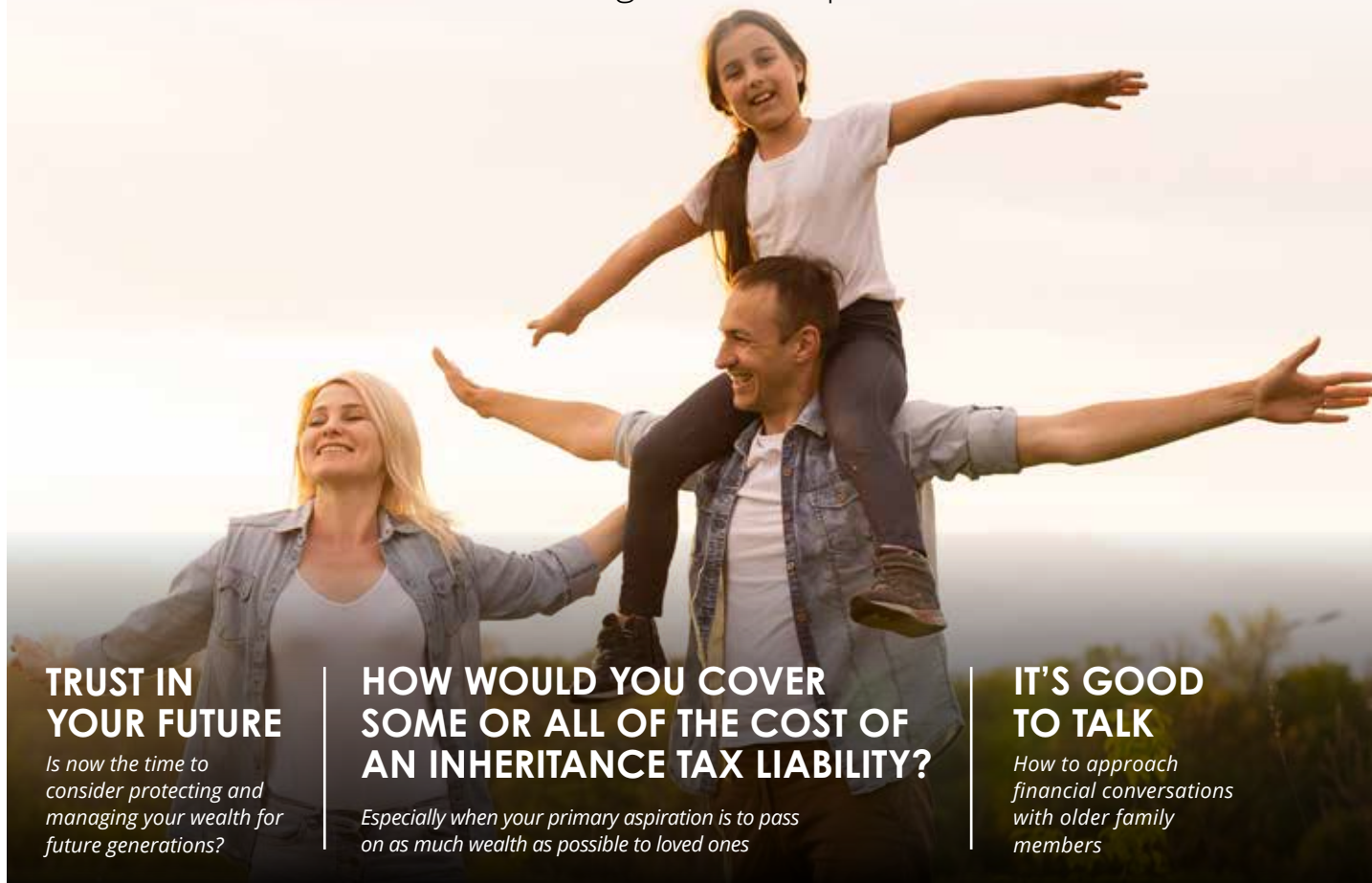




THORNTONS WEALTH

WEALTH TRANSFERS OF FINANCIAL LEGACIES

Are you among the many families unprepared
and lacking structured plans?



TRUST IN YOUR FUTURE

Is now the time to consider protecting and managing your wealth for future generations?

