VERUM
FINANCIAL PLANNING

A guide to your **mid-life MOT**

Introduction

Each year, you'll need to take your car to a trusted garage to give it an MOT test.

A mechanic will assess more than 20 different areas to ensure that your car is roadworthy, so you'll be safe when travelling. Not only does this improve safety and reduce the risk of breakdowns, but it can also boost your vehicle's lifespan.

The same process of an MOT can be applied to your wealth. Taking the time to give your wealth a "mid-life MOT" and assess the important aspects of your money can help ensure that it's suitably organised, and that you're on track to achieve your long-term financial goals.

In this guide, you'll learn about five key areas of your wealth to consider when giving your money a comprehensive mid-life MOT, including:

1. **How to manage your money** – Including budgeting, saving, managing your mortgage and other debts.
2. **How to secure your wealth against unforeseen circumstances** – Looking at the importance of having an emergency fund and protection in place for if the unexpected happens.
3. **What to think about when growing your wealth** – Exploring how you can save and invest to sustainably target growth over time.
4. **Tips to help you prepare for your future** – Covering how to set retirement goals, planning a tax-efficient income strategy, and later-life care.
5. **How you can leave a legacy for your family** – Focusing on wills, Lasting Power of Attorneys, and Inheritance Tax planning.

We hope you find the contents of this guide useful in assessing your progress towards your financial goals.

Just as you trust a mechanic to comprehensively check your car, having an impartial expert assess your money can make all the difference.

So, if you'd like help with your finances, or you'd like to discuss anything you read about in this guide, please do get in touch with your financial adviser.

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1. Managing your wealth

The first step of a mid-life MOT is to examine both your day-to-day spending, and how you go about achieving your short- and medium-term financial goals.

By reviewing each of these elements, you'll gain a better understanding of your current situation and review your progress towards these targets.

Take a close look at your budget

Regularly reviewing your day-to-day spending is a an effective place to start to ensure you stay roadworthy.

To review your budget:

- **Calculate your monthly income** – Including your salaried income, any bonuses, and other income sources such as from investments.
- **Work out your typical monthly expenses** – Include essentials, such as bills and utilities, but also other non-essential regular spending, like leisure activities or restaurant trips.
- **Subtract your expenses from your income** – This will show you how much of your income you're spending each month, and what's left.

From here, you can see exactly where your money goes each month. It might help you identify how much you're able to save, or show you areas where you can cut back on your spending and stay on budget.

This can also be useful for assessing your ability to save for larger purchases, such as a new car or home renovations.

Dealing with debt

Debt can be a highly useful tool, provided that you borrow money sensibly. However, it can also become a drain on your finances if not carefully managed, as interest increases the amount owed. So take this opportunity to check that your debt is well-managed and suitable for your needs.

> The average personal debt in the UK in 2023 is £34,546.[1]
>
> Source: Finder

Certain types of debt may have higher interest rates than others, such as credit card or store card borrowing. If you have these obligations, you may want to consider clearing them first.[1]

Reviewing your mortgage

Mortgage borrowing often makes up the largest part of a household's debt, so it's worth reviewing your current home loan annually too.

The Bank of England have raised interest rates frequently since March 2020, so many homeowners may be facing higher repayments in future.

So, if your current mortgage deal is coming to an end soon, it's worth discussing your next steps with your lender or mortgage adviser. They'll be able to help you consider your options, which might mean re-mortgaging, and they often have access to lenders that you cannot reach on your own. This could allow you to find a more favourable deal, saving you money that you can save or invest elsewhere.

[1] Average personal debt in the UK Finder.

2. Securing your wealth

While it's sensible to manage your wealth around your financial obligations and short to medium term goals, you never know what might happen in the future. So, it's prudent to prepare for the unexpected.

Below are a few ways you can go about securing your wealth.

Creating an emergency fund

Once you've got a good idea of your budget, you may want to prioritise building an emergency fund.

We recommend setting aside a sum of money in an easy access savings account in case you ever need to use it quickly.

An easy rule of thumb is to have enough in your emergency fund to meet your regular obligations for around three to six months.

