Investing for *Legacy*

Emma Parkes

Email address: e.parkes@church-house.co.uk
Website: www.ch-investments.co.uk

Tel: 020 7123 4741
50 Grosvenor Street, Mayfair,
London. W1K 3HW

CH Church House Investment Management

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INTRODUCTION

After a 2-year hiatus, we were thrilled to be back hosting our Wealth is Precious event exclusively for women. Here follows a copy of my talk where I discuss the theme of "Investing as a Legacy".

While many of us will not want to end life being the richest person in the graveyard, it is likely that many here will want to make sure that whilst enjoying life to the fullest, you are also being careful to provision for family along the way and, indeed, after you have departed.

INVESTING TO SUPPORT YOUR CHILDREN

Cost to raise a child

Let us start therefore at the beginning - how much it will cost to raise a child in 2022? Liverpool Victoria produces a "cost of raising a child report"[1] annually. The total cost of raising a child is the highest it has been since calculations started in 2012, according to the Child Poverty Action Group (CPAG)[2]. This increase has been attributed to higher prices caused by inflation as opposed to a change in the basket of goods needed to raise a child.

According to the Child Poverty Action Group, the cost of raising a child (excluding housing and council tax) from birth to 18 is now:

£160,692 for a couple family

£193,801 for a single parent/guardian

This does not include university tuition fees or private school fees. The largest contributor to the aforementioned figure is childcare followed by food. If you were to add in university and day school fees, you could easily add another £100,000 to this figure. University fees for home students in the

[1] https://www.lv.com/life-insurance/cost-of-raising-a-child
[2] https://cpag.org.uk/policy-and-campaigns/report/cost-child-2021

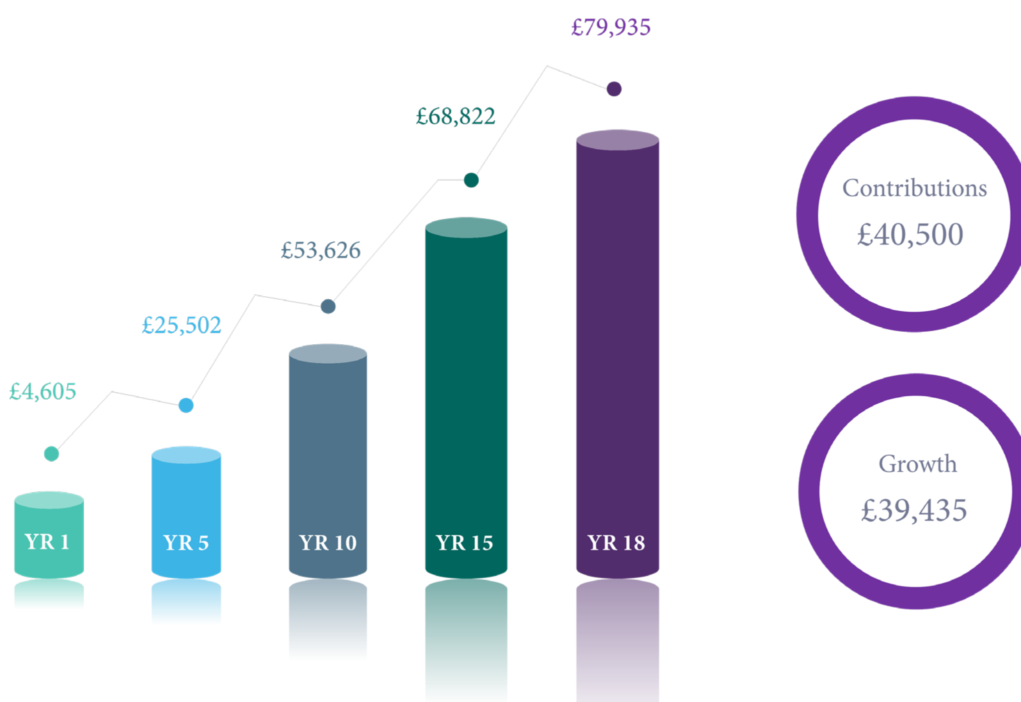
UK have risen to £9,250[3] per year, with a total average cost of £22,200 per student to achieve an undergraduate degree (this average is based on the fact the fees are means tested and not all families will pay the full amount). And this is before you think about university accommodation.

