Family and Finances Report

Schroders Personal Wealth's

Helping families have conversations about their financial wellbeing.

Schroders personalwealth

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Foreword

Welcome to Schroders Personal Wealth's inaugural **Family and Finances Report**.

Family conversations around managing wealth in old age and passing it on to the next generation have never been so important. Over £5.5 trillion will move hands between generations in the UK between now and 2055, peaking in 2035. Having a plan in place on how to handle this efficiently is crucial to pass wealth on smoothly, avoid family disputes and manage the tax bill.

But our research in this report shows the difficulties many families have when it comes to talking about money. Despite 84% of respondents looking to pass on their wealth, a full 78% admit that they do not have an estate planning strategy in place. Family conversations around money remain taboo, with 65% of people saying they rarely or never discuss inheritance with their children.

At the same time, parents and grandparents are being increasingly relied on to support the family's financial needs with 70% of over 60s supporting their children during the course of their lifetime.

We believe money and finance are an important topic to discuss with children from an early age and think more families across the UK should be talking about their finances. But right now, this isn't happening.

The feeling of being overwhelmed appears to be a common theme throughout our findings.
We want to encourage families to discuss money more openly, create better awareness and give them the confidence to fully engage with each other about their financial lives and estate planning. We hope that this report goes some way toward providing insight around this pressing issue, as well as some pointers on where to start.

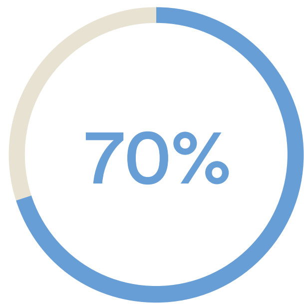
More needs to be done to encourage stronger engagement with long-term financial planning. We believe that with some guidance and a plan in place, families can overcome the feelings of worry and start having the conversations they need to have to plan for their future.

At Schroders Personal Wealth we can make these conversations real and help you realise your dreams through the power of a personalised financial plan. We'll help you work out where you want to be and how to get there.

We want to create a society where everyone sees the value of a financial plan and hope the launch of this report will help more families start talking about the importance of money and savings, and how they can plan for their future.

Mark Duckworth
Chief Executive
Schroders Personal Wealth

Introduction



of parents have helped out at least one of their adult children financially with the top ways of supporting them being:

57%
Giving children the odd bit of cash here and there

27%
Contributing to the deposit for their house

19%
Contributing to a savings account for grandchildren

18%
Paying off credit cards (or other debt)

In this new report, we surveyed **over 1,000 individuals over the age of 60** to get a clear picture of how people are planning to pass wealth down the generations.

Broadly speaking, the economy has been kind to those born in the years immediately after the Second World War, and in the 1950s - but less so to other generations. Consequently, many parents are having to support their children financially well into their adult lives.

Baby boomers, those born between 1945 and 1965, hold the majority of the UK's wealth[1], accumulated through generous final salary pension schemes, the long-term rise in the stock market over the past 12 years and the boom in house prices.

According to the King's Court Trust, £5.5 trillion will move hands in the UK between now and 2055, with this move set to peak in 2035[2].

Our findings reveal that 84% of parents will pass on wealth to children. Some 72% said they would only do so when they die.

But with life expectancy increasing, the average age of inheritance is also rising. For many families these windfalls come too late in life.

The survey also sought the opinions of adults aged between 30-59 years with at least one parent alive.

This age group needs a boost to their finances much earlier, perhaps to move up the property ladder to a bigger family home or to help fund childcare costs, school fees or university tuition fees for the next generation.

Although not surveyed as part of this report we should also consider that those born after 1985 - the "millennials" - are the first generation in history to be financially worse off than their parents*.

One of the most straightforward ways to support your family is to give away assets while you are still alive. This can be a very simple way of potentially reducing your estate for inheritance tax (IHT) purposes.

When asked if they had supported at least one of their children financially in their adult life some 70% of parents over 60 reported that they have helped at least one of their adult children financially.

This trend has been accelerated by the Covid-19 pandemic. One in five (18%) said they have had to increase financial support at some point in 2020 this year, rising to 3 in 10 (30%) for those with children aged 18-24.

Many of those approaching retirement have benefited from the rise in property prices over the years. Those retiring in 2020 own property worth more than £142.5 billion with an average of £388,900 each[3]. Collectively, the over-65s have more than £1 trillion pounds worth of unmortgaged housing equity[4].

Some might choose to release that equity – via equity release – and pass it onto younger family members.

However, the study also lays bare the lack of formal estate planning with 78% admitting they have no estate planning strategy in place.

