



# THORNTONS WEALTH

## MINIMISE INHERITANCE TAX

Allow your loved ones to benefit more  
from your accumulated wealth

### STATE PENSION AWARENESS

*What payments can you expect  
to receive from the government  
later in life?*

### FINANCIAL PLANNING CONVERSATIONS YOU NEED TO HAVE

*Protecting your legacy and boosting your  
children's financial security*

### CHANGING RETIREMENT TRENDS

*Why the concept of a 'hard  
stop' retirement is becoming  
less prevalent*

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Thorntons Wealth is a trading name of Thorntons Investment Management Ltd (SC438886) and Thorntons Wealth Management Ltd (SC241755). Both companies are registered in Scotland and the registered address is Whitehall House, 35 Yeaman Shore, Dundee DD1 4BU. The companies are authorised and regulated by the Financial Conduct Authority.



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# WELCOME TO THE LATEST ISSUE OF THORNTONS WEALTH MAGAZINE.

**W**elcome to the August 2024 issue of *Thorntons Wealth's* monthly e-zine newsletter.

Effective planning minimises the burden of Inheritance Tax (IHT), allowing your loved ones to benefit more from your accumulated wealth. If the value of your estate is above the £325,000 threshold (2024/25 tax year), the part of your estate above it could be liable for tax at the rate of 40%. Fortunately, various strategies can help manage this liability. These approaches range from straightforward methods, such as utilising IHT allowances, to more sophisticated methods, like establishing a company to hold your wealth and making your heirs the shareholders.

In April 2024, the State Pension rose by 8.5% to £11,502.40 a year for post-2016 retirees. However, according to new research, one in seven (14%) retirees receive less money from the State Pension than expected. This highlights the need for more information about the payments people can expect to receive from the government later in life. Over a fifth (22%) of retirees also said they entered retirement unaware of how much they'd receive from the State Pension, while a quarter (26%) didn't know how to calculate their entitlement.

Discussing finances can evoke anxiety or discomfort, and this tension doesn't ease when family members are involved. Nevertheless, some parents of adult children may want to be responsible for discussing their financial future—particularly retirement and estate planning. Doing so ensures their children can provide support or fulfil their wishes as needed. Open conversations can provide financial planning opportunities and improve your loved ones' future finances. The sooner you talk about money, the better your chances are of protecting your legacy and boosting your children's financial security.

New research reveals that more than a quarter (28%) of individuals aged 25-54 do not foresee a complete retirement in their future. This suggests the concept of a 'hard stop' retirement

is becoming less prevalent among those considered to be in their prime working years. This emerging trend reflects a significant shift in how modern workers approach their career trajectories and financial planning. With evolving economic conditions, increasing life expectancy and a growing desire for personal fulfilment, many individuals are rethinking when and how they will retire.

Having a conversation with children about money early on helps them build financial confidence and learn foundational principles that will be useful for years. It also allows parents to share their financial values and wishes. Some parents dread talking to their children about money. Others simply struggle to know how or at what age to begin. This is understandable: money is both a complex and emotive topic. We look at some practical ways this can be done at different stages of childhood.

We hope you enjoy this issue and find the articles featured interesting.

You can also forward this e-zine newsletter to someone else you know who would like to receive a complimentary copy.

Best Wishes,

## Thorntons Wealth

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# MINIMISE INHERITANCE TAX

Allow your loved ones to benefit more from your accumulated wealth

**EFFECTIVE PLANNING MINIMISES THE BURDEN OF INHERITANCE TAX (IHT),** ALLOWING YOUR LOVED ONES TO BENEFIT MORE FROM YOUR ACCUMULATED WEALTH. IF THE VALUE OF YOUR ESTATE IS ABOVE THE £325,000 THRESHOLD (2024/25 TAX YEAR), THE PART OF YOUR ESTATE ABOVE IT COULD BE LIABLE FOR TAX AT THE RATE OF 40%.

