

Later Life & Estate Planning

"If you require control over what happens to your assets whilst alive, in your later years and after your death, then creating and maintaining an effective 'Later Life and Estate Plan' is essential."

"Tis impossible to be sure of anything but Death and Taxes,"

Source : The Yale Book of Quotations from Christopher Bullock, The Cobler of Preston (1716).

However, during a lifetime of hard work, you may want to protect as much of your wealth as possible and for it to pass it into the right hands at the right time. But if you don't plan ahead, your estate could be exposed to inheritance tax (IHT) and more so be eroded by care fees, where applicable, due to poor planning as we are inherently living for longer in general terms.

This is fundamentally where Tony Walker Financial Planning Services comes into it's own by mapping out your current and future position from an income, taxation, asset structuring and ownership, estate value perspective, risks and opportunities thus enabling greater financial planning, leading to the creation of your 'Later Life & Estate Plan.' This may involve the use either individually or as a combination of specialist investment vehicles and products, trusts, as well as specialist pension products and life assurance (where appropriate).

Everyone's requirements and motivations are uniquely different. This is why all our solutions are kept as straight forward and simple as practically possible, which in turn can help keep advisory costs as competitive as possible. All our bespoke modular planning solutions provide both initial and ongoing regular reviews, are delivered in three key stages – initial assessment and overview, structuring and planning, implementation.

Some taxes and forms or levels of funding care in later life are voluntary and with careful longer term planning, inheritance tax and some forms of care planning can potentially be minimised or mitigated completely, through professional planning.

This guide is intended to highlight those areas that we feel may be important to you and your family. At Tony Walker Financial Planning Services, we have a long established, experienced and highly qualified team, servicing clients around the country and are here to help families connect and make what can be difficult talking points far easier through professional advice and liaising with other professionals where required.

Getting the Basics Right

Thinking about estate planning, long-term care, inheritance tax when we die are topics that many of us are happy to put off until a future date, often when it is too late and due to possible difficulties of raising the subject with loved ones. Similarly, retirement, pensions and the education of our children require forward planning and in many cases, will also involve other family members.

“Planning can often come across issues due to a lack of understand, education, involvement of family members or historic poor advice as well as not reviewing matters regularly to ensure your plan continues to remain on track.....”

The Importance of Wills & Powers of Attorneys (POAs)

So, before your Later Life & Estate Plan (financial plan) is created, you should start by reviewing or establishing your will(s) and consider powers of attorney (legal plan) – financial, health & welfare through a suitably qualified solicitor.

These aspects of planning are some of the most important decisions you are ever likely to make. It is therefore imperative that both legal and financial planning matters are inter linked so your professional advisers are providing advice that ultimately matches your requirements.

Why should I make a will & powers of attorney ?

Did you know that our research finds *nearly two thirds of UK adults don't have a will even though they are relatively inexpensive to set up. Having a will ensures that your estate will be distributed in accordance with your wishes on your death. They should be updated at least every 3-5 years or when events such as the following occur – inheritance, birth of children/grandchildren, death of a family member, marriage, divorce, separation or significant changes in tax legislation.

“One recent change in tax legislation has been the introduction of the inheritance tax exemption - Resident Nil Rate Band (RNRB), which provides up to an additional £175,000 over and above the standard Nil Rate Band (NRB) of £325,000 from the 2020/21 tax year where you have direct descendants. The ramifications of this can be in connection with pre-established wills and/or trusts and your eligibility to claim in the event of death.”

Powers of attorney are in simple terms a means of delegating decisions around your financial and welfare matters to somebody you trust (your attorney), such as a family member, whilst alive, in the event you lose mental capacity. They are often taken out in an individual's later years, although we recommend everyone should consider them regardless of age, whether you are employed or self-employed and regardless of the types of assets you may own. However, the cost can provide prohibitive for some people. There are various types and one of the most recent is lasting powers of attorney, which typically only come into force once you lose mental capacity. However, you can instruct your attorney to make decisions for you at any time where you see fit.

But what happens if you lose mental capacity or no longer wish to deal with your affairs due to health or mobility, which may be even more pertinent where your family are not local ? Well, without powers of attorney or a legal care order your options are drastically limited and legal advice is likely to be required at such a point.....

*Source: The Independent, Ben Chapman, 9th January 2018.

What happens if I don't establish a will & powers of attorney ?

