation.

Source:
The research is based on survey data. 4,071 UK adults were surveyed by YouGov on behalf of Standard Life between 4 and 7 October 2013, weighted to nationally representative criteria. Of the base sample, 1,633 (unweighted) parents, who were not also grandparents, were asked a series of specific questions based on their status. In addition, of the base sample, 885 (unweighted) grandparents were asked a series of specific questions based on their status. The survey was conducted online.

CASHING IN ON ALTERNATIVES IN 2014

Taking a step up the risk ladder means assessing your appetite for risk

It has been a torrid time for cash savers over the past five years. The Bank of England base rate has been on hold at its 300-year low of 0.5% since March 2009. Although there have been murmurings of a possible rise in interest rates on the horizon, you should still explore all the options available to generate a return from your savings.

In a period of low interest rates and persistent inflation, people are beginning to realise that the purchasing power of their savings is being eroded, yet they are struggling to identify better ways to balance their short-term and long-term financial priorities.

This might mean taking a step up the risk ladder, but before venturing away from cash deposits, you need to assess your appetite for risk. Can you afford to tie your money up for a length of time, or will you need to be able to get your hands on it without delay? What is your ability or capacity to take risk? How much risk are you willing to take?

Shares

History suggests that returns from shares outstrip the returns from other assets, including cash, over the long term. Although past performance is not necessarily a guide to the future, investing in shares is an option for those who can withstand (both emotionally and financially) the ups and downs of stock markets.

You can invest in funds such as a unit trust, an OEIC (pronounced 'oik') or an investment trust. These funds invest in a number of shares and are managed by specialist fund managers.

There are blue-chip funds, tracker funds and mid-cap funds – and that's only the beginning. All have different aims and performance can vary considerably from one type to another. Some will be aggressively managed, investing in a small, concentrated portfolio of stocks, while others may invest in recovery stocks – companies that have fallen out of favour with investors.

Remember the old saying 'speculate to accumulate'? That's very true of investing in shares, but you can position your investment at a level that you're comfortable with. We can help you to review your options – generally the more you want to get back, the higher the risk to your original investment.

Bonds

Bond funds remain popular with more cautious investors looking for a better level of income than cash, and these range from the security of government-backed gilts through to more speculative and higher yielding corporate bonds. Bonds are investments representing the debt of a government, company or other organisation.

Effectively they are loans, or 'IOUs' issued by these organisations and bought by banks, insurance companies, fund managers and private investors. The decision on which bond fund to choose can be a tricky one: different types of bonds perform differently depending on the economic conditions.

Property

Commercial property was badly tarnished by the property crash during the credit crunch – it left many investors who had turned to the asset class for the first time nursing substantial losses.

Historically, commercial property has had a place in a portfolio for income investors. Its long-term track record is strong and it offers diversification from shares.

Investments into property funds may have restrictions on how often or how easily you can withdraw your money due to the nature of the underlying assets. An investment made directly into property may be difficult to sell and its value is a matter of opinion rather than fact.

Gold

Gold has long been viewed as a safe haven against volatile stock markets and inflation, as well as a hedge against a weak US dollar. In the current economic climate, gold continues to have merit as a store of wealth. Gold as an investment has grown in popularity in recent years, partly because of the risks posed to our modern global financial and economic systems.

There are a number of ways to invest in gold, be it via a unit trust or an exchange-traded fund or actually owning the gold itself in the form of bullion or coins. Gold is not without its risks though and its value can fall. ■

Helping you achieve your financial goals

The investment world is changing rapidly and many investors are holding cash to keep their money safe. But with interest rates held at historically low levels, and even low rates of inflation capable of reducing your long-term purchasing power, keeping too much in cash may not help you achieve your financial goals. If you are ready to take on more risk and step out of cash in search of higher returns, it is essential to obtain professional financial advice. To discuss the options available to you, please contact us for further information.

You should be aware that moving out of cash in search of higher returns will involve accepting a greater risk of capital loss. There are no guarantees that financial market investments will provide an effective way of combatting the impact of inflation on your savings. Past performance is not a guide to future performance. The value of your investment can go down as well as up and you may not get back the full amount invested.

MAKE THE MOST OF EVERY AVAILABLE TAX-PLANNING OPPORTUNITY

You'd better get your skates on with the end of the tax year fast approaching

No one likes to pay more tax than they have to but one of the challenges of holding wealth is the high taxation it attracts. With real-terms tax increases the prospect for the foreseeable future, the pressure is on to make the most of every available tax-planning opportunity.

Different ideas will suit different people but you'd better get your skates on. With the end of tax year fast approaching on 5 April 2014, sorting out your finances now is vital. Please ensure that you take professional advice before acting. Here are some examples of the ways in which legitimate planning could save you money by reducing your tax bills.

