Things to do before lockdown ends

The end of the current lockdown is in sight as restrictions start to ease, but the UK Government is still advising citizens to minimise travel and to continue to work from home where possible. This could mean you find yourself with some available downtime, and so it may be worthwhile to put your basic wealth planning "house in order" before things get back to 'normal'. We've put together this simple checklist, which you might find helpful.

1 Write a Will

Recent research by The Royal London Mutual Insurance Society[1] indicates 54% of adults in the UK do not have a will and six out of ten parents do not have one, nor do they have guardians in place to look after their children.

For those who already have a will, this might also be a good time to review and determine if it needs to be updated to reflect changes in circumstances, either in the form of a new will or via a codicil.

It is also worth noting that marriage revokes an existing will unless the will was written in full anticipation of the marriage. Whereas a divorce doesn't revoke an existing will. As a result, life events can often necessitate the need to review an existing will to ensure it continues to remain up to date and reflect your wishes.

2 Establish a Power of Attorney

A Power of Attorney is a legal document that allows someone to make decisions for you, or act on your behalf should you no longer be able to, or no longer want to. This could be in the short term, for example as a result of spending a period of time in hospital, or long term due to mental incapacity.

These decisions can relate to your general welfare, including decisions made on your daily routine, any medical care, or in choosing a care home – this is known as a Health & Welfare Lasting Power of Attorney.

Alternatively, you may need help making decisions regarding your finances if you become physically or mentally incapacitated. This includes managing your savings and investments, structuring your income needs, paying bills or selling your property(s) – this is known as a Property & Financial Affairs Lasting Power of Attorney (LPA).

You can appoint one or more attorneys to help you make the decisions. An attorney must be over 18 and have the mental capacity to make their own decisions. If the attorney might only be needed for a short period of time, then a simpler ordinary power of attorney could be considered rather than an LPA.

3 Collate lost pensions arrangements

Are you aware of all your existing pension arrangements, even from that short-term employment you took up 10 years ago? Any pension funds which you have accumulated in your working life could make a real difference to your overall pension savings when you reach retirement.

Research carried out by The Association of British Insurers in October 2018[2] estimates that there is nearly £20 billion held within 1.6 million pension pots with an average size of £13,000 which have been forgotten.

If you suspect that you have an old pension pot from a previous job, you can track down the pension scheme's contact details by using the **'Pension Tracing Service'**, which is a free government service found at: https://www.gov.uk/find-pension-contact-details

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[1] https://www.royallondon.com/media/press-releases/2018/december/perplexed-by-wills/
[2] https://www.abi.org.uk/globalassets/files/publications/public/lts/2018/20181010-ppi-bn109---lost-pensions-final.pdf

4 Update pension beneficiary form (expression of wishes)

You have reviewed your will; now do you know who will inherit your pension benefits? Pensions normally do not form part of your estate for inheritance tax purposes and are therefore not covered by your will. In order to specify who you want to inherit your pension after your death, you need to have an **'Expression of Wish'** in place. If any of your pensions pre-date your current relationship, then you may want to review this to ensure details are up to date.

The best chance of ensuring your beneficiaries retain the tax advantageous pension wrapper in the form of a beneficiaries' pension, is to list them specifically on your Expression of Wish form and check the death benefit options of your existing arrangement.

You should contact your pension providers to find out your current nomination and to obtain the relevant forms as soon as possible.

5 State Pension

In 2016 the UK Government introduced the new single-tier State Pension. Under the previous system it was difficult to understand exactly what your entitlement was until you reached your state retirement age. The new system is designed to make this far simpler.

The new State Pension is based on your National Insurance record, requiring an individual to have 35 qualifying years to be eligible to receive the full amount. A qualifying year can include years where you have been in full time employment, or where an individual has received National Insurance credits given to those who have caring responsibilities (i.e. those receiving Child Benefit).

The majority of individuals are unaware of how much they are eligible to receive as their State Pension, or at what age they will qualify for it. The State Pension could form a valuable part of your retirement income, so understanding your entitlement is essential. You can find out details about your State Pension entitlement by following this link: https://www.gov.uk/check-state-pension

6 Review old insurance policies

Do you see that direct debit leave your bank account every month to an insurance provider for that protection policy you took out many years ago? Or do you have that prehistoric mortgage endowment policy which you keep receiving annual statements for? Do you know what you are actually covered for and whether it is sufficient for your needs?