There is little point setting up a strong financial plan if you don't have a will or your existing will does not meet with your current bequests. In addition if you don't hold POA's for your financial affairs or health & welfare then in the event you are unable to attend to your overall welfare or lose mental capacity this could restrict your family and financial advisors ability to provide ongoing support due to any legal consequences. This in turn can cause significant and unnecessary stress, inconvenience, cost and delay.

Your estate will pass in accordance with the law. If you die without a will in place then your estate will pass in line with intestacy rules, controlled by the government not your family, which means assets won't necessarily pass to those you consider closest to you such as a spouse, child, grandchild, partner you live with but not married to or in a civil partnership with.

If you are separated, but not divorced, your estranged spouse or partner could still inherit your assets. You will have no say about who will look after any children under the age 18 when you die and you won't have any control over the age that your beneficiaries inherit.

Additionally these considerations can cause many wider complications, such as where non UK assets are owned. Not having a will is often how family disputes arise.

In the event of loss of capacity your assets or income may be used in such a way during your lifetime or on death that does not fully respect or mirror your views and in turn may not be handled in the most tax efficient manner.

Again these are complex subjects, which this brochure does not cover in depth, would require more detailed discussions in ascertaining any impact in building your Later Life & Estate Plan.

Our solutions cater to your specific objectives, help you to assess all exiting legal arrangements, assets in terms of the rate of return you receive on them and their effectiveness for inheritance and later life planning (one of the most important factors around creating your later life and estate plan). They also help structure/re structure your assets, provide as wide a range of investment product wrappers & vehicles to suit your appetite for risk and tax status with a wide choice of tax-efficient solutions.

Any legal or tax consequences around any proposed advice would require the support of a suitably qualified solicitor or tax adviser.

Thinking of your children or grandchildren's education

Many parents find there is an important decision to make about where and how they educate their children from nursery school right through to university. Whilst parents are generally aware that these fees can represent the single greatest cost of being a parent, they may not as yet have quantified the likely cost or thought about how they are going to fund it. If you have decided you would like your children to be educated privately, it is important to think about the financial arrangements and plan ahead.

The Independent Schools Council (ISC) puts average annual school fees in the order of £13,000, while boarding school can cost as much as £30,000. The cost of sending children to private school has been increasing far more quickly than wages and inflation. Figures from the ISC showed that fees rose on average by 3.9 per cent last year and 3.9 per cent the year before that. Add university costs, and the total price tag could run into hundreds of thousands of pounds.

Unfortunately, there are no specific tax breaks available on schools fees, so it makes sense to plan ahead carefully. While you can choose to pay your children's school fees out of your 'after tax' income, it might not be the most efficient way to manage the payments.

Families may turn to grandparents or grandparents may offer financial funding for school fees encouraged by the benefits of potential inheritance tax (IHT) savings. IHT is not incurred by those

who contribute a regular amount from their income, assuming the money donated does not affect the lifestyle of the donor and thus force them to use savings.

Alternatively a lump sum provided by a grandparent is free from IHT if the person making the gift survives for seven years. If grandparents provide a lump sum then parents have the luxury of deciding how it should be invested.

Options in this area would need to be discussed to plan the most cost and tax efficient manner to achieve your goals around funding children's education.

The Power of Pensions

Saving for a comfortable retirement doesn't need to be complicated and pensions offer one of the most tax efficient ways to save for your retirement and can be used to purchase commercial property. Did you know pensions also offer one of the simplest ways of minimising the effects of paying for long term care and limiting inheritance tax partly due to recent legislation changes and how pension benefits can pass onto children....?

Pensions are deemed to be outside of your estate for inheritance tax purposes (different rules apply in terms of a pensions residual value and taxation when taking income/lump sum benefits) and where no income or benefits are being taken at a point of requiring state funded long term care, pensions may not be accounted for at the point of assessment, although this cannot be guaranteed.

However, care must be taken to ensure your actions are not deemed to be classed by any local authority as deprivation of assets i.e. you are not limiting income below what would be required to maintain essential living costs and are not disposing of assets as a means of avoiding paying for your own care etc. This matter is complex and needless to say requires care and professional guidance. This brochure is only designed to cover such issues in very simple terms.

“The key in using pensions for wider prudent planning is to plan well in advance, in understanding and acknowledging your current and future financial position to enable you to use pensions as effectively as possible.”