Defer income

Whatever your top rate of tax, if you have some flexibility over the timing of income, consider arranging for investment income, earnings or profits to fall into a later tax year. So long as this doesn't increase the rate of tax you pay, deferring income may mean you can delay when you have to pay the tax.

Maximise your pension provision

Pension tax relief is due to be restricted yet further from 6 April 2014, so do you need to maximise your contributions now to make the most of your annual and lifetime allowances? Currently, the annual pension contribution allowance is £50,000 but will reduce to £40,000 from 6 April 2014. You will only benefit from tax relief on pension contributions up to 100% of your annual income or £3,600, whichever is the greater. The lifetime allowance will also be reduced, from £1.5 million to £1.25 million, but many people may now find their chance to build their pension 'fund' up to the lifetime maximum restricted.

Take advantage of tax-efficient investments

There are a number of tax-advantaged investments of varying complexity. Individual Savings Account (ISA) allowances provide a tax shelter for income and capital gains. The 2013/14 limit is £11,520 per person but, if not used, the allowance is lost.

Junior ISAs are now available too, enabling parents and grandparents to save up to £3,720 a year tax-efficiently for their children or grandchildren who do not have a child trust fund.

Enterprise Investment Schemes (EISs) can have significant advantages such as 30% Income Tax relief, Capital Gains Tax (CGT) exemption, a capital gains shelter and potential relief from Inheritance Tax (IHT) after two years.

Venture Capital Trusts (VCTs) also offer 30% Income Tax relief and exemption from both Income Tax on dividends and CGT.

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

Some funds will carry greater risks in return for higher potential rewards. Investment in smaller companies can involve greater risk than is customarily associated with funds investing in larger, more established markets. Above average price movements can be expected and the value of these funds may change suddenly.

Make full use of CGT reliefs and exemptions

Individuals have a CGT-free allowance of £10,900 in the current tax year. If you have not realised gains of this amount, you should look at whether assets can be sold before 6 April 2014 to take advantage of this tax-free amount. If you are married or in a registered civil partnership and want to realise a gain on shares to use up the exemption, but want to keep the benefit of those shares in your family, your spouse or registered civil partner can buy back a similar number of shares to those sold – although a direct sale or gift to your spouse or registered civil partner will not achieve the desired result. If your relationship is not formalised by marriage or registered civil partnership, a gift to your partner will achieve the same result without the need to incur dealing costs.

Reduce CGT charges from 28% to 18% or 10%

If you own assets on which you qualify for Entrepreneurs' Relief (ER) you can claim to pay a reduced rate of 10%. This rate is subject to certain criteria being met for at least a year and there is a lifetime limit of £10 million, so it is extremely important to ensure your assets qualify for this rate where possible.

Use CGT losses to the full

If you already have taxable gains, review your other assets to see if you can crystallise capital losses to reduce the gains on which you pay tax. If you do this, take care only to realise sufficient losses to reduce your gains to the level of the annual exemption to avoid wasting your losses. If you have made losses that you don't need to set off against this year's gains, you should still claim them so they can be used in future years.

Ensure wills are up to date

You should ensure that your will is up to date and reflects your wishes. The will should be written in a way that both minimises tax and gives your family flexibility and protection in the future, for instance, by using tax-efficient trusts. Trusts may enable your heirs to make more tax-efficient plans than if assets were put into their hands absolutely, as well as helping to protect assets.

Make full use of IHT allowances and reliefs

Inheritance Tax (IHT) allowances and exemptions to be aware of include:

- £3,000 annual allowance and any unused allowance from last year
- £250 per individual donee
- gifts in connection with marriage (limits may apply)
- lifetime gifts that are 'normal expenditure out of income'

A purposeful and informed plan

Tax planning is inherently complex, so if you would like to discuss any of these opportunities, we'll take the time to understand your needs and wishes and recommend solutions that are tailored to your needs. To review your situation, please contact us.

Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances. The Financial Conduct Authority does not regulate taxation and trust advice or will writing. The value of your investment can go down as well as up and you may not get back the full amount invested. Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.

IN SICKNESS OR IN WEALTH

Could you lose thousands from your wages due to sickness?

A new report unveiled by LV= reveals that the average Briton spends almost a year (360 days) off sick. With on average 252 days in a working year, this equates to almost a year and a half of their working life.

Current health of the UK workforce

The first National Sickness Report from LV= looks at the current health of the UK workforce[1], gauges their attitude towards sickness and looks at how they guard against the impact of long-term absence.