* https://www.ifs.org.uk/publications/14519 November 2019
[1] www.aegon.co.uk/content/dam/ukpaw/hidden/baby-boomer-report-2019.pdf.
[2] www.kctrust.co.uk/wealthtransfer.
[3,4] Key "Retirement Class of 2020" research, January 2020.

84% of parents say they will pass on wealth to children.

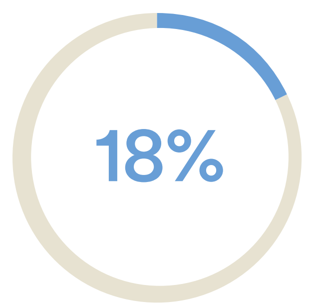
It is also clear that families are failing to communicate about finances. Some 65% said they rarely or never discuss inheritance with their children.

When it came to the opinions of those ages 30-59, the survey revealed there was a need for advice on their parent's financial planning. Respondents said they would consider enlisting the help of a financial adviser to discuss their parent's:

- Long-term care needs (58%)
- Managing finances (62%)
- Mitigating tax (57%)
- Making a will (53%)

We believe that financial planning is something that should be discussed within families. Instead of each generation acting in isolation, we believe families should consider how to use their combined resources in the best, most tax-efficient way.

We believe a well-structured and tax-efficient estate plan is essential as an effective way to pass on wealth.



of parents say they have had to increase financial support to adult children during 2020:

48%
Helped them buy essentials

29%
Offered them a lump sum of money

26%
Helped them to pay rent

21%
Helped them pay credit card bill/student loan/other debt

A focus on
Estate planning

The intergenerational wealth divide and estate planning

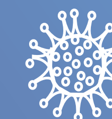
Estate planning means putting in place all the paperwork and legal structures that make sure your wealth is managed according to your wishes when you die, or if you become incapacitated. It includes ways in which you could pass on your wealth in the most tax efficient way if your estate is likely to exceed the nil rate band(s).

SCHRODERS PERSONAL WEALTH **FAMILY AND FINANCES REPORT**

66% of over 60s said they plan to pass their wealth to their grandchildren

78% of those over 60 have no estate planning strategy in place

A quarter of parents over 60 report that Covid-19 has made them rethink their finances



Adult children have never been more dependent on their parents for helping them financially.

Our study shows that the 'Bank of Mum and Dad' comes to the rescue frequently.

The majority of parents over 60 say that they hand out cash to adult children (57%) while more than a quarter (27%) said they contributed to a deposit on a home. Some 18% helped pay off debts. Around 6% declared they give them a regular monthly allowance.

The over 60s are increasingly finding they are also needed as the 'Bank of Grandma and Grandad' to help fund things such as childcare costs, school fees or university tuition fees for the next generation – for their grandchildren.

Some 66% of over 60s said they plan to pass their wealth to their grandchildren. Yet more is gifted to help on a regular basis with 37% regularly gifting to grandchildren.

School fees in particular can be a huge financial strain on even high-earning parents, but grandparents can make a significant difference by helping to pay from assets which would have been left to their son or daughter later on anyway.

The impact of Covid-19

The pandemic has – unsurprisingly - had an impact on the level of financial help needed. One in five (18%) over 60s say they have had to help adult children more in 2020, mainly to help fund the cost of essentials (48%).

The figure is much higher for those with younger aged children (aged 18-24) with 30% reporting they've helped their children more financially since the pandemic.

As the impact of the recession ripples through the generations, it could increasingly fall to older generations to help more.

Students and young workers are said to be suffering from the pandemic's economic fallout more so than other age groups. A study by the OECD showed those aged under 25 are 2.5 times more likely to be without a job because of the pandemic, compared to those aged 26-64[3].

A long-term consequence of any prolonged period of unemployment will be the thousands of pounds lost in pension contributions. This situation could bring an increase in the number of grandparents contributing to ISAs and pensions for grandchildren securing to help with their future - and take advantage of the current tax breaks.

The Covid-19 pandemic could also affect what the children of parent's over 60 stand to gain when they die, with a quarter of parents (27%) reporting that it has made them rethink their finances and how they plan to pass on their wealth.

The instinct to support our families can be strong, along with the desire to pass money directly to grandchildren, which can be done in a number of ways.

It's crucial to keep within the rules of Inheritance Tax (IHT) (see page 21 for the rules) to avoid an unexpected surprise for heirs in the future, in the form of a huge tax bill to pay when you're gone.

Later life planning

Our report lays bare the gap in financial planning when it comes to passing on wealth.