Having financial protection

Financial protection can be immensely useful. Even if you never need to rely on it, knowing that you have a safety net in difficult circumstances can be hugely reassuring.

Below are three scenarios when you may need to rely on cover, plus three myths that often prevent people from choosing the right protection options for them.

1. If you lose your income, perhaps through illness, injury, or redundancy

In this case, having income protection could be invaluable.

Income protection can pay you a fixed income – typically up to around half to two-thirds of your pre-tax income – either for a certain period, until you return to work, or until you retire.

2. If you're diagnosed with a critical illness

Critical illness cover may pay out a tax-free lump sum if you are diagnosed with a serious illness listed on the policy.

3. If you or your spouse were to pass away unexpectedly

Life insurance can pay out a lump sum if the policy holder or anyone listed on it dies or is diagnosed with a terminal illness while the cover is active.

3 common protection myths, and why they're actually untrue

Protection myth #1: "Insurers never pay out on protection claims"

In fact, the number of new individual claims paid was 98% in 2022.

Broken down by the type of cover, these figures are:

- 96.9% for life insurance
- 91.6% for critical illness cover
- 84.4% for income protection cover

Source: ABI[2]

Protection myth #2: "I'm too young to need to worry about falling ill"

Sadly, the average age for those claiming on critical illness cover may be lower than you think.

Research shows that the average age of claimants is:

- 35 for heart surgery
- 45 for motor neurone disease
- 50 for strokes

Source: Zurich[3]

Protection myth #3: "Life insurance wouldn't pay out enough to my family anyway"

The average life insurance payout was more than £80,000 in 2021.

Crucially, you can tailor cover to your needs, choosing a policy that reflects how much you want to leave to your family, and how much you want to pay in monthly premiums.

Source: Drewberry Insurance[4]

[2] Protection insurers pay out £6.85 billion to support individuals and families ABI.
[3] Critical illness data makes astounding reading Zurich.
[4] Life insurance claim payout rates by insurer Drewberry Insurance.

3. Growing your wealth

Once you have a clear picture of your finances and a secure foundation for your wealth, it's time to look at ways to grow it over time.

In this section, you'll find three options for doing so: savings, pensions, and tax-efficient investments.

Savings

Cash savings can be an effective way to grow your wealth. You'll generally receive interest on the money you save each month, and this interest will "compound" over time, meaning you'll receive interest on the interest you've previously been given.

Alongside your emergency fund, having a portion of your wealth as cash is important. With the interest you receive without having to put your money in the stock market, you'll be able to grow your wealth in a low-risk environment.

That said, it's important not to hold too much money in cash, as it could lose value against the rising cost of living over time.

Goods and services increase in cost over time – this is what's known as "inflation" – meaning your money does not have the same spending power year-on-year.

If the interest rate you receive on your cash savings is lower than the rate of inflation, that means your money can't go as far as it did previously.

As a result, it's vital to not hold all your wealth in cash. Otherwise, it could lose value in real terms as inflation reduces its spending power.

Tax-efficient investments

Investing in the stock market can often beat cash in the long term

Data shows that had you held £10,000 in cash over the 20 years between 2002 and 2022, you'd have had a total of £17,763 from accumulated interest.

Yet, you'd have had:

- £24,381 from investing in UK large cap shares
- £27,509 from investing in UK shares of various sizes
- £37,344 in developed market shares

While past performance is not necessarily indicative of future performance, this shows that investments do have the ability to outperform cash over longer periods.[5]

Source: Barclays Smart Investor

[5] Should you save cash or invest? Barclays Smart Investor.

If you want to grow your wealth while still having the option to access your money ahead of retirement, you may want to consider investing outside of your pension too.

You can choose to invest in a range of different assets, including:

- Stocks and shares
- Funds – including exchange-traded funds (ETFs)
- Bonds
- Commodities
- Open-ended investment companies (OEICs)

When investing your money, it's sensible to do so as tax-efficiently as possible. For example, you could consider holding your investments in a Stocks and Shares ISA, as any interest or returns on assets in these accounts is entirely free from Income Tax and CGT.

In the 2023/24 tax year, you can save or invest up to £20,000 a year into ISAs.

