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Three ways to teach children the value of money

Teaching children about money doesn't have to be complex or overwhelming. Starting with simple principles like saving, spending and sharing can help them develop lifelong positive financial habits.

1. Make saving exciting

Delayed gratification can be challenging for children, so the key is to make saving exciting. Set up a "goal jar" for something your child wants (like a toy or a special outing), put it somewhere prominent and encourage them to put money towards it.

Literally watching their savings grow teaches kids patience but also helps them understand the value of saving for specific goals. For older children, consider a savings account that allows them to check their balance online. This turns the jar on the counter into a digital experience that can help prepare them for real-world banking.

2. Learn smart spending

Kids, like adults, can be tempted by impulsive purchases, but encouraging them to spend wisely is just as important as teaching them to save. If they have their eye on two items, encourage them to compare the prices or features and think about which one they want more. Talking through these choices with your child shows them how to budget and make compromises.

Setting a spending limit for things like toys, games, snacks or experiences can also be helpful. You could give them a set amount of money each month for these extras and let them decide how to allocate it. This helps kids learn to manage their own money and empowers them to make choices that reflect their priorities.

3. Teach generosity and compassion

Teaching children to share their resources is another valuable lesson that helps build empathy and show them that money isn't just for buying things. You could introduce this idea by designating a small portion of their allowance for something charitable and letting them decide how it's used. For example, they could donate it to an animal shelter or use it to buy items to give to a food bank.

You could also set up a "giving jar" for causes that matter to your family and set a good example by regularly putting money into it. Seeing their money make a difference to others is a powerful lesson in generosity and compassion, but it also reinforces the idea that money can be used as a tool for positive change.

Build lifelong financial confidence

Teaching children about saving, spending and sharing can help them develop good financial habits and make the most of their own money when they grow up.

A Junior ISA (JISA) is a great way to give them a helping hand towards things like their first car, university fees or deposit for their first home, as well as setting them a good example. You can save up to £9,000 a year into a JISA and, just like other ISAs, the interest is tax free. Your child can take control of the account when they're 16 and start withdrawing the money when they turn 18.

Get in touch if you want to know more about JISAs or to make plans to secure the financial security of the children in your family.

Figures based on the ISA allowance figures for the 2024/2025 tax year.

An ISA is a medium to long term investment, which aims to increase the value of the money you invest for growth or income or both. The value of your investments and any income from them can fall as well as rise. You may not get back the amount you invested.

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How to move into the decumulation phase of retirement planning

1. Accumulation:

During your working life, you focus on building up your assets. This might involve contributing to a pension, saving in other accounts, or investing in property. The goal is to create a financial cushion that will support you in retirement.

2. Decumulation:

Once you stop working, you shift your focus to using your accumulated assets to fund your retirement lifestyle. This might involve drawing down on your pension, selling investments, or accessing other sources of income. The goal is to manage your spending wisely so that your assets last throughout your retirement years.

Transitioning into retirement can present new challenges, not least, understanding how to sustainably start using your assets to create an income. As you move into the decumulation phase, you might worry about balancing your needs now with your long-term financial security, but a plan could give you more confidence.

Managing the decumulation of assets is something more people will need to do in retirement as the number of workers with a defined contribution (DC) pension rises.

With a DC pension, you'll retire with a pot of money that you'll have to decide how and when to access. You may need to ensure the pension you've built up over your career will continue to provide an income for the rest of your life.

According to a report in FTAdviser, the Pensions Policy Institute (PPI) expects the assets held in DC workplace pension schemes by over-55s still in work to increase almost threefold to £527 billion over the next decade.

With most workers now automatically enrolled into their employer's pension scheme, which is usually a DC pension, the figure could rise significantly in the future.

Switching from accumulation to decumulation might require changing your mindset

Switching your mindset to start depleting your assets could be more difficult than you think.

To secure your retirement, you may have diligently saved into a pension or built-up other assets over decades. Watching the value of your assets grow can be satisfying and might help you feel more financially secure. When it comes to using those assets to create an income, it can be challenging.

So, what can you do as you move into the decumulation phase of retirement planning to effectively manage your assets? Here are some steps that could be useful.

Seek tailored financial advice

While general advice can be useful, tailored advice will take into account your circumstances, goals, and concerns to create a bespoke plan.

The PPI has set out five principles for "good" decumulation to help DC pension savers manage their assets. Among them is ensuring savers are supported when making key decisions about their pension, including when decumulating.

Booking a meeting with a financial planner could help you manage the decumulation phase of retirement planning and give you peace of mind. Please contact us if you'd like to speak to one of our team.