An overwhelming majority at 78% have no estate planning strategy in place.

However, most over 60s plan to pass on wealth to children after their death (72%), with just 13% saying they would do so during their lifetime.

It's a similar story for those passing on assets to grandchildren. More than half (53%) will do so on their death and 12% say they plan to do so during their lifetime.

Mitigating inheritance tax (IHT) is crucial if you want to make sure money stays in the family – and not unnecessarily lining the pockets of HMRC.

However, there's a gap in knowledge among the over 60s when it comes to both IHT and capital gains tax.

While 98% said they were aware of IHT, just 15% said they are well-informed. Almost a quarter (24%) admitted they

[3] www.oecd.org/coronavirus/policy-responses/youth-and-covid-19-response-recovery-and-resilience-c40e61c6/pdf

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.
The value of investments and the income from them can fall as well as rise and are not guaranteed. The investor might not get back their initial investment.
The different scenarios discussed are examples and what is right for each person will depend on their individual circumstances.

had heard of IHT but knew nothing about it.

Of those surveyed, 57% of people were aware of the true definition of capital gains tax – a tax on the profit when you sell an asset that has increased in value.

Family communication and money taboos

One clear theme from the study was the seeming reluctance to discuss estate planning and the passing on of wealth with children.

Some 65% said they rarely or never discuss inheritance with their children.

Of the fifth (22%) that do have an estate plan in place, less than half (48%) say their children know exactly what the plan is.

Just one in 10 (11%) say they've never spoken to their children about their plans in place.

The largest group at 32% cited that they "don't think it's their business to know about my finances" while 30% said they wanted their children to be financially independent. Some 13% admitted they don't feel comfortable talking about money with their children.

However, forming estate plans and making the next generation a part of the process can mean that family goals are more easily achieved.

If you can comfortably discuss money together, this could potentially improve financial wellbeing. Knowing what family members can (and can't) expect could help them better plan for the future.

Feeling in control of a situation can bring peace of mind.

When asked to rate their understanding of the taxes often associated with estate planning 24% of our respondents said they were aware of Inheritance Tax (IHT) but knew nothing about it, whilst 30% said they were aware of Capital Gains Tax (CGT) but again knew nothing about it. So what are these two taxes and what roles do they play in estate planning?

Inheritance Tax

Inheritance Tax (IHT) is a tax on the estate (the property, money and possessions) of someone who's died.

There's normally no Inheritance Tax to pay if either:

- the value of your estate is below the £325,000 threshold.
- you leave everything above the £325,000 threshold to your spouse, civil partner, a charity or a community amateur sports club.
- you can additionally leave your main residence to your children or grandchildren free of inheritance tax up to the value of £175,000. This means you can effectively pass on £500,000 free of inheritance tax.

Capital Gains Tax:

Capital Gains Tax (CGT) is a tax on the profit when you dispose of an asset that's increased in value. When it comes to estate planning that asset would normally be your property and the way of disposing this would be by selling it or giving it away as a gift. It's important to remember with CGT it's the gain you make that's taxed, not the amount of money you receive.

You get a tax-free allowance each year, and you only have to pay tax on any profits you have above that amount. For 2021 the tax-free allowance is £12,300 for individuals and £6,150 for trusts.

28%

of parents are most likely to discuss money when their children are aged between 11-16.

16%

of parents speak about money to their children aged 17-18

While parents are reluctant to discuss estate planning with adult children, there's an appetite among them to teach their children about money matters in general when they are young.

Our study revealed that parents are most likely to talk to their children aged between 11-16 (28%) followed by 19% starting even younger at between 5-10. Some 16% broached the subject of money on the approach to adulthood at ages 17-18.

Ask the expert

Peter is an 81-year-old retired accountant from Hampshire and as a grandfather of three - under the age of 10 - he would like to start investing to give them a decent savings pot each. What's the most tax-efficient way for him to put money aside for their future?

Richard Allan, at Schroders Personal Wealth, says:

"More and more grandparents are asking this very question. Tax efficient savings plans could help his grandchildren maximise any potential investment returns. And this can be an area where taking financial advice can help Peter make a real difference to the lives of his grandchildren.

A financial adviser could also help him understand any potential impact his generosity might have on his estate for inheritance tax.

Contributing to a Junior Individual Savings Account

A Junior ISA (or JISA) is designed for those under the age of 18 and just like an adult ISA, any potential income and capital growth are free of tax.

Once the account holder turns 18 it converts to a standard ISA and they can either leave the assets to continue growing – and even contribute more money to them – or access the savings. The money could be used to buy a car, fund university fees or help with the cost of a deposit on their first property. Or fund a gap year round-the-world-trip.