**F**ortunately, various strategies can help manage this liability. These approaches range from straightforward methods, such as utilising IHT allowances, to more sophisticated methods, like establishing a company to hold your wealth and making your heirs the shareholders.

## COUNTING TOWARDS YOUR ESTATE'S VALUE

You can pass a home to your spouse or registered civil partner when you die, and there's no IHT to pay. Leaving the home to another person in your Will counts towards the estate's value. However, the Residence Nil Rate Band (RNRB) can increase your tax-free threshold if you leave your home to your children or grandchildren. This includes stepchildren, adopted children and foster children, but not nieces, nephews or siblings. There is tapered withdrawal of the home allowance if your estate's overall value exceeds £2 million.

One of the most common strategies involves giving away assets. By gifting

money or assets, you enable your children, grandchildren, or others to benefit from your wealth during your lifetime, which can also reduce the portion of your estate subject to IHT. However, rules are in place to prevent you from entirely avoiding IHT through asset transfers.

## PLANNING AHEAD FOR INHERITANCE TAX, WHERE TO BEGIN?

Start by utilising the IHT exemptions and allowances available to individuals with substantial and modest wealth. This foundational step can set the stage for more advanced planning strategies. You can significantly reduce IHT liabilities by understanding and utilising various exemptions and allowances.

You can give away up to £3,000 each year, carrying forward any unused allowance from the previous year. Additionally, you can gift £5,000 to a child on their marriage or £2,500 to a grandchild. These routine gifts are an effective way of reducing your estate's value without incurring IHT.

## GIFTS FOR MAINTENANCE AND EDUCATION

Certain gifts are exempt from IHT entirely. These include gifts to a former spouse, registered civil partner, or a dependent relative for their maintenance and payments towards a child's education or training.

This exemption allows you to support your loved ones without increasing their tax burden.

Gifts to qualifying charities, political parties, or gifts for national benefit—such as donations to museums, universities, libraries, or the National Trust—are also free from IHT. Furthermore, if you leave 10% or more of your net estate to charity, you may qualify for a reduced IHT rate of 36%.

## USING EXCESS INCOME FOR GIFTING

Another valuable strategy is to give away "excess" income. Once you have determined how much of your income qualifies as excess, this method can prevent your inheritance tax liability from growing. Gifts must fall within your after-tax income and not jeopardise your lifestyle to qualify.



Additionally, there must be an intent for the gift to form part of your regular expenditure.

You can increase the available excess income by switching investments from those that target growth to others that pay a higher income. This approach allows you to generate a steady stream of income that can then be gifted to your beneficiaries without affecting your financial stability.

### **SEVEN-YEAR RULE FOR LARGER GIFTS**

When considering larger gifts, the “seven-year rule” applies (subject to the 14 year rule not being invoked). If you give away assets and survive for seven years, those assets are removed from your estate and are no longer subject to IHT. This principle encourages early and strategic gifting.

If you die within seven years, however, the assets you have given away may still be considered part of your estate and subject to IHT. The impact of this will depend on the size of the gift. If the gift is worth less than the IHT-free allowance, it will use up the allowance but not be subject to IHT.

Gifts exceeding this threshold could result in additional IHT charges. Therefore, it is important to carefully plan your gifts’ timing and size carefully.

### **REPEATED AND FREQUENT GIFTING**

Strategically, you can make repeated gifts of up to £325,000 without triggering an IHT liability, provided they are made at least seven years apart. This allows for substantial portions of your estate to be transferred over time, reducing the overall IHT burden.

Of course, you can also give away larger amounts or make more frequent gifts. However, be aware that if you die, assets exceeding £325,000 gifted over the prior seven years will still be included in your estate calculations, although they might benefit from a lower IHT rate.

### **USING TRUSTS FOR GIFTS**

You can also make gifts to trusts. Trusts can allow you to exert a degree of control over the assets you give away and may be useful in a wide range of scenarios, such

as providing for very young grandchildren. Gifts into a trust are subject to slightly different rules than outright gifts.