So, what can you do to stand a chance of giving your children the start in life that you may well have enjoyed? Start saving early! It may seem overzealous but if you can start provisioning for a child's higher education as soon as they are born, you are giving your child the best opportunity to achieve it. Arguably the gift of education is a fantastic legacy…..so how can you efficiently save for this?

JISAs

You may well be familiar with ISAs - Individual Savings Accounts, which allow an adult over 18 to save up to £20,000 per annum, with all capital gains and income sheltered from UK tax. The Junior ISA (JISA) is the same principle but for children. The current allowance is £9,000 per year. JISAs can only be accessed when a child turns 18, hence they are a great way to save for university and beyond.

The key is always to start saving early and let compounding, Einstein's 8th wonder of the world, help you along the way. To illustrate this, if you invested half the annual JISA allowance - £4,500 (£375 per month), into your child's JISA from 0-9 years old, and then nothing further between 9 and 18, based on an annual average return of 5%, it could be worth £79,935 by the time your child reaches 18. This would be based on contributions from you totalling £40,500 with the remaining £39,435 coming from tax free investment growth.



Contributions
£40,500

Growth
£39,435

[3] https://www.topuniversities.com/student-info/student-finance/how-much-does-it-cost-study-uk

If you waited to start this saving until your child was 9, and then contributed the same £4,500 per annum for the next 9 years until they hit 18, the same pot would be worth £51,016 of which £10,516 would be growth[4]. You are therefore forfeiting some £28,919 in tax free investment growth by delaying – a good start towards a deposit on a house!

Now it may not be possible to save this much each month whilst housing and feeding your child, but the point is that by starting early, you stand the best chance of building a meaningful pot. **For every 10 years of waiting, you must invest nearly twice as much to accomplish the same goal and over a shorter span of time.**

The 5% return[5] I have used in the example is based upon the average annualised return of a cautiously invested, risk scale 3 investment portfolio run by Church House based upon returns from 2008-2021 (our scale runs from 2-8). In reality, for a long-term investment of 9 or even 18 years, you would likely be willing to accept increased levels of short-term volatility with the aim of achieving longer term capital growth. Our risk scale 8 portfolios for example have returned just over 9% by way of an average annualised return over the same period.

Junior SIPP

Once you have covered off the education requirement, a Junior SIPP (Self Invested Personal Pension) is the second children's savings vehicle you might consider beyond the JISA. If you are a high earning parent[6] or couple, or indeed have a generous grandparent on the scene, you may be in a position to start thinking about your child's long-term future, specifically their retirement. This is particularly relevant if you think your child may not go down a traditional "office" route for their career. Perhaps you have a little artist or writer at home.

The maximum you can invest for a non-taxpayer is currently £2,880 per annum. This does however still qualify for a 20% tax reclaim of £720. So, if you are able to save this sum for your child annually, the pension pot will benefit from tax free investment growth plus those important tax reclaims. This is a great way to think long term for your children who will not be able to access their pensions until they are 57 under current legislation. If you invested £2,880 for 18 years, assuming the same allowances apply as today and again based on a 5% growth, your child could benefit as follows:

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[4] These calculations do not take into account inflation or any costs which may be associated with an investment and are for illustration purposes only.

[5] Past performance may not be a reliable guide to future returns.