Understand how long your pension and other assets need to last

One of the reasons you might worry when depleting your pension or other assets is the risk of running out in your later years. So, understanding how long your pension needs to provide an income is often essential.

It's not uncommon for retirees today to spend several decades in retirement. Indeed, according to the Office for National Statistics, a 65-year-old man has a 1 in 4 chance of celebrating their 92nd birthday. For women of the same age, they have a 1 in 4 chance of reaching 94.

As a result, you may need to plan to decumulate your assets over a long period.

Manage your investment risk

When you're accumulating wealth, investing might be a good way to help the value of your assets grow over the long term.

However, as you start decumulating your wealth, your risk profile could be very different. As you might not be earning an income, taking the same amount of investment risk may no longer be appropriate, as you may not have the opportunity to recover from potential losses.

The money held in your pension is typically invested and you might have other assets that are exposed to risk too. So, a complete financial review to assess your risk profile and whether your current assets align with this could help you strike a balance that suits you.

Carry out regular financial reviews

Even if you've set out a long-term financial plan you're confident about, reviews throughout retirement can be valuable.

During your retirement, your wishes and circumstances might change. For instance, you might decide you want to travel for an extended period and will fund it by taking a lump sum out of your pension. Or perhaps you plan to downsize, which could release equity, and might mean you don't need to withdraw as much from other assets.

Regular reviews could help ensure that the way you're using assets continues to reflect your goals and financial situation.

In addition, factors outside your control might affect how and when you want to deplete assets.

High levels of inflation in 2023 is a good example of how external factors might change how you decumulate assets. To maintain your standard of living, you might have needed to increase the amount you were withdrawing from your pension as prices increased. A financial review could help you understand if that would be sustainable, as well as the potential long-term effects.

Contact us if you have questions about using assets to fund your retirement

If you've already retired or are nearing the milestone and have questions about how to use your assets to create financial security, please contact us.

We can work with you to create a plan that focuses on decumulating sustainably, as well as incorporating other important factors, from managing your tax liability to what assets you'd like to pass on to loved ones.

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Do you keep meaning to sort out your will?

We can help you.

Life is busy, we get it. But is anything more important than being in control of your future?

Recent research suggests that only 44% of UK adults have made a will, which means that you're far from alone if you haven't yet got around to completing what, for some, appears to be a daunting task.

It's always worth bearing in mind that if you die without a will, the law decides who in inherits everything you own (your assets) according to certain criteria called 'intestacy rules'. So your assets may not be divided up as you would like, meaning your loved ones' future isn't in your hands, but in the hands of HM Treasury.

What is a will?

A will allows you to direct how your assets are distributed after you die. These might consist of properties, bank balances or prized possessions. If you have a business or investments, then your will describes in black and white who will receive these assets and when. It also enables you to leave gifts to a charity or charities of your choice, should you wish to.

In short, a will is the only way to ensure your money, property, possessions, and investments go to the people or the causes you care about most.

Don't put it off

A 2023 report from the National Will Register found that 42% of adults in the UK hadn't spoken to anyone about what should happen to their assets after their death. Even among the age group most likely to have written a will, three in ten over 55s hadn't discussed their wishes with anyone.

It's easy to understand why people put off such major decisions but this isn't a subject which should be parked – it's one that needs to be proactively tackled before it's too late.

Which is where we come in. Getting it right is too important to leave to chance, so get in touch and we can ensure you're directed to the right place to ensure the will you write is uniquely designed to express your wishes and safeguard your loved ones' futures.

Will writing is not regulated by the Financial Conduct Authority.

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Reasons to consolidate your pensions

If you've worked for more than one employer, you will doubtless have more than one pension plan. How long is it since you last looked at them? Are they languishing in poor performing funds?

Combining some or all of your pensions into a single plan could save you money, achieve better growth and make your life easier. Here are some things to consider:

5 benefits of pension consolidation

1. Consolidating could save you money. Each pension plan has its own annual charges so combining multiple pensions into one means you'll only pay one annual fee. Shopping around could also help you find a plan with lower charges than your current ones.
2. It gives you greater flexibility. Modern pensions may offer benefits that older ones don't, like flexible drawdown of your pot or income for your loved ones after you pass away.
3. It keeps things simple. You only have to remember one set of login credentials and, if your address changes or you want to change the recipient of any death benefits, you only have to tell one provider.
4. You could get better opportunities. Bringing your pensions together could increase the overall value of your savings and a different plan or provider might give you access to a wider range of investment funds.
5. It makes it easier to plan for the future. An important part of retirement planning is understanding what you've got and what you'll need. Having everything in one place makes it easier to track your plan's value against your goals.

