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Bespoke financial & investment advice

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Review

Personal finance commentary & opinion

the benefits of being benevolent

MIFID II & GDPR Update
Colin Sears

UK Inflation: Fleeting Force or Here to Stay?
Jack Rawcliffe

Innovative Finance ISA
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Review

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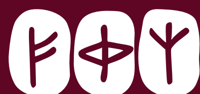


Welcome to the latest edition of Holden and Partners Review....

We certainly live in interesting times. Despite the uncertainty caused by Brexit, the erratic presidency of Donald Trump, tension over the Korean peninsula and the ongoing divisions in the Middle East; it has actually been a positive year for client portfolios, with UK and US markets reaching all-time highs. Clearly, it is impossible to predict whether this upward momentum will continue but it has come as a surprise to many just how resilient equity markets have been. Many global companies continue to make good levels of profits and with deposit accounts still paying paltry levels of interest plus programmes of quantitative easing continuing, it will be interesting to see how the investment landscape in 2018 develops.

In our opinion, however, with the world economic and political environment becoming ever more unpredictable, the need to hold a fully diversified portfolio with exposure between all the major asset classes becomes even more important. Significantly, we hope that our clients will continue to benefit from our continuing commitment to themes that take into account the increasing importance of climate change. These themes include renewable energy, water, efficiency technologies and a belief that in the future only environmentally sustainable businesses will prosper.

Closer to home, it has also been a very positive year for Holden and Partners. We continue to grow and this year we have added Joe Wigens to our Paraplanning Team, Dominic Clark to our Investment Team and Josh Shaxson to our Client Support Team. We had our first Summer Party at the London Transport Museum in Covent Garden which was attended by over 100 long-standing clients. On the technology front, we have also installed a new back office system which we anticipate will significantly improve our administrative efficiency and, in time, offer an improved client login area. We have also been nominated as a finalist in the Professional Adviser, London Adviser of the Year award and been awarded New Model Adviser Top 100 status for the third year in a row.

In this edition, we feature a number of articles covering a range of current topics. Jack Rawcliffe considers the impact of inflation, Joe Wigens focuses on changes to the state pension, whilst Aram Kupelian and Rachael Foy evaluate the importance of cash flow planning. Additionally, Stefani Williams writes on the importance of having adequate life assurance provisions in place and Mark Dodd looks at the Innovative Finance ISA. In our feature article, we cover the often under-appreciated benefits of charitable giving. Enjoy the read...

Steven Pyne
Managing Partner

If you have an idea for an article or something you would like us to investigate, please email the Holden & Partners Review team at: info@holden-partners.co.uk

MIFID II & GDPR Update

MIFID II is the latest re-incarnation of European-wide legislation aimed at increasing transparency in markets and providing improved client protection. It becomes effective on January 3rd, 2018. The main areas in which clients will see a change in the way that they invest, and how Holden & Partners addresses these issues are as follows:

Record of conversations - whenever an adviser has a conversation with a client regarding their investments or financial planning strategy, a recording of that conversation will be made and retained.

Transaction reporting - financial planning firms will be required to make a report of all transactions made by clients that fall within the scope of the new legislation. To do this all investors will need a Legal Entity Identifier (LEI).

For individuals, this will normally be a National Insurance Number (NINO). Where, for any reason, a NINO is not available, there are prescribed alternatives that can be used. Should it be necessary, Holden & Partners may contact clients regarding any further information that is needed to generate a personal LEI. Any clients who are not contacted may assume that no further information is needed.

For trusts, companies, pension funds, charities, or unincorporated bodies, clients will need to obtain an LEI from the London Stock Exchange. Certain clients may have already received communication from a product provider, or obtained an LEI but, regardless, Holden & Partners will have contacted all clients individually regarding such an identifier, and to offer assistance to obtain it, should it be needed.

General Data Protection Regulations (GDPR) is a replacement for the Data Protection Act, which will become effective on 25 May 2018. Its purpose is to strengthen control over firms such as Holden & Partners who hold client personal data. Broadly speaking this means that:

- **Holden & Partners will require client consent to hold personal data in all circumstances, other than when there is a regulatory requirement for the firm to do so.**
- **Clients will have the right to obtain copies of their personal data from Holden & Partners without charge.**

Consequently, clients should expect to be contacted in early 2018 in order to obtain consent to hold their personal data.