HOW WOULD YOU COVER SOME OR ALL OF THE COST OF AN INHERITANCE TAX LIABILITY?

Especially when your primary aspiration is to pass on as much wealth as possible to loved ones

IT'S GOOD TO TALK

How to approach financial conversations with older family members

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WELCOME TO THE LATEST ISSUE OF THORNTONS WEALTH MAGAZINE.

Welcome to the March 2025 issue of Thorntons Wealth's monthly e-zine newsletter. Over the next couple of decades, a staggering £5.5 trillion is set to change hands, marking one of the biggest wealth transfers in history. Despite the scale of this shift, many families are unprepared for the responsibility it brings. Without a clear plan in place, financial legacies could easily be mismanaged or distributed in ways that don't align with your wishes. This isn't just about managing taxes like Inheritance Tax; it's about protecting the fruits of your hard work and ensuring they're used wisely. To do this effectively, you'll need to think about what kind of legacy you want to leave, who your beneficiaries are, and how to align it all with your long-term financial goals. These questions form the foundation of a well-structured wealth transfer plan.

Trusts can be a powerful tool for anyone looking to protect and manage their wealth across generations. They allow you to pass on assets to beneficiaries in a controlled and structured manner, ensuring the wealth is used as intended. This can provide peace of mind, especially if you're worried about how a sudden inheritance might affect younger family members. For instance, leaving a large sum to grandchildren who are young adults might lead to poor decisions or mismanagement. Trusts can be a safeguard against this. But they're not for everyone, as they can be complex and require careful consideration. Whether you're deciding between nieces and nephews or even if you don't have children to inherit your estate, trusts offer flexibility and control to craft a plan that works for your unique circumstances.

Taking a thoughtful approach to Inheritance Tax (IHT) planning can make a big difference in securing your loved ones' financial future. Changes announced in the 2024 Autumn Budget have made this even more pressing. From April 2026, adjustments to Business Property Relief (BPR) and Agricultural Property Relief (APR) will start to take effect, alongside a new 40% tax on pensions previously exempted from IHT, which comes into play in April 2027. The first question you should ask yourself is, "What is my main goal?" Of course, reducing the tax burden is important, but what drives most people is a deeper desire to pass on as much wealth as possible to their family. Thinking strategically now can help maximise what you leave behind and minimise unnecessary losses.

Talking about money is rarely easy, especially with older relatives, but these discussions are essential. They're key to easing stress and ensuring that everyone's financial future is protected. Whether

it's planning for unexpected costs like medical bills or addressing insufficient savings, these challenges can weigh heavily on families if left unspoken. Yet, many steer clear of financial chats. Research shows that nearly half of parents (49%) have never discussed the details of their Will with their children, often thinking their estate is too small to justify a conversation. What's more alarming is that only 34% have even told their children where their Will is stored. These gaps in communication can lead to confusion down the line, but an open dialogue today can make all the difference in creating a clear path for the future.

Recent findings highlight a troubling pattern among those nearing retirement. About one in five (21%) individuals accessed a lump sum from their pension pot as soon as they turned 55, often without understanding how this could affect their financial future. While some needed the funds for essential expenses, others withdrew their savings simply because the option was available. Alarmingly, 46% of respondents admitted they hadn't planned ahead and took out the cash just because they could. While it might feel harmless in the moment, cashing out pensions without proper planning can lead to significant risks later in life. If you're approaching retirement, it's worth taking the time to fully understand your options and think about how today's choices could impact tomorrow's security.

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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WEALTH TRANSFERS OF FINANCIAL LEGACIES

Are you among the many families unprepared and lacking structured plans?

THE WORLD IS ON THE VERGE OF AN UNPRECEDENTED INTERGENERATIONAL WEALTH TRANSFER, WITH PROJECTIONS ESTIMATING THAT BY 2047, AN ASTONISHING £5.5 TRILLION WILL CHANGE HANDS[1]. DESPITE THIS MONUMENTAL SHIFT, MANY FAMILIES REMAIN UNPREPARED, LACKING STRUCTURED PLANS TO ENSURE THEIR FINANCIAL LEGACIES ARE PRESERVED OR DISTRIBUTED ACCORDING TO THEIR WISHES.