In the meantime, no one can withdraw any assets from the account except in certain circumstances.

Contributing to a Junior Pension

It might seem strange for Peter to think about pensions when his grandchildren are so young, but if he is interested in helping with their longer-term financial wellbeing, starting a pension could put them well on their way.

Paying off student loans and trying to save for a home of your own can mean longer-term needs are postponed to another day. Money invested now could have fifty years' of potential tax-free growth before his grandchildren need to access their plans.

But that is the significant drawback: they will have to wait until they are at least 58 before they could gain access to the money. And possibly later still if the minimum retirement age increases in line with the State Pension Age.

Ask the family

Deciding which approach is best needs a discussion with the wider family about their ambitions for your grandchildren and to understand if they already have some savings schemes already set up. They might already have planned for medium-term needs like university fees although they might welcome the additional help.

They might also be concerned about children having access to significant sums of money before they are financially mature enough to handle the responsibility.

Setting up a trust

We have looked at a medium-term and a longer-term option. With the first, it could deliver a significant sum of money into his grandchildren's hands before they were mature enough to understand its value.
With the second, they might have to wait a very long time to benefit from his gift. An in-between solution could be to set up a trust that pays out when his grandchildren reach a certain age, or some other criterion is met.

Thinking about inheritance tax

Peter also needs to think about how any gifts might be treated by the tax man. Currently, any gifts made within seven years prior to Peter's death could be included in his estate for inheritance tax purposes if the value of those gifts plus his other assets (excluding his main home) total more than £325,000.

But there are some exemptions. Of relevance here, Peter can give away £3,000 a year and it won't be counted. That's £1,000 per grandchild. He can also give small gifts of up to £250, although this can't be to anyone who has benefited from his £3,000 allowance.

You're also allowed to give gifts that you take from your normal income inheritance-tax free, as long as you can demonstrate they are from your surplus income. That is, they don't affect your ability to maintain your standard of living, and they haven't come from your savings or other capital. Making regular monthly payments into an existing savings scheme could be a simple way for Peter to demonstrate this.

Peter can still give more than £3,000 a year to his grandchildren, especially if setting up a trust. But he will need to make a record of all significant gifts like this in case he dies in the next seven years. That's so his executors can calculate his estate's inheritance tax liability if he dies in that time."

Richard is a Personal Wealth Planner at Schroders Personal Wealth covering the South West. He has over 20 years' experience in the financial services industry. Richard became a Private Banking Manager with Lloyds Bank in 2000, a Private Banking Independent Financial Adviser in 2004 and took up the role of Personal Wealth Planner in 2019. He has a thorough knowledge of Wealth Management as a Chartered Financial Planner and achieved a MSc in Financial Planning and Business Management to provide personal clients with investments, protection, retirement and inheritance tax planning solutions.

[3] *Source: Schroders Personal Wealth, January 2021
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A focus on
Long term care services

Long-term care

Long term care is a variety of services designed to meet a person's medical and non-medical needs. There are a number of options available to you and your loved ones:

- Home care
- Intermediate care
- Respite care
- Care home

Please see the Glossary for further information.

SCHRODERS PERSONAL WEALTH **FAMILY AND FINANCES REPORT**

96% of those over 60 have not put any plans in place to pay for any long-term care

Of those aged 30-59, over a quarter say they **have discussed the costs of long-term care** with their parents

A third admitted they are worried about the **prospects of managing** when they are no longer able to do so

The potential cost of care should be a part of everyone's long term financial plan as you never know when a family member will be impacted by this.

The cost of residential care is something that often takes people by surprise. While about 40% of the 440,000 care home residents today are self-funding[1], our study reveals that most people are completely unprepared for any care costs.

Almost all (96%) parents over 60 admitted that they have not put any plans in place to pay for any long-term care and just 21% intend to make provisions at some stage.

Over half of those surveyed (56%) say they know the current cost of long-term care yet just 37% have considered how they would fund it themselves.

Of all parents over 60 who have considered the cost of care, one in ten (10%) have received financial advice on how they would fund it in the long term.

The average cost of a residential care home is £648 per week, or £33,696 a year. This increases to £917 per week, or £47,684 a year when nursing care is included[2].

But families could easily face far higher costs if you or a loved one ends up with particularly demanding health needs.

While there is some government support on offer, it's reserved for those with total capital assets worth less than £23,250 in England. The threshold is £50,000 in Wales and £28,500 in Scotland[3].