An IHT “downpayment” of 20% is required on the value of gifts above the nil-rate band if a discretionary trust is used. If you die within seven years, additional IHT may be payable. People often ask whether they can give their children their house to avoid paying IHT on it.

### **FAMILY INVESTMENT COMPANIES**

A family investment company can be a useful planning tool for those with larger amounts. Assets are transferred into a company, and shares are then granted to family members – or others – in accordance with how much control you want them to have.

Any growth in the assets is outside your estate immediately, although the seven-year rule applies to the assets gifted into the company. This method can help manage significant assets while keeping future tax liabilities in check, it is worth noting that legal advice would be recommended in respect of a FIC..



## BUSINESS RELIEF OPPORTUNITIES

How can I benefit from business relief? Another set of IHT exemptions was introduced to promote entrepreneurial activity. If you establish or own a business and pass it on to your children, an exemption known as “business relief” means it will sit outside your estate subject to certain conditions.

Selling the business could result in cash returning to your estate unless it is replaced with other business relief-qualifying investments within three years. However, not everyone can tie up a significant amount of their wealth in business ventures, and raising cash may be a requirement at some point.

## TRANSFERRING SHARES AND AIM INVESTMENTS

There are ways to plan for this. One approach is to transfer shares in a business into a trust. In the case of business relief assets, there is no limit on how much can be transferred, and there is no immediate 20% tax charge. The shares can then be sold, and if the business owner survives seven years, the proceeds remain outside the estate.

Investing in certain shares quoted on London’s junior stock market, the Alternative Investment Market (AIM), is another way that investors can benefit from business relief. If held for two years before death and at the time of death, no IHT is due on these investments. This allows you to build a reasonably diversified portfolio

without concentrating your assets on a few smaller businesses.

## IMPORTANCE OF SPECIALIST PROFESSIONAL ADVICE

However, the portfolio may be very volatile, and you need to ensure that your investments maintain their IHT-exempt status after purchase, as businesses can evolve and may no longer meet the relevant criteria. Given the complexity of IHT, it is advisable to seek professional advice from a specialist.

IHT planning can take time to become effective, and you may want to consider insurance to complement your approach. Policies can be tailored to meet your IHT tax bill, either on death or until seven years after a gift expires. If the policy is “written in trust,” the proceeds will be outside your estate.

## KEEPING THOROUGH RECORDS

Whatever estate planning methods you use, be sure to keep thorough records and pass them on to your executors. Your will should also be drawn up to complement your IHT planning and kept up to date.

If you want to reduce your IHT bill without falling foul of the law, our experts can help. We’ll explain how you can ensure that your loved ones receive the maximum possible benefit from your estate while remaining compliant with legal requirements. We’ll guide you through the rules around making gifts and highlight

common pitfalls and misconceptions around IHT liability. n

## LOOKING FOR ADVICE ON INHERITANCE TAX PLANNING?

Please contact us to learn more about effective Inheritance Tax planning and secure your legacy for tomorrow.

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THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU COULD GET BACK LESS THAN YOU INVESTED.

# STATE PENSION AWARENESS

What payments can you expect to receive from the government later in life?

**IN APRIL 2024, THE STATE PENSION ROSE BY 8.5% TO £11,502.40 A YEAR FOR POST-2016 RETIREES.** HOWEVER, ACCORDING TO NEW RESEARCH<sup>[1]</sup>, ONE IN SEVEN (14%) RETIREES RECEIVE LESS MONEY FROM THE STATE PENSION THAN EXPECTED. THIS HIGHLIGHTS THE NEED FOR MORE INFORMATION ABOUT THE PAYMENTS PEOPLE CAN EXPECT TO RECEIVE FROM THE GOVERNMENT LATER IN LIFE.

Over a fifth (22%) of retirees also said they entered retirement unaware of how much they'd receive from the State Pension, while a quarter (26%) didn't know how to calculate their entitlement. One in ten (10%) retirees also said they didn't realise that their National Insurance contributions determine the level of State Pension paid in retirement. Another 10% of retirees said it wasn't easy to determine how much State Pension they'd receive in later life.