Colin Sears
Compliance Manager

Changes to the State Pension Age

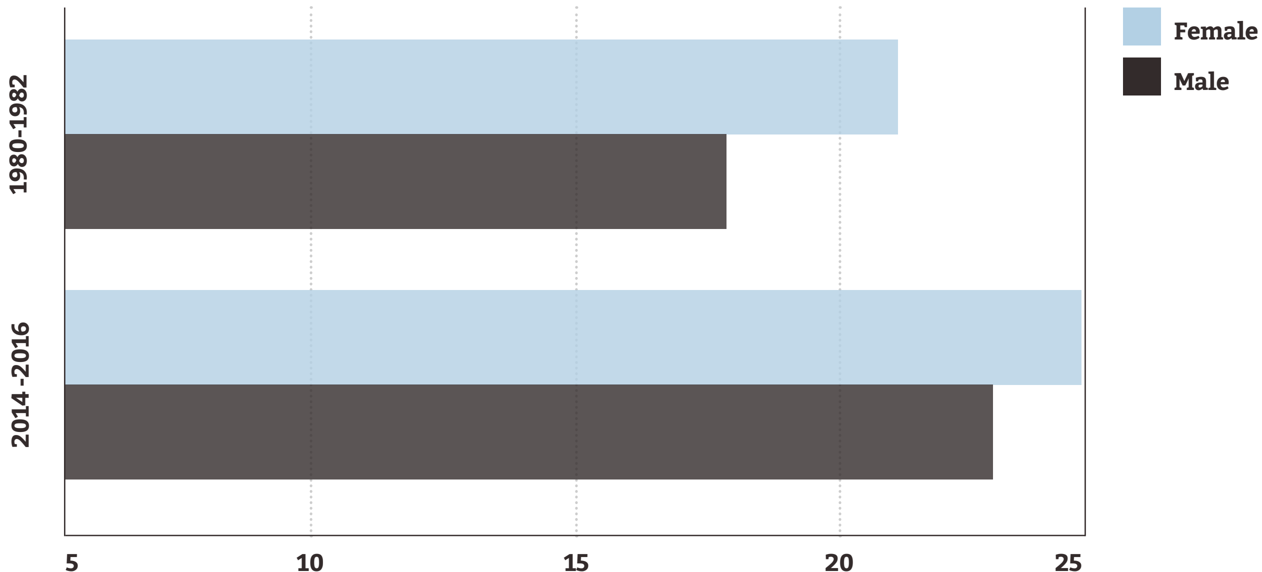
Over the last few years the State Pension has been subject to a number of changes; but probably the most pertinent are the increases in the age that it can be drawn.

During our working life we build up access to the State Pension through National Insurance Contributions. The full new state pension is £159.55 per week before tax and can form a valuable income stream. As private pension benefits can now be accessed flexibly, the State Pension can be a strong foundation of income in retirement.

Of the three main factors that led to the review of State Pension Age; a growing population, an ageing population, and the increase in life expectancy, the latter has been focussed upon.

According to the BBC, when the first contributory state pension was introduced in 1926, only a third of men and 40% of women were expected to see their 65th birthday, which shows how much longevity has increased. The rise in life expectancy at age 65 in more recent years is also notable.

Life expectancy at age 65



As a result of this increase in longevity, the Office for Budget Responsibility (OBR) has committed to a gradual increase in the State Pension Age, over the next 30 years. Despite this, the cost of the current state pension is expected to grow from 5% of GDP to 7.1% over a 45 year period.

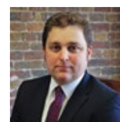
The current timetable for the increases in the State Pension Age is as follows:

- **Equalisation at age 65 being achieved by November '18.**
- **Increase to age 66 from December '18 – October '20.**
- **Increase to age 67 from April '26 – April '28.**
- **Increase to age 68 from April '44 – April '46.**

Many people see retirement as a time to achieve dreams, such as having holidays or spending time with family, and this stage of life can become an important personal milestone. In some instances, the delay in the start of the State Pension could be the difference between retiring and achieving these goals or working longer.

Based on the current level, the increase in the State Pension Age could mean the loss of around £1,900 per annum before tax for each year that it is extended. It is therefore important that steps should be taken to cover the shortfall created by the pending changes.

We help our clients achieve their retirement goals by offering a number of retirement solutions that can help to fill the income shortfall that results from the discussed changes. This could be as simple as reviewing a client's existing pension provision or considering a more complex situation by modelling their cash flow both before and during retirement.



Joe Wigens
Paraplanner

Source: National Life Tables UK 2014 to 2016, Office of National Statistics, 27 September 2017

Innovative Finance ISA

In April 2016, the UK Government introduced the Innovative Finance ISA (IFISA) where, for the first time, peer-to-peer (P2P) lending activities are eligible ISA investments, though it is only now that investors have started to take note.

With some IFISA providers offering returns of between 12% and 20%, many will ask whether rates like this are simply too good to be true when compared to UK savings rates, even following a recent base rate increase.

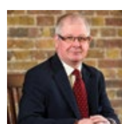
In summary, the IFISA is a new tax wrapper which allows investors to lend money using Financial Conduct Authority (FCA) regulated P2P lending platforms and receive interest and capital gains tax-free. It will operate alongside, and use similar rules to, the established Cash ISA system.

P2P providers match borrowers with investors or lenders, cutting out banks and putting those with money to lend in touch with those who want to borrow. With inflation rising and bank interest remaining low, many savers are now looking at alternatives for their cash for the long-term and are prepared to place their funds in more risky P2P investments. With P2P, borrowers can access credit at lower rates than the more traditional routes, and lenders can receive higher interest than would otherwise be the case.

P2P must be considered as a lot more risky than holding cash in the bank or National Savings, as your capital is at risk and, crucially, P2P isn't covered by the Financial Services Compensation Scheme, though many of the providers have their own safeguards in place.

Over £5 billion has now been lent in the UK by the P2P lending sector, and now that the UK P2P lending sector is fully regulated by the FCA, investors have greater security.

It must be noted that P2P lending and bank savings accounts are not direct substitutes. Whilst the interest rates that are available to P2P lenders are much greater than are presently available from the high street bank and building society Cash ISA accounts, the risks are greater and lenders' capital is at risk.



Mark Dodd
Partner

Further Changes to the Tax-Free Dividend Allowance

The tax-free dividend allowance was introduced by former Chancellor George Osborne from April 2016, set at £5,000. This meant someone with £100,000 in unwrapped investments could receive dividends worth up to 5% of the fund, without paying any tax at all. However, the current Chancellor, Philip Hammond, has chosen to cut the allowance to £2,000, from April 2018. Based on the above example, that means the same £100,000 investment outside of a tax wrapper can only generate dividends of 2%, before being subject to tax charges.