Things to be aware of

You could be charged exit fees. Some plans still have exit penalties so make sure you're aware of these and the impact they might have on your pot.

It may be better to stay in a final salary (also known as defined benefit) scheme. These offer a guaranteed income in retirement alongside other benefits (like a pension for your spouse when you die) which you'll lose if you transfer out.

There's no guarantee you'll be better off consolidating. Your current pensions may have benefits like early access or guaranteed annuity rates that might be worth keeping, and annual fees on other pensions may not be competitive.

Get advice before you consolidate

We're here to help. We can assess your situation, explore your options, and help you understand if pension consolidation is right for you.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Is it better to gift a property or leave it in your will?

Before passing away, Maggie gifted her house worth more than £700,000 to her son Bruce but still remained living there, paying a token amount of rent. Nine years later, following Maggie's death, Bruce was surprised to be landed with an inheritance tax bill for the property.

What did Maggie do wrong?

Maggie knew if she died within seven years of gifting Bruce her house that he may well end up paying inheritance tax on it. She also knew enough to pay Bruce rent after gifting him the property. However, the amount she paid was well below the market rate and this is where she fell foul of inheritance tax laws. By only paying a token amount of rent, the house remained part of Maggie's estate and Bruce was hit with a hefty inheritance tax bill.

How to decide whether to gift a property or leave it in your will?

There are no easy answers to this. There are a lot of complicated tax rules to consider and the best approach will depend on your individual circumstances. Whatever the situation, it's an important decision and one best made as a family. We've looked at the pros and cons of both to give you an idea of the kind of things you'll need to consider.

Leaving a property in your will

The first thing to do is find out the residence nil rate band (RNRB) allowance for the property in question. If, like Maggie, you're leaving your main home to a child or grandchild, they'll benefit from an extra £175,000 tax-free allowance on top of the standard £325,000. This means you could leave an estate worth up to £500,000 and there'll be no inheritance tax to pay. And if you and your spouse are leaving a joint estate, that doubles to £1m.

Maggie's husband Bill died in 2019 and the executors of the estate can also claim Bill's residence Nil Rate Band. This means that the £675,000 can be claimed as an amount where no inheritance tax is applied, meaning this £675,000 remains inheritance tax free.

The benefits of leaving a property in your will are that you'll retain control of it, it isn't generally at risk from anyone else's divorce, death, or bankruptcy and, currently, there's no capital gains tax to pay for the beneficiary.

Working with a professional financial planner, it would have been possible for Bill to leave 'assets to the value of the Nil Rate Band' and have what is called a 'Will Trust' written into the will. As this is a specialist area, it is important to discuss with a professional and consider the options.

Gifting a property

If, as in Maggie's case, the property is worth more than the RNRB, you may want to consider passing full ownership to a child. You then need to move out or, as Bruce found out to his cost, pay rent at the going market rate.

There are many reasons people choose to gift a property: to minimise inheritance tax; to provide financial help to loved ones sooner rather than later; or to avoid care home fees. If you're considering it for the latter reason, you should be aware that anti-avoidance rules are designed to stop people doing this.

If you gift a property, you'll lose control of it. But once the transfer of ownership takes place, so begins the seven year countdown for removing the property from inheritance tax liability.

Right sizing

Another option for improving your quality of life into old age and helping the kids out at the same time is right sizing. In other words, selling the family home and buying somewhere that is easier to manage and better suits your needs as you get older. This option generally releases equity, which can be used to give loved ones a financial boost while you're still alive. Alternatively, you could investigate a lifetime mortgage as an option for releasing money to gift away now.

Insuring against inheritance tax

Another possibility Maggie could have considered is taking out whole of life insurance. This would have provided a tax-free lump sum on death to cover Bruce's inheritance tax bill. Writing the policy into trust would have ensured any payout wasn't included as part of Maggie's estate.

However, policies can be expensive and HMRC would have treated the premiums as a lifetime gift if Maggie paid them herself. Bearing this in mind and considering Bruce would have been the person to benefit from the insurance cover, it would have made sense for him to pay the premiums if he was keen to go down this road.

Key takeaways:

- When deciding whether to gift a property or leave it in your will, you need to focus on what you're trying to achieve.
- The benefits of leaving a property in your will are that you'll retain control for the rest of your life, it isn't generally at risk from anyone else's divorce, death or bankruptcy and, currently, there's no capital gains tax to pay for the person who inherits it.
- Gifting a property can be used to minimise inheritance tax and allow you to provide financial support to loved ones before your death.
- Right sizing may improve your quality of life and release equity.
- It's possible to insure against inheritance tax but it can be expensive so it may be more appropriate for beneficiaries to pay the premiums.
- Professional advice can help you and your loved ones understand the various implications of the different options and allow you to make informed decisions.

