The Efficient Wealth Update

Efficient Portfolio

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Retire "Retirement"

Retirement used to be a "reward" for all the years of hard work endured, but is the concept now out of date?

For many these days, retirement may not cross their minds - they may just want to slow down, move into a different field, or they may want to give up work at 35 to live on a desert island. Retirement, or the concept of retirement, is different for everyone but it is no longer what used to be considered a traditional retirement - so much so that some have started referring to it as "Life 2.0".

People become so concerned about their retirement years (whatever they may be to you): Will I run out of money? Will I lose my identity? How will I fill my time? What do I want to do? Instead of feeling the fear, panicking for ten years or more and feeling sick about having to retire, why not set some time to think about it - get organised so you can have the best later years possible.

Think of it as a project, but a fun one for your future "Life 2.0". There are three main things to consider: your wellbeing, your time and your finances, and it is so important to think about them all if you want to feel ready for and relaxed about your retirement. Focusing too much on one may mean you have a lot of money but no idea what you want to achieve with it or how you will achieve it. On the other hand, you may have lots of great ideas about how to spend your time but no money to make them happen. All a bit pointless really! To have a successful retirement, all three things need to be addressed and included in the Life 2.0 plan.

You should probably think about this plan twenty years before you want to retire, more if you can think that far ahead. And always seek help from professionals when looking at your finances - they can definitely help with this element of the plan - the rest is up to you.

The overall message is, don't see retirement, or in fact any major transitional period in life, as scary. Instead, see it as exciting and full of opportunity. Keep it balanced, mix in fun and purpose, always include those important people in your life, and always remember that your retirement is what you want it to be, not what you are told it should be. If you want to read more on this, you can download a free copy of ‘The ‘Dream Retirement: How to Secure Your Money and Retire Happy’, from www.efficientportfolio.co.uk . It’s even available as an audiobook if you prefer!

Inheritance Tax Simplification Review

In February 2018, we were told there would be an IHT simplification review announced in the Autumn Budget. It didn't materialise at that time but there seems to be progress. The review was split into two; the first report covered administration and was released in November 2018 and the report on the tax element was released in July 2019.

With so much going on in the world with Brexit, etc. it is unlikely there will be any action on the proposals this year, but it is possible that there will be some mention in the Spring Statement of 2020.

Below is an overview of the main elements that we think are most relevant from the tax report of the review in July this year:

Lifetime Gifts

Gift exemptions:

- Combination of all £3,000 annual gift and marriage gifts into one overall "personal gifts allowance". It is suggested this should be increased with backdated inflation to approximately £12,000 per annum
- Review of the small annual gifting allowances
- Gifts from income to be set at a percentage of income or a set monetary amount and the required "regular" element removed

Gifting period:

- Reduce seven-year period to five years
- Scrap the 14-year rule
- Abolish taper relief

Payment and Nil Rate Band:

- Clarify who is liable for IHT on lifetime gifts
- Clarify allocation of NRB to lifetime gifts

Capital Gains Tax:

- Make CGT payable after death of asset holder - liability transferred to new owner

Other:

- Death benefits from term policies should be free of IHT, even if not in Trust

Unmarried Couples: Do's and Don'ts

Getting married isn't necessarily high on everyone's list of priorities, but just cohabiting can have a major impact on your tax and estate planning arrangements.

Contrary to popular belief, it doesn't matter how long you have been together or how long you intend to remain together; the benefits attributed to married couples are not available to those who cohabit or are in long- term relationships.

The first thing to mention is that, if you are not married to your partner but your Will leaves them everything when you die, there will be tax on anything over the Nil Rate Band (NRB) allowance of £325,000 - there is no spousal exemption! This means IHT will be payable on first death and potentially also on second death on the same assets, and this will no doubt be at an increased amount because the estate of the second to die will also have its own assets as well as those from their deceased partner. Add to that, the deceased partner will lose any Residential Nil Rate Band (RNRB) they may have had because they aren't leaving their property to their descendants.

Therefore, by not being married, you will potentially pay significantly more tax than a married couple in the same situation.

One solution to this would be to get married. Simple yet effective, but understandably not for everyone. So, another solution would be trust arrangements. Trust arrangements are a most effective way to protect inheritances, prevent liability for IHT and make sure all allowances, e.g. RNRB, can be utilised. Although no one likes to think about it, after the death of a partner those left behind can move on to new relationships and family scenarios. As well as saving tax, the protection element of a trust that ensures your assets reach your intended beneficiary, e.g. your children, is invaluable. Any costs incurred by trust arrangements are heavily outweighed by the potential tax savings and other benefits they provide.