In the 2018/19 tax year, an investor receiving £5,000 will pay tax of:

- £225 (as a basic-rate taxpayer, at 7.5%)
- £975 (as a higher-rate taxpayer, at 32.5%)
- £1,143 (as an additional-rate taxpayer, at 38.1%)

This is because while the first £2,000 remains free of tax in 2018/19, the next £3,000 is not.

This also affects directors of limited companies, who take a combination of salary and dividends. Despite the changes, dividends will remain a tax efficient way for directors to pay themselves.

The legislation will be introduced in the Finance Bill 2017 and it is estimated that this will affect around 2.27 million individuals in 2018 to 2019. Anyone potentially affected by this should consider shifting their investments into tax wrappers, ISAs or pensions (if appropriate), where investment growth and dividend payments remain tax-free. An alternative option would be to consider changing the investment strategy of those unwrapped investments, to reduce dividend income and utilise your personal tax free capital gains tax allowances in the future.

It is important that you review your investments to ensure they are structured in the most tax efficient way.

Reece Biggadike
Financial Planner

The Importance of Cashflow Planning

When we meet our clients, some of the most common questions we are asked are:

- When can I afford to retire and how much can I spend?
- How much do I need to save to meet my desired lifestyle in retirement?
- What level of return do I need to meet my desired lifestyle in retirement?
- How much risk do I need to take with my investments?
- Can I afford a large capital expense such as a new car, or make gifts to family?
- Can I meet my goals if my investments don't perform as well as expected?
- How would my family cope if I am unable to work, or if I die prematurely?

Having a financial plan can help provide you with the answers to these questions. Cashflow modelling is an important part of our financial planning for clients. It helps us to answer many of these concerns by allowing us to forecast your current and future financial situation.

When creating a financial plan, we will firstly establish your lifetime goals. We will then assess your current situation and determine how close you are to achieving your goals based on aspects such as your income, expenditure, assets and liabilities.

After this, the next step is to develop and implement a plan to establish what action you need to take. The plan can then be used to help make well informed financial decisions. As your situation evolves over time, the plan will be monitored, reviewed and adjusted where necessary.

When the cash flow is run, there are typically two scenarios:

1) You have a surplus of assets. This means you can meet your financial goals and opens opportunities to discuss the potential for:

- Retiring early
- Enhancing your lifestyle by increasing expenditure.
- Making gifts to family
- Reducing inheritance tax liabilities
- Reducing unnecessary risk associated with your investments.

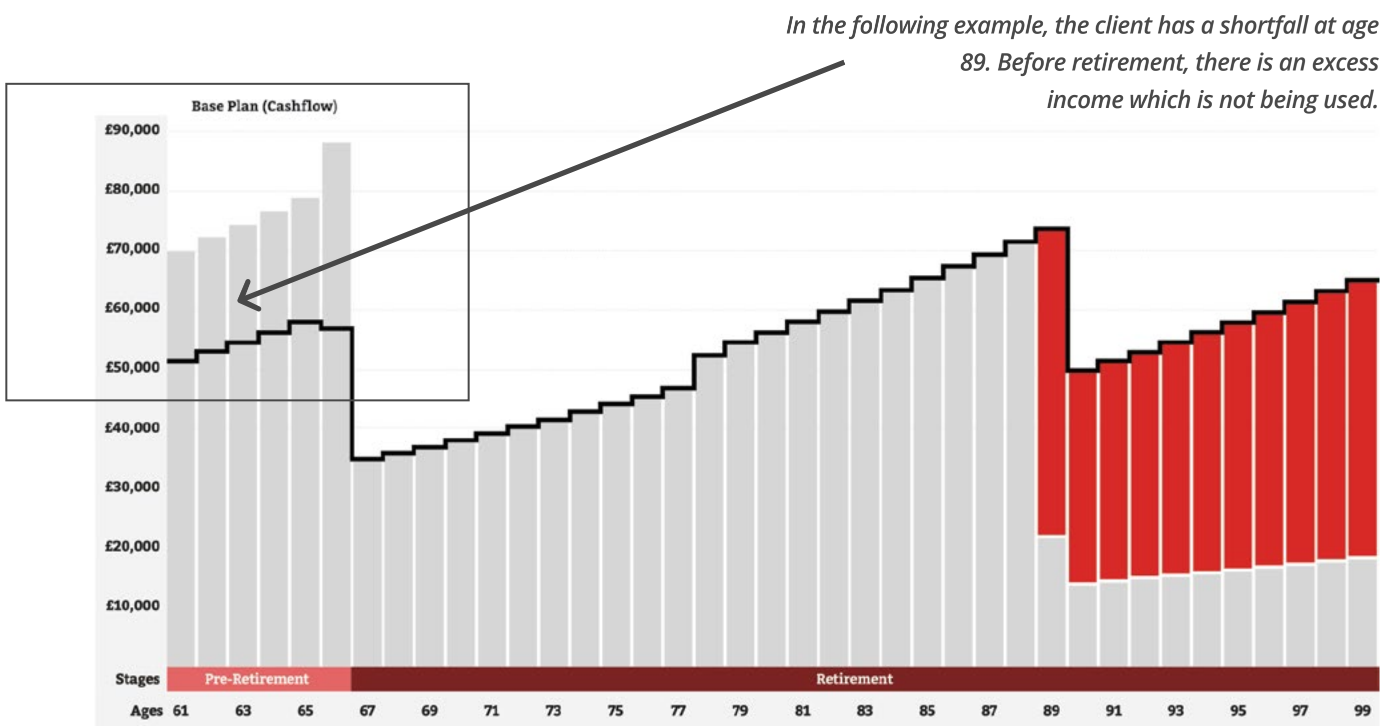
2) You have a shortfall of assets. This means your financial circumstances are not sufficient to meet your future aspirations. The advantage of having a plan will highlight potential shortfalls or threats to your situation and put you in an informed position well in advance. This means you can do something about it at an early stage and remain in control of your financial future. It opens opportunities to discuss:

- Your desired retirement age
- How much you need to save to achieve your goals
- The level of return you require to meet your goals
- Assessing the level of risk you are taking with your invested assets
- If there is the potential to downsize or other methods of releasing capital
- Reducing expenditure in retirement.

Example – Income Shortfall in Retirement

The following chart shows a forecast of a client's cash flow over their lifetime. Each bar represents one year. Where they are coloured grey, it means there is enough income or liquid assets to draw upon to meet the client's income need for the year. The need is represented by the black line running along the chart. Where bars are coloured red, there is a shortfall. In other words, there is not enough income or liquid assets to meet the income need for that year.

In the following example, the client has a shortfall at age 89. Before retirement, there is an excess income which is not being used.



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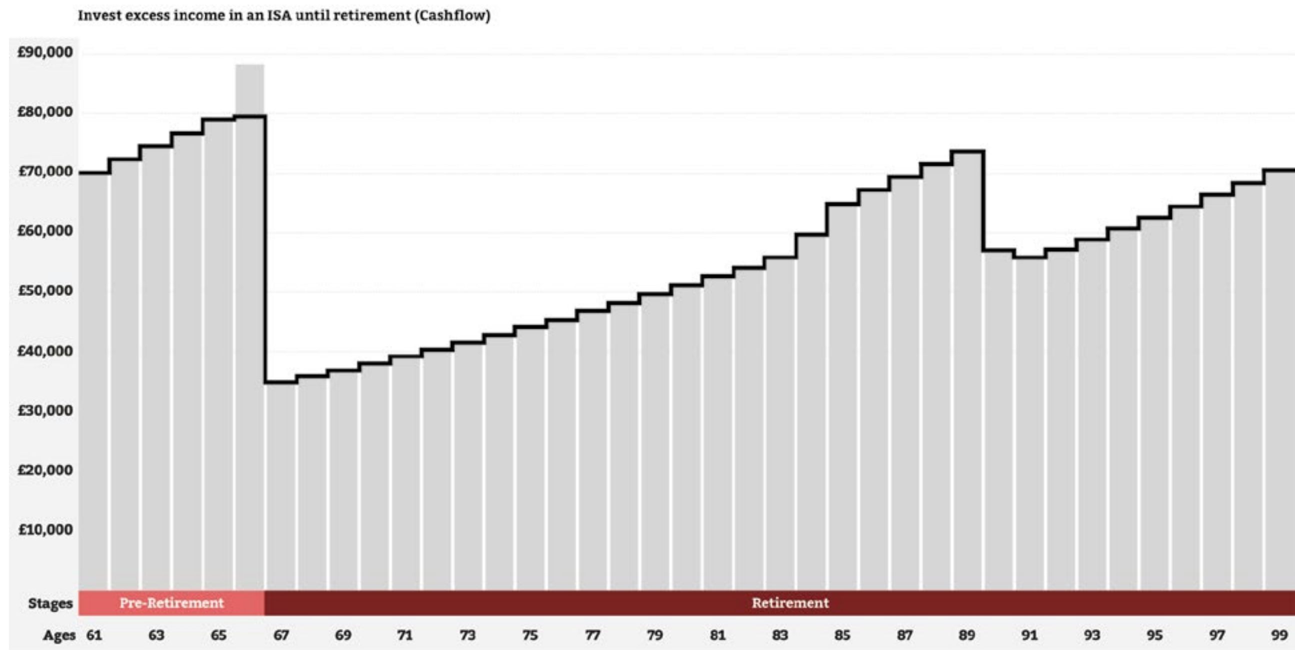
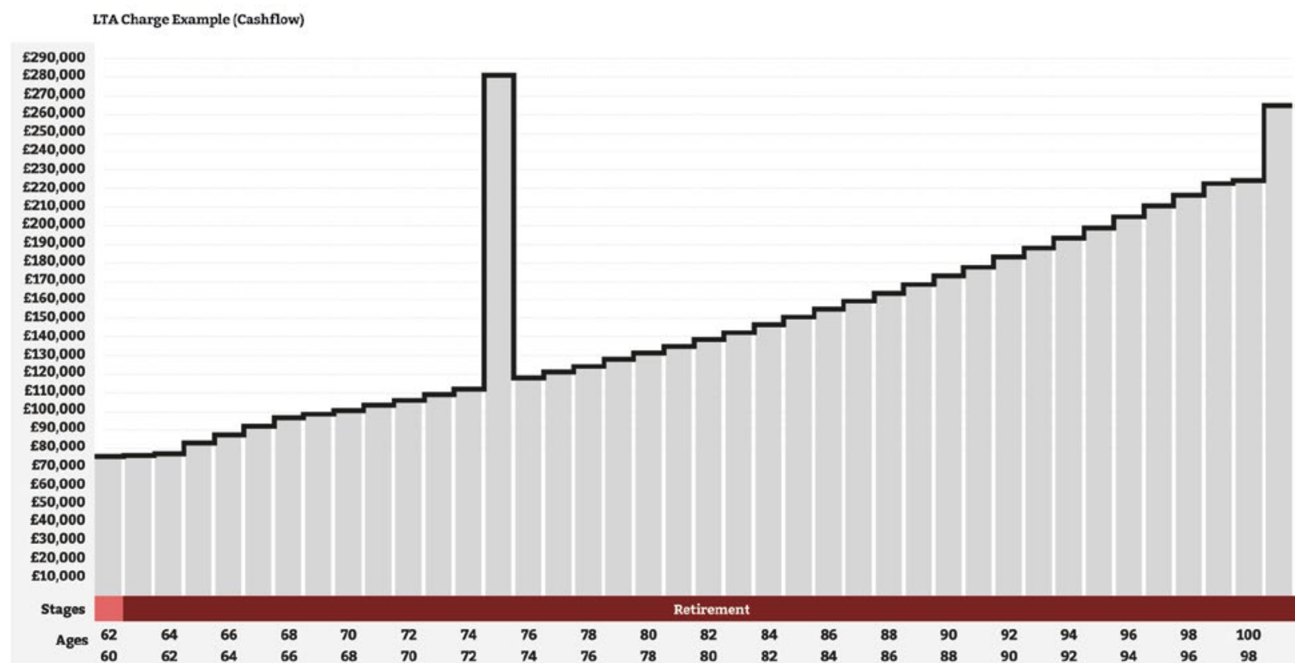
Using the cashflow software, we are able to see what might happen if the excess income is used to fund a stocks and share ISA each tax year. The results are as follows:



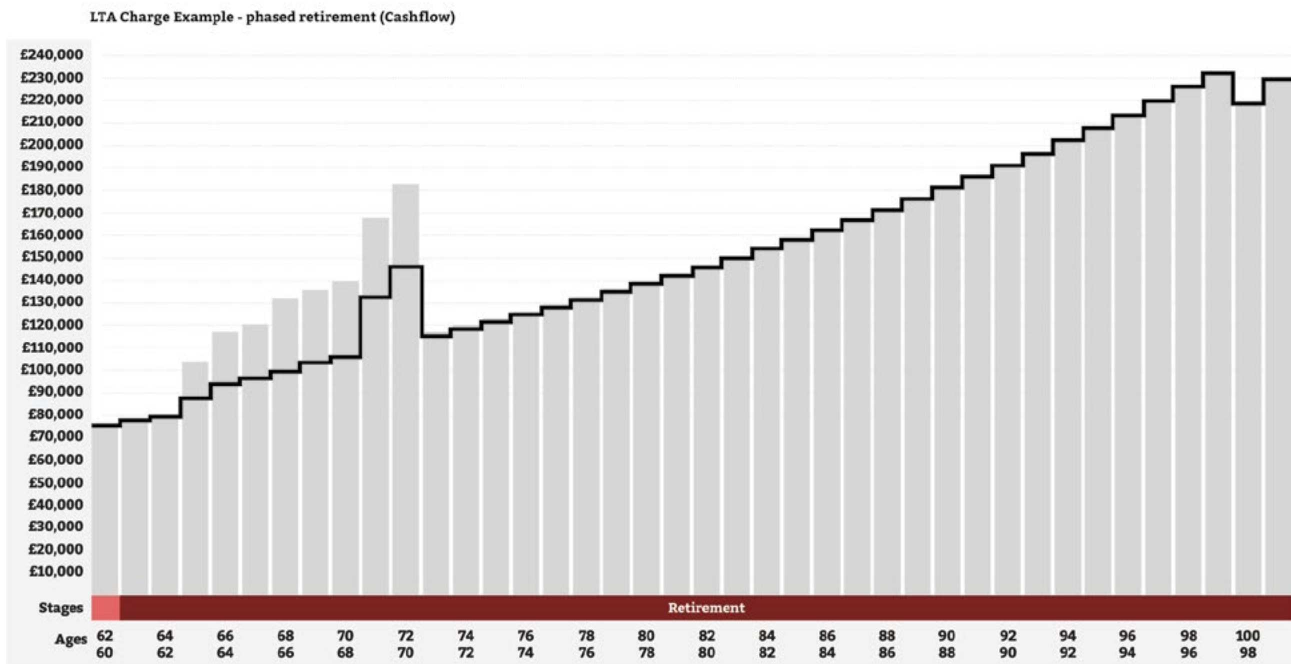
The chart above shows that the shortfall has now been filled. This indicates that by investing the excess income in an ISA, the client has a much better chance of achieving their retirement objectives and being able to meet all planned expenses until age 100.

Example – Pensions and Tax planning

The cashflow system can also help to identify future tax liabilities. In the following example, the client faces a Lifetime Allowance Tax (LTA) charge at age 75 due to the value of their pensions. This is demonstrated by the large spike at age 75. In this example, the LTA charge is in excess of £150,000.



The following scenario demonstrates what could happen if the client takes a phased retirement approach. They decide to draw a higher level of income from their pensions in the earlier years of retirement when they are likely to be more active and have a greater need for the money.

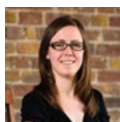


This scenario shows that through careful planning, the LTA charge can be eliminated.

In addition, the projection shows that the client can afford to take the additional income and spend more in retirement and there is still no shortfall in the plan.

In summary, having a financial plan can help you stay in control of your financial future by giving a clearer picture of what it might look like. It ensures you have the right provisions in place now, to enable you to make big decisions at the right time, so you can meet your lifetime goals without your money running out.