The importance of professional advice

As you can see, estate planning is far from straightforwardso it makes sense to work with a financial adviser who canlook into different scenarios and help you and your lovedones make informed decisions.

Get in touch

If you'd like help to create a financial plan to structure your assets to be more tax-efficient before your death, we can help. Please get in touch to arrange a time to chat.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. For specialist tax advice, please refer to an accountant or tax specialist.

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More than a decade of auto-enrolment

Since the government introduced pension auto-enrolment in 2012, millions more workers have started saving for their retirement. Now, the government has confirmed plans to extend auto-enrolment to encourage a savings boost. The changes could have implications for both employees and business owners.

Following a review of auto-enrolment the government has revealed key reforms forecast to increase pension contributions by £2 billion a year.

Key auto-enrolment changes to be aware of

The minimum age of auto-enrolment will fall from 22 to 18

Young workers could start saving into a pension much sooner. The government intends to lower the minimum auto-enrolment age from 22 to 18.

For employees, this could be a positive step. Saving for retirement from the outset of their careers could help establish positive money habits among workers. In addition, compound growth means early contributions have the potential to grow significantly.

For business owners, it could mean their outgoings will increase as they'll also need to make pension contributions on behalf of eligible workers.

The lower earnings limit will be removed

Currently workers must earn at least £6,240 to be eligible for auto-enrolment. The government plans to remove this lower earnings limit, so workers will receive contributions from the first pound they earn.

This will boost pension contributions among those that are already paying into a pension. It will also mean low-income workers that haven't previously benefited from a pension, such as those who work part-time while caring for children or older relatives, will automatically start paying into a pension and receive employer contributions too.

From an employer's perspective, this change could, increase the amount they are contributing to employees' pensions.

There could be a maximum limit on pension pots

As most employees are entitled to a pension through their employer, frequent job hopping could lead to individuals holding numerous small pensions. This may make it difficult to manage pensions effectively and understand if you're on track to reach your retirement goals.

The government has set out initial plans to help savers manage multiple pots. Among the proposals is a maximum limit on the number of pensions a person can have. The report also suggests a 'central clearing house' to make it simpler to consolidate pensions.

There is no timescale for the proposed changes

The official document does not set out a timescale to implement any of the changes. So, while young and low-income workers are set to benefit from auto-enrolment, it could be several years before they start contributing to pensions.

The minimum pension contribution will not be increased

The government has not made plans to change the current rules for contributions. Currently, the minimum contribution is 8% of qualifying earnings, made up of 5% from employees and 3% from employers.

Research suggests that minimum contribution levels are not enough to afford a comfortable lifestyle in retirement. There have been calls for the government to increase the minimum pension contribution level to help close the gap.

Auto-enrolment won't be extended to cover self-employed workers

Some organisations have called on the government to extend auto-enrolment to encourage self-employed workers to save for their retirement. However, support for the self-employed has been overlooked in the latest report.

Research from the Institute for Fiscal Studies suggests the number of self-employed workers paying into a pension has fallen over the last decade.

It also found self-employed workers that pay into a pension rarely change the amount they contribute. The analysis suggested a form of auto-escalation, such as a direct debit that increases in line with inflation, could help self-employed workers save more for their retirement.

Take control of your pension and retirement

While the change to auto-enrolment could mean more people are on track for a financially secure retirement, there are still challenges. If you want to reach your retirement goals, engaging with your pension sooner, rather than later, could allow you to identify the steps you need to take.

Please contact us to discuss your retirement aspirations and how we could help you create a tailored financial plan.

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Autumn Budget 2024: Winners and Losers

Chancellor of the Exchequer Rachel Reeves outlined the Government's financial plans for the next five years. The measures, which will raise up to £40 billion for public finances, aim to "restore economic stability" and put "more pounds in people's pockets".

On 30 October 2024, Chancellor of the Exchequer Rachel Reeves announced the UK Government's Autumn Budget alongside the Office of Budget Responsibility's economic and fiscal forecast. The measures aim to raise more than £40 billion in taxes, plugging an alleged £22 billion black hole in public finances left by the previous government. Reeves committed to drive economic growth, but also said that the Government wouldn't borrow to fund current spending whilst maintaining the Bank of England's inflation target of 2%.