You may need to update insurance cover if there have been changes in your personal and financial situation, or following certain life events, including:

- A new job or changing to self-employment
- Selling your business and be considering retirement
- Marriage or divorce
- Children or grandchildren
- A change in either yours or your partner's health
- Paying off a debt or other liability
- Moving house or buying/selling property
- Making financial gifts from your estate

Right now might be the time to review your protection policies to ensure you are adequately covered. If you cannot locate your original policy documents, you should contact your insurance provider to find out what exactly you are covered for.

As you review these policies, you should also check if your life assurance policies are held in trust. Ensuring these policies are written under trust will mean that when the funds are paid out, they do not automatically form part of your estate or your beneficiary's estate on your death.

7 Consider new insurance policies

If you do not have any insurance currently in place, then this is something that you may wish to consider. Putting in place a basic level of protection is probably more affordable than you think and you could buy certain life insurance for just a few pounds a month.

There is currently (and what is referred to in the industry as) a 'protection gap' in the UK. This means that a large proportion of the UK would be left financially vulnerable should they, or their spouse, pass away prematurely or suffer an illness or injury that would affect their ability to earn. Despite this apparent financial vulnerability and need for a safety net, a research study by the Financial Conduct Authority (FCA)[3] highlighted that 65% of the UK adult population has no form of insurance. Among the 35% who do have some form of insurance more of them have critical illness insurance (10%) than income protection (4%) and it is estimated that from around 26.7 million households in the UK, just 300,000 have an income protection policy in place.

Given the recent COVID-19 pandemic and the increasing levels of staff being furloughed or made redundant, now could be the time to consider your ongoing protection needs for you and your family.

8 Consider making gifts

Circumstances at the moment may mean that someone close to you needs some financial support and you may want to help. Making an outright gift from capital is usually classed as a Potentially Exempt Transfer for Inheritance Tax (IHT) purposes. This means that if you were to pass away within seven years of making the gift, it would form part of your estate for IHT purposes unless the gift qualifies for an exemption.

One such exemption is the IHT exempt annual allowance of £3,000 per tax year. Each individual is able to make an outright gift of £3,000 per annum which is immediately exempt from their estate for IHT purposes. In addition, once the current year's allowance has been maximised, you are able to utilise the previous year's unused allowance meaning the first gift could amount to £6,000, which is immediately exempt from IHT.

Each tax year you can also give away up to £1,000 per person in consideration of marriage or civil partnership (or up to £2,500 for a grandchild and up to £5,000 for your son or daughter).

Finally, where you have the disposable income to do so, gifts out of income could also be immediately exempt from IHT provided the gifts are from disposable income, the intention is to establish a regular pattern of gifting and, they do not adversely impact on your standard of living.

Concerns have been raised about the potential longevity of these valuable reliefs with several influential reviews calling for whole-sale change to the IHT regime. With asset valuations potentially lower, if you feel that you are in a position to do so, now may be an opportune time to make those gifts.

9 Charitable donations

You only have to hear the story of Captain Tom Moore, a 99-year-old war veteran who has raised an enormous amount for NHS Charities Together by setting out to walk 100 lengths of his garden before he reaches 100, to realise how many people are making charitable donations during the lockdown. You may be making donations to a charity close to your heart at this time too.

If you are a UK taxpayer, when you make these donations, you are usually able to elect to apply Gift Aid to these contributions meaning the charity you are donating to receives an extra 25%, at no cost to you.

In addition, if you pay tax above the basic rate, you can claim the difference between the rate you pay and basic rate on your gross donation (i.e. the donation amount after gift aid is applied). You should therefore remember to make a note of the donations you make so that you can apply for the additional relief on completion of your self-assessment tax return.

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[3] https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf#page=12

10 Budgeting

With all this extra time on our hands, now could be a good time to go through the rather boring (and sometimes frightening) exercise of seeing what you normally spend. This may be especially important if you are currently facing a cut in pay or income as a result of the pandemic. While in lockdown you are likely to save costs on some expenses, such as parking, petrol, train fare, coffees, eating out and entertainment.

You may also have been able to put certain monthly subscriptions on hold such as gym memberships. As such, a good start point would be to review your expenditure prior to lockdown to determine how much is available in disposable income to start a new savings arrangement, make gifts out of income to a loved one or, to your chosen charity.

11 In Case of Emergency (ICE) document

Do your family members know where all your important documents are held, who your financial adviser, investment manager, accountant or solicitor is, and do they have their contact details? Has one member of the family historically controlled all the family finances? Now would be a good time to put all the important information into one document, including the location of your will, and anything else you think would be relevant if something were to happen to you.