Despite the surprise when looking at the cost of care, a resounding 60% of people claim advice on funding long-term care is not needed.

The number of people that will potentially need to have care in later life is likely to rise with the growing number of "older" old people. At the time of publishing this report, MHA data showed there are now 3.2 million individuals aged 80 or over, and almost 600,000 of these are aged 90 or over[4].

The largest increases in population growth are likely to come in the older age groups. By 2041 it is expected that there will be over 3 million people aged 85 or over – more than double the number that there are today.

The government recently announced it is considering a new approach to care funding and looking into taxing the over 40s more through the National Insurance system.

This is the latest in a long line of solutions suggested by various governments over the years.

Any change could be years away and depending on the finer details could exclude certain age groups.

Therefore it's potentially crucial that people think about how they would fund the cost of their own care, as failing to take the time to understand the impact care fees may have on their wealth could have serious consequences later in life.

Having a pot of money in place for this possibility could be sensible planning. If you die without needing to pay for care, then a pension pot or an ISA can be passed on to family.

What the next generation says...

Our study also sought the opinions of adult children, aged between 30-59 years with at least one parent alive, on the matter of long-term care.

While some are engaging with their parents, many are daunted by the prospect of dealing with the unknown.

Some 28% say they have discussed the costs of long-term care with their parents, but a third (32%) admitted they are worried about the prospect of managing the finances of their parents if they are no longer able to do so.

The main concern is feeling overwhelmed by merely the thought of managing their parent's finances with 41% saying this was a worry for them. However, the majority (58%) would consider enlisting the help of a financial adviser about the costs of their parent's care needs.

1 LaingBuisson Survey.
2 LaingBuisson Care Homes for Older People – UK Market Report, 13th edition, 2019
3 www.which.co.uk/later-life-care/financing-care/care-home-finance/local-authority-funding-for-a-care-home-arxsk9l8qzzr November, 2020
4 www.mha.org.uk/news/policy-influencing/facts-stats/

SCHRODERS PERSONAL WEALTH **FAMILY AND FINANCES REPORT**

Ask the expert

Daniel, a 65-year-old retiree from West London wants to make some provisions to pay for any long-term care needs for him and his wife Diane. What are their options?

Anna Sharpe, at Schroders Personal Wealth, says:

"This is a common question, particularly as social care is an issue that is frequently debated.

Firstly, we need to find out if either Daniel or Diane is eligible for local authority support. Eligibility is means tested based on your assets, or NHS continuing healthcare care funding (CHC), which is assessed if the requirement for care is driven by, for example, disability, accident or a complex medical need.

Daniel and Diane should consider what type of care they would prefer if given the choice – being cared for at home or in a residential home. Once their preference is agreed then they should research the current cost of this care in their local area or where they would like to move to if that is something they are considering. They might also want to take into account any potential increases in costs due to inflation. This will give them an idea of what their monthly expenditure will grow to and how that may increase over time. At this point, I would strongly advise both to engage with a financial adviser. Ideally someone who is a member of the Society of Later Life Advisers who specialises in long-term care needs, who can analyse how much they are likely to need each year and how much income they are likely to have to meet it. This will highlight any potential shortfall in income vs expenditure.

The adviser will then work with Daniel and Diane to create a strategy that aims to meet that shortfall. This will consider a number of factors such as their current health and the likelihood that they will need different types of care, their current savings and other assets, their ability to save, and their attitude to risk if they need to invest."

Anna is a Personal Wealth Adviser at Schroders Personal Wealth covering the London area. She has over 15 years' experience in the financial services industry. Anna became a Private Banking Manager in 2010, a Private Banking and Advice Manager in 2014 and took up the role of Personal Wealth Adviser in 2019. She has a thorough understanding of Wealth Management and is qualified to provide personal customers with investments, protection, retirement and inheritance tax planning solutions.

[3] *Source: Schroders Personal Wealth, January 2021

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Wills and Powers of Attorney

The financial world is full of jargon, particularly when it comes to wills. The below covers some of the terms you may come across when making your will or dealing with a deceased estate:

- Intestate
- Bona vacantia
- Probate
- Executor
- Beneficiary

Please see the glossary for further information.

69% of over 60s surveyed **don't have a Lasting Power of Attorney** in place

Nearly a quarter of people do **not have a Will in place**

16% say they've **never spoken to their children about their Will**

Having a will in place allows you to set out – in a legal document - what will happen to your finances and assets when you die.

You might think everything will automatically go to your loved ones if you die without making a will. Sadly, that's not always the case and dying without a will (also known as intestacy or dying intestate) can cause a number of problems for the family and loved ones you leave behind.