A quick win for you would be to make sure that your life cover is in trust, as this will mitigate tax on the first and second death, as well as providing protection. In addition, always make sure that pensions have a nomination of beneficiary or trust arrangement attached to ensure they reach your intended beneficiaries.

If this situation applies to you or to a member of your family then the persons involved should, at a minimum, review their Wills to ensure they’re nor creating an unnecessary tax liability. Please get in touch to see how we can help.

Part 4 of 4 - ISAs: How to Pick the Perfect ISA

There used to be two types of ISA available; now there is an abundance of different options for all situations and it can be difficult to work out which one is best for you.

The premise of any ISA remains the same, in that it is a tax-efficient environment for your savings to grow, which will be free of tax when withdrawn.

Before you decide in which ISA to invest, make sure you have a clear objective for the funds, including how long they will be invested for and how much you will invest, either monthly or as a lump sum.

Choosing where to hold the ISA is also important. It should be reputable and offer all the functionality and access that you need, as well as having reasonable charges.

The choice of investments is very important and the only advice we can give without knowing your circumstances is to ensure you diversify your investments to minimise risk.

Our best advice would be to seek the help of a professional. As financial planners, Efficient Portfolio are well versed in investment accounts as well as seeing how they fit your circumstances, objectives and other investments. Having the knowledge and expertise of a financial planner behind an investment really does make a whole heap of difference.

Probate Fees: Trust Us on This One!

When an individual dies, the executor named in their Will must obtain a "grant of probate". It is this document that allows the executors to follow the individual's wishes in their Will and distribute the estate accordingly.

To apply for Probate there is, of course, a fee to pay. The government has decided to make changes to these fees which mean that, in future, probate fees will be based on the size of your estate. The new fees are:

- Estates worth less than £50,000 will pay nothing, meaning estates worth between £5,000 and £50,000 will save £215 compared with the old system
- Estates worth from £50,000 up to £300,000 will pay £250, a rise of £35
- Estates worth from £300,000 up to £500,000 will pay £750, a rise of £535
- Estates worth from £500,000 up to £1 million will pay £2,500, a rise of £2,285
- Estates worth from £1 million up to £1.6 million will pay £4,000, a rise of £3,785
- Estates worth from £1.6 million up to £2 million will pay £5,000, a rise of £4,785
- Estates worth more than £2 million will pay £6,000, a rise of £5,785

This means that an individual with an estate of £50,000 or less could end up paying nothing, but an individual with an estate worth £2 million or more could end up paying £6,000 - or, even worse, £12,000 as married couples would need to pay the fees on first and second death! In addition to this, your executors may not have sufficient funds available to pay the probate fees and may end up having to borrow elsewhere to start the probate process! Not a situation we would like anyone to be in.

Therefore, in most cases we would recommend setting up a Probate Trust. The purpose of the Probate Trust is for you to place assets into the Trust to cover your estimated probate fees. By using this Trust, the assets are held outside of the estate and cannot be frozen on death, so are easily accessible to your executors to pay the probate fees.

If this is something you think would be useful (and why wouldn't it be) please get in touch to arrange a meeting for us to discuss it further.

Notes on Brexit

The Tory leadership contest has come to an end and Boris Johnson is officially the new party leader (and with that appointment, the new Prime Minister).

Looking at market reactions to the news, the pound is still down so it doesn't seem that he has added any certainty to the markets on a long-term basis.

Boris probably shouldn't get too cosy in his new job, as the odds of a general election happening this year are still quite high. What the outcome of that would be, no one knows, but it didn't go well for Theresa May in 2016. Boris also faces the same dilemma that confronted May, in that the Tories, like most of Parliament, are not decisive about what kind of Brexit they want, and by being too extreme or staying too much in the middle, he risks losing support. It's a lose-lose situation. Add to this the fact that new European Commission President, Ursula von der Leyen, has made it clear that the EU is definitely not open to renegotiating the key terms of the withdrawal agreement that MPs had such issues with means that while Boris might talk the talk, he could find it difficult to walk the walk.

While there's still little movement on the Brexit front, and most media attention has been focused on the Tory leadership election, there were things happening behind the scenes. MPs attempted to amend legislation being drawn up that aims to manage the effect of a collapsed devolution in Northern Ireland. The amendment in question would prevent the Government proroguing Parliament in order to force through a no deal Brexit. However, the amendments did not receive much support from MPs and the bill has been passed to the House of Lords for their scrutiny. If they complete the package of amendments, they can send the Bill back to the House of Commons for review.

Client Referral Dinner: Upping the Stakes!