Wealth transfer planning involves much more than merely arranging for Inheritance Tax. It focuses on ensuring that the fruits of your hard work are not squandered after you have gone. This process requires asking crucial questions concerning your legacy, your beneficiaries and your long-term financial aims.

KEY QUESTIONS EVERY INDIVIDUAL SHOULD ASK

Before deciding how to transfer your wealth, start by reflecting on these pivotal questions:

- How much money will I need for the rest of my life, including provisions for later-life care?
- What assets am I likely to leave behind? This encompasses cash, savings, investments, properties, vehicles, business interests and belongings such as art or jewellery.
- Who do I want to provide for, and are there individuals or entities I wish to exclude?
- How much would I like each beneficiary to receive?

- Should I place restrictions on how my legacy is used?
- Do I want to gift some wealth during my lifetime?
- How can I ensure that my assets are managed according to my wishes after I have passed away?

Failing to address these fundamental questions could lead to unintended outcomes. For example, without proper planning, the inheritance you leave may be insufficient to secure your loved ones' financial futures, or worse, it could dissolve due to poor management and lack of preparation.

ENCOURAGING FAMILY CONVERSATIONS ABOUT WEALTH

Transparency and open communication can be the backbone of successful wealth transfer planning. Unfortunately, many parents have never discussed financial matters with their heirs, leaving adult children unaware of their future inheritance. If you suspect that your parents possess considerable wealth but have not addressed planning, it may be worthwhile to initiate a conversation about it. Consider

suggesting that they seek professional advice to gain clarity and structure.

Encouraging family discussions about wealth fosters a sense of responsibility in younger generations. By sharing your experiences, explaining how you amassed your wealth and outlining your investment motivations, you can cultivate an appreciation for prudent financial planning and management. This understanding may help ensure your heirs make informed choices regarding their inheritance.

EDUCATING AND ENGAGING THE NEXT GENERATION

It is never too early to commence educating your children about wealth management. The earlier they cultivate an understanding of financial concepts and the principles underlying your investments, the better prepared they will be to manage their inheritance.

Involving your children in meetings with trusted advisers can be invaluable. It enables them to gain insights from professionals and builds a stronger foundation for managing their future assets. Surprisingly, many individuals aged 30 to 60 – those most likely to inherit substantial wealth – do not yet have a professional financial planner.

PROACTIVE PLANNING AND PERSONALISED SOLUTIONS

If you're ready to implement wealth transfer plans, it's vital to work with skilled professionals. Collaborating with us and your solicitor is paramount to ensure that your Will is updated, legal arrangements are



properly structured and your instructions are clear.

For instance, trust structures can be highly effective tools. They enable the settlor to maintain control over their assets by specifying who benefits, when, and by how much. Additionally, trusts serve as an effective means of Inheritance Tax planning, aiding in the preservation of wealth within the family.

EXPLORING FLEXIBLE OPTIONS FOR THE UNEXPECTED

Sometimes, life circumstances require flexibility in wealth transfer strategies. For example, if a beneficiary decides to skip inheritance and pass assets along to the next generation, this can be achieved through a Deed of Variation.

Family dynamics, including potential fallouts or divorces, also require strategic planning. You may wish to exclude certain individuals, such as a son-in-law or daughter-in-law, to safeguard your legacy while ensuring that funds remain accessible to your children or

grandchildren. Tackling these complexities in advance can prevent future disputes and protect your family's financial security. ■

ARE YOU READY TO TAKE THE FIRST STEP IN ENSURING THAT YOUR FINANCIAL LEGACY IS PROTECTED?

Wealth transfer is not merely about financial transactions; it involves preserving the values, security and stability of future generations. If you are contemplating transferring your wealth and would value professional advice, why not take the first step to ensure that your financial legacy is protected and passed on according to your wishes? This is one of the most significant decisions you will make. Don't leave it to chance – start planning today. Contact us to discuss your options. Together, we can help you build and secure a future that lasts for years to come.

Source data:

[1] *M&G Wealth – Family Wealth Unlocked Report 2022*. Available at: <https://www.mandg.com/dam/pru/shared/documents/en/fwu-report-final-version-20-april-2022.pdf>
October 2024

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TRUST IN YOUR FUTURE

Is now the time to consider protecting and managing your wealth for future generations?