## GAPS IN PRE-RETIREMENT KNOWLEDGE

The research also shows there is a wide knowledge gap among those in the key pre-retirement age group<sup>[2]</sup>. Over a fifth (22%) of over-55s who are not yet retired do not know their State Pension age, and just three in ten (29%) of this age group know how much the State Pension is worth. Additionally, the research found that the understanding of the State Pension system is poor across all ages, with participants struggling to explain basic aspects of how the system works.

The study revealed that knowledge gaps have led to several misconceptions, the most prominent being that each person's National Insurance contributions are kept in a personal pot to be accessed when they reach State Pension age when, in reality, it is funded on a pay-as-you-go system by current taxpayers<sup>[3]</sup>. This was a strongly held belief that impacted people's views about the fairness of the system.

## RECENT PENSION INCREASES AND FUTURE CONCERNS

The State Pension remains a hot topic. Under the triple lock, while the increase in pensioners' payments in April is a welcome boost for millions, concerns about its sustainability for future generations have been raised.

It's worrying that many UK adults lack knowledge about specific State Pension details, such as the value of their entitlements and when they qualify for payment. However, the State Pension is a significant part of most people's retirement income, and it's clear that greater prominence and more accessible information are needed so people feel confident and can plan for their financial future.

## WHAT IS THE STATE PENSION?

The State Pension is an amount paid to you every four weeks by the government once you reach State Pension age. However, not everyone can get the full State Pension, which might not be enough to live on alone. Therefore, it's important to know what yours might be when you can claim it and how it will stack up with your other retirement savings.

## WHAT IS THE CURRENT STATE PENSION AMOUNT?

The current full State Pension amount is £221.20 a week for the 2024/25 tax year, totalling £11,502.40 for the year, an increase of 8.5% from the previous tax year. Remember that the amount you'll get depends on your National Insurance record and how many qualifying years you have. You'll usually need at least ten qualifying years on your National Insurance record to get any State Pension.

You'll need 35 qualifying years to get the new full State Pension if you don't have a National Insurance record before 6 April 2016. In some circumstances, it's possible to top up your National Insurance

record, and your State Pension forecast will highlight when this is an option.

### WHAT IS PENSION CREDIT ELIGIBILITY?

If you've reached State Pension age and you're on a low income, it's worth checking if you're eligible for pension credit. This tax year (2024/25), pension credit usually tops up your weekly income to £218.15 if you're single or your joint weekly income to £332.95 if you have a partner. Arming yourself with accurate information about your State Pension is essential for effective retirement planning. Understanding how your National Insurance contributions affect your entitlement can help you make informed decisions about topping up your record or exploring additional retirement savings options.

Government resources such as the State Pension forecast are invaluable tools that can provide a clearer picture of what you might receive. Engaging with these resources early and regularly can prevent unwelcome surprises. Given the State Pension's central role in retirement income for many, it is critical to ensure you have all the relevant details. This proactive approach not only aids in better financial management but also offers peace of mind as you approach retirement age.

### WHEN CAN I RECEIVE THE STATE PENSION?

UK adults can currently receive the State Pension from age 66, but this is set to rise to 67 by 2028 and again to 68 between 2037 and 2039. You can use the government's calculator to check when you'll reach State Pension age.

If you don't want to take your State Pension immediately, you can also choose to defer it. This means you

could get larger payments when you do start claiming it, which might suit you depending on your circumstances.

### HOW DO I CLAIM MY STATE PENSION?

You won't get your new State Pension automatically – you must claim it. You should get a letter no later than two months before you reach State Pension age outlining what you need to do. If you have not received an invitation letter but are within three months of reaching your State Pension age, you can still make a claim, and the quickest way to do this is online.