Commenting on the Budget, Reeves said: "This Government was given a mandate to restore stability to our economy and begin a decade of national renewal. To fix the foundations and deliver change through responsible leadership in the national interest. That is our task, and I know we can achieve it."

So, what are the potential impacts of these new measures? Below we outline who stands to benefit from these changes and who might be negatively affected. Let's start with the positives.

The Winners

The NHS

The Chancellor pledged to significantly increase public spending on the NHS. Reeves promised a £22.6 billion increase to the "day-to-day" budget of the NHS alongside a £3.1 billion boost to its capital budget over the next two years. The Chancellor commented that this would be the "largest real term increase in NHS spending outside of COVID since 2010."

Sustainable transport and energy

Reeves also announced that the National Wealth Fund would be used to invest in key areas like gigafactories and green hydrogen plants across the country. Meanwhile, over £2 billion will be invested in supporting the automotive sector's transition to electric vehicles.

Property developers

Funds for the Affordable Homes Programme will increase to £3.1 billion to help Labour deliver on its promise to build over 1.5 million homes. Reeves said the Government would hire hundreds of new planning officers and make reductions to Right to Buy discounts, putting more money into the pockets of local councils. This news could incentivise investment in the UK's property market and make it easier for property developers to build new homes in the UK.

Driver

Reeves confirmed that the freeze on fuel duty will continue for another year, meaning drivers could save approximately £60 a year at the pumps. The freeze will cost £3 billion a year, but the Chancellor was clear that she wanted to ease "the burden on motorists". This move could help relieve the fiscal pressure on delivery drivers, couriers and supply chains throughout the country.

Young and low-income workers

The Chancellor announced that the Government is increasing the National Living Wage for workers aged 21 or over by 6.7% to £12.21 an hour (which could be worth up to £1,400 a year for a full-time worker) and increasing the National Minimum Wage for 18–20-year-olds by 16.3% to £10 an hour. Reeves also confirmed that National Insurance won't be increasing for workers. Increases to the National Living and Minimum Wages are intended to provide much-needed support to those on the lowest incomes.

Small businesses

The employment allowance for business will increase from £5,000 to £10,500, reducing the National Insurance liability of small businesses. The Chancellor said that this would mean around 865,000 would pay no National Insurance in 2025, providing welcome relief for SMEs who are struggling to retain an effective workforce and attract applicants without a hit to their profits.

The Losers

Employers

Reeves confirmed that employers' National Insurance contributions will increase to 15% from April 2025. The Government is also reducing the threshold at which employers start paying National Insurance from £9,100 to £5,000 per year. Furthermore, the Chancellor announced that the current freeze on income tax thresholds would end in four years. From 2028, personal tax bands will be updated in line with inflation.

These changes will have a direct impact on British employers, but they could also have a knock-on effect for employees. Many businesses use savings on National Insurance to fund pension contributions or employee benefits. If the increased burden of National Insurance contributions proves too harsh, employees could lose these benefits as a result.

New businesses and investors

The Chancellor announced an increase in the lower rate of Capital Gains Tax (CGT) from 10% to 18% and the higher rate from 20 to 24%. She noted that, even with these increases, the UK will still have the lowest capital gains tax rate of any European G7 economy. But some analysts argue that the move could alienate investors and even decrease tax revenue overall if investment is pulled from UK startups.

Foreign investors

Reeves also announced sweeping changes to the tax status for non-domiciled high-net-worth individuals operating in the UK. The Chancellor said that Labour would "abolish the non-dom tax regime, and we will remove the outdated concept of domicile from the tax system from April 2025."

The government is also set to extend the Temporary Repatriation Relief to three years with the aim of bringing billions of new funds into the UK. The independent Office for Budget Responsibility estimates that this could raise £12.7 billion over the next five years.

Second homeowners

The Stamp Duty land tax for owners of second homes (known as the Higher Rate for Additional Dwellings) increased to 5% from 31 October 2024. The Chancellor said that the move is designed to "support over 130,000 additional transactions from people buying their first home or moving home over the next five years." However, this increase could have an impact on landlords, property developers, and the owners of holiday homes and other rental properties.

Private schools

All education, training and boarding services provided by private schools will now be subject to VAT at the standard rate of 20% from 1 January 2025. Private schools also won't be able to claim back VAT on the supplies and services they pay for.

What's next?

The Autumn Budget contained several key changes that are likely to have significant impacts on individuals and businesses across the UK. There's a lot of information to process and it may not be immediately clear how the changes set out in the Budget will affect you. If you have any questions about whether you are a winner or a loser from the Autumn Budget, and how it will affect you and your finances, please get in touch.

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