BREWIN DOLPHIN

Family Wealth Report

November 2018

Contents

Throughout this document:

The information is for illustrative purposes only and is not intended as investment advice.

No investment is suitable in all cases and if you have any doubts as to an investment's suitability then you should contact us.

Please note that this document was prepared as a general guide only and does not constitute tax or legal advice. While we believe it to be correct at the time of writing, Brewin Dolphin is not a tax adviser and tax law is subject to frequent change. Tax treatment depends on your individual circumstances; therefore you should not rely on this information without seeking professional advice from a qualified tax adviser.

The information contained in this document is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness.

Trying to do the right thing – across the generations

Two years ago we conducted a study to better understand what was really important in people's financial lives. We wanted to be able to better advise them on the important conversations that we think families should have about money and the future.

We have re-run the study to see what has changed.

Independent company *Opinium Research* was commissioned to survey 5,000 people across different age groups throughout the UK. We wanted to better understand three broad areas:

- A decade on from the global financial crisis – and in the midst of Brexit – how are Britons' finances faring?
- What are people's concerns, their expectations and their aspirations in relation to their finances?
- What are their attitudes to saving, retirement, preserving and passing on their wealth?

By creating a detailed picture of the state of the nation's finances, the following report provides insights into, not only the myriad of financial pressures people all over the UK continue to face, but also where opportunities lie for Britons to make their money work harder.

The previous report highlighted the pensions saving gap, the younger generation's challenges around building their futures, and the desires of older people to balance sharing their wealth with their own ongoing needs.

While the latest research reveals that the fundamentals remain the same, some of the challenges for all generations have become more acute.

What is clear to us is at every stage having a plan can help you to make the most of your opportunities for the future.

Every successful financial plan starts with a conversation about you and those closest to you: your commitments, ambitions, and aspirations. As a nation many of us feel uncomfortable talking about our financial affairs. It is also difficult to always imagine what might happen in the future. But being prepared to discuss the issues at hand, both with expert advisers and more importantly with your loved ones, is at the heart of making the right choices for you and your family.

To make the research easier to digest, we have broken the findings down into four key areas: saving, retiring, protecting and passing on wealth.

In each area we have looked at what can be done to help people with their financial futures, including specific case study examples. They have been written to be relevant to a broad range of circumstances.

Across every area we have explored, one message we hope comes out is that small actions, little and often, can have significant positive benefits in the long term.

By stimulating thought and creating debate we hope that this report will play a role in starting a conversation that could transform your own finances and help you to look forward to the future with confidence.

Trying to save

In 2016, our previous report highlighted a substantial problem of undersaving in the UK, across age groups and income groups. Two years on, rising living costs, low interest rates and the struggle faced by younger people trying to get on the housing ladder continue to put strain on many families' finances.

Millennials are trying to do the right thing. They are saving a higher proportion than other groups. They are more open to mutual financial support across generations.

The squeezed middle are at their peak earnings and are also at their peak outgoings – some supporting both children and their own parents. Yet they are still being asked to save more for their futures.

There needs to be a shift in the public discussion from exhorting people to save more, to helping them to get their hard-earned savings working harder. Overleaf we have some ideas.

Our research reveals a widespread acceptance that people are unable to grow their wealth. We believe this is both misguided and damaging to their future prospects. Historical evidence shows that money invested in the markets for the long term more than overcomes the effects of inflation.

Generous millennials

Times are tough for this generation, defined here as 18-34 year olds, but they manage to save a higher percentage of their income (13.8%) than any other group of adults. This is encouraging as they will need to save what they can before the pinch of middle age hits.

But while many millennials save hard, the cost of assets – especially property – means that no matter how hard they save many won't be able to establish the lives they want without assistance. Some have given up on saving – 19% of 18 - 34 year olds feel that major life goals, such as home ownership, seem so unachievable that it has discouraged them from saving more (compared with 7% overall in the survey).

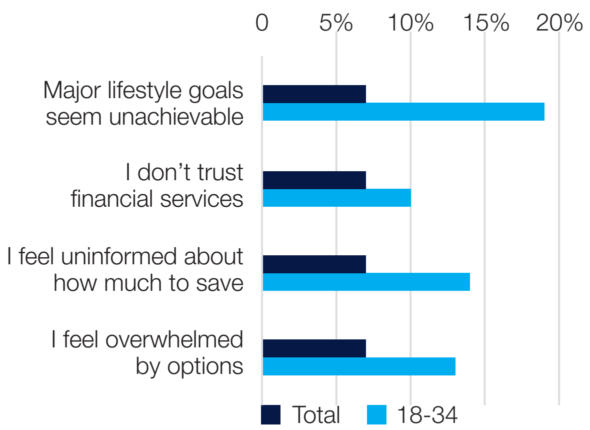
Among the millennial generation, 36% say they don't save more because they have no spare cash. Other research has highlighted the crucial role of the bank of Mum and Dad – or the Gran-bank - in overcoming the challenges for millennials in terms of sheer affordability of buying major assets or saving[2].

As receivers of support, this has resulted in millennials being more open to providing financial support across the generations – with over a third having supported their parents financially (36% – double the average), and 39% expecting to do so in the future. They are also more likely than the other generations to expect to provide their children with financial support for university fees (41% v 25% average) and mortgage costs (27% v 21% average). Their own experiences appear to have shaped their attitudes to a more mutual approach to family wealth.