Pension contributions

Pensions are one of the most tax-efficient ways of creating a fund for later life.

You'll receive tax relief on contributions you make to your fund, depending on your marginal rate of Income Tax. This means that a £100 pension contribution technically costs:

- £80 for basic-rate taxpayers
- £60 for higher-rate taxpayers
- £55 for additional-rate taxpayers

Typically, you can make tax-efficient pension contributions up to your Annual Allowance each tax year.

In 2023/24, this stands at £60,000. However, this may be reduced if you are a high earner.

Crucially, your pension funds will be invested in the stock market. That means your retirement savings will have the potential to grow throughout your working life.

Your returns will be entirely free from Income Tax and Capital Gains Tax (CGT) while within your pension too.

The main thing to consider when contributing to your pension is that you typically won't be able to access this money until the normal minimum pension age – this is age 55 in 2023/24, rising to 57 in 2028.

Factor this into your decisions when choosing where to save and invest your money.

4. Planning for the future

Ultimately, the reason you organise, save, and invest your wealth is to support yourself in the future.

That's why it's sensible to review your plans for the future when carrying out your mid-life MOT.

Setting goals and working out your desired retirement lifestyle[6]

Setting retirement lifestyle goals can be hugely powerful in focusing how you manage your money. This will be entirely personal to you.

Choosing goals can inform how much you should save throughout your working life, because you'll be able to calculate how much you're going to need to live your desired lifestyle. This can help refine your saving and investment strategy.

It's also possible that your goals may change over time. For example, you might have always envisaged travelling in retirement. But by the time you stop working, you may have grandchildren, and would rather spend as much time with them as possible.

This is where carrying out your mid-life MOT can make a real difference – you can check that your wealth is still suitably organised to let you achieve your goals, even if they've changed over time.

Knowing how you'll draw your income in later life

It's important to know how you'll draw your income to achieve whatever goals you have.

Ideally, you'll have your savings, investments, and pensions to draw from, as well as the ability to claim the State Pension when you reach State Pension Age.

When designing this income strategy, you may want to think about aspects such as:

- **Investment performance** – For example, you may want to be able to draw from savings if stock markets dip in value and temporarily reduce the value of your pension or other investments.
- **Income Tax** – Your retirement income will still be subject to Income Tax, so you could design a strategy that ensures you're limiting the tax bill you'll face.
- **Inheritance Tax (IHT)** – Typically, your pension won't be subject to IHT, while your other savings and investments may be. As a result, you could consider using these first, holding onto your pension so that your beneficiaries can inherit it without an IHT bill. You can find out more about IHT planning in the next section.

Having a clear financial plan can help you manage elements like these. Discussing your goals with an adviser can be helpful in designing a route that's right for you, and give you peace of mind that your strategy will help you achieve them.

Thinking about later-life care

One of the most pressing concerns for those approaching or in retirement is that of later-life care.

With the average cost of care homes reaching £1,176 a week or £61,152 a year, it's clearly important to consider how you could go about funding this cost if you ever needed to rely on later life care.[6]

If you have less than £14,250 in capital assets, you will typically only pay for what you can afford. Meanwhile, if you have more than £23,250, you will likely be entirely responsible for the cost of your care. You may be entitled to some help if you have assets between these two thresholds.

The thresholds can change depending on where in the UK you are resident, so ask your adviser for more information.

If you do exceed the upper threshold, you'll need to organise your wealth so that you're able to afford these costs. Some options you could consider for doing this are:

- Having dedicated savings to cover the cost of care
- "Earmarking" a portion of your pension that you'll leave untouched to fund care
- Setting money aside in a life interest trust

You may never need to rely on later life care. But even so, it can be sensible to prepare for the costs, just in case.

10 of the most common retirement bucket list goals[7]

Travel
See the Northern Lights
Go on a cruise
Go on a round-the-world trip
Go on a safari
Write a book
Go on a multi-generation family holiday
Visit Disneyland or Disney World
Drive route 66
Go whale watching

[6] Care home fees up 10% interactive investor.
[7] Retirement bliss with the ultimate bucket list Aviva.