Without a will in place, your money, property and possessions will be shared out according to the law instead of your own wishes. The courts will decide who benefits from your estate, regardless of your relationship with those people whilst you were alive. This could be very different to your wishes and could lead to potential disputes within families.

Making a will is also important for those who live with a partner but are not married or in a civil partnership as common law rights don't exist, no matter how long you have been together or how many children you have.

For those who already have a will in place, it's just as important to review it, if and when circumstances change. This is particularly important should you get divorced. Anything you've left an ex-spouse in your original will is revoked, but this doesn't mean that part of your estate will automatically revert back to your other beneficiaries. Equally if you get married, you'll need to revisit your will – marriage revokes any previous will made.

Unless you make a Will stating otherwise, your second husband or wife could automatically inherit everything or the majority of your Estate when you die. If you have children from a previous relationship, they could inherit nothing, or very little.

Having a plan in place that clearly states who should get your property and money when you die could prevent these problems and any unnecessary distress at an already difficult time for your family and friends.

Making a will is also a valuable exercise in mitigating tax. You can use your will to immediately put in place a piece of estate planning. Everyone can use something called the nil rate band – the amount we can leave free from inheritance tax. This is currently £325,000.

For example, it might make more sense to make a will that transfers some assets to children or grandchildren after the death of the first spouse. It depends on your circumstances.

However, despite the importance of having a will there are still millions of people without one.

Our study revealed that a quarter (24%) of those surveyed do not have a will in place.

When it comes to sharing information on wills with family members, our research showed that not everyone is that forthcoming. Just half (48%) of those with a will say their children know exactly what it includes and 26% say they know a bit about what it includes.

Some 16% say they've never spoken to their children about their will, of which 30% say it is because they don't want to upset their children. Some 21% say they don't have much to leave them so don't see the point and 16% say their children are not interested in hearing about it.

The impact of Covid-19

- Unforeseen circumstances, such as the recent Covid-19 pandemic could also prompt people to review their will.
- Despite this just a small proportion (8%) say they have made changes to their will or plan to due to Covid-19.

8%

have made changes to their will of plan due to Covid-19.

The main concerns are highlighted below:

32%
of adult children aged 30-59 are worried about managing the finances of their parent

41%
are overwhelmed by the thought of managing their parents finances

32%
are afraid of doing something wrong

22%
are worried they might have disagreements with a sibling

20%
are worried they might lose money

Lasting power of attorney

A lasting power of attorney (LPA) allows you to appoint someone you trust - usually a spouse/partner, relative or friend - to make decisions on your behalf if there comes a time when you don't have the mental capacity to make your own decisions. Mental capacity means the ability to make or communicate specific decisions at the time they need to be made. To have mental capacity you must understand the decision you need to make, why you need to make it, and the likely outcome of your decision

If you don't have an LPA in place and you lose your faculties, your family will need to apply to take over your affairs via the Court of Protection. This is a process that can drag on for many months and cost thousands of pounds. Our study showed that a substantial (69%) of over 60s surveyed don't have a Lasting Power of Attorney in place, leaving their loved ones at risk of being unable to manage their affairs.

When it comes to putting an LPA in place, there are two types: one allows someone to make financial decisions on their behalf, and another that covers health and welfare. It means you can make the right decisions about care for your parents and how to pay for it.

A power of attorney must be put in place when you are fit and able. It cannot be done if you have lost capacity or have been diagnosed with an illness that compromises your capacity to make decisions. Some believe a next of kin has the same official standing, but this is not the case.

Without an LPA, it is possible to become someone's deputy if they 'lack mental capacity'. This means they cannot make a decision for themselves at the time it needs to be made. Like an LPA there are two types of deputyship – one for property and financial affairs and another for welfare. It will need to be approved by the Court of Protection and a financial adviser or solicitor can help you though the process.

Having an LPA in place is important as part of overall estate planning to make everything more straightforward - and cost-effective - when it comes to arranging care, for example. Having a will and LPA in place would also help alleviate concerns that the next generation might have.

Some of these concerns are highlighted by our research.

A third of adult children, aged between 30-59 years (32%) say they are worried about managing the finances of their parent when they are no longer able to do. The main concerns include feeling overwhelmed by the thought of it (41%), being afraid of doing something wrong (32%) and disagreements with siblings (22%).

One in five (20%) are worried they might make a wrong decision and lose money, and 18% admitted they wouldn't know where to start. The majority (62%) of those surveyed said that they would enlist the help of a financial adviser about the costs of managing their parent's finances.