### WHEN WILL THE STATE PENSION BE PAID?

After you've made a claim, you will receive a letter about your payments. These are usually paid every four weeks into an account of your choice, and you are paid in arrears. The payment day depends on your National Insurance number, although you might be paid earlier if your normal payment day falls on a bank holiday.

### WILL THE STATE PENSION BE ENOUGH?

There's a significant gap between what you receive from the State Pension and what you may need or want in retirement. The State Pension alone falls short of even a minimum standard of living in retirement, according to the Pensions and Lifetime Savings Association (PLSA).

Because it only starts in your late 60s, it won't help to support you if you want to retire earlier. It should, therefore, only form part of your overall retirement plan, and so it's important to fully understand how much you might need to save in your personal or workplace pension plan to be able to afford the retirement you want. n

#### Source data:

[1] Boxclever conducted research among 6,350 UK adults for Standard Life. Fieldwork was conducted 26 July – 9 August 2023. Data was weighted post-fieldwork to ensure the data remained nationally representative on key demographics.

[2] Phoenix Group research, January 2024. Survey conducted by Opinium among 2,000 UK adults.

[3] Phoenix Insights (2023) An intergenerational contract: Policy Recommendations for the Future of the State Pension.

### TIME TO CONSIDER RETIREMENT PLANNING AT WHATEVER STAGE OF LIFE YOU'RE AT?

Please contact us for professional guidance if you require further information or assistance with your State Pension.

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# FINANCIAL PLANNING CONVERSATIONS YOU NEED TO HAVE

Protecting your legacy and boosting your children's financial security

**DISCUSSING FINANCES CAN EVOKE ANXIETY OR DISCOMFORT, AND THIS TENSION DOESN'T EASE WHEN FAMILY MEMBERS ARE INVOLVED. NEVERTHELESS, SOME PARENTS OF ADULT CHILDREN MAY WANT TO BE RESPONSIBLE FOR DISCUSSING THEIR FINANCIAL FUTURE—PARTICULARLY RETIREMENT AND ESTATE PLANNING. DOING SO ENSURES THEIR CHILDREN CAN PROVIDE SUPPORT OR FULFIL THEIR WISHES AS NEEDED.**

Open conversations can provide financial planning opportunities and improve your loved ones' future finances. The sooner you talk about money, the better your chances are of protecting your legacy and boosting your children's financial security.

## **HOW CAN YOU MAKE FINANCIAL PLANNING CONVERSATIONS GO SMOOTHLY?**

### **YOUR ESTATE**

Let's begin with inheritance, which is a hugely emotive subject. While discussing

who will inherit a portion of your estate after you have passed away might seem difficult, doing so could prevent future difficulties or disagreements. You can explain your plans and why you have made certain decisions.

This could also provide an opportunity to consider if your Will needs updating. For example, you might need to amend your Will to ensure your estate can benefit from the residence nil rate band, which could reduce your estate's Inheritance Tax (IHT) bill.

### **LIFETIME GIFTING**

Although you'll want to avoid giving away money that you might need in the future – towards care costs, for example – you

might wish to consider passing on some wealth to future generations within your lifetime. Using pensions, Trusts and life assurance are just some ways you can do this. This can be complicated, but we can work with you to give you peace of mind that you've laid the firmest foundation for your family's future.

It's possible to gift tax-efficiently during your lifetime using various allowances and exemptions. For instance, you can give away up to £3,000 per year free from IHT. Additionally, you can make small gifts of up to £250 per person per tax year. Further, tax-free gifts, such as Potentially Exempt Transfers (PETs), become exempt from IHT if you live for at least a further seven years after making the gift.

### **POWER OF ATTORNEY**

Dealing with a deterioration in mental capacity can be particularly tough on your family. If you can no longer make decisions for yourself, you'll want to ensure someone you trust is legally in this position. You can put in place a Power of Attorney, a legal document enabling you to name one or more people to look after your affairs if you lose capacity.

Without this document, an application must be made to the Court of Protection (the Sheriff Court in Scotland), which can be a complex, costly and lengthy process for your loved ones.