The research also reveals a financial knowledge gap. Some 14% of millennials feel uninformed about the amount of money they should be saving (7% overall) and 13% say they feel overwhelmed by the number of savings options.

This is not unique to this generation. Older cohorts have been passive beneficiaries of asset price booms – in property and pensions. For the millennial generation, similar booms cannot be assumed and they need to actively make their money work harder in order to have a chance to achieve what previous generations have enjoyed. Even then, many will need some assistance.

Millennials lack financial confidence



[1] Office for National Statistics: Annual Survey of Hours and Earnings: 2017 provisional and 2016 revised results, 26 October 2017.
[2] Resolution Foundation: The real barrier to millennials owning a home is not the mortgage - it's the deposit, 11 May 2018.

> *Throughout their adult lives, millennials have been conditioned to prioritise short term expenditure over long term goals; to spend rather than to save. They also face squeezed savings and a cultural shift from an asset-owning economy to one that prioritises sharing, renting and experiences.*

Dr Eliza Filby, Generations Expert and Professor of Contemporary Values.

Middle age pinch

People are still not saving as much as they would like – or need.

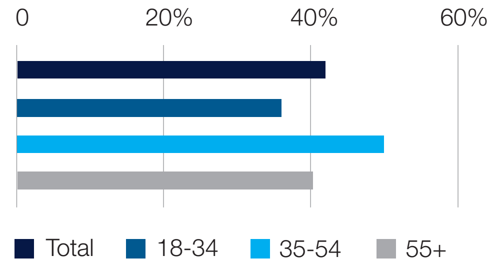
When we sought views on savings this year, only 27% of those not yet retired said they are "saving enough" for later life, against 35% who said they are saving "too little" or "not enough".

For those in middle age this is particularly striking. Men in the 40-49 age group are at their peak earnings and women peak between 30-39[1], yet the 35-54 age group are more likely to be saving nothing at all than any other age group (30%). In the 2016 report, we identified that this affects higher income groups as well – 43% of people with incomes over £50,000 said they were not putting enough money away.

Many undoubtedly want to save more, aware that with their earnings in the sweet spot, now should be the time to secure their own long-term future and retirement. However, half of 35-54 year olds say they don't save more because they simply have no money to spare. This compares with 40% of those aged 55 and above.

We recognise that if there is no more money to save, simply pointing out to people that they have a savings gap does not achieve anything positive – and in fact drives people to inaction. Instead, overleaf, we offer four ideas as to how to make the money that you have saved work harder to achieve your goals.

Many feel they have no spare money to save



Opportunity to do more

People save for the unexpected; they save for treats; and they save to grow their money. For all of those things there are ways of making your money work harder.

When we asked our respondents what they are saving for the most popular answer, at 38%, was "for any unexpected costs", while 32% answered "for a rainy day", 29% "to go on holiday" and 28% "to feel more financially secure".

The focus on security and the short term explains why the vast majority of savings in the UK are kept in cash. And left in cash there is little motivation to save more. While the Bank of England has finally increased interest rates, it is still a challenge to earn even 2% from cash – and many accounts continue to pay 1% or less. Some 24% of those surveyed said that low interest rates were preventing them saving more than they currently do.

With rates so low, inflation continues to eat away at the value of cash in savings accounts. It is with good reason that inflation is sometimes called the 'silent killer' of savings. Over the past 10 years, the return on cash after taking inflation into account has averaged -1.36% a year. This means that £10,000 left in cash has effectively fallen in value to just £8,720 because the rising cost of living has eaten into the purchasing power of your money.

Our survey reveals that this is a lesson too many savers still blithely ignore: only 49% of those questioned said they are concerned by the impact of inflation on their savings. Some 16% of those not concerned, said they do not believe inflation will have much effect on their savings.

There is more that can be done consciously to enable people to help themselves become affluent in the future. Only 9% have invested money to achieve above-inflation returns. Overleaf we explain how you can take action to ensure that your own savings aren't ravaged by the 'silent killer'.

How to make your savings work harder

By providing financial security, saving for the future can help you enjoy your life to the full. Yet many people don't give their savings the attention they deserve. If you are going to save, you want to do it well.

If you are already saving or investing on a regular basis you are already off to a good start, but the chances are you can make your money work harder.

Goal-focused saving

One of the hurdles that stops many Britons putting more aside is that they don't have clear savings goals. Vague goals like "unexpected costs" or "for a rainy day" don't provide much incentive to save. Saving is easier if you have a clear goal in mind, be it a shorter-term aim like saving for a house deposit or new car, or longer-term targets such as an income to fund you through retirement.

Setting clear goals can motivate you to action. It gives you a purpose for giving up the pleasure of immediate spending. This helps to counter a preference for rewards that are sooner and often smaller than those which are further away and larger[3].

It also gives you more confidence to save. Take the guesswork out of your financial planning and you are more likely to hit your target. There is some evidence that people who set a savings goal save faster than those who don't[4].

Beating inflation

Setting clear goals can help you determine where you place your money. If you have earmarked your savings for a short-term goal such as paying for a holiday or buying a new car it probably makes sense to place the money in a cash savings account.

However, with interest rates forecast to stay low, it is important to be aware of the devastating effect that inflation could have on your cash savings. Even at 2%, savings accounts have been paying less than inflation in recent times – cash savers have not kept up with rising prices and have therefore lost value in "real" terms.

Our survey reveals that many people are allowing their savings to be damaged by inflation unnecessarily: 41% of those who said they were not concerned about inflation felt there is "nothing they can do" to avoid its effects.