A TRUST CAN BE AN EFFECTIVE SOLUTION FOR MANY INDIVIDUALS AND FAMILIES AIMING TO PROTECT AND MANAGE THEIR WEALTH. TRUSTS PROVIDE A STRUCTURED METHOD FOR TRANSFERRING ASSETS TO BENEFICIARIES, ESPECIALLY ACROSS GENERATIONS, WHILE ENSURING THE FUNDS ARE UTILISED FOR THEIR INTENDED PURPOSES. HOWEVER, TRUSTS ARE NOT UNIVERSALLY SUITABLE, AND THEIR COMPLEXITY NECESSITATES CAREFUL CONSIDERATION AND PLANNING.

A trust can provide reassurance regarding concerns about how wealth may impact beneficiaries. For example, if you wish to leave your estate to your grandchildren, who are all young adults, suddenly inheriting a substantial sum could lead to poor financial decisions or mismanagement of the funds. On the other hand, if you do not have children, the decision between nieces and nephews – or whether any of them should inherit – can create uncertainty in estate planning. If you are unsure about how to structure your legacy, trusts can offer flexibility and control.

WHY TRUSTS ARE VALUABLE FOR FUTURE PLANNING

Trusts have been utilised for centuries to address various needs, from funding education to managing wealth for beneficiaries who may not yet, or may never, have the capacity to do so themselves. A trust can be particularly beneficial in phasing out inheritance to avoid overwhelming young beneficiaries or in ensuring that funds are available for specific milestones, such as purchasing a home or paying for university.

Beyond personal benefits, trusts can serve as an essential tool for addressing family dynamics. Complex relationships, such as when a family member struggles with

managing money, substance abuse issues or challenging partnerships, may require a protective financial arrangement. Trusts can also help preserve assets for charitable causes, ensuring that organisations dear to you can benefit in the long term.

WHAT EXACTLY IS A TRUST?

Although there isn't a single definition, a trust is most simply understood as a legal relationship among three parties. The settlor, or creator of the trust, transfers assets into it. Trustees are then appointed to manage the trust, ensuring that the specified beneficiaries receive benefits at appropriate times. Trusts can flexibly align with your intentions, whether providing immediate financial support, delaying the distribution until certain conditions are met or ensuring that funds are managed responsibly.

The role of the trustee is vital. Trustees are not just administrators; they have a duty to act in the best interests of the beneficiaries. This responsibility underscores the importance of selecting the appropriate individual or professional entity for the role.

OVERCOMING COMMON CONCERNS ABOUT TRUSTS

One of the main challenges in trust planning is ensuring that your wishes are honoured

long after you have transferred your assets. Trusts allow you to retain a certain level of control by setting guidelines or phased distributions to meet long-term objectives. For example, you might specify that funds can only be used for education, house deposits or other purposeful living expenses.

Additionally, trusts alleviate beneficiaries' concerns regarding financial mismanagement. Some individuals may not be prepared to manage an inheritance directly due to youth, inexperience or particular vulnerabilities. With trusts, one can structure the transfer of wealth to maximise its benefits while safeguarding it from exploitative or careless behaviours.

RISING USE OF TRUSTS FOR CHARITABLE GIVING

Establishing a charitable trust can be a significant means of extending your legacy. Whether you choose to support ongoing causes or make periodic contributions, a trust can ensure that your philanthropic objectives are consistently met over time. Unlike one-off donations, charitable trusts offer reliable, long-term support to organisations or projects that reflect your values.

This feature of trusts enables you to create a lasting impact while retaining control over how and when the funds support chosen charities. For individuals with considerable



wealth, philanthropic trusts can also coincide with tax planning considerations in some jurisdictions, enhancing their appeal.

IMPORTANCE OF OBTAINING PROFESSIONAL ADVICE

Although trusts offer numerous benefits, they can be complicated to establish. Legal guidance is crucial to ensure that your trust complies with regulations and functions as intended. Tax implications can also differ between jurisdictions, making the expertise of a financial or legal adviser invaluable. Professional advice streamlines the process, providing clarity on whether a trust is suitable for your individual situation.