Aram Kupelian
Paraplanning Manager


Rachael Foy
Paraplanner

UK Inflation: Fleeting Force or Here to Stay?

In its most recent publication of economic data, the UK's Office for National Statistics revealed that inflation within the UK, as measured by the Consumer Prices Index (CPI), had reached 3% year-on-year, a full percent above the Bank of England's official 2% target.

To provide context, of the 213 months to have elapsed since the turn of the millennium, only during 36 of those has UK inflation been greater than its current level, while the average rate of inflation over this period has been a little over 2%. When these statistical comparisons are coupled with the fact that the highest rate of inflation from any other mature, developed economy is the 2.2% currently being recorded in the United States, it would seem reasonable to conclude that inflation within the UK is at an elevated level at present. The question to be asked, therefore, is whether or not such inflation is likely to persist in the future – that is, is it fleeting in nature or is it here to stay?

Before attempting to answer this question, it is worthwhile examining how the current inflation environment within the UK came to be. In the aftermath of the UK's referendum vote to leave the European Union in June 2016, an outcome unexpected by financial markets, the immediate strain was borne by Sterling. Within two days Sterling had depreciated sharply, falling 11%, 8%, and 15%, respectively, versus the US Dollar, Euro, and Japanese Yen, with similar depreciations witnessed against virtually every other tradeable currency in the world. Owing to the globally-exposed operations of a large percentage of UK companies, such Sterling weakness sent producer input prices (the cost of raw materials sourced domestically and internationally) 20% higher in aggregate. Despite initially being absorbed by corporate profit margins, such a cost increase was ultimately passed through to customers in the form of higher prices for many of the items that constitute the CPI basket, sending the overall inflation measure higher.

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The path that inflation may tread going forward is likely to involve two distinct phases, in our view. Over the remainder of the year and into the beginning of 2018, inflation may well breach the 3% level, fuelled by the lingering effects of Sterling weakness on corporate cost structures and, by association, prices faced by end consumers. Looking beyond the immediate future, however, we deem it more likely that a period of disinflation, or falling inflation, will prevail, partly because the construction of the CPI basket ensures that, as time passes, the price impact that previous bouts of Sterling weakness have is reduced and eventually removed. Perhaps more important in a longer term context, though, is wage growth. Defined by average weekly earnings, wage growth is the conventional determinant of inflationary pressure within any free market economy, as, logically, consumers that are able to command ever-greater remuneration in exchange for their labour are naturally equipped with enhanced spending power, which, as a result, increases aggregate demand for goods and services and spurs prices higher. However, at present, average weekly earnings growth stands at 2.2% year-on-year, significantly below its near 3% long term average and less than the inflation rate, ensuring negative wage growth in real terms. The key takeaway, therefore, is that the chief economic driver of inflationary pressure is not currently at a level that can sustain inflation at its elevated rate going forward.

Aside from lacklustre wage growth, a further element that could dampen inflation is Brexit and the March 2019 deadline for exit negotiations with the European Union to cease. With no clear picture yet to emerge as to the exact nature of the UK's future relationship with its European counterparts, uncertainty within the corporate world is inevitably going to increase. While it must be said that the latest data does not depict a sharp deterioration in business investment or employment intentions, in our view such a scenario cannot be ruled out given the complexity, seriousness, and constantly-evolving nature of the Brexit negotiations. Were the outcome of these negotiations to be a so-called 'hard Brexit' in which no deal is agreed, corporate appetite for long-term investment in the UK and the assumption of risk may suffer materially, to the detriment of confidence, spending, and ultimately UK economic growth, all of which would weigh on inflation.

It would seem, then, that although inflation within the UK is currently at an elevated level, it is likely to be fleeting in nature rather than here to stay. Though another period of Sterling weakness triggering a repeat of heightened inflationary pressure cannot be ruled out, wage growth, the major conventional source of inflation, is not exhibiting signs of strong growth despite the relatively tight conditions within the UK labour market at present. Without this, and given the possibility of weaker economic growth in future stemming from Brexit uncertainty, it is difficult to make the case that the 3% rate of inflation can be sustained beyond anything other than the coming few months. Judging by the Bank of England's latest projections it would seem that they too are anticipating this outcome, evident in that they forecast CPI falling to 2.4% by the end of next year, then to 2.2% by the end of 2019.

Jack Rawcliffe
Investment Manager

Sources: Bloomberg, Bank of England, Office for National Statistics.

The Benefits of Being Benevolent

For those of a benevolent persuasion, it may be troubling to learn that according to the recently published CAF (Charities Aid Foundation) World Giving Index, there has been a global decrease in giving over the last 12 months. This follows a high point recorded by the same index last year. The proportion of people across the world who reported donating money in 2016 (when the research for this year's report was conducted) is the lowest seen for three years. The UK which has for some years been the most generous country in Europe, according to the Index, fell from 1st to 2nd place in Europe.

At Holden & Partners we have always advocated that clients, when appropriate (and if they have a particular charitable interest), maximise the generous reliefs available for charitable gifting. As you may or may not know, there are a number of ways that allow individuals to give to their favourite causes whilst at the same time benefitting from the generous tax concessions on offer. The main ways of facilitating charitable giving for individuals are as follows:

Donate money to charity

If you give money and sign a Gift Aid declaration, the charity can reclaim the basic rate tax you've already paid on that donation. This means that a £1 donation is worth £1.25 to the charity.