Cash vs shares

As long as you are prepared to take more risk than a savings account, and have time on your side, that is simply not true – there is something you can do. For medium or longer-term goals – which might include saving for school fees, paying off your mortgage or funding your retirement – investing in the stock markets offers the potential to earn higher returns and to beat inflation.

Although investing in shares exposes you to the rises and falls of the stock market, over the long term shares have historically risen and outperformed cash. There have been big sell-offs in the market during the last 15 years, including the market drop in October 2018, but share values have historically bounced back, eventually. The return from shares over time has far exceeded anything that could be obtained by cash.

The annualised return on the FTSE All Share index has been 5.1% over 10 years after factoring in inflation, turning a £10,000 investment into £16,454, and equating to a real profit of 64.5% – over and above increases in the cost of living. Over the same 10 years the return on cash, after taking inflation into account, has averaged – 1.36% a year, eroding the value of a £10,000 investment by £1,280.

Tax-efficient savings

Investing in the stock market will enable you to benefit from compound returns – investment returns themselves generating future returns. You can also help your money go further by saving or investing in the most tax-efficient way.

All investment returns and withdrawals from Individual Savings Accounts (ISAs) are tax-free. There are a number of other tax-efficient reliefs and tax-free allowances that can potentially boost your savings, which our financial planners will be happy to explain in further detail.

[3] Behaviouraleconomics.com: Time (temporal) discounting.
[4] Money Advice Service: How to set a savings goal.

Case study - *The power of starting early*

This case study shows how your child could emerge from university debt-free and with a head start to their adult working life, if you start saving early.

Ananya, 48, is married with one son, Samar, who has just won a place at university. She has been saving £4,260 a year into a designated investment account, since he was seven, with this moment in mind. By the time of Samar's 18th birthday he has already built up a nest egg of £58,700, assuming a return of 4% net of charges.

Saving on a regular basis (£355 a month) means the investment has benefited from pound cost averaging, smoothing out the highs and lows of stock market investing. The investment's returns have also been boosted by compound interest.

This complicated sounding process is really quite simple. When you invest money you hopefully earn a return on your capital. The next year you earn a return on both your capital and the return from the first year. In the third year you earn a return on your capital and the first two years' returns, and so on. Please bear in mind that this is an illustration only and the value of an investment can fall as well as rise and you may get back less than you invested.

At university Samar draws around £21,000 from the investment each year to cover university tuition fees and maintenance costs, leaving the remainder invested. At the end of his third year he graduates and unlike most of his student friends he is completely debt-free. That isn't where the savings end. Samar is also freed from having to make loan repayments for the next 30 years. This means he can save for a house deposit instead of paying off his student loan, giving him a head start over many of his graduate friends.

The value of investments can fall and you may get back less than you invested.

Past performance is not a guide to future performance.

Planning for retirement

For many there is a gap between what they are saving today and how they want to live in the future. While pensions remain the bedrock, many other sources of money will be woven in to retirement income.

We see a greater realism about intended future lifestyles and how long it will take to accumulate the assets to fund them. We are also beginning to see the positive effects that auto-enrolment is having.

There are two parts to the retirement equation. The first is accumulating funds, from various sources. The second is structuring how you draw income from them to maximise income to you.

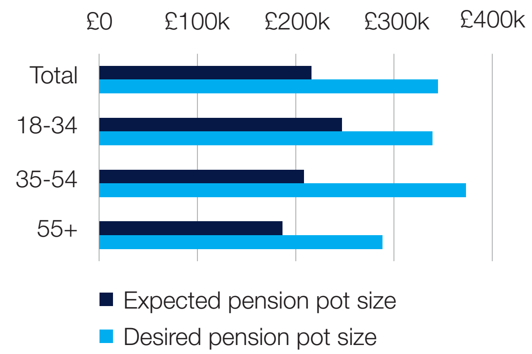
There are things you can do to organise your money more effectively to give you more cash to spend. Yet few have, or intend to take, advice on how best to manage their money, which risks creating poorer outcomes for them.

The pensions savings gap

Our research asked for the amount people think will be in their pension pot when they retire, and this revealed that people's expected pension pots are bigger than they were two years ago. In 2016, the average expected pension pot was just under £170,000, compared with £216,000 today. Yet still they remain smaller than desired across all age groups.

> *The UK government's pension auto-enrolment scheme has been a success precisely because it operated on the opt-out rather than opt-in mechanism; playing to people's general apathy when it comes to thinking about their retirement. To most people, retirement not only feels a long way off but also seems an alien concept.*
>
> Dr Eliza Filby, Generations Expert and Professor of Contemporary Values.

Expected pension pots are smaller than desired



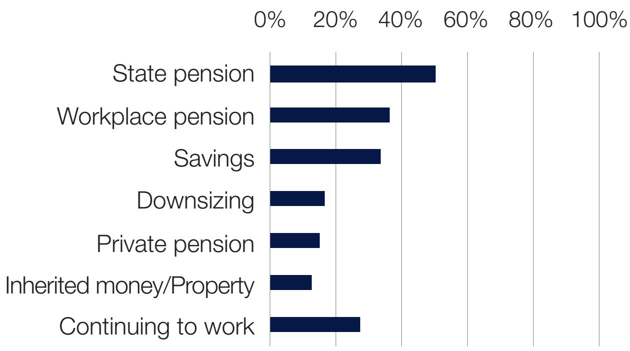
A tapestry of retirement income

Pensions have long been seen as the foundation of retirement saving, coming from both state and workplace schemes.