Moreover, trust management is not a 'set it and forget it' duty. Trustees must remain continually attuned to the trust's financial performance, tax obligations and other commitments. A professional adviser can assist the trustee in formulating a tailored investment strategy for the trust, taking into account its objectives, ethical standards and risk appetite.

TRUSTS AS A TAILORED SOLUTION FOR ESTATE PLANNING

If you're grappling with uncertainties about how to pass on your wealth or how best to

ensure it serves your intended purpose, a trust could be the answer you seek. From managing family complexities to supporting charitable causes and preparing younger generations for financial independence, trusts can fulfil a diverse range of objectives.

Although their complexity may seem daunting, seeking expert assistance makes the process significantly more manageable. Working alongside our highly professional experts will provide customised strategies specifically tailored to your needs. ■

IS IT TIME TO TAKE THE NEXT STEP TOWARDS MAKING THE RIGHT DECISIONS FOR YOUR CIRCUMSTANCES?

If you're considering a trust but feel daunted by the choices or are unsure of where to start, seeking professional guidance can certainly make a significant difference. Contact us to explore your options and ensure you make the right decisions for your situation. A well-structured trust can safeguard your legacy and offer invaluable peace of mind.

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THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

HOW WOULD YOU COVER SOME OR ALL OF THE COST OF AN INHERITANCE TAX LIABILITY?

Especially when your primary aspiration is to pass on as much wealth as possible to loved ones

INHERITANCE TAX (IHT) PLANNING IS ESSENTIAL FOR MANAGING YOUR ESTATE EFFECTIVELY AND ENSURING THE WELLBEING OF YOUR LOVED ONES.

CHANGES HIGHLIGHTED IN LAST YEAR'S AUTUMN BUDGET STATEMENT 2024 HAVE FURTHER EMPHASISED THIS CONCERN, WITH SIGNIFICANT AMENDMENTS TO BUSINESS PROPERTY RELIEF (BPR) AND AGRICULTURAL PROPERTY RELIEF (APR) FROM APRIL 2026. MOREOVER, PENSIONS PREVIOUSLY EXEMPTED FROM IHT WILL NOW BE SUBJECT TO A 40% CHARGE FROM APRIL 2027.

Faced with these developments, the first question you should consider is, 'What is my primary motivation?' For many, the aim is clear – to avoid paying more tax after a lifetime of financial contributions towards building their wealth. However, the true driving force often goes deeper than mere tax avoidance. The primary aspiration is usually to pass on as much wealth as possible to loved ones.

UNDERSTANDING WHOLE OF LIFE ASSURANCE

One effective, though often overlooked, solution for minimising IHT is Whole of Life Assurance, also referred to as Whole of Life cover or insurance. This type of life assurance policy is designed to pay out a guaranteed sum to your chosen beneficiaries upon your death. What sets it apart from term life insurance is its lifelong duration. While term insurance expires at the end of a specified term if the individual survives, Whole of Life policies do not have such a time limit.

It is often advisable to establish this policy within an appropriate trust. Why? By placing the policy in a trust, you ensure that the payout is excluded from your taxable estate, enabling your beneficiaries to utilise this money to cover some or all of the IHT liability. This arrangement streamlines the inheritance process while preserving the value of your estate.

WHAT SETS WHOLE OF LIFE ASSURANCE COVER APART?

As you would expect, Whole of Life cover does come at a cost, typically carrying higher premiums than term-based policies. This is because it is guaranteed to pay out so long as premiums are met, unlike term policies that only pay out under specific conditions. Whether the policy is right for you depends on several factors, including your personal circumstances, the value of your estate and your estimated IHT liability.

A crucial factor to consider is your life expectancy. These policies usually provide the greatest value to individuals who live well beyond the average life expectancy, so it is essential to evaluate this aspect. This will ensure that the premiums paid over time are justified by the eventual payout your beneficiaries will receive.

STAYING PROTECTED AMID CHANGING TAX RULES

One key advantage of Whole of Life Assurance is its independence from changing tax laws. As a standalone contract with your provider, this type of policy remains unaffected by future government budget changes. Unlike other strategies that may require selling off assets or opting for higher-risk investments, Whole of Life cover permits you to maintain control of your estate.