Ask the expert

Denise is 68 and separated from her first husband, although not divorced from him, and has three adult children. She lives with Robert, her partner of 20 years with whom she has bought a new home which they purchased on a beneficial joint tenants basis. She hasn't made a will as her parents lived to their eighties so she's got many years ahead of her. She doesn't have much – just the house with Robert and some savings in her sole name – and assumes she doesn't need a will because the house will automatically go to Robert and everything else to her daughters.

Caroline Travers, at Schroders Personal Wealth, says:

"Denise has fallen into the trap of assuming that "common law" marriages are protected in law. In fact, this hasn't been the case for more than one hundred and fifty years. If she dies without making a will – technically called dying intestate – the law is very clear about the order of inheritance.

If her ex-husband is still alive when she dies, then the law of intestacy will direct the first £270,000 plus personal belongings will go to him, with any amounts over this split equally between her daughters.

The basis on how she and Robert own their property is crucial in determining if her share would form part of her estate or pass directly to Robert by means of survivorship. If her ex-husband dies before her then everything in her sole name will be divided equally between her daughters.

Preparing a will makes sure your wishes for your wealth and legacy are honoured. However, Denise should still seek professional advice on estate planning and possible options on reducing inheritance tax (IHT) as well as making a will.

On the basis of the current home ownership, if Denise dies before Robert then the house will pass to him by survivorship and be subject to any Will provision he has put in place in the event of his eventual death. This could result in Denise's children not inheriting any value from the property, with it all possibly passing to Roberts beneficiaries. As Denise and Robert are not married or in a civil partnership, a percentage of property value would still count towards the value of her estate and impact the amount that passes by the laws of intestacy to her children. For married couples, a house can be passed on to a husband, wife or civil partner with no inheritance tax to be paid. Yet, this isn't currently the case for common law couples.

Denise may think that she doesn't have much, but the fact that she owns her own house, as well as potentially paying into a life policy, and contributing to a pension too, it can all add up. It could be the case that Robert and her daughters end up having to pay IHT on much of what she leaves them.

Regardless of the fact that Denise's parents lived long lives, the earlier that Denise chooses to get professional advice, the better. From will making and estate planning to getting a Lasting Power of Attorney in place, everyone should consider what would happen in the event of their death, including Denise."

Caroline has over 30 years' experience in Financial Services and is a Chartered Financial Planner and a Fellow of the Personal Finance Society as well as a Chartered Member of the CISI. Caroline has undertaken both adviser, regulatory supervision and leadership roles and currently heads up the Complex Advice Team at Schroders Personal Wealth, working with advisers in the creation and delivery of more complex and specialist planning solutions to meet a range of client's needs.

[3] *Source: Schroders Personal Wealth, January 2021

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.
The value of investments and the income from them can fall as well as rise and are not guaranteed. The investor might not get back their initial investment.
The different scenarios discussed are examples and what is right for each person will depend on their individual circumstances.

10 ways to pass on wealth

Giving away assets during your lifetime can be a very simple way of providing a much-needed boost to grown-up children moving up the property ladder or even to grandchildren saving for their first home – and reducing your estate for inheritance tax purposes.

There are plenty of ways to protect your wealth from tax bills. Some are straightforward, others will require the help of an adviser. There are also ways to mitigate tax liabilities after you die.

Here are 10 of the most important things to consider:

1. Make a Will

Making a Will ensures your estate plans and wishes are signed and sealed. Updating your Will is just as important. You can include a Will trust which allows you to make provisos on any assets left to heirs, for example.

2. Passing wealth between couples

Married couples and civil partners can inherit their spouse's entire estate tax free and pass on any of their unused allowance to their partner - effectively doubling the tax-free limit for couples to £650,000.

3. Make a deed of variation

If you have received an inheritance in the past two years but have no need of it yourself, a will trust allows you to put it outside of your estate immediately for inheritance tax purposes. But it is not lost to you entirely as you can still draw on the income and capital. However, you have to act within the first two years following the death of the person you have inherited the money from.

4. Cash gifts

You can give away up to £3,000 each tax year which is exempt from inheritance tax. If you haven't used this annual exemption during the previous tax year it can be carried over into the next tax year. As a couple, that means you'll be able to give away £6,000, and potentially £12,000 if you didn't make any substantial gifts the year before. You can also give £250 to any number of people every year, but you cannot combine it with your annual £3,000 exemption.

If your children or grandchildren are getting married or entering into a civil partnership you can gift an additional £5,000 or £2,500 respectively.