### **'WHEN I'M GONE' INFORMATION**

Discuss where you'll safely leave basic details of your bank accounts, savings,

investments and utility providers. Compiling a list of this information is time well spent and could be invaluable to your family if you lose capacity or pass away. Talking to your family about inheritance might seem difficult, but we can help start the conversation and guide you through what may be an emotional process.

### **SUCCESSION PLANNING**

Building a succession plan that suits your needs ensures you have laid the firm foundations for your family's future. It's crucial to regularly review and update this plan to adapt to any changes in your personal circumstances or legislation.

The planning process leads to understanding each family member's motivations and personal drivers. This will enable you to assess the direction of your vision and the options available to your family to create a plan for your family's future.

### **ARE YOU READY TO MANAGE YOUR FAMILY'S FINANCIAL FUTURE?**

Please contact us for more comprehensive advice on managing your family's financial future, including estate planning, lifetime gifting and setting up a Power of Attorney. We'll assist you in navigating these challenging discussions and ensuring your financial legacy is secure.

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# CHANGING RETIREMENT TRENDS

Why the concept of a 'hard stop' retirement is becoming less prevalent

**NEW RESEARCH REVEALS THAT MORE THAN A QUARTER (28%) OF INDIVIDUALS AGED 25-54 DO NOT FORESEE A COMPLETE RETIREMENT IN THEIR FUTURE<sup>(1)</sup>.** THIS SUGGESTS THE CONCEPT OF A 'HARD STOP' RETIREMENT IS BECOMING LESS PREVALENT AMONG THOSE CONSIDERED TO BE IN THEIR PRIME WORKING YEARS. THIS EMERGING TREND REFLECTS A SIGNIFICANT SHIFT IN HOW MODERN WORKERS APPROACH THEIR CAREER TRAJECTORIES AND FINANCIAL PLANNING.

**W**ith evolving economic conditions, increasing life expectancy and a growing desire for personal fulfilment, many individuals are rethinking when and how they will retire. Instead of aiming for a traditional endpoint to their professional lives, they are exploring flexible work arrangements, part-time opportunities and

phased retirement plans that allow them to gradually reduce their workload while maintaining an active role in their careers.

## GEN X FACES UNIQUE CHALLENGES

Among Gen X, those aged between 45 and 54, one in three (31%) believe it is unlikely they will ever fully retire. This

highlights the pressures the 'sandwich generation' faces in their 40s and 50s, who may be caring for both elderly parents and their own children while also needing to manage their own expenses.

This group falls between those who benefit from final salary pensions and younger generations who benefit from auto-enrolment. Similarly, more than a quarter (27%) of millennials do not think they will ever completely retire, with 28% of 25-34-year-olds and 26% of 35-44-year-olds sharing this sentiment.

## MILLENNIALS AND RETIREMENT

Older millennials are likely to face similar pressures to those encountered by Gen X, with auto-enrolment being introduced while they were already in their 20s. A

gender disparity also emerges among the survey respondents.

Just one in three women (33%) believe they are likely to completely retire, compared to almost half (47%) of men. A quarter (25%) of Britons also say they do not envisage retiring before the age of 70, and almost a third (30%) want to continue earning to maintain their existing lifestyle.

### CONTINUING BEYOND RETIREMENT AGE

Over a fifth of the total survey respondents, including 13% of those aged 55 or above, do not think they will ever completely retire. However, not all respondents cite constraints on their retirement ability as reasons for staying in the workforce.

One in six (16%) of those who do not think they will ever completely retire say they enjoy working and aim to continue beyond retirement age. This suggests a changing attitude among those in employment towards the notion of reaching an endpoint in their working lives.

### GROWING IMPORTANCE OF FAMILY FINANCES

Almost 10% of those surveyed express a desire to allocate part of their pension pot to their next of kin or relatives. This is cited as a reason to remain in the workforce, aiming to build up their savings further.