Another advantage is its immediate effectiveness. Aside from rare exceptions during the initial 12-month period due to factors such as suicide or self-injury, a payout is guaranteed. With other IHT strategies, achieving the same level of effectiveness may take years.

PREMIUM CONSIDERATIONS AND TAX EFFICIENCY

While premiums for Whole of Life cover may be higher, they could still fall within the annual IHT gifting exemption of £3,000 or qualify as 'normal expenditure out of income' if structured correctly. Indexation can also be included to adjust the sum assured for inflation, helping to keep up with the increasing value of your estate. However, it's important to note that premiums may rise if your medical history presents certain risks.

It is crucial to approach this with a clear understanding of your options. Policies with guaranteed premiums offer the reassurance of cost stability throughout your lifetime, whereas those with adjustable premiums could lead to unforeseen expenses in the future.

COMMON RISKS AND HOW TO MITIGATE THEM

There are several matters to consider when contemplating Whole of Life cover.

For instance, if the premium payments become unaffordable, you may have to cancel the policy, which does not refund any unused value. Thoughtful planning, including our comprehensive cash flow forecasting, ensures that you can assess affordability across various scenarios before committing.

Regular estate planning reviews can also help mitigate risks. As your estate's value may grow over time, it's essential to ensure that the Whole of Life policy aligns with your evolving goals and IHT liability.

WHY ASSESSING YOUR GOALS MATTERS

When managing your estate and planning for IHT, you should focus on identifying your key objectives. Whether you want an immediate solution or long-term security for your loved ones, clarity about your goals is essential. By understanding what matters most, you can build a viable plan that aligns with your priorities.

We base our recommendations on discussions about client needs rather than what specific products may offer. For each individual, the best solution may incorporate a mix of strategies. Whole of Life Assurance is just one option, but it can provide significant peace of mind in many cases. ■

READY TO CONTACT US TO START MAKING YOUR PLANS?

Taking steps to plan your estate effectively can make all the difference to your heirs. If you'd like to explore whether Whole of Life Assurance is the right solution for your circumstances, we are here to help. Contact us today for tailored advice and a comprehensive review of your options. Together, we can craft a strategy that meets your goals and safeguards your estate for future generations.

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IT'S GOOD TO TALK

How to approach financial conversations with older family members

DISCUSSING FINANCES IS NOT ALWAYS EASY, PARTICULARLY WITH OLDER FAMILY MEMBERS.

NEVERTHELESS, THESE CONVERSATIONS ARE ESSENTIAL FOR ALLEVIATING STRESS AND ENSURING EVERYONE'S LONG-TERM WELLBEING. WHETHER IT INVOLVES MANAGING UNEXPECTED EXPENSES, SUCH AS MEDICAL BILLS, OR ADDRESSING INSUFFICIENT SAVINGS, FINANCIAL CHALLENGES CAN WEIGH HEAVILY ON AGEING RELATIVES. FAMILIES CAN WORK TOWARDS SMOOTHER TRANSITIONS AS CIRCUMSTANCES EVOLVE BY ENGAGING IN OPEN DISCUSSIONS AND PLANNING AHEAD.

WHY FINANCIAL DISCUSSIONS ARE CRUCIAL

Many people shy away from discussing money, even though it's vital. Research reveals that nearly half of parents (49%) have never shared their Will's instructions or details with their adult children, often assuming their estate is too small to justify a conversation. Equally concerning, only 34% of parents have informed their children where their Will is stored.

Avoiding such discussions creates unnecessary stress and a lack of preparation. For example, recent research notes that 55% of adults either provide financial support or expect they will need to help their parents in retirement^[1]. Yet, confidence in older relatives' financial stability remains low, especially among younger adults. Only 2% of 18 to 24-year-olds feel optimistic about their parents' financial health. Initiating these conversations early helps families plan for key issues such as estate distribution, retirement needs and long-term care.

PROFESSIONAL ADVICE CAN PROVIDE A HELPFUL FRAMEWORK

Initiating financial discussions with older relatives might feel uncomfortable, but it is essential to break the ice. Seeking professional advice can offer a valuable framework for ensuring these

conversations are successful. Below are important questions to consider, which will help prepare your family for the future.

HAVE LIVING COSTS BEEN ASSESSED RECENTLY?