5. Giving away unlimited assets

You can give away all types of assets, including cash, property and shares tax-free, as long as you live for seven years after making the gift. If you die within this seven-year window, IHT is assessed on a sliding scale. Crucially, a Potentially Exempt Transfers (PET) has to be an outright gift from which you can no longer benefit.

Term assurance could help you offset the IHT liability of significant gifts.

6. Gifts out of income

There is a way of giving away unlimited cash without falling foul of the seven-year rule – as long as it's from surplus income and doesn't reduce your standard of living or force you to dip into your capital to cover day-to-day costs.

7. Using a trust

There are a number of trusts you can use to mitigate inheritance tax. These can be perfect for setting aside a sum of money to protect minors or the vulnerable. Some trusts allow you to draw an income as long as you don't touch the original capital. Putting the assets within a trust is regarded as a gift and so falls within the gifting rules but some kinds of trust can cast very long shadows of up to 14 years. Specialist advice is crucial to ensure the right trust is chosen for your particular needs and goals.

8 Tax-free pension giveaway

Pensions can be one of the most tax-efficient ways to pass on wealth. Any pension savings that have not been used to buy an annuity can be passed on tax-free. If you die after the age of 75, all withdrawals will be taxed as income.

Beneficiaries could receive either a lump sum on your death or they can inherit your drawdown plan as their own pension pot and receive a regular income. An option called 'inherited drawdown' allows your beneficiaries to take out as much or as little as they need, when they need it, without having to wait until they retire.

The key thing to remember is to nominate who should benefit - this is done through the pension provider and is entirely separate to your Will.

But if you are tempted to suddenly increase the contributions to your pension plan you might fall foul of the pension allowances. HMRC might also think you are denying yourself ,and investigate whether your actions were an attempt to bypass the IHT rules.

9. Giving away possessions

Jewellery, antiques, paintings, stamp collections and similar items – known as 'chattels' – are all counted as part of your estate for IHT purposes. If you give them away, they will be exempt from inheritance tax as long as you live for seven years afterwards. 'Reservation of benefit' rules apply, so if you sign over a valuable diamond ring, you shouldn't continue to wear it.

10. Record-keeping is key

On all counts, it is vital to keep a record of all the gifts you make and who received them to avoid confusion in the future. This is particularly true when giving away surplus income. A paper trail with details of your income and expenditure will be crucial for your executors to prove that the money given away was money you didn't need.

End word

Having read this report, we hope you feel more confident and comfortable having conversations with your family about your respective financial situations.

As a final thought, we've put together a quick checklist of the kinds of things you might want to find out:

- ☐ Have you had a conversation with your family about estate planning?
- ☐ Do you have a will and a power of attorney?
- ☐ Do your children/family know where you keep copies of them if they needed to find them?
- ☐ Do they know which solicitors drew them up if they needed to retrieve the originals?
- ☐ Are your pension nominations up to date?
- ☐ Have you inherited money recently that could instead go to your children or grandchildren?
- ☐ Does your family know your opinions about going into a care home?

These conversations are important to have with your children as it will enable them to have the same conversations with their own children when the time is right.

We want to help more families start talking about the importance of money and savings, and how they can plan for their future. At Schroders Personal Wealth we can make these conversations real and help you realise your dreams through the power of a personalised financial plan. Fees & Charges apply.

Glossary

The financial world is full of jargon, particularly when it comes to estate planning. The below covers some of the terms you may come across when dealing with:

Long term care:

Home care

This allows someone to live safely in their home, whilst receiving professional support to help with their daily routine.

Intermediate care

A short term service provided by the NHS, usually following hospital discharge, to help someone regain their independence. It can be received in your own home or a care home.

Respite care

Designed to give people a break from caring. This allows the person they care for to be looked after by someone else, either in their home or in a care home.

Care home

Provide accommodation and personal care for people who need extra support in their daily lives.

Wills:

Intestate

Dying without leaving a will in place

Bona vacantia

If you die without a will in place and no known next of kin, your whole estate could pass to the Crown or to the government.

Probate

The legal process of managing and settling someone's estate according to their will.

Executor

A person or persons appointed in the Will to administer the estate.

Beneficiary

A person who benefits from the will

Please go to **spw.com**
or call us on **0345 366 2725**

Please contact your Personal Wealth Adviser if you'd like this information in an alternative format such as Braille, large print or audio.

Calls may be monitored or recorded in case we need to check we have carried out your instructions correctly and to help improve our quality of service. Not all telephone services are available 24 hours a day, 7 days a week. Please speak to your Adviser for more information. Call costs may vary depending on your service provider.

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