Additionally, attitudes towards retirement are noticeably changing. The once prevalent idea that retirement is a fixed event occurring on a predetermined date is increasingly becoming outdated. Significant numbers of individuals are now questioning whether they will ever fully retire.

### UNCERTAINTY AMONG GEN X

Uncertainty seems most pronounced among the mid-life Generation X cohort. For this group, retirement is close enough

to be a consideration but too far away to be a certainty. This demographic is uniquely positioned, balancing immediate financial responsibilities with long-term retirement planning.

The encouraging news for retirement savers is that they now have more control over their futures than ever before. They can choose when to utilise their retirement savings, and modern technology enables them to manage their money conveniently and efficiently.

### TECHNOLOGICAL ADVANCEMENTS

Technology has revolutionised the way individuals handle their retirement funds. Savers can now monitor and adjust their investments in real time, ensuring their money always works effectively for them. This flexibility allows for a more personalised and responsive approach to retirement planning.

Record numbers of people are proactively saving for their retirement. By taking control of our savings, we position ourselves more favourably to control our retirement, ultimately creating a more secure financial future. n

### READY TO DISCUSS SECURING YOUR FINANCIAL FUTURE?

As more individuals recognise the importance of early and consistent saving, they can better prepare for a comfortable and fulfilling retirement. This proactive approach reduces financial stress and provides greater peace of mind. Please contact us to discuss how we can ensure your retirement is a time to look forward to.

### Source data:

*[1] Research was conducted by Censuswide between 25–27 March 2024 of 2,000 general consumers, aged 16+, national representative sample. Censuswide abide by and employ members of the Market Research Society which is based on the ESOMAR principles and are members of the British Polling Council.*

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YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.



# BUILDING FINANCIAL CONFIDENCE IN CHILDREN

Sharing values and encouraging children to formulate their own

**HAVING A CONVERSATION WITH CHILDREN ABOUT MONEY EARLY ON HELPS THEM BUILD FINANCIAL CONFIDENCE AND LEARN FOUNDATIONAL PRINCIPLES THAT WILL BE USEFUL FOR YEARS. IT ALSO ALLOWS PARENTS TO SHARE THEIR FINANCIAL VALUES AND WISHES. WE LOOK AT SOME PRACTICAL WAYS THIS CAN BE DONE AT DIFFERENT STAGES OF CHILDHOOD.**

**S**ome parents dread talking to their children about money. Others simply struggle to know how or at what age to begin. This is understandable: money is both a complex and emotive topic. But beginning the conversation early helps children form the foundations for a healthy relationship with money. It enables them to learn important financial principles that will help them to steward future wealth successfully.

## **CREATING OPPORTUNITIES FOR FINANCIAL DISCUSSIONS**

Open conversations from a child's early years allow parents to share their values and encourage children to formulate their own. It's not all about numbers. A common misconception is that talking to children about money involves disclosing amounts or elements of the family's financial life and position that may not be

appropriate to share with children or young adults. Instead, the conversation should centre around communicating values and principles for managing money effectively.

The goal is to share with them what's important to you about money and equip them with the skills and confidence to manage their wealth effectively. Identify any pitfalls that you wish your child to avoid. This could be anything from entitlement to lack of confidence. Think carefully about this and find ways to discuss your views with your child.

## **PROMOTING FINANCIAL CONFIDENCE THROUGH PRACTICAL ACTIVITIES**

To reinforce the concepts discussed, consider incorporating practical activities

into your routine. For example, you could start with simple budgeting exercises, set savings goals for specific items, or even discuss the basics of investing in a child-friendly manner. These hands-on experiences can make abstract concepts more tangible and relatable for children.

Remember, the aim is for your child to feel comfortable and knowledgeable about financial matters. By encouraging an open dialogue, you are setting a foundation for their future financial wellbeing. Creating an environment where money can be discussed openly ensures that children feel confident seeking advice and making informed decisions about their finances.