However, many people now recognise that they are going to have to draw on other available assets to finance their retirement.

For the more affluent, it is the result of annual and lifetime pension allowances that limit the amount of savings that can be put into pensions. For those who this affects, there is the risk of triggering onerous tax charges. For others it is about being realistic about the limitations of their own pension planning.

Retirement funds will come from a range of sources



Around one in three (34%) respondents say they expect to draw on other savings to fund their retirement, while 17% foresee themselves downsizing and 14% hope to use inherited money or property. In some senses the word 'retirement', meaning post-work, poorly describes how people view their lives, as a fifth of respondents said they plan to at least part-fund their later years by continuing to work.

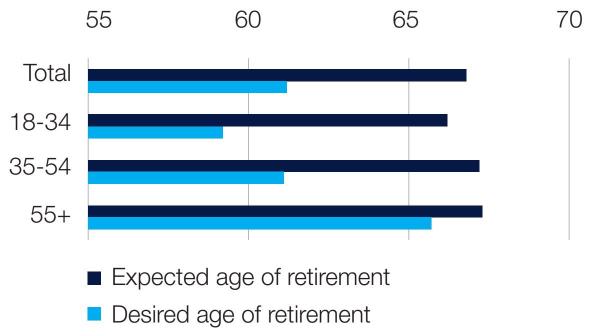
As a result, Britons' plans to fund their retirement are increasingly looking like a tapestry that has been woven together from different sources, even if they are uncertain about how to weave them together in a holistic plan.

A more realistic perspective

There seems to be increased awareness of the disparity between retirement hopes and reality, but uncertainty as to how to close their own personal savings gap. When asked at which age, if any, they would like to retire, the average answer from our respondents was 61. When we asked the same question in 2016, it was just 56.

However, many admit that, based on current levels of savings, an 'early retirement' is almost certainly unrealistic; 67 being the average age at which our respondents think they will have enough money to be actually able to quit work, coinciding with the rising state pension age.

Expected retirement ages are older than desired



Individuals can do more for themselves

We are in the midst of a societal shift, from the state and employer providing guaranteed retirement incomes, to a world in which the individual is being asked to take more financial and investment responsibility – and carry the consequences of the decisions that many feel ill-equipped to take.

Some people candidly admit to not being ready to make one of the most important financial decisions of their lives, namely how to turn their pension savings into an income in retirement.

Asked what they plan to do with their pension pot, 35% of survey respondents replied that they "don't know". Even among those aged 55 and over around one in four (26%) have yet to clarify their plans.

One thing individuals can do, is look beyond pensions. ISAs are an increasingly important component of retirement planning for many. You can now invest up to £20,000 per annum per person, or £40,000 for a couple. By using a stocks and shares ISA you could mitigate the effects of inflation on your savings and make them work harder for you, tax-free.

A need for more advice?

Greater freedom, it seems, has created greater awareness but also greater confusion.

52% do not seek advice regarding retirement and do not plan to

Perhaps the lack of clear focus is not surprising given the reluctance of many to take advice; 52% of people do not currently seek advice regarding retirement and do not plan to, despite the complexities around optimal financial planning.

As you finish saving for your retirement and move towards structuring the income you can draw, there are crucial decisions to be made. These can have a significant impact on the final income you achieve from the funds you have worked so hard to save.

This is a complicated area and making the wrong decision could be costly.

An adviser can help you build a plan that gives you confidence in the future by looking at both your needs and your finances in the round. You can also generate significant amounts of income tax-free if you understand how to structure your savings effectively. This could mean the gross income you require could be less than you might think.

On the following pages we show an example of how that might be done in practice.

How to take control of your retirement plans

In 2015, the so-called "pensions revolution" provided savers with more flexibility, but also exposed individuals to more complexity and potentially more risk at retirement. If you choose to leave your funds invested, you can benefit from possible growth in investment markets. But, you will also be exposing yourself to investment risk which can endanger your capital.

Without careful management, before, at and during retirement, there is now the very real danger that you could run out of private pension income.

Assessing your needs

To reduce that risk, a vital question to answer while you are still saving is how much income you will need in retirement. The temptation is to set an aspirational goal at a high level. When we asked our survey respondents what annual income (in today's prices) they believe they will need to live a comfortable lifestyle in retirement the average was just under £40,000.

However, everyone's circumstances are different. A number that feels right can be a useful way to begin a discussion but working out how much income you will really need in retirement requires more planning.

As a starting point, consider how much you spend now, bearing in mind that some expenses are likely to go up when you retire (utility bills) and some go down (commuting costs). Once you have a realistic income target you can consider how much you will need to save to reach your goal. For example, if you have no other savings, you would require a pension fund of around £600,000 to secure an annual income of around £40,000, assuming you qualify for the full state pension[5].

Considering the whole

Even if, at this stage, your pension pot falls short of requirements, your situation may not be cause for despair.

We firmly believe that a successful retirement plan involves making the most of not just your pension, but all your savings and other investments, taking advantage of tax-efficient sources of income and dividends and all the tax allowances you can – every element of your unique tapestry.

A crucial point to remember is that it can make sense to draw on other savings and ISAs first, enabling your pension to remain untouched as long as possible. This is because pensions are one of the most tax-efficient ways to pass on your wealth. Therefore, you might want to use other investments to provide a retirement income and retain funds in your pension as part of your succession planning.

