

## Financial planning in old age

Last month we looked at a variety of New Year resolutions and applied these to the 3 generations of the Smith family.

In this month's newsletter, we are going to look specifically at the Smith grandparents, Harvey and Maggie.

They are both in their late 80s and contemplating what they need to be doing with regard to their financial planning to ensure that they are secure and comfortable for the remainder of their lives.

Like many in old age, they are also keen to leave something to their children and grandchildren and to mitigate their liability to Inheritance Tax if possible.

We will consider how they can go about achieving these objectives.



### Put their financial affairs in order

Being well organised about your financial affairs is a good idea at all times.

But it can be particularly important in old age, when there is an increased risk of illnesses that might make managing money difficult or impossible.

This need not mean anything very elaborate. Keeping all our financial documents in one place is a simple but effective first step.

Another is to keep a clear list of all their finances:

- Their spending
- Their different sources and amounts of income
- Their debts
- Their assets, including savings, investments, pension funds, property and personal effects.

This kind of information will make things much easier for anyone the Smiths might later ask to help them to manage their affairs.

### Handing over control of their finances

It makes sense for Harvey and Maggie to have plans in place in case they become too ill to manage their financial affairs.

A friend or relative can be a great help. But if the Smiths become unable to take decisions about their finances, they can set up a legal arrangement to let a friend or relative do so on their behalf.

This arrangement is a power of attorney.

There are two different kinds, suitable for different circumstances:

- **Ordinary power of attorney** — these can be used to give someone a temporary right to handle our financial affairs, for example, if we have to go into hospital for a while. You might need a solicitor to set this up and it will cost around £150.
- **Lasting power of attorney** — these can be used to give a chosen individual the right to

manage our affairs on an ongoing, indefinite basis. (This term applies in England and Wales. The equivalent in Scotland is a continuing power of attorney, and in Northern Ireland an enduring power of attorney).

Unlike an ordinary power of attorney, a lasting power of attorney remains effective even if either of the Smiths become mentally incapacitated. They could act as attorneys for one another.

A lasting power of attorney must be registered with the Court of Protection and is more expensive than an ordinary power of attorney.

The Smiths should set up a power of attorney in advance of when they might actually need it. They can only set one up if they have 'sufficient mental capacity', which means the ability to make decisions for themselves.

For somebody else to handle their affairs without a power of attorney can be costly and complicated.

### Make a will

If the Smiths die without making a will – referred to as dying 'intestate' – the law specifies how their wealth will be divided. This means their assets will not necessarily be passed on in the way they would wish.

If they are keen to decide which members of their family inherit which assets, they need to draw up a will.

It would be possible for them to write a will themselves, but even small technical mistakes can make a will invalid so it is generally a good idea to get help from a solicitor or professional will writer.

For those with an existing will in place, it is recommended that you regularly review it to ensure it is up to date and continues to meet with your wishes.

### Planning their estate

In addition to using a will to say who should inherit their money, there are steps the Smiths could take to organise their wealth, with the potential benefit of mitigating any liability to Inheritance Tax (IHT).

This is where it is so important for the Smiths to take time to think about how their lives might change in the future and to formulate a plan for how they will deal with these changes.

For people in their later years, like Harvey and Maggie, the big 'unknown' is the impact of poor health and the potential costs involved in providing long term care.

There are so many imponderables that long term care planning can be very difficult. How much care, if any, will be needed? Will a stay in a nursing home be required and, if so, for how long? How much will it cost? We are going to look in more detail at long term care in next month's newsletter.

For now, it is probably best to plan for the worst-case scenario well in advance and to ensure that there are more than sufficient financial resources to cover the possible costs.

If there is more than sufficient money to cover the possible cost of care, the Smiths can start to think about ways of organising their wealth to mitigate how much IHT might be paid on their estate.

### Making gifts to family members

If the Smiths give some of their wealth to a family member so that they no longer get any benefit from it, the value of the gift will still be included in their estate for IHT – but only for 7 years.

They can give away limited amounts every year and not have to pay IHT even if they do die within 7 years. For example, they can give away up to £3,000 a year and can give away money to their grandchildren when they get married.

They just need to be aware that there might also be Capital Gains Tax to pay on certain assets that they give away in their lifetime, for example, an investment property.

### Place assets into a trust

If the Smiths place some of their cash, property or investments into a trust (which they cannot benefit from), the asset will no longer form part of their estate for IHT purposes. As with outright gifts, the value of the asset placed into trust would still be included in their estate for IHT calculations if they die within 7 years of the gift to the trust.

For example, they could set up a trust for their adult children to help pay for their grandchildren's education or support a family member with a disability.

They can set up a trust during their lifetimes or they can establish one in their wills.

There may be Capital Gains Tax consequences if they transfer certain assets into a trust in their lifetime, but there will be no liability to Capital Gains Tax if they establish a trust in their will.

Bear in mind that some types of trusts are subject to their own tax regimes and the trust might have to pay IHT themselves.

Also, trustees are likely to be liable for Income Tax at a rate of 45% and capital gains tax at 28%.

The rules around trusts are complicated so the Smiths would need to take advice from an expert.

### Leave something to charity

Finally, anything that the Smiths leave to charity is free from IHT, so it can be a useful way of reducing their Inheritance Tax bill, while benefiting a good cause.

Furthermore, if they leave at least 10% of their estate to charity, it will cut how much Inheritance Tax is due on the rest. The rate at which Inheritance Tax is calculated is 36% rather than 40%.

This rate is set against the balance of the estate to the extent that it exceeds the available nil-rate band (currently £325,000, although it can be reduced or eliminated by certain gifts made in a person's lifetime).

This might not be a huge saving, but it can mean that family members will receive more than they would do otherwise – while the Smiths' favourite charities also benefit.



## Market data

Market	Value at start of 2020	Current situation	Comments
<b>Interest Rates (BOE base rate)</b>	0.75%	0.75% at 31/01/20	The official bank rate is 0.75%.
<b>House Prices (Nationwide)</b>	House prices increased by 1.4% in 2019	House prices up by 0.5% at 31/01/20	Annual house price growth up by 1.9%.
<b>UK Share Prices (FTSE 100)</b>	7604.30	7286.01 at the close on 31/01/20	The FTSE 100 dropped by 318.29 points in January.

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