### **AGES 3-6**

Label three jam jars: 'Spend', 'Save' and 'Give'. Give your child a regular amount of pocket money and divide it between the three jars. As they age, grant them greater autonomy in allocating their funds to each jar. Allow your children to make their own spending decisions for the 'Spend' jar. Resist the urge to give them more money once they have spent all their funds until they have replenished the jar.

The 'Save' jar is ideal for storing tooth fairy money or small monetary gifts from friends and family. As your child matures, introduce the concept of interest rates by occasionally adding a small amount to the pot. You can further incentivise saving by matching their contributions.

For the 'Give' jar, involve your child in choosing a charity or beneficiary. Create memorable experiences around their gift, such as volunteering or visiting the charity

to see the impact. This often sparks joy and leaves a lasting impression on children.

From an early age, involve children in shopping decisions. For instance, ask them to choose between a branded product and a white-label good, show them the price difference and prompt them to choose.

As they get older, give them money to allocate to a specific category, like fruit. This grants them autonomy over small financial decisions for the family, fostering a sense of pride in their contribution.

### **AGES 7-10**

Introducing the concept of 'needs' versus 'wants' is a powerful way to help children decide how to spend their money. Start by having your child list their 'needs' and 'wants' on a back-to-school shopping list, then discuss how to allocate the budget.

Working for 'wants' sets goals that children can feel proud of achieving. Ask your child to draw a picture or write down their 'want', then give them specific jobs to earn money towards their goal. Celebrate their achievement when they reach it!

Give your child a budget for a family event, such as a birthday dinner. Allow them complete autonomy in allocating the budget, including designing the menu, buying ingredients and deciding whether to have decorations and cake. This activity is a fun way for children to learn about budgeting and making spending decisions on behalf of the family.

### **AGES 10-15**

In our increasingly digital world, visiting a bank can still be a memorable experience

for children. It provides an opportunity to understand the concept of choosing a place to store and manage money. Consider opening a minor or joint account, which will give you full visibility over transactions. Select a bank with an intuitive, easy-to-use app to explore with your child.

Help your child deposit gifts and pocket money, allowing them to watch their balance grow over time. Review monthly statements together, discussing interest rates and payments. This hands-on approach can make financial management more tangible and engaging for young minds.

Engage your child in the world of investments by organising a family stock-picking competition. Each family member selects a company they are familiar with – perhaps one that produces a favourite food or toy – and track its performance over several months. Teach your child how to look up share prices using a stocks app on an iPad or similar device.

You don't need actually to purchase the stocks. Instead, offer to pay dividends or gains made during this period or award a prize to the winning stock picker. This activity introduces essential investment concepts in a fun and accessible manner.

### **AGES 15-21**

Assist your older child in building a budget for school or university. Show them how to anticipate income or allowance, plan for spending needs, and distinguish between fixed and discretionary costs. Transitioning to a less frequent allowance helps them practise budgeting independently. Encourage them to allocate funds for an



emergency fund to cover unexpected expenses. This preparation builds a solid foundation for financial independence and responsible money management.

Involving a young adult in the family's charitable giving offers a valuable learning experience about investments and family values without revealing the entire financial picture. If there's a charitable structure or account within the family, involve your child in deciding which charities to support and how much to donate.

Invite them to attend investment meetings or review investment reports, which will provide insight into asset management. This exposure will foster a deeper understanding of financial stewardship and philanthropy, preparing them for future responsibilities.

Empower your child to build their investment portfolio by giving them money or granting control over their Junior ISA

(JISA) at age 16 if applicable. Establish ground rules for accessing capital and income to guide their investment decisions. This practical experience equips them with essential skills for managing personal investments and fostering long-term financial competence and confidence. n

#### **READY TO DISCUSS FINANCIAL MATTERS FOR THE NEXT GENERATION?**

If you require further information or need assistance in initiating these important conversations, please do not hesitate to contact us. We are here to support you in fostering a financially literate and confident next generation. To discuss how we can help you, please contact us.

THIS ARTICLE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

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