Looking to the future with confidence

Whether you are already retired, or coming up to retirement, our experts can explain all the options available to you under the pension freedoms, looking at your financial circumstances as a whole. We will also help you to structure the income you take in retirement as tax-efficiently as possible.

As your priorities and financial circumstances can shift over time, we will monitor your retirement plan regularly to make sure it always meets your needs and that the level of risk being taken is appropriate. Making the right decisions and drawing an income from your investments need not be hard work. However, it is not something that can be left to chance.

[5] Assumes you use your entire pension fund at 65 to buy a single life, level annuity with no guarantee, paying an income monthly in advance. Source: iress The Exchange at 4 October 2018

Case study - *A tax-efficient retirement plan*

This case study shows how by drawing income in a carefully structured way from a number of different sources, an income of £54,000 a year can be generated for a couple without any of it being lost in tax.

The plan

Rachel and Paul both plan to retire next year at 66, when they will both receive a full state pension. Together they have private pensions of just over £220,000. The couple also own shares worth £100,000, a fixed interest portfolio valued at £250,000 and stocks and shares ISAs worth just over £300,000. They have £50,000 in a current account and another £80,000 in a high-interest savings account.

Rachel and Paul's financial planner constructs a holistic plan involving their pensions, savings and investments and takes advantage of tax-efficient sources of income and dividends and all the tax allowances they can. The couple are happy to accept stock market risk.

£17,092	The first thing the couple and their adviser consider is any guaranteed sources of income that can secure a base line for the rest of their finances. This could include the state pension, final salary pensions and income from an annuity. Rachel and Paul's only guaranteed source of income is the state pension. They both receive £8,546. As they each have a tax-free personal allowance of £11,850 (£23,700 in total) there is no tax to pay on the money they receive. **Combined tax-free income: £17,092**
£6,608	On top of this, the couple will each withdraw £3,304 a year from the taxable part of their pensions. As this is just 4% of their total post tax-free cash pension funds, capital withdrawals could last 25 years. This is before any consideration for growth. Combined with the income from their state pensions this income falls within their personal allowance for income tax. Consequently, the income will be tax free. **Combined tax-free income: £23,700**
£2,202	They could each take their whole 25% pension tax-free lump sum in one go, which from a combined £220,000 pension fund would be £55,000. However, they decide to withdraw the tax-free cash in smaller chunks every year and each take £1,101 in year one (£2,202 in total). **Combined tax-free income: £25,902**
£2,000	Their £80,000 high-interest savings account pays 2.5% interest or £2,000. The personal savings allowance means they do not pay tax on this amount. **Combined tax-free income: £27,902**
£4,000	Rachel and Paul receive £4,000 in dividends from their share portfolio. The £2,000 dividend allowance (£4,000 as a couple) means that, once again, there is no tax to pay. **Combined tax-free income: £31,902**
£10,000	Rachel and Paul receive 4% a year interest (£10,000) from their fixed interest portfolio. This is covered by the 0% starting rate for savings. **Combined tax-free income: £41,902**
£12,098	Finally, they withdraw a total of £12,098 a year from their ISAs. Again there is no tax to pay. **Total combined tax-free income: £54,000**

£54,000

**The value of investments can fall and you may get back less than you invested.
Past performance is not a guide to future performance.**

Protecting your financial future

Britons are very aware of the things that could adversely affect their financial future and aspirations for life, even for those who feel their finances are in good shape. The good news is, that by taking action now, it is possible to mitigate many of the potential effects on your finances.

This might be particularly relevant for people who are in the prime of life and at their peak earnings – but who also often have the largest commitments to sustain. By protecting themselves they can ensure that their family's lives will be sustained should anything untoward happen.

When asked what is likely to damage their financial future, there was notable consistency in the responses. And of the issues shown, the leading concerns can be mitigated.

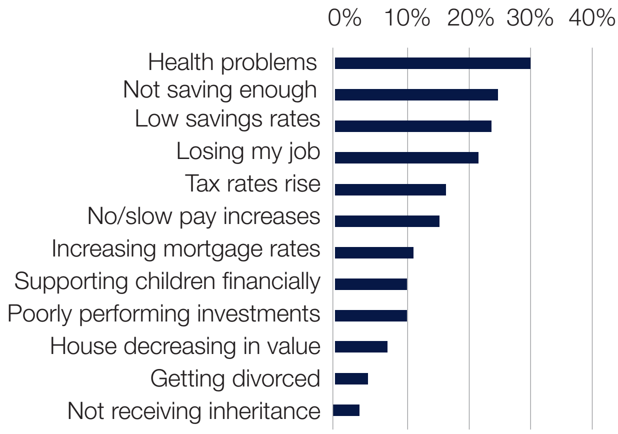
While health is a concern for all groups (and particularly older respondents, which is quite natural), relatively simple health protection policies are available and could make a real difference.

Not saving enough, and low savings rates can be countered by investing effectively – making your money work as hard as it can. There are things you can do that have historically generated significantly greater returns than cash in the medium term.

Having a will in place will ensure that what you want to happen does, in the event of your death.

You are not as powerless as you might think.

A range of threats to people's financial futures



Staying healthy

Health problems top the table of concerns, with 30% saying they worry that they will have the biggest impact on their finances in the future. And it is a very rational concern. Your family's security and your long-term savings may be reliant on your salary. An incapacitating illness, or even a death has a huge emotional impact but can also change your financial outlook instantly.