If you're a higher-rate taxpayer and fill in a Self Assessment tax return form, you can also claim back the difference between higher rate and basic rate tax on the value of your donation. For a 40% rate taxpayer, that means for every £1 you donate, you can claim back 25p in tax relief.

Give straight from your salary

If your employer has a payroll giving scheme, such as Give As You Earn, you can give directly to charity from your pay before tax is deducted. This means you receive tax relief at your highest rate of tax, so giving £1 would cost a basic rate taxpayer only 80p.

Transferring/gifting shares or units in an investment fund to a charity

If you own shares or units in an investment fund, you can sell them and give the proceeds to charity via Gift Aid. Alternatively, and significantly more tax efficiently, you can give your shares directly to a charity. However the shares will need to be listed on a recognised stock exchange to be accepted by the charity. Giving shares is highly tax-effective, as donors receive full tax relief on any capital gains tax and can also claim income tax relief on the fair market value of the shares. For example, if you own units in a fund worth £20,000, have gross taxable income of £20,000, and gift the units to charity, you could reduce your tax liability through charitable giving to zero. If the units had previously gained in value by £15,000, for example, since they were purchased, there would be no capital gains tax to pay on the disposal. These gifted funds are also out of your estate for inheritance purposes.

Many clients at Holden & Partners, with our assistance, have set up a general charity account to help facilitate charitable giving. Crucially, such a charitable account offers individuals flexibility over giving whilst also providing the ability to benefit from all the aforementioned tax reliefs. Shares can be gifted to the account, with tax reliefs received, whilst the individual then has the freedom to select a particular charity to which the funds should go and when. The account can have a cash balance from previous transfers so the individual can select a cause close to their heart when the time arises. The account can be topped up with further transfers or payments and can be held by the client indefinitely.

Charitable bequests through your Will

If you do not want to or cannot make gifts to charity in your lifetime, an alternative is to make provision for charitable bequests in your will. Significantly, such bequests are not liable to Inheritance Tax (IHT). If you leave more than 10% of your net estate to charity the rate of IHT falls from 40% to 36%.

Give land and property

Giving land and property direct to charity, like gifting shares and fund units, is also exempt from capital gains tax and inheritance tax, and income tax relief can be claimed on the value of the gift.

The UK taxation system, due to the tax reliefs on offer, effectively encourages charitable giving and it will be interesting to see whether the fall in charitable giving across the world and in the UK is a long-term trend. At a time when many charities in the UK have suffered from government cuts to their funding, this is a major concern, especially for all those who depend on the services and support they provide. Facilitating charitable giving is an important aspect of the service we provide to our clients; so if you have any further questions on this area, please speak to your adviser. As you can see, when it comes to charitable giving, the benefits of being benevolent are both altruistic and financial.

Steven Pyne
Managing Partner

Protecting What Matters

Life assurance is one of the foundations of financial planning and deserves consideration by most households. However, it is often overlooked, thought of as confusing, and people can be sceptical about the associated benefits.

It's important to remember that life assurance is not just about applying a monetary value to your life, but it instead helps compensate for the inevitable financial consequences associated with your demise. No one likes thinking about death, but have you ever stopped to really think about how your family would cope if you (or someone you were dependant on) were no longer there, and how they would be financially impacted?

What Is Life Assurance?

Put simply, life assurance is a policy which can pay your beneficiaries money as a lump sum or as regular income when you die.

Broadly speaking, there are two main types of policies: **term assurance**, which is designed to provide cover for a specified period of time at a specified premium; and a **whole of life** policy, which will continue until your eventual death. There are a variety of options with both types of cover, including: an increasing sum assured (guaranteed pay out), to keep pace with inflation; and decreasing cover, which is useful if you have a decreasing liability, such as a repayment mortgage.

Who is it Suitable For?

Life assurance can cover a wide range of needs and we summarise a few of these in the table below:

Life covered	Why is it needed?	What's best?
Main earners	To replace the income lost on your death, ensuring everyday expenses can still be met by your family	Term life assurance to cover your working years
Stay-at-home parent	To cover the costs of the various different roles a stay at home parent carries out (nanny, cook, housekeeper etc)	Term life assurance to cover the younger years of your children
Homeowners with an outstanding mortgage	A policy to cover the mortgage so that your family does not need to move in the event of your death	Term life assurance to cover the term of the mortgage. Can be taken out as a 'decreasing' sum for repayment mortgages
Those leaving a large estate	Top pay for the large inheritance tax bill due on your estate	Whole of life assurance to cover your potential inheritance tax liability
Business owners	To pay for any business debts or fund a buy-sell agreement, allowing a business partner to buy your share	Term or whole of life assurance, depending on your situation

How Much Cover Do you Need?

While it is possible to carry out a detailed calculation looking at all of your various life assurance needs, it would be impossible to calculate the exact amount of cover you need at any one point in time. Therefore, obtaining a more broad view of your situation can be appropriate as your need is ever changing. If you work for a large organisation, you may well have some form of 'death in service' benefit. Although this should be considered, it's also important to remember that in the event you leave your current employment, this cover will be lost.

It's well known that most people do not have enough life assurance cover, which is mainly because most people do not know how much they need. If you are unsure, it's important to speak with a financial adviser who can help establish a suitable figure, taking into account what is affordable.

What Are The Costs?

Naturally, the level of cover is somewhat dictated by how much is affordable. Although life insurance premiums can be expensive; they can also be surprisingly inexpensive. The cost of cover will vary depending on a number of factors including the type of policy you choose, your age, health, lifestyle, term of policy and even your postcode. In addition, different providers offer different rates and it is also therefore important to obtain premiums from the whole of the market.