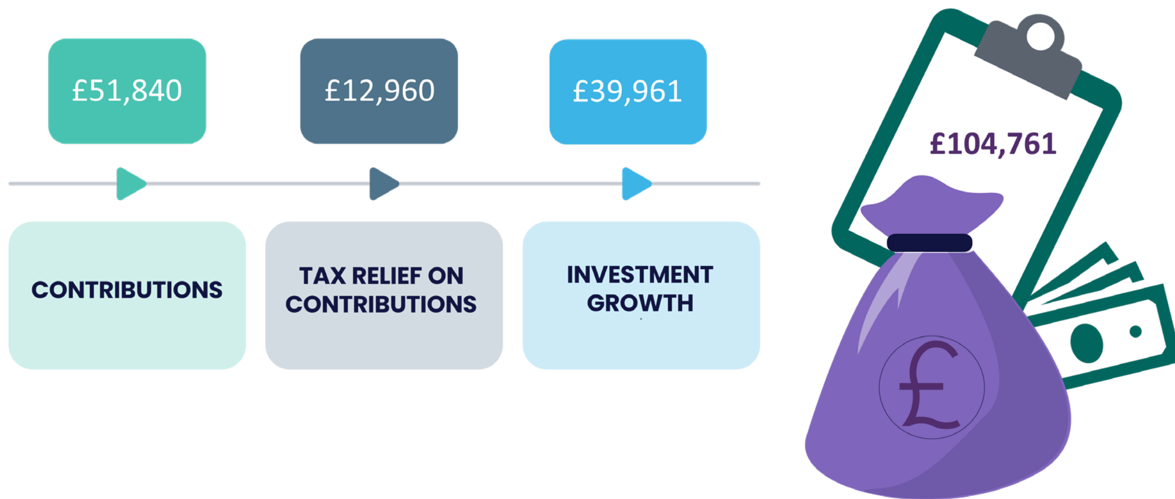
[6] In certain circumstances parents making gifts to their children, including gifts into JISAs and JSIPPs, may be liable for income tax on the returns.

Contributions: £51,840

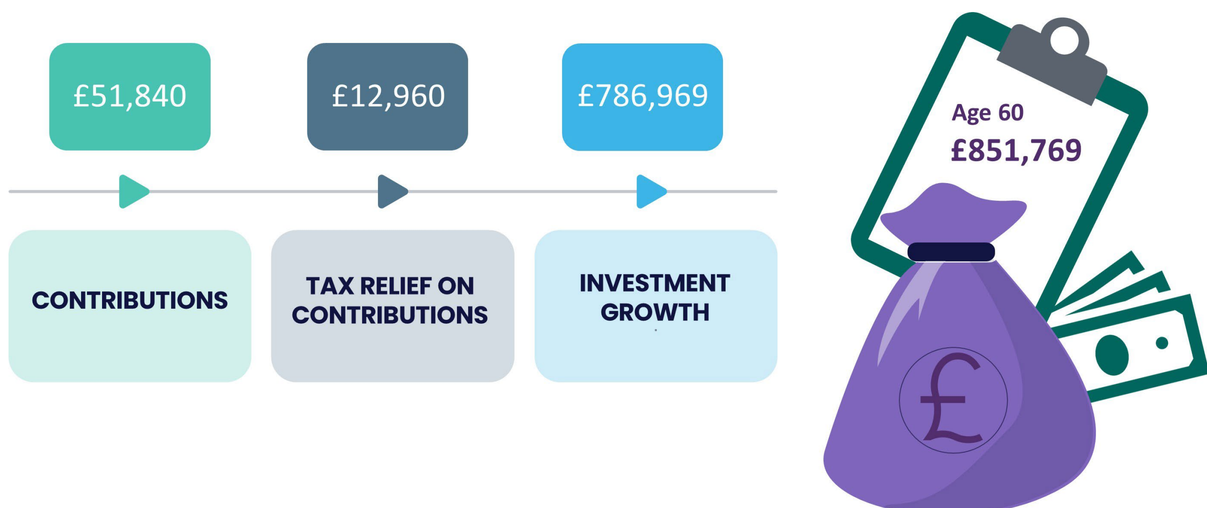
Tax relief on contributions: £12,960

Investment growth at 5%: £39,961

TOTAL AT 18: £104,761



If you then left this pot and did not contribute further to it, based on an annual return of 5%, this pension pot could be worth £851,769 by the time your child is 60. A huge step in provisioning for their retirement with only a contribution from you of just under £52,000.[7]



[7] These calculations do not take into account inflation or any costs which may be associated with an investment and are for illustration purposes only.

INVESTING TO SECURE YOUR OWN FINANCES

Now we must realise that it is a privilege to be able to help your children in this way. If you are unable to do this however, it is imperative that you prioritise your own financial well-being. In doing so, you will not become a finical burden upon your children later down the line, another important legacy.