Understanding and managing everyday costs is key to maintaining financial independence for older relatives. You can create a budget for essentials, leisure expenses, savings and one-off costs. Reviewing outgoings such as utility bills, insurance plans and subscriptions ensures these are necessary and competitively priced.

Younger family members can help older generations identify online deals and discounts, which they may be less familiar with. Additionally, consider whether all potential tax reliefs, such as the marriage allowance, are being used to ease financial pressures further and optimise savings.

HAVE YOU TACKLED THE INCREASING CONCERNS REGARDING INHERITANCE TAX?

Rising house prices and frozen tax thresholds have significantly increased Inheritance Tax (IHT) bills. Legislation set to bring pensions into the IHT framework from April 2027 will further complicate this issue, potentially impacting even more families.

Families should consider strategies such as setting up trusts – including gift trusts or

loan trusts – or gifting assets. Thoughtful planning can alleviate IHT liabilities. Exploring tailored advice on these solutions can help ensure your family is prepared for this financial challenge.

THE IMPORTANCE OF UPDATING A WILL

Having a Will ensures that a person's assets are distributed according to their wishes, preventing disputes among family members. Regular updates are equally vital, especially following significant life events like births, marriages, divorces or deaths. For example, a marriage automatically invalidates an earlier Will, requiring a new document.

Although discussing the contents of a Will openly with the entire family may feel daunting, it fosters transparency and helps manage expectations. This avoids misunderstandings and ensures everyone is on the same page.

DO YOU NEED A LASTING POWER OF ATTORNEY?

Another critical consideration is establishing a Lasting Power of Attorney (LPA). An LPA allows a trusted individual to make financial or medical decisions if the person becomes unable to do so themselves. Setting up an LPA alongside a Will can save time, reduce



costs and eliminate potential distress in unforeseen circumstances.

PLANNING FOR LONG-TERM CARE COSTS

The rising care costs in later years can severely deplete savings if not planned for in advance. While these costs can feel daunting, there are financial tools that may help. For instance, an immediate needs annuity can provide tax-free income to cover care services directly.

Preparing for long-term care is a complex process that requires careful consideration of options. Families benefit significantly from exploring solutions that safeguard their wealth while ensuring that loved ones can access the care they need.

ARE FINANCIAL AND LEGAL DOCUMENTS WELL ORGANISED?

The proper organisation of key documents is crucial. Encourage loved ones to maintain updated and easily accessible records of their Wills, trust documents, pensions and financial commitments. It is equally important to inform family members where these documents are stored.

Tracking gifts and expenditures over time also simplifies matters in the future, especially if exemptions from IHT become necessary. Clear, well-organised records make a difficult time more manageable and

ensure critical information is readily available when needed.

WHY FINANCIAL PLANNING AS A FAMILY IS IMPORTANT

Collaborating as a family on financial planning fosters transparency, decreases stress and strengthens family ties. While these conversations may initially be challenging, they lay the groundwork for a future with reduced uncertainties and greater peace of mind.

By addressing these aspects early, families can enjoy their time together, assured that everyone's financial wellbeing has been thoughtfully considered. ■

READY TO TAKE THE FIRST STEP TOWARDS FINANCIAL WELLBEING?

If you're ready to embark on these important discussions or require guidance, don't delay. Ensuring your family is financially prepared will offer peace of mind today and security for the future. For professional advice or to make use of available resources to clarify your next steps and safeguard what matters most, please reach out to us. We look forward to hearing from you.

Source data:

[1] Second 50 report – survey of 900 UK workers and 100 retired UK residents is the foundation of this second edition of our Second 50 report, complementing 12 years of research in the UK. Unless otherwise stated, the research referred to throughout this guide was conducted by Aegon in July 2024 in a study nationally representative of UK age, gender and regions.

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THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX ADVICE AND WILL WRITING.

UNDERSTANDING RETIREMENT DECISIONS

The impact of pension lump sums and their long-term implications

NEW RESEARCH REVEALS A CONCERNING TREND AMONG THOSE APPROACHING RETIREMENT⁽¹⁾. ONE IN FIVE INDIVIDUALS (21%) WHO ACCESSED A CASH LUMP SUM FROM THEIR PENSION POT DID SO AS SOON AS THEY REACHED 55, OFTEN WITHOUT FULLY COMPREHENDING THE POTENTIAL LONG-TERM CONSEQUENCES. WHILE SOME UTILISED THE FUNDS TO MEET IMMEDIATE FINANCIAL NEEDS, OTHERS WITHDREW THEIR SAVINGS SIMPLY BECAUSE THEY COULD.