The earlier you start you contributing, the cheaper the premiums are likely to be. The chart overleaf shows the average monthly premium (based on age) for a standard 25 year level term assurance policy, with a sum assured of £250,000. It's clear to see that postponing the start date of your cover could be costly.

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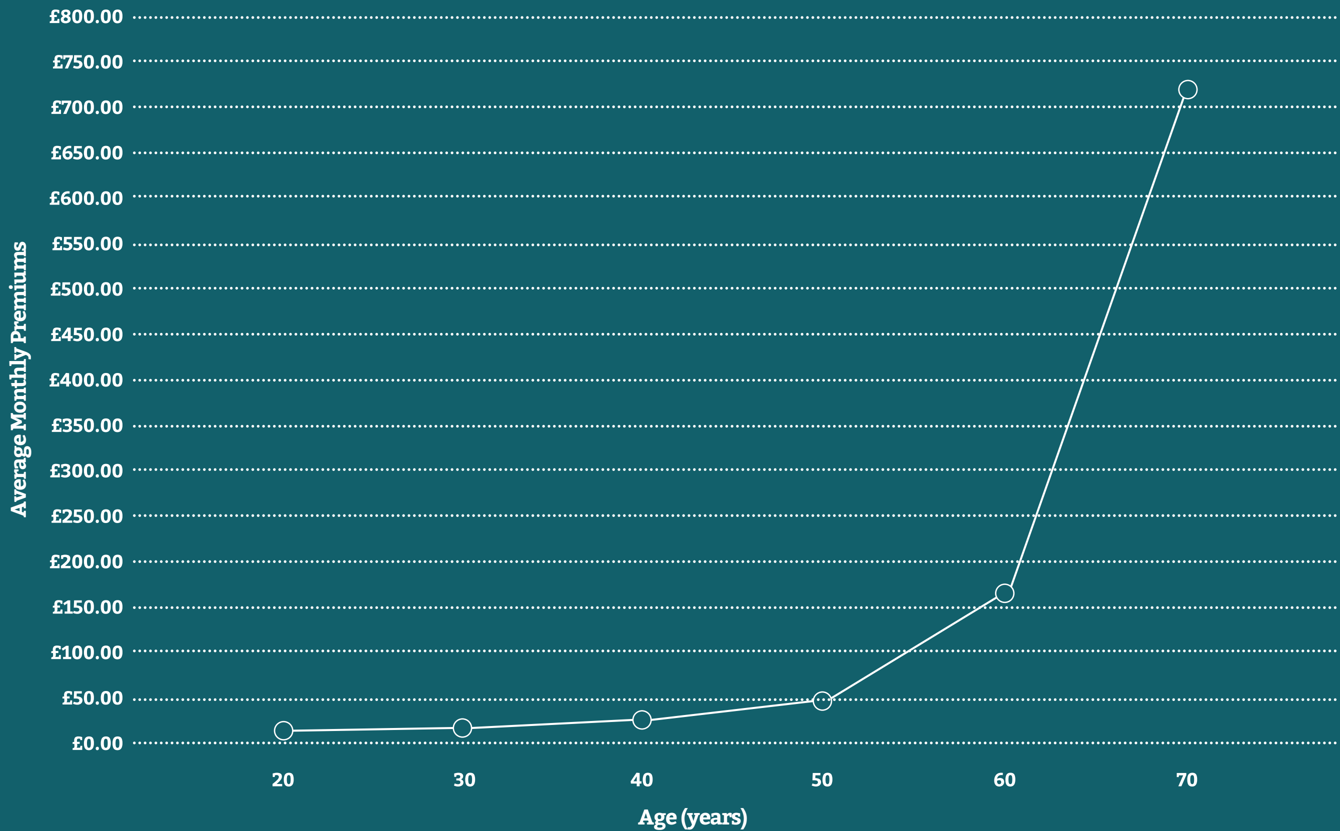
Life Assurance premiums for a 25 year Cover with a sum assured of £250,000



Putting Life Assurance in Trust

It is surprising to see how many existing life assurance policies are not held in trust – according to Aegon, only 6% of life cover in the UK is in fact held in trust. By putting the policy into trust, it means that the proceeds of the policy can be paid directly to your beneficiaries rather than into your estate.

This has two distinct advantages:

1. Typically, your estate is frozen on death and your executors need to wait until probate has been granted before making any distributions. By placing the life policy in trust, your beneficiaries **do not need to wait for probate** to be granted before receiving the sum assured.
2. In the event a trust had not been set up, the sum assured is paid directly into your estate on death and will subsequently be subject to inheritance tax. By placing the cover in trust, the proceeds do not form part of your estate and is therefore **not subject to inheritance tax** (which currently stands at 40%).

If you have any existing policies, it is definitely worth assessing whether your policies are held in trust and if not, whether this is appropriate for you.

No one likes talking about life assurance because we don't like talking about death. However, an open discussion about the planning of an unexpected death is so vital to building a long-term and comprehensive financial plan.

One of the ironies of assurance in general is that, if needed, it is essential but we will always hope to never need it. For most, life assurance is not an exception – its purpose is to ensure that those we leave behind are financially secure and stable.

Stefani Williams
Financial Planner

Holden & Partners
The Piano Works,117 Farringdon
Road, London EC1R 3BX

T: 020 7812 1460
E: info@holden-partners.co.uk
www.holden-partners.co.uk

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