In these notes, I give an overview of 4 key priorities that you should consider but this list is not exhaustive.

Retirement Planning

Are you saving enough?

The average life expectancy of a woman in the UK is 82.9 years according to the Office for National Statistics.[8] Whilst of course this is variable, the point is that you need to try and have enough savings in place to supplement your State pension to help look after you in retirement.

[8] National life tables – life expectancy in the UK - Office for National Statistics (ons.gov.uk)

So how much is enough? The 50/70 rule suggests that you should aim for an annual income of between 50-70% of pre-retirement income to retain a similar lifestyle. However, you should, of course, consider possible care needs which can be significant. The Government has helped a bit here announcing in January of this year that from October 2023, there will be an £86,000 cap on the amount anyone in England will need to spend on their personal care over their lifetime. Nevertheless, it is important to consider the details of the regulation here, as many costs will not count towards the cap of £86,000, and you may end up spending significantly more than this.

How to save

In the current inflationary environment, it is impossible to "save yourself rich", as a client said to me recently. Cash is earning record low interest rates with the bank base rate still only at 1.25%, whilst being subject to high levels of inflation currently at nearly 9%. In other words, if you want your savings to grow at least in line with inflation, it will not be acceptable to leave them in cash.

I am pleased to report that since my last talk on this subject at our seminar in 2019, more women than ever are taking a seat at the investing table. According to a recent study by Fidelity *(Fidelity Investments 2021 Women and Investing Study),*[9] 67% of women are now investing outside retirement, up from 44% in 2018. Interestingly, 50% of women say they are more interested in investing since the start of the pandemic.

While this is encouraging, still only one third of women see themselves as investors and this is something we would like to address.

Often the fear of short-term losses and market volatility keep female investors on the side lines. This can have a big impact on wealth generation in the long run.

Removing the emotion from decision making can really help objectivity. By using a wealth manager, who will take on the role of stock picking for you, and not worrying about personally trying to time the market, decisions become much less emotional.

If you are able to invest funds by drip feeding money into the market at regular intervals, this can help average-out returns and protect against a sharp drop in the market. Don't give in to fear during temporary market downturns. It is almost always better to take a longer-term view.

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[9] FidelityInvestmentsWomen&InvestingStudy2021.pdf

Tax efficient Saving

Maximise Pension Contributions

Pensions remain a tax efficient way to invest for retirement. Not only do pensions roll up free from capital gains and income tax, but tax relief is also available on contributions made. In other words, for any contribution you make from taxed funds, HMRC gives tax relief at 20% which is paid directly into your pension. Higher and additional rate taxpayers may claim a further 20% or 25% tax relief via their self-assessment tax return. Even non-taxpayers, as just mentioned, can make a tax reclaim of 20% on a maximum contribution of £2,880, at present, giving you an extra £720 on each contribution made at this level.

For 2022/2023, the annual pension contribution limit for tax relief purposes is 100% of your salary or £40,000, whichever is lower. This effectively means that as a basic rate taxpayer, you may contribute £32,000 to end up with a £40,000 gross contribution, the £8,000 difference is the tax relief. It may even be possible to add more than this and receive tax relief if you have unused allowances from previous years of your pension where you have sufficient earnings in the year in which you wish to make the contribution.

It is also important to be efficient with your pension investments. If you have more than one pension, consider consolidating them to streamline fees and administration. This is also a good way to make sure that you have a consolidated investment strategy.

It is also important to note that pensions usually fall out of your estate for inheritance tax purposes. In other words, they can be a really useful way of passing wealth on to the next generation.

Should you want to discuss your pensions further, please do not hesitate to contact us after today to discuss. Each case is different, and it will be important to get proper advice here.

ISAs

The ISA allowance for this year is £20,000. This is the maximum you can save into the ISA in a tax year currently. ISAs are a straightforward way to invest tax efficiently as they shelter all capital gains and income from tax.

Higher or additional rate taxpayers suffer CGT as follows:

28% on gains from residential property (outside Principal Primary Residence/PPR)

20% on gains from other chargeable assets.