The findings, gathered from individuals over 50 to better understand retirement decisions and planning, provide deeper insight into this behaviour. Of those surveyed, 32% cashed their pensions to cover essential expenses. However, a larger portion – 46% – admitted they withdrew their lump sums simply because the option was available. Although these choices might appear harmless initially, the lack of proper planning often results in significant risks later on.

HIDDEN RISKS OF WITHDRAWALS WITHOUT ADVICE

The research highlights the risks linked to withdrawing pension funds without seeking professional guidance or advice. Alarming, over a quarter (27%) of adults aged 50 or older made significant decisions regarding their pensions without consulting a financial adviser or using guidance tools. This lack of preparation often exposes them to unexpected tax liabilities or even reduced eligibility for means-tested benefits.

A notable 24% of participants admitted they were unaware that withdrawing large lump sums from their pension savings could negatively impact their eligibility for benefits. Furthermore, an additional 11% reported that accessing their savings had already directly affected their means-tested benefits. These findings highlight the critical importance of understanding the potential consequences before proceeding with pension cash-outs.

TAX-FREE ALLOWANCES OFFER SOME RELIEF

Despite the risks, some retirees aim to stay within the limits of tax-free allowances. Two-thirds (67%) of respondents who accessed their funds withdrew 25% or less of their pension to avoid incurring taxes on the withdrawal. However, 10% opted to withdraw their entire pot, which could expose them to high tax rates or limit their financial security in later years.

If given the chance to reassess their choices, many individuals would manage matters differently. Approximately 18%

admitted that, in hindsight, they would have taken out less or avoided withdrawing lump sums from their pensions. These statistics emphasise that a hasty decision during retirement planning can lead to regrets later on.

RECOGNISING THE TRUE COSTS OF EARLY ACCESS

Why do individuals opt to cash in their pension pots at such an early stage? For some, it's a matter of necessity – covering essential expenses like household bills or debts. However, the frequency of individuals accessing funds simply because 'they can' highlights the potential risks of not fully grasping the seriousness of these choices.

Untimely cash withdrawals can lead to numerous problems. In addition to tax penalties, they may deplete savings earlier than expected, jeopardising financial stability in future decades. Even more troubling is the possibility of losing access to critical benefits, leaving retirees without the safety nets they might rely on later.

HOW TO MAKE WELL-INFORMED DECISIONS

Individuals approaching retirement must carefully evaluate their needs and options to avoid these common pitfalls. Obtaining professional financial advice will help retirees better understand the implications of their decisions, whether they relate to taxes, benefits or ensuring long-term financial security.



Equally, adhering to this advice will provide a clear understanding of how lump sum withdrawals could affect one's financial situation in the years to come. The insights gained will enable retirees to make informed decisions tailored to their specific circumstances.

PLAN TODAY, AVOID REGRET TOMORROW

While the ability to access a pension pot at 55 offers significant flexibility, it also involves complexities that should not be overlooked. On one hand, this early access enables individuals to meet urgent financial needs, such as settling debts, financing home improvements or even assisting loved ones.

It can also provide a sense of liberation, enabling individuals to enjoy their savings while they remain in good health and active. However, this freedom should be approached with caution. Without careful

consideration, early withdrawals can significantly reduce the funds available for later years, potentially leaving retirees facing financial hardship or an uncertain future. ■

ARE YOU PREPARED TO ENSURE YOUR LONG-TERM FINANCIAL WELLBEING?

By taking the time to evaluate all options and seek expert guidance, you can make informed decisions that not only meet your current needs but also secure your long-term financial wellbeing. If you have any questions or would like personalised advice tailored to your retirement plans, please do not hesitate to contact us. Seeking guidance at this time can significantly impact your financial future.

Source data:

[1] Research conducted, on behalf of Legal & General, by Opinium between 3–9 December 2024, among 3,000 UK over 50s.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL 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.