Given the tendency to suffer ill health later in life, it is perhaps unsurprising that this is of special concern to individuals aged 55 and over. Amongst this cohort, 38% admit to worrying about the impact of health problems on their future financial wellbeing.

Recent decades have seen life expectancy steadily increase. Women aged 65 are expected to live to age 85 on average. Men are expected to live to 83 [6]. But while Britons are living longer, they are also spending more time in poor health. One in two people in the UK born after 1960 will be diagnosed with some form of cancer during their lifetime, according to the latest statistics[7].

> *'People find it difficult to envisage their life not going the way they plan. It is not a happy process for anyone to visualise specific things going wrong in their lives, whether it be the onset of a long term debilitating illness in your retirement or a spike in interest rates on your mortgage, so putting plans in place to shield you from these things can be hard.'*
>
> Dr Eliza Filby, Generations Expert and Professor of Contemporary Values.

Financial wellbeing

Worrying about earnings and employment also seems to be something of a national obsession.

A quarter of people (25%) admit to worrying that they are not saving enough. This tops the list of concerns for 35 to 54-year olds, at 30%. Although this is the period of life when many people hit peak earnings, faced with the strain of bringing up children and paying off mortgages, it can also be a time of considerable financial stress.

One in five (22%) Britons worry about losing their job, particularly millennials. Indeed, for 18-34-year olds this is their biggest fear, at 32%, perhaps reflecting their greater participation in the so-called 'gig economy', which offers flexibility but at the expense of job security.

Other financial concerns include low savings rates (23%), tax rate rises (17%), increasing mortgage rates (12%) and poorly performing investments (11%).

However, you can take action now to mitigate many of the potential effects on your finances.

Where there's a will

Given what is at stake, it is sensible to establish some form of financial protection, as we explain overleaf. To ensure your family's wellbeing it is also essential that you have an up-to-date will. Making a will is one of the most important things you can do to ensure your wishes are met after death. Yet only 44% of people we surveyed said they have written a will. Even among the over-55s 30% of respondents said they don't have a will. Asked why, 50% said they "just haven't thought about it yet", while 17% admitted they "don't like to think about my death" and 11% that they didn't know how to write a will.

55%

55% of people have not written a will

Many people feel uncomfortable about discussing wills, regarding it as too morbid a subject – only 38% said they had discussed their will with their family or friends. However, this reticence means they could be putting their family's security at risk.

[6] Office for National Statistics: National life tables: UK: 2015 to 2017, 25 September 2018.

[7] Cancer Research UK: Cancer Statistics for the UK

How to protect what matters

Although it may not feel like it, your family finances are probably more precarious than you would like to think. If you have worked hard to create and accumulate your wealth, care needs to be taken to manage and preserve your assets in the face of market volatility and other investment risks. If you are still building up that wealth and something unfortunate were to happen, whether it be losing a job, an incapacitating illness or even a death, the outlook for you - or for those around you - can change instantly.

That is why it is sensible to establish a financial protection plan in the broadest sense. This means looking at the range of insurances that can protect your loved ones from the financial hardship that can be experienced due to ill health or death – but also considering how to preserve your wealth in the face of stock market volatility.

Mix and match

There are products available that play different protection roles and that can be used in different ways – often in quite sophisticated strategies that require expert advice to implement effectively – but which will ensure that your financial obligations are catered for in the most effective ways possible.

For many people it makes sense to combine several protection products together under one overarching protection plan. How we might put a plan together on your behalf is perhaps best illustrated by a case study on the following page.

'Talking about unthinkable situations can be incredibly hard, but planning for them is a necessity to avoid making difficult situations even worse. We help families consider their priorities and be prepared for the future, whatever that may hold.

Liz Alley, Divisional Director, Financial Planning, Brewin Dolphin

The benefits of diversification

Stock markets are subject to all sorts of unexpected events. Managing stock market volatility is especially important for investors that are near retirement or already depending on their portfolios to generate a sustainable income stream. Your attitude to risk when you were accumulating assets may no longer be appropriate.

You should only invest in shares if you are prepared to accept risk, however there are ways to reduce the risk you are taking. Diversification is one of the fundamental principles of a successful investment strategy and we have been using it as a tool for protecting and growing our clients' assets for over 200 years.

Diversification means spreading your money across different asset classes, stocks, shares, funds, industrial sectors and even geographical regions. It helps to smooth out performance and reduce risk, whatever the prevailing economic circumstances.

Depending on your investment goals, attitude to risk and timeframe, we can structure a diversified portfolio tailored to meet your personal financial goals, whether that be to grow your money over time or to produce an income for later in life.

The value of investments can fall and you may get back less than you invested.

Case study - *Protecting what's yours*

This case study shows how a family with heavy financial commitments, and relying on a large single income, would be able to maintain their way of living were the main breadwinner to become seriously ill or die.

Robert, a 40-year-old senior manager for a business services company earns £150,000 a year. Married to Sarah, who works part-time as an administrator, the couple have two young children, aged two and six.

The family's finances depend heavily on Robert's high income and they would face a significant drop in their standard of living if he was unable to work for a long period. Losing Sarah's income would also leave the couple with a direct shortfall in their outgoings.