Long-term illnesses affecting working Britons

According to the figures, 131 million days are lost per year due to sickness absences, equivalent to six per worker in the UK, and over 13 million of these were lost due to stress and depression[2]. The research, conducted among full-time workers, reveals that stress and depression are two of the most common long-term illnesses affecting working Britons today. Workers who have suffered from stress or depression during their working lives say they took an average of two and a half months (81 days) off to recover.

The report reveals that more than a third (36%) of workers do not receive sick pay cover from their employer. This means that more than 7.8 million workers would only qualify for Statutory Sick Pay of £86.70 per week if they fell ill.

Average amount of time off to recover

Assuming the average UK wage is £26,664[3], an employee suffering from stress and depression who only receives Statutory Sick Pay could lose up to £4,671[4] – that's a sixth of their salary (18%) – if they took the average amount of time off to recover.

While the average amount of time someone has off with stress is 81 days, over 650,000 (2.9%) UK workers have been off with stress for more than a year during their career. Indeed, in the last three years 1 in 50 (435,800) workers have been off sick for more than a year. Of those workers who have been off sick, more than half (57%) underestimated how long they would take to recover when they fell ill.

It's not just stress that could leave working Britons feeling the financial pinch, however. Other serious ailments, such as a bad back, could cost a worker in excess of £3,000 in lost wages.

Bridging the gap – the back-up plan

When asked about their company's sick pay policy, more than half (52%) of workers admitted to being in the dark as to what they would be entitled to and a quarter (26%) admitted they didn't know how they would manage to make ends meet if they were sick and without their regular income. Over a third (35%) of respondents said that they would dip into their savings to bridge an income gap. However, a quarter (23%) said their savings would run dry after just two months, and only one in ten said they have enough put by to support themselves for more than a year.

None of us are invincible

While no one wants to think about getting ill, unfortunately none of us are invincible and the reality is that some people will need to be off work for a large chunk of time. When we buy a car, a washing machine or even a phone, we resign ourselves to the fact that at some point it might break down; however, far too few of us have a back-up plan in place that would protect our income if we found ourselves unable to work. ■

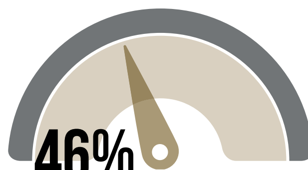
Peace of mind if your financial circumstances change

Having a contingency plan, such as income protection, in place offers peace of mind that if your financial circumstances change due to illness, you can focus on recovering. Don't leave it to chance – to review your situation, please contact us for further help.

Source:
1. According to the Office for National Statistics 'Labour Market Statistics' (September 2013), there are 21,790,000 Britons in full-time employment
2. According to the Office for National Statistics 'Sickness Absence in the Labour Market' (April 2012)
3. According to the Office for National Statistics
4. According to the research conducted by OnePoll on behalf of LV= in September 2013, on average a worker ill with stress/depression will not return to work for an average of 81 days. Based on the fact that Statutory Sick Pay (SSP) of £86.70 per week is payable from the 4th consecutive day of absence average and would therefore be paid for 77 days or 11 weeks, an employee would receive £953.70 while they were off. The average UK salary is £26,664, which works out at £73.05 per day, so over 77 days an employee would receive £5,625. An employee on SSP would receive £4,671 less during the time they were on unpaid sick leave.
All other calculations and statistics based on the research conducted by OnePoll on behalf of LV= in September 2013.

£4,671

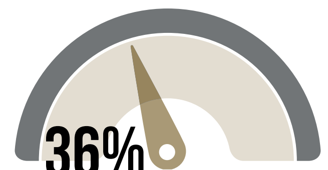
ON AVERAGE, STRESS AND DEPRESSION FORCE WORKERS TO TAKE 81 DAYS OFF WORK, POTENTIALLY COSTING UP TO £4,671 IN 'LOST' INCOME



46%

ALMOST HALF OF WORKERS WHO HAVE BEEN OFF SICK HAVE RETURNED TO WORK EARLY DUE TO FINANCIAL CONCERNS

THE AVERAGE BRITON SPENDS ALMOST A YEAR (360 DAYS) OFF SICK



36%

A THIRD OF FULL-TIME WORKERS WOULD ONLY RECEIVE STATUTORY SICK PAY IF ILL

Source: National Sickness Report from LV= 24.10.2013

NAVIGATING A SHIFTING LANDSCAPE

Prioritising short-term needs as opposed to long-term goals

Recent years have brought tremendous change around the globe, change that affects us all. People are trying to navigate this shifting landscape, but it's not easy.

In the first Investor Pulse survey conducted by BlackRock, half (50%) of the people surveyed said they feel in control of their financial futures and are confident they are making the right savings and investment decisions. However, this means that many (50%) may still need to take steps to achieve their financial goals.