Within the ISA, all gains are free from CGT, and this is before we consider that income tax is also not payable on dividends.

Childcare and School Fee Planning

According to a UK Government study[10] in June 2021, the average cost of childcare for one child under 2 at nursery for 25 hours a week (part-time) increased to £7,160 per year from £6,800 in 2020. As you might expect, this cost can escalate if you are in London or indeed if you have more than one child needing care or require full time childcare.

Moving on a few years to school fees, if that is the route you choose, according to the Independent School Council's annual census for 2021[11], the average annual fee for independent schools is now £15,191 for day pupils and £36,000 for boarders. Whilst fees have been somewhat frozen thanks to the pandemic, experts warn that the year-on-year school fee rise is likely to return to 4% plus from 2022.

So clearly – it will be key to develop a plan to help cover these costs. Once again, start as early as you can and let compounding help you along the way.

Stocks and shares ISAs are a tax efficient way to save for school fees. They are flexible and allow you to make withdrawals at any time. You can also, as with any stocks and shares portfolio, tailor the

[10] SCEYP 2021 Fees Report (publishing.service.gov.uk)
[11] isc_census_2022_final-v2.pdf

investment mandate according to your timeframe. In other words, when your children are small, you can focus on long-term growth. When you reach the time that you need to start drawing on the portfolio, risk levels can be reduced with a focus on income.

If grandparents are looking for a way to reduce Inheritance Tax (IHT), they could also consider helping with school fees. As long as they live beyond 7 years after making a lump sum gift, the amount will fall out of their estate for IHT purposes. The amount they can gift is unlimited.

Grandparents[12] can also give away up to £3,000 tax free each year using their annual gift allowance. To double the benefits here, Grandparents may consider sending these gifts into either the child's Junior ISA or Junior SIPP.

Grandparents can also consider making gifts out of surplus income which will be tax free, or indeed setting up a trust or Family Investment Company.

Estate Planning

Whilst it can be hard to look ahead to not being around, it can be incredibly reassuring to know that the money you have accumulated will help take care of those you love when you are no longer here. It is never too early to plan for this. Proper planning can help reduce the tax liability, minimise expenses and delays associated with probate, not to mention potentially avoid family disputes. Things you must consider are:

- Make sure you have a comprehensive list of your assts and debts

  Heather McGregor famously suggests keeping a notebook to keep track of what you spend money on. Mortgage/rent, utilities, council tax, internet access, car insurance, mobile phone — start a new page for every item.

- Write a will
- Make a Lasting Power of Attorney
- Factor in your own care costs and plan for inheritance tax
- Seek expert advice

[12] The annual gift allowance is not limited to grandparents.

In doing this, you are leaving a legacy and not a problem.

Make sure that you keep your financial adviser fully up to date with your estate plan. Review it as part of your financial plan to ensure it continues to reflect your wishes and delivers what you need. This is particularly important as legislation is liable to change so you will need to keep things under review to ensure the utmost efficiency.

CONCLUSION

Returning to the Fidelity report to which I referred earlier, 7 in 10 women wished they had started investing their savings earlier and 71% said once they had set up a financial plan, they felt more confident. It is never too late to get started and the best legacy you can leave is to ensure your own financial independence and thereafter do the best you can for those you love.

And remember, as the late Helen Gurley Brown, long-time editor of Cosmopolitan magazine, once said: 'Money, if it does not bring you happiness, will at least help you be miserable in comfort.'

IMPORTANT INFORMATION

At Church House Investment Management, we only make recommendations from our range of investment portfolio services and associated accounts. Full details of the nature of our services can be found at www.ch-investments.co.uk/important-information or can be provided on request.

The contents of this document are for information purposes only and do not constitute advice or a personal recommendation. Investors are advised to seek professional advice before entering into any investment decisions.

Investment projections provided in this document are for illustrative purposes only and do not take into account inflation, any possible charges or the potential variability of investment returns.

Please note the value of investments and the income you could get from them may fall as well as rise, and there is no certainty that you will get back the amount of your original investment. You should also be aware that past performance may not be a reliable guide to future performance.

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