Solutions

- **Robert and Sarah increase their emergency financial reserves**
  Based on their essential outgoings of £7,200 per month, the couple should aim to have easy access savings of at least £43,200 (six months' costs). This would give them more flexibility for short-term emergency spending.
- **Income protection insurance for Robert**
  This would offset Robert's loss of income from the reduction, then ending, of his company sick pay. The policy would continue to pay out until state pension age, should Robert remain too ill to return to work. The payout would also increase with inflation to cover rising living costs.
- **Life insurance to clear the mortgage if Robert or Sarah dies**
  A life insurance policy, decreasing over the term of their mortgage as the loan reduces, would ease the pressure on the household finances if something unfortunate were to happen.
- **A Family Income Benefit plan to help Sarah if Robert dies**
  Should Robert die, life insurance should pay off the mortgage, and Sarah would also receive Robert's death-in-service benefit from his employer. However, if Sarah didn't feel she could continue working, that payout might not last long. An additional type of life insurance called Family Income Benefit could provide Sarah with a monthly payment until the end of the chosen term.

This would also be a good opportunity to check that their wills are up to date. We strongly recommend you take legal advice to make sure your wishes are met, and your wills are as tax-efficient as possible.

Sharing wealth across the generations

Despite many people's worries about retirement, our findings suggest that once Britons move into this crucial stage of life many are more financially secure than ever before. However, this does not mean financial concerns are consigned to the past. Many are acutely aware of the financial pressures their children and grandchildren are under, but are uncertain as to whether they can afford to help them.

Older people hold more wealth than younger people, both in financial terms as well as in their homes[8] – often mortgages have been paid off, and children flown the nest.

Some 52% of survey respondents aged 55 and above describe their personal financial situation as "comfortable" against 36% of 35-54 year olds. Two years ago, when asked the same question, 41% of over 55s classed themselves as comfortable, suggesting an overall improvement in household finances and confidence.

Since World War II most people growing up in advanced economies have been able to correctly assume they will be better off than their parents. Now that positive income trend appears to have reversed.

Yet the millennial group is more likely to expect to support their parents financially (39%) in the future, than the average across the survey (17%). Their experiences are likely to have given them a more mutual perspective on family wealth.

Gifting wealth

There is a growing expectation that parents and grandparents will gift some of the wealth they have been able to accumulate over the years: 54% of individuals aged 55 and above said they have provided financial support for their adult children and 34% expect to do so in the future. In addition, 6% say they have supported their parents.

Overall, 26% of respondents said they intend to support their children or grandchildren financially by leaving a legacy when they pass away. However, there is a growing recognition that passing on wealth now in your lifetime may be more beneficial. Lifetime gifts enable you to assist your loved ones when they are most in need and (as we explain overleaf) can also help save inheritance tax.

54%

54% of individuals aged 55 and above said they have provided financial support for their adult children and 34% expect to do so in the future

Passing on wealth to your family in your lifetime, though, is often easier said than done. You don't want to hand over money to your children only to be forced to ask for it back later in life when your own finances run short – and you don't want to end up sacrificing too much of your lifestyle.

26%

26% of respondents said they intend to leave their children a legacy in their will

According to Paying for Care, a not-for-profit company, one can expect to pay around £29,250 a year on average in residential care costs in the UK, rising to over £39,300 if nursing care is necessary[9].

Costs such as these could consume a large amount of your estate.

You also need to trust that your family will use the money you gift wisely. Our survey shows that many lifetime gifts are expected to be for a specific need, often one-off costs such as house deposits (16%) car purchases (12%) or

[8] Resolution Foundation: a New Generational Contract: The final report of the Intergenerational Commission, 8 May 2018.
[9] Source: Laing & Bussion Care of Older People UK Market Report 2014/15

weddings (16%) or to clear debts (11%). Providing ongoing financial support, for example, by gifting money each year to go into a pension or investing in other ways, may be more beneficial, but is much less common. Only 4% of respondents say they intend to contribute to a pension on a child or grandchild's behalf and only 3% plan to purchase shares or other financial assets. That is despite the fact that when the question is posed in the other direction – "what are you likely to do with any inheritance you receive in the future?" – 21% answer "save it for my retirement".

Tied up

A significant portion of the UK's family wealth is tied up in property – some £3.9tn out of a total of £11.1tn, according to the Resolution Foundation[10]. In some ways that is phantom wealth because it cannot easily be released if you want to continue to live the same lifestyle. The difficulties involved in getting your hands on this equity is reflected in a disinclination among many to even try.

When asked how they plan to fund their retirement, 83% of respondents said they do not plan to downsize, and that increases to 87% for the over 55s. Our survey research suggests that this is an underutilised source of raising capital to support retirement and help other family members.

£3.9tn

£3.9tn out of a total of £11.1tn of UK family wealth is tied up in property

Case study - *Giving your grandchildren a leg-up*

This case study shows how a £50,000 gift could transform a grandchild's life, boosting their personal wealth from zero to £366,000.

Kelly is 29 and lives in a flat which she rents for £725 a month. She has her heart set on buying a small semi-detached house for £184,973 but is struggling to save for a deposit.

Fortunately, Kelly's grandmother Margaret, aged 72, is keen to help her out by gifting her money for a deposit. If Margaret survives for seven years the gift will be outside of her estate and not be subject to inheritance tax.

£50,000 for a deposit
Margaret provides Kelly with an amount equal to a 25% deposit plus the house purchase costs (£50,188). This enables Kelly to borrow £138,732 (75% of the value) with monthly mortgage repayments of £574 per month. Over the 25 years of her capital and interest mortgage, this would reduce her payments to a total of £172k. It is £45,300 less than she would have paid over 25 years in rent.

Future dividends
The difference between the £725 a month rent that Kelly has been paying and the £574 a month mortgage is £151. Putting this £151 into an ISA (in case she needs to withdraw the money later) earning a return of 4% (net of charges) a year, could build up into a savings pot worth £77,633 after 25 years.