The long-term impact of inflation

Only 19% describe themselves as 'active investors', with the majority choosing to hold their assets in what are perceived to be 'risk-free' assets, notably cash, often unaware of the long-term impact that inflation may have on their purchasing power, i.e. what they can buy with their money.

Tomorrow's retirees aspire to an active lifestyle

As more people look forward to a lengthy retirement, expectations about retirement lifestyles are rapidly changing. Aspirations for an active retirement are very strong as people expect to travel more, take frequent exercise and take up new hobbies.

Working patterns in particular look set to undergo massive changes: whereas one in ten of current UK retirees combine work and retirement, this figure is set to rise with 30% who see 'continuing to do some paid work' as a retirement goal.

Biggest current financial priority

'Funding a comfortable retirement' came up as the biggest current financial priority for the people surveyed. However, there's a gap between people's retirement goals and their confidence in achieving them. Only four in ten (41%) of UK adults are confident that they will achieve the retirement lifestyle they aspire to.

The simple problem is that many are prioritising short-term demands over long-term planning, with retirement suffering greatly because it is such a distant goal. Over half of people in the UK (53%) admit to not saving anything specifically for retirement. That number remains the same among those aged 35-54, typically the age at which earning power should peak and planning for retirement should become more of a priority, especially as people are living longer.

A better financial future

People are adopting a broad range of positive aspirations for their later life, but it is clear that savings and investments behaviour often falls short of what is required to meet these aspirations. Over half claim to take their financial planning seriously, yet much of this planning is focused on meeting short-term goals.

Spending is often prioritised over long-term savings. Even where individuals are taking steps on the journey towards a better financial future, the sense of concern among savers and investors means that half of all people remain very much risk-averse. Also cash is seen as the asset class of choice. ■

So what do I do with my money?

We offer a wealth of expertise and advice on how you can save, invest and plan more effectively for the future. The start of a New Year is the perfect time to re-evaluate your current attitude towards risks and returns and to consider whether your current investment approach is the right one. To review your options, please contact us – we look forward to hearing from you.

Source: BlackRock Investor Pulse survey, conducted in association with research agency Cicero Group in September 2013 amongst a nationally representative sample of 17,600 individuals in 12 countries aged 25 to 74 years old, of which 2,000 were UK residents. The results of this survey are provided for information purposes. The conclusions are intended to provide an indication of the current attitude of a sample of citizens in the UK to saving and investing and should not be relied upon for any other purposes.

You should be aware that moving out of cash in search of higher returns will involve accepting a greater risk of capital loss. There are no guarantees that financial market investments will provide an effective way of combatting the impact of inflation on your savings. Past performance is not a guide to future performance.

IS YOUR NEST EGG CRACKED?

Making sufficient financial preparations for the future

Retirement savings have plummeted among those aged 55-64 over the past year as the cost of living continues to rise, according to Aviva's latest Real Retirement Report.

The report assesses the impact of financial pressures and concerns across the UK's three ages of retirement: the 55-64s (pre-retirees), 65-74s (retiring) and over-75s (long-term retired).

Savings habits have tailed off

Savings habits among those nearing retirement have tailed off in the last year, leaving 40% of 55-64s – over 2.9 million according to the latest population estimates[1] – finding it difficult to make regular monthly savings. The trend sets pre-retirees apart from both older age groups, who have succeeded in increasing their monthly savings habits in the last twelve months.

Pre-retirees have been rendered even more vulnerable by a 22% drop in their average savings pot over the last year. One in five 55-64s – almost 1.5m people – have no savings or investments to fall back on, while almost one in three have less than £500 (30%).

Financial preparations for the future

As everyday living costs continue to rise, it is vital that you make sufficient financial preparations for the future, as any unexpected expenses that come your way could have a serious impact on your finances if you don't have savings to dip into.

It is therefore particularly alarming to see the slump in savings habits among those who are nearing retirement. Putting away even a small amount each month can make a real difference if you start early enough. ■

Source:
[1] Office for National Statistics, mid-2012 population estimates published on 8 August 2013 show there are 7,308,618 people in the UK aged 55 to 64. The Real Retirement Report was designed and produced by Wriglesworth Research. As part of this, more than 17,686 UK consumers aged over 55 were interviewed between February 2010 and October 2013. Wherever possible, the same data parameters have been used for analysis but some additions or changes have been made as other tracking topics become apparent.

Financial freedom to fund an enjoyable retirement

Giving yourself some room to manoeuvre in the approach to retirement can prove invaluable, as it allows you the financial freedom to fund an enjoyable retirement regardless of any sudden expenses. If you would like to review your options please contact us.

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