I'm just reflecting on a fantastic evening and felt compelled to tell you all about it. Am I trying to make you jealous? No. But am I going to tell you how you could join me next year? Absolutely.

Each year, we take a selection of our clients to some of the best restaurants that London and Rutland have to offer. Over the course of the last month, we have treated our guests to remarkable feasts at Rutland's 'Hambleton Hall' and London's 'Benares'- both Michelin starred-restaurants, which offer exquisite cuisine, exceptional service and an extraordinary experience.

The dinners I am talking about are our 'Referral Dinners', which some of you may have attended in the past. For any client who makes a successful referral into our business, they are automatically added to our guest list to attend one of our evenings. Client referrals are fundamental to the success of our business, so we want to reward those who help us to grow as a firm. Over the last 6 years, we have been able to consistently grow our business by more than 50%, year on year, which we mainly attribute to the referrals from our clients. We are so grateful, that this summer we will be upping the stakes and offering an even bigger reward; but more on this shortly.

We are always incredibly grateful when an existing client refers a new client to us; after all, without new business we cannot continue to grow and innovate as a firm. We have built our business up through referrals and we want to continue to do so, because it means we have a much friendlier and more predictable company structure.

Twice per year in Rutland and once in London, we host a gourmet dinner at one of the top restaurants in the area. Only clients from each area who have made successful referrals to us will be invited to this exclusive event, which is always a brilliant evening.

So back to our summer offer. The months of July and August are often quieter for us as a business, because most of our clients are enjoying their well-earned summer holidays. It is during these quieter spells that we ramp up our marketing efforts and look for new ways to innovate the business. This year we have decided to focus on client referrals, so here is our deal:

If you make a successful client referral to us in the months of August or September 2019, not only will you and a guest be invited to our Referral Dinner, but we will also give you an extra two places for your friends. That means you'll receive four seats at our 2020 Referral Dinner.

All you have to do is simply refer your friends, family or colleagues to us. So, what are you waiting for? If you and 3 guests would like to join us for the 2020 Referral Dinners, simply contact us and we'll do the rest.

I look forward to treating you to dinner next year.

PS Not only do you get to enjoy a wonderful evening, your referral gets a free Exploration Meeting with us, 1/3 off their Efficient Financial Plan fee and could maybe be your guest at the dinner, if you choose to invite them.

Charlie's Mini Blog

In July, I completed my second triathlon of the year, as part of my build up to Ironman Italy in September. Set on the rugged north Devon coast, Croyde's Ocean Triathlon is deemed to be in the 10 toughest Olympic distance triathlons on the planet. A tough 1500m sea swim, a hilly 38km bike ride on narrow roads followed by an extremely hilly 12km run up steps, down scree and across beaches, this was no place to set any personal records.

My previous fastest time for an Olympic distance triathlon was 2 hours 33 minutes, which annoyingly was 3 minutes slower than my target that day; so, I decided, given the course's difficulty, that 3 hours should be my target. The swim went well, the bike felt fast, except for getting stuck behind a Warburtons lorry on a narrow lane for a while, and the run, whilst being tough, felt good. I looked down at my watch to see if I had beaten my target of 3 hours, to be confronted by the time 3.03. I had missed my target by 3 minutes again.

At this point, I could have been annoyed. Like with your investments, sometimes you don't quite get the return that you want. That said, these were tough market conditions. I could have gotten stuck in the gap, frustrated by missing my meaningless target, when considering the grander scheme. I didn't, because I realise when I look at my longer-term fitness, the compounded effect of my training over the previous years, that I am in the best shape I have ever been. Hitting that target was meaningless; just a reference point on a much longer and more important journey. Investing is the same. Getting great returns in any one year is meaningless; it is the staying the course, through the good years and the bad that, given time, gets you to a much better destination. Use short term goals to keep you interested, but do not let them cloud the much more important longer term goals!

Book of the Month

When Jordan Peterson, a clinical psychologist, began sharing his lectures on YouTube, he had little idea of what a ‘rock star’ of thinking he would become. With the success of his latest, and most easy to read book, 12 Rules for Life, Peterson has jumped into the stratosphere of modern influence.

The book sets out 12 rules, or strategies, many of which turn existing ideas around. For example, the pursuit of happiness being a pointless ideal or goal, and that ‘meaning’ should replace happiness. But many ideas will simply reinforce what you know is right, but often fail to implement, such as putting your own house in order before criticising others.

I can’t recommend this book highly enough for those who are still struggling to understand what they want their life to be about, and what direction they should take. At the same time, it will help everyone to reflect on where they are, and if that is where they want to be.