Family and Finances Report

Helping families have conversations about their financial wellbeing.

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Ben Waterhouse foreword

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

I'm pleased to welcome you to our second Family and Finances report. We were encouraged by the amount of positive feedback from our first report in April 2021, but more importantly, we as a financial business found the results of our research invaluable.

A key point from our first report was to be aware of the huge amount of wealth that's due to be passed between generations in the UK. This has not changed, and so we believe having a plan in place that covers your individual needs and deals with your finances efficiently remains crucial.

To help us gain a better understanding of the health of the nation's finances across generations, we split our research into two groups this time – those very near to, or in, retirement, and those with a decade or more before they leave the workforce. Instinctively, you'd think that those near to or at retirement would be thinking ahead. Whilst true in that 65% said they plan to pass on their wealth to loved ones, a surprising fifth of respondents (19%) haven't done the most basic of planning by putting a will in place.

Inheritance planning is vital in ensuring your wealth goes where you want it to, and to make sure you don't pay more tax than you need be. However, inheritance planning isn't just about finances. It could also be about your and your family's wellbeing. Dealing with estates can be stressful, and equally having those conversations in advance can be upsetting and difficult. Out of our younger group, 44% said they were worried about dealing with their parents' finances when they were no longer able to, and one-third (32%) don't even know who the executor of their parents' will is.

Not knowing about family finances can cause sleepless nights, and this is where we truly believe that tackling the taboo of talking to your family about money is a key factor for mental wellbeing. Often, these conversations happen too late, or not at all. As well as easing the distress by having these discussions as early as possible, you may even discover the benefits of passing on wealth during your lifetime – a consideration that often gets completely overlooked.

We believe more needs to be done to encourage stronger engagement with long-term financial planning, as well as promoting family money discussions. I hope this report highlights some of the reasons why wealth planning and discussions are important, and gives some food for thought on potential solutions.

Ben Waterhouse
Chief Client Officer
Schroders Personal Wealth

Key findings

For our second report, we surveyed 2,000 people. We split this into two groups, half at age 60 and above, and half at age 35 to 59.

As we were keen to explore the dynamics of 'intergenerational' wealth (this means relationships between the different generations of a family – i.e. grandparents, parents, children and grandchildren), the first group of respondents all have at least one child, and the second group have at least one parent still alive. As well as asking both groups what plans they already had and were intending to put in place, we asked the 60+ group if they had or intended to speak to their children about their finances, and asked the 35-59 group if they knew about, or were worried about, their parents' financial arrangements.

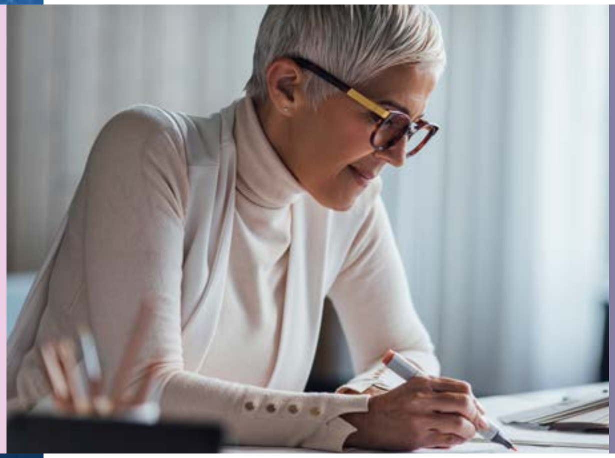
You can find a glossary of terms at the end of this report, which we hope will help when reading this document as well as helping you to understand estate planning in general.

35 to 59 age group:

27% have no idea what their parents' plans are for passing on their wealth.

40% have some awareness, but don't know all the details.

32% don't even know who the executor of their parents' will is.



44% are worried about managing their parents' finances when they're no longer able to do so.

Of those worried:

- **52%** are overwhelmed by the thought of managing their parents' finances
- **50%** are afraid they might do something wrong.

31% don't have a will and have no plans to make one.