If instead Kelly decided to put the £151 a month into a pension plan, she could build up £181,800 of retirement savings after 36 years, including income tax relief of 20% and based on 4% investment growth (net of charges). Coupled with the value of the home (£185,000)[11] Margaret's £50,000 has grown into personal wealth of £366,000 – instead of zero if Kelly had continued to rent.

The value of investments can fall and you may get back less than you invested.

[10] Resolution Foundation: Britain's increasingly unevenly shared property wealth is driving up inequality after a decade-long fall, 18 June 2017.
[11] No assumed house price growth. Mortgage free after 25 years.

How to choose when to pass on your wealth

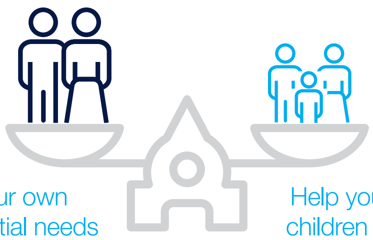
We all want what is best for our families, and many people are now in a position where they want to be able to make a significant difference to their younger relatives' lives. However, knowing how to pass on some of your wealth during your lifetime, or even whether to, is a difficult task.

A successful plan to pass on wealth to family members has to consider a number of questions. What might you want the money for now and what might you need it for later in life? What is available now in terms of capital and income? How might you need to invest in order to maintain your lifestyle in the future?

Our financial planners can do the hard work for you, carrying out an analysis that will provide a clear and detailed summary of your financial arrangements and help us to forecast your future needs.

Getting the balance right

The challenge many people face is knowing how to strike a balance between your own potential needs, and your desire to help your children or grandchildren now.



The first step in solving this is to be clear about what you require. From that point, you can establish how much wealth is left to pass on to future generations (or your parents, if needed).

With a clear picture of what is available, and what you will need yourself, you could help to improve the financial position of your children and grandchildren without compromising your own retirement plans.

The value of gifting now

By gifting relatively little and often, you could make it easier to strike that balance, and by making regular contributions to a Junior ISA or pension you could make a huge difference to a child or grandchild's life.

These gifts may be relatively small, but by helping your younger relatives to save now, they can benefit from compound interest and compound returns on their investments – something that might not be possible if an inheritance is received later in life. If your circumstances change, you can also reconsider what you can afford to pass on.

Another benefit is that gifting wealth while you are still alive can save inheritance tax. Regular gifts out of income are particularly useful. If a gift is regular, comes out of your income and does not affect your standard of living, any amount of money can be given away and ignored for IHT.

The downsizing option

As we explained earlier, selling a family home and moving to a smaller property, or 'downsizing' is not a popular option – even though once children have left home many people express the view that they are 'rattling around' in a house that is too big for their needs.

However, figures compiled by Brewin Dolphin show that a significant amount of capital can be unlocked by selling a larger house, which a couple with adult children who have long since left, may no longer need.

Using average UK prices for homes of different sizes, as much as £315,805 could be released as a source of retirement income – if an individual or couple were to sell a four-bedroom house and move to a one-bedroom property.

The value of investments can fall and you may get back less than you invested.

If this was invested for five years at a growth rate of 4% net of charges and taxes, it could be worth £384,225 in five years' time or £467,468 after a decade.

While the emotional as well as practical issues around selling a family home means that for many people it will never be an option – the financial benefits mean it may be worth considering.

Planning ahead as a family

Once you have made the decision to pass on some of your wealth to your loved ones it could be a good time to sit down and consider your family's financial position as a whole. Our experts can assist all your family members to clarify clear and achievable long-term financial goals. Among the things we can help with are advising on using money in tax-efficient ways and investing money in the most effective way possible.

Our experts can work with you and your loved ones to tailor a family financial plan that meets all your needs. Making the right choices now will provide peace of mind and can make the future feel much less daunting.

About the research

The Brewin Dolphin Family Wealth Report provides an insight into the financial opportunities for Britons to make the most of their money.

Every two years we survey members of the public to understand their attitudes to retirement, saving, protecting and passing on their wealth.

This is an area that many people are reluctant to discuss in Britain today – and being prepared to discuss the issues at hand, both with expert advisers and more importantly with your loved ones, is at the heart of making the right choices for you and your family.

Opinium Research was commissioned to undertake a nationwide survey of 5,000 people across age groups. The sample was weighted to be nationally representative and fieldwork took place from 30th August to 5th September 2018.

About Brewin Dolphin

As one of the UK's leading wealth managers, Brewin Dolphin is ideally placed to help you and your family focus on making the most of your pension, savings and other investments. Our experts can help you grow and preserve your wealth by building a tailor-made plan to meet your needs now and fulfil your future goals.

We were founded in 1762 on the belief that the successful management of wealth takes an understanding of money but is rooted in an even deeper understanding of people.

Placing such a premium on personal relationships, we have built up a network of 30 offices across the UK, Channel Islands and Republic of Ireland.

To arrange a meeting, visit our website www.brewin.co.uk or contact your local Brewin Dolphin office.

Brewin Dolphin Limited is a member of the London Stock Exchange, and is authorised and regulated by the Financial Conduct Authority (Financial Services Register reference number: 124444). Registered office: 12 Smithfield Street, London, EC1A 9BD. Registered in England and Wales – company number: 2135876. VAT number: GB 690 8994 69

BD2336_1811_1