Of course, saving for retirement doesn't necessarily mean you have to have a pension – other forms of saving and investments, such as ISAs, property, gold, antiques, classic vehicles, fine wines, jewellery, possibly the sale of a business, amongst others, are ways of providing capital and income in retirement.

However, a pension arrangement will still form the cornerstone for most people's retirement planning, which is very important given the very generous tax benefits afforded to pensions when paying in and for inheritance tax planning benefits into retirement. Any personal pension contributions receive income tax relief at your highest marginal rate – a £1,000 contribution for a 40% tax payer would therefore only cost £600 net, giving an instant 67% return!

Contributions paid by an employer receive full corporation tax relief and most of the investment within a pension can grow free of income and capital gains tax. In addition, upon drawing benefits up to 25% of a defined contribution pension may be taken as a tax free lump sum. Certain pensions such as occupational, retirement annuity contracts (RACs), executive personal pensions (EPPs) could provide higher levels of tax free cash.

Personal pension contributions are currently limited for an individual up to the Annual Allowance (AA) of £40,000 per year (subject to change), with the ability to claim back previous unused allowance(s). Employer contributions are generally unlimited, although the same may be subject to approval by The Local Inspector of Taxes where contributions could be deemed as excessive or made in such a way as to be seen as inappropriate i.e. where an individual became insolvent and used pensions as a means of trying to protect such funds from creditors.

There have never been more options available in terms of how to draw retirement benefits and with indirect features that can benefit you and your family, pensions should be held in high regard when it comes to tax planning, later life and estate planning. Please visit our 'Retirement Options' section of our website and 'Retirement Options Booklet' for more information on taking benefits from pensions.

Furthermore, recent changes announced confirm a more beneficial tax treatment of pension funds on the death of a member and beneficiaries are able to receive any residual pension pot as income before the age of 55 or as a lump sum with both potentially subject to taxation dependent on the age at date of death and whether benefits have been taken. These considerations could, in turn, impact upon any existing and future income strategy and positively influence key structuring of your Later Life and Estate Plan.

Care needs to be taken where transferring or consolidating pensions due to the recent legislations that could treat a transfer as a lifetime transfer, making it subject to inheritance tax rules, meaning a possible tax charge of up to 40% being levied where you die within two years of making the transfer(s).....

Long Term Care – Keeping One Step Ahead

In an age of increasing life expectancy, more and more of our mature clients are concerned about future long-term care options and, more importantly, how much they and their family may have to pay for this. Advances in medical care along with healthier lifestyles mean that people are living longer, resulting in more people eventually requiring some form of care. To highlight this, it is expected that the number of people aged over 85 will more than double between 2010 and 2030*.

Additional care is usually required when individuals are unable to carry out basic self-care tasks such as dressing or bathing unaided. This can vary between minimal assistance being required in a person's home, to full residence care in a registered Nursing Care Home. Choosing to go into care can be a very difficult decision to make both personally and financially and is a concern to many individuals and their families.

There has been a lot of press surrounding the funding of care costs proposed by the government in response to the report by the economist Andrew Dilnot. The March 2013 Budget announced a cap on care costs with a figure of £72,000 being introduced in April 2016, adjusted annually thereafter.

What is not as widely publicised is that this cap only applies to care costs. Any extra costs will still have to be personally funded, even after the care cap has been reached. These can include items such as food, accommodation and personal care costs (chiropractic, hairdressing, help with dressing etc).

If this applies to you, or a member of your family, Tony Walker Financial Planning Services can help discuss the various funding options, what universal state benefits may be available to you such as attendance allowance, disability living allowance or personal independent payment, registered

nursing care contributions and even NHS continued care funding, all of which could potentially reduce your payments and burden on your estate. Once all available benefits are claimed, there are various options to assist with paying any excess which can include reviewing your pensions, investments, advising on long term care funding annuities and potential opportunities around using your family home.

This is where Tony Walker Financial Planning Services comes into it's own by mapping out your current and future income and expenditure, care considerations and costs, risks and opportunities thus enabling a clearer and greater Later Life and Estate Plan.

In certain circumstances to ensure the most appropriate advice outcome this may require us to work with a specialist financial adviser and/or a later life care consultant that Tony Walker Financial Planning Services may be able to refer you to where required and appropriate.

* Source : Office for National Statistics projections following 2011 Census.

Inheritance Tax (IHT)

Inheritance tax is charged at 40% on all worldwide assets you own over the standard inheritance tax Nil Rate Band (NRB) of £325,000 per person, including any pre deceased spouse or civil partner. The recent introduction of the Resident Nil Rate Band (MRNRB) has now provided up to an additional £175,000 from the 2020/21 tax year where you have direct descendants. Your estate can pass tax free to your spouse or civil partner when you die. This can mean an allowance of £350,000 - £500,000 for an individual or £650,000 - £1,000,000 for married couples and civil partnerships from the 2020/21 tax year.

Qualification around the MRNRB is complex and can fundamentally be affected by historic wills and trusts that did not account for future legislation. It is therefore essential any existing legal planning is reviewed as part of creating a strong Later Life and Estate Plan.

Our experience in advising clients shows that many people find it hard to talk to family about the sensitive topic of inheritance and what plans they intend to make with regards to the passing down of any assets. It is common for children not to discuss with their family what they stand to inherit financially citing reasons such as concerns they would appear to be 'money grabbing' or for fear of upsetting their parents. This has major implications if measures are not taken to mitigate the impact of inheritance tax as doing nothing can lead to assets being taxed at 40%. *It is also a significant factor and no surprise then to see why death taxes collected by HMRC have increased every year since 2009-10. IHT receipts totalled £5.2bn in 2017-18, an increase of 8% compared to 2016-17 and has been increasing since 2010-11. The net capital value of estates, since 2009-10, has increased by £17bn to £79bn in 2015-16, around 54% of this increase is in residential property with 24,500 liable estates, an increase of 1,300 since 2014-15.

Some of the simplest forms of inheritance tax planning are very often overlooked. Every person is able to gift 'outright,' has annual tax and gifting exemptions, and the ability to use certain investment vehicles, which when combined and used annually can dramatically reduce or even fully mitigate any inheritance tax liability.

We see some clients not wishing to complicate planning with some or all assets, which could be due financial, tax and legal advisory costs. To this end we offer solutions to fit all budgets and may be able to consider protecting your inheritance tax liability through specialist life assurance, subject to medical underwriting and age limitations at the point of application. Where poor health is an issue this route may not be an option.

****The UK has one of the highest divorce rates in the world and our research estimates that 42% of marriages in England & Wales end in divorce. Such statistics are often a major concern for parents who have married children, who may not believe these marriages will last a lifetime. Many parents are unwilling to engage in inheritance tax planning or gifting assets for fear that a child's divorce would mean inherited assets leave the family.**

However, such issues can be avoided and there are a multitude of ways for you to remain in control of assets, receive capital and/or income in future, and amend any future beneficiaries where circumstances change with the peace of mind that your wishes will be honoured. This is why it is very important that a trusted professional adviser is on hand and best placed to take a clear, unbiased view and provide sound advice and direction based on the financial circumstances of you and your family.

Other considerations relates to people who have extended families, including step children. These children have no natural entitlement, regardless of how long they have been with their new family, so inheritance tax planning and ensuring wills meet with your current and future bequests is vital.

“Many people put off planning as they are unable to decide how best to divide assets amongst their family and those children they are legally responsible for. The merits of professional advice and helping to engage discussions with families makes these decisions easier and simpler than you may think.....”

***Source: Inheritance Tax Statistics: 27.07.18, Office for National Statistics.**

****Source: Divorces in England and Wales: 2013, Office for National Statistics.**

The law relating to wills and losing mental capacity are very complicated and you should take specialist advice before making any decisions. Tony Walker Financial Planning Services Ltd are not legal or tax advisers, although we are able to recommend a suitably qualified solicitor and/or tax adviser where required to ensure a joined up advisory solution.

All the information is provided as guidance only and does not confer any form of advice or recommendation, is based on our current understanding of laws, taxation and allowances, which are subject to change. The Financial Conduct Authority does not regulate taxation and trust advice.

So if you are really looking to plan effectively to protect your estate, minimise the effects of long term care on your estate, ensure a lifetime of hard work is not undone in the future and require professional support to make those difficult to discuss subjects far easier with your family, then Tony Walker Financial Planning Services Ltd may be able to help.

For further information please feel free to contact us on the details provided or request to book a no obligation consultation online by filling in our enquiry form.