A notable trend is the lack of awareness of details about parents' finances. But what is more surprising, is the high proportion that are worried, overwhelmed and afraid about dealing with parent finances. Just by knowing some details of financial plans or situation could help to reduce anxieties – as often the unknown can be more overwhelming.

Considering half of respondents aged 35 to 59 are overwhelmed about their parents' finances, it is notable that almost one-third (31%) have no will of their own and no plans to put one in place. The anxiety about managing their parents' financial assets clearly hasn't translated into them thinking about getting their own affairs in order.

60+ age group:

65% plan to pass on their wealth after their death, with only 17% choosing to do so during their lifetime.

19% don't have a will in place; for those that do have a will, 16% have not spoken to their children about their wishes when they pass away.

82% have little or no understanding of inheritance tax.

71% don't have a Lasting Power of Attorney in place.

19% have never spoken to their children about financial matters of any kind, because:

- **37%** want their children to be financially independent
- **23%** find it an uncomfortable and overwhelming conversation to have.

By virtue of the 60+ age group being very close to, or already in, retirement, there could be an expectation that the majority will have their estate planning in order. However, our research shows that one-fifth (19%) do not have a will in place, the vast majority (82%) have little or no understanding of inheritance tax, and 71% don't have a Lasting Power of Attorney.

The results of our research for this age group also shows some reluctance to discuss money matters with family members. One-fifth (19%) have never spoken to their children about finances at all. Whilst this is for a number of different reasons, the result is likely to be the same – a lack of understanding about parents' wishes for their financial assets, which could result in confusion and anxiety for children and grandchildren.

What do these key findings mean?

A notable proportion of both age groups of respondents do not have estate plans in place, and have a lack of understanding of what needs to be done and what could affect their wealth in later life.

Perhaps more concerning is the effect this is having on respondents mental wellbeing, where there is a clear anxiety about finances and discussing them with family. In the next sections of this report, we highlight some key topics that could help ease the burden of later life financial planning, as well as some case studies from our own client and adviser experiences.

Catrin Griffiths
Partner at Hugh James

The importance of writing a will

"In this world, nothing is certain except death and taxes"
– Benjamin Franklin

I am sure that we are all familiar with this quote, and its validity remains. Despite this, so many of us fail to prepare a will before we pass away. Making a will need not be an onerous exercise and to simplify matters, I have summarised five reasons that briefly explain my views on why making a will is so important. All comments in this article refer to the rules that apply to England and Wales only.

1

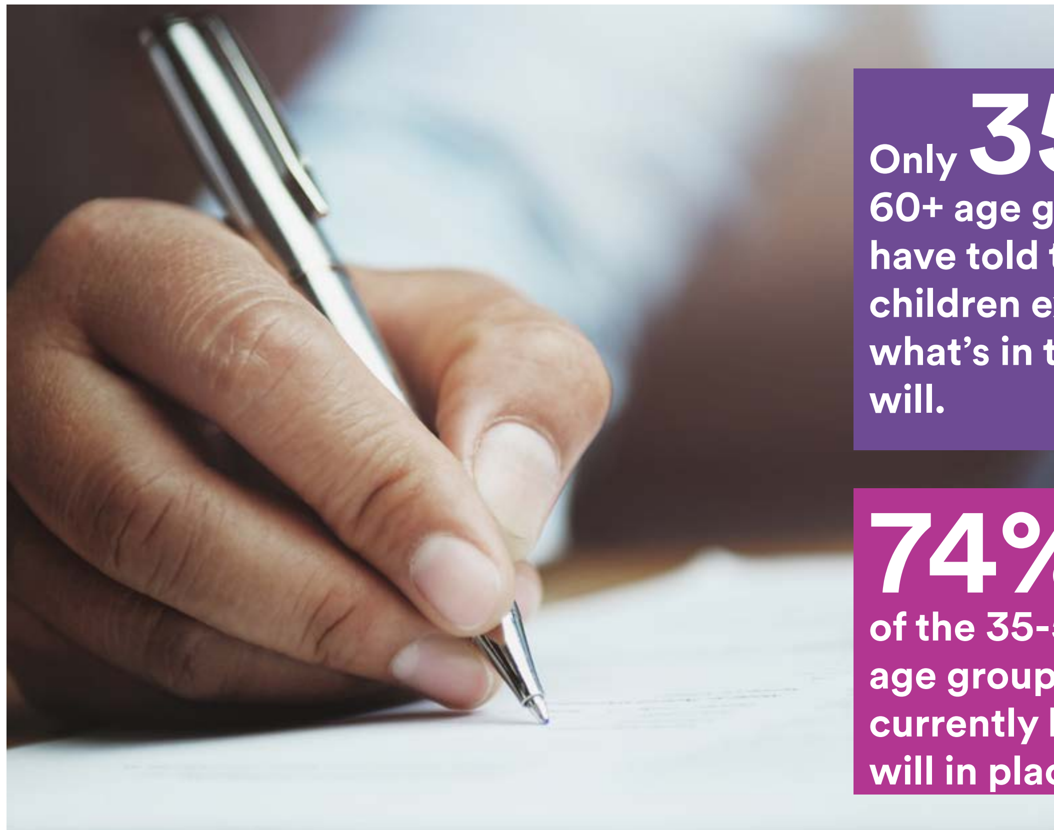
Making a will is the only way of guaranteeing that your estate will be inherited by those that you want to inherit your estate, be they family members, your partner, close friends, or charities.

2

Similarly, making a will avoids the estate from being distributed in accordance with the provisions of the "Intestacy Rules". These can sometimes, prove to be somewhat of a lottery when it comes to which relatives do and do not inherit from your estate. For example, an unmarried partner does not have the right to benefit from your estate under the Intestacy Rules. This potentially leaves the door open for the estate to be challenged by any dependent beneficiaries, such as partners or stepchildren, if they have not already been reasonably catered for in a will.

3

By making a will, you decide who deals with the administration of your estate by appointing an Executor and a Trustee. Conversely, if you do not have a will in place, the Intestacy Rules will dictate who will be responsible for the day to day running of the estate, after your passing. This could prove to be problematic, if you believe that your next of kin will be unable to cope with the responsibility of administering your estate. In some situations, the appointment of an independent executor, or even a professional person to administer your estate is better, especially, if the estate is complicated, or if the distribution of your estate is controversial.



Only 35%
60+ age group have told their children exactly what's in their will.

74%
of the 35-59 age group do not currently have a will in place.

4

If you have young children, making a will allows you to appoint a legal guardian to care for the children in the event that all those who have parental responsibility for the children have passed away, whilst the children are under the age of 18.

5

Finally, making a will discharges the moral responsibility that we have, to ensure that our loved ones are financially catered for after our days. Under the Intestacy Rules, if you leave behind a spouse and children, the spouse will initially receive the first £270,000 from an estate.The balance of the estate is then divided into two equal shares, with one share passing to the surviving spouse, whilst the second share will be inherited equally by the children at the age of 18. This may leave the surviving spouse with insufficient funds, whilst the children may potentially be receiving too much, too soon.

Catrin is a partner at law firm Hugh James. Catrin predominantly advises clients on the preparation of their wills, trusts, Powers of Attorney documents, succession planning advice and estate planning advice. She regularly receives enquiries regarding complex will instructions, the establishment of trusts as an estate planning tool and works with various accountants and other professionals to achieve inheritance tax mitigation and effective succession planning solutions for her clients.

James Shiner
Personal Wealth Adviser, Schroders Personal Wealth

Passing on your wealth during your lifetime

Of the 60+ age group:

17% plan to pass on their wealth during their lifetime.

Case study

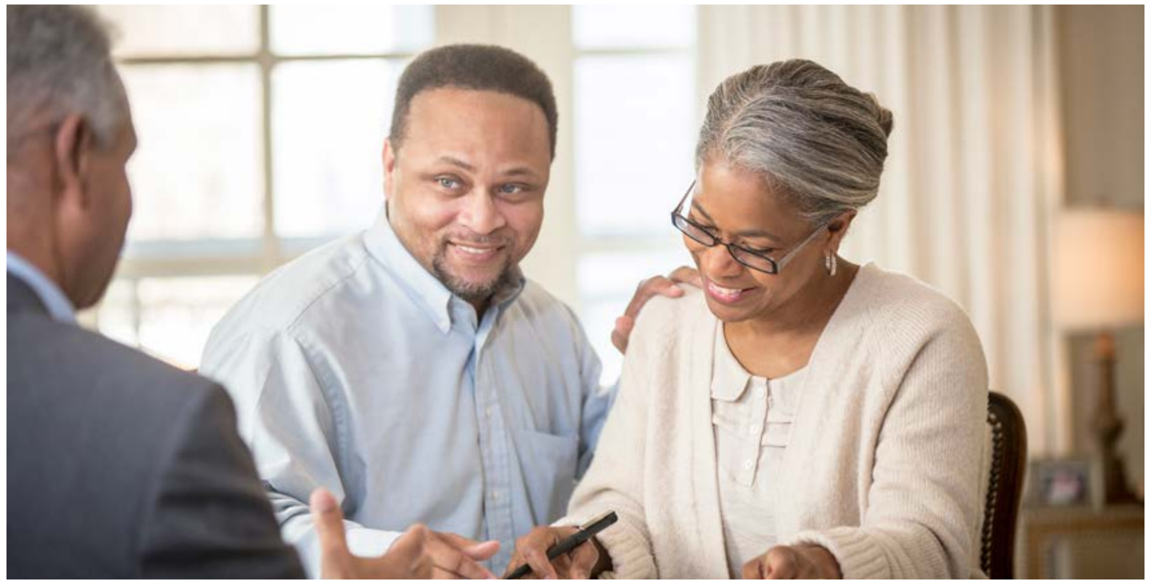
The clients are a couple who had never had financial advice before, and their wealth was built up throughout their working lives. All of a sudden, they found themselves with quite a significant chunk of money sitting solely in cash as a result of pay outs from pension commencement lump sums and inheritances, etc.

What beneficial ways could they pass their wealth on during their lifetime?

My clients' main goals were to plan their retirement – making sure that retirement life would be enjoyable, as well as being able to help the family out where they could.

In terms of passing on their wealth, we spoke about their money and decided some of it would be passed on to their children and their families, however, they didn't want to directly gift money to their children, due to helping them out in the past. At this stage, they had five grandchildren between the ages of two and six and they really wanted to make sure that from an educational standpoint, they were provided for. They wanted to put money away in a trust, which they would manage themselves as they felt that they had the capacity to do so.

We put some money into an offshore bond. This was suitable for my clients' needs because the underlying investments are able to grow tax efficiently (something known as 'gross roll-up') and can potentially be held for long periods of time (e.g., if the beneficiaries don't need the money for 15 years or so). In addition, when the beneficiaries get the money, they are unlikely to be taxpayers, so there may be additional tax benefits when they access it.



Of the 35 to 59 age group:

27% had never spoken to their parents about their plans for passing on their wealth.

The clients also have two rental properties, which they are currently happy to continue running as they provide a regular income. However, we did explore the option, in five to ten years, of possibly selling one or both properties, to release that money, and then decide what they could be doing with it. They would need to take independent financial advice about selling property, but I would then be able to help them decide what to do with the proceeds. Over time, they may pass this money on to their children as ways of gifting or potentially as top ups into trusts, so our meeting was a clear starting point of an inheritance tax (IHT) planning journey.

Overall, we identified that they have some cash now that they don't need, so we agreed they'll pass that on. We kept their pensions invested for the long term, and over the coming years they may look to sell down their rental properties. This meets their main goals to help with their grandchildren's futures and they also have scope to help their children as and when further gifts are required as they haven't fully utilised their allowances into trusts."

James Shiner is a Personal Wealth Adviser in the Bristol area, with more than ten years of experience in the financial services industry. James takes a holistic approach that pulls together all the different threads of each client's life and circumstances to create a financial plan that is designed to reflect their priorities and meet their long-term needs. In addition to his extensive experience, James has a thorough understanding of wealth management that enables him to identify each client's individual needs, and to introduce specialists when appropriate.

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

Understanding inheritance tax

Of the 60+ age group:

82% have little or no understanding of inheritance tax.

Handing over cash, property and other assets to loved ones can offer a much-needed boost to grown-up children buying a property. It can also be a tax efficient way of reducing the size of your estate for inheritance tax (IHT) purposes. Yet, there's a limited understanding of IHT, so here are some facts about inheritance tax and gifting to your family you might not know about. Inheritance tax is the tax on the estate of a person that has passed away. 'Estate' includes all your money, possessions, investments and property. Currently pension pots are not part of an individuals estate. However within the Autumn 2024 budget, the UK government announced that from April 2027, pension pots will be considered part of an individual's estate for IHT purposes.

The standard rate of inheritance tax is 40 percent. The threshold is £325,000. If your estate is worth less than this amount, there will be no IHT for your family to pay when you die, assuming you haven't made any gifts in the last seven years.

Married couples and civil partners can generally inherit their spouse's entire estate tax free. They can also add any of their spouse's unused IHT allowance to their own when passing on their estate. If none of the first spouse's tax free allowance is claimed, this means a couple can pass on £650,000 before inheritance tax has to be considered.

It is therefore possible for parents to pass on a home worth up to £1 million tax free. This is as a result of the £175,000 residential IHT exemption, which is added to the £325,000 threshold, meaning each parent can pass on up to £500,000.

Of the 35 to 59 age group:

39% would consider taking financial advice on inheritance and/or inheritance tax.

Defined contribution employer pensions can be passed on to your spouse, children or grandchildren tax free, but only if you die before reaching the age of 75. If you die after the age of 75, your pension provider will deduct income tax from it.

Gifts between spouses or civil partners living in the UK are generally exempt from IHT, either during life or on death. For other family members, or even those outside the family, you can gift up to £3,000 a year and it is immediately exempt from inheritance tax. If you didn't make a gift of this kind in one tax year you can carry the unused relief forward to gift £6,000 in the following year. The 'gifts from normal expenditure' rule allows you to gift any amount of surplus income above that necessary for you to maintain your normal lifestyle, without it being included in your taxable estate.

Most gifts in excess of these exceptions face no tax charge at the time of gifting and, provided you survive for seven years from the date of the gift, there shouldn't be any liability to inheritance tax on your death. But if you don't survive for seven years, then it's not just the value of that gift that will be added back into your estate, but any gifts you made in the preceding seven years before that gift also need to be considered.

If you do pass away within seven years of making a capital gift and inheritance tax is payable on that gift, the inheritance tax payable could be reduced. This is something known as 'taper relief'. The rules around this are complicated and you should seek specialist tax advice when considering making any gifts.

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

Planning for later life

Of the 35 to 59 age group:

33% would consider taking financial advice on the cost of parental long-term care

Of the 60+ age group:

8% have put plans in place, and 42% don't know the cost of long-term care

Will the state help you?

Some people will get all or part of their long-term care paid for by the state, eligibility is limited and the rules can be confusing, In addition, the level of financial assistance will often be capped due to local authority funding limits.

Optimising your financial assets

Investing for income – rather than using bank deposits i.e. money from your current accounts or savings, you could look at investments that aim to pay out income, such as company shares. However, dividend payments from companies are not guaranteed, and the value of shares can fluctuate, meaning that you may lose all or some of the value of your original investment.

Property – if you live alone and are moving into care, you may decide to rent out your house and use the rental income to pay for your care needs, but note that any rent will need to be declared and taxed as income. You would also be responsible for paying for the maintenance of the property. If you are a couple, you may decide to sell your house and downsize to use the profits to pay for care for one or both of you.

Buying a long-term payment product

Some of the options mentioned above share the risk that the available money may run out. If this happens, the state will eventually step in, but it is likely, due to local authority budget constraints, that they will offer the minimum level of care, and you could face having to move to a cheaper care home at a vulnerable time.

A solution to this is to buy a product that pays out a guaranteed monthly sum over the rest of your life time. These products are known as "immediate needs annuities" and are offered by insurance companies. In exchange for a lump sum payment, they will make regular payments to your care home for as long as you live. And paying the fees direct to the care home makes them tax free. If you move care homes, your plan moves with you. It could also be paid to your care provider if you chose to remain in your own home. The choices can be complicated and it may be the case that a combination of the above solutions is right for you.

Plan ahead

There are many options available to self-fund your long term care, each with its own pros and cons. We all know that we will retire at some point, but estimating care needs is more tricky. Even so, just as early pension planning can afford you a more comfortable retirement, planning ahead for any potential care costs is sensible. It can give you the ability to make decisions for yourself rather than burdening loved ones at a stressful and emotional time.

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

Tackling difficult conversations with your loved ones

Of the 60+ age group:

23% feel uncomfortable and overwhelmed about discussing their finances.

Case study

The client is in their late 80s, single and doesn't have any children. In their annual review meeting, they discussed inheritance tax and wills. The client mentioned that part of his estate would be left to his sister, but had never talked to his sister about finances.

What are the benefits of discussing finances with your family?

Alex Cast
Personal Wealth Adviser, Schroders Personal Wealth

"Amongst other things, my client mentioned that part of his estate would be left to his sister. Due to the financial position he was in, this meant his sister could be left with a huge inheritance bill on his passing - I questioned whether he was aware of this. He shared that he wasn't particularly happy about it but at his age, he didn't know what else he could do. I began to wonder if his sister was in a similar situation.

Through conversations it became clear that he had never talked to his sister about their finances so I suggested he may want to do so as she was the main beneficiary in his will. This could result in a decision being made to pass on some funds during his lifetime in an attempt to reduce some of the IHT liability and share the surplus money he had each year.

Of the 60+ age group:

35% who had talked to their children about finances, 35% waited until they were at least 25 years old.

We arranged a joint meeting and I met my client's sister. She was in her early 80s, widowed 34 years ago, had no children and had not remarried. She was struggling with credit card debt and her income was insufficient for her needs and as a result was overdrawn. During our meeting she was told of the gift from her brother.

It was a lovely moment as I could feel her relief. After allowing them time to talk about what she would like to do now, we booked a second joint meeting two weeks later. In this follow up meeting, she confirmed that with her brother's gift she would like to pay off her overdraft and credit card debt and also spend some money on her property as it wasn't well maintained. For the remaining funds, we agreed some of it would be invested to give her new wealth the opportunity to potentially grow.

Of the 60+ age group:

27% who had discussed finances with family, 27% felt relieved.

It was great to know that through my advice my client became aware of the options available to him which meant that both him and his sister will now benefit from his decision. She has the opportunity to live a more financially stable life now and my client not only got to see how his wealth has benefited his sister, he has also reduced the inheritance tax liabilities associated with his estate in the future."

Alex Cast is a Personal Wealth Adviser in the Horsham area. Alex's role as an adviser includes dealing with clients who are over 80 years old. She is passionate about giving advice to this age group, feeling she can really make a difference. When it comes to building relationships with her clients, listening to them and understanding their circumstances is key.

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.

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

Summary and Checklist

We hope this report has been insightful and helpful.

As our research shows, many people don't have plans in place for later life, often haven't had the relevant conversations with loved ones, and can feel stressed and overwhelmed about family money matters.

Our aim with this report is to help you feel more confident about your financial plan, and more 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 think about:

- [ ] 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 wills or power of attorney 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?

We believe these conversations are important to have with both your parents and children. It will also enable your children 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 potentially will help you realise your dreams through the power of a personalised financial plan. Your initial consultation, your financial planning session and the preparation of your personalised financial plan are all free of charge You will only begin to pay any fees and charges if you go ahead with the recommendations in your plan.

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

Lasting Power of Attorney

A person who can manage your financial affairs on your behalf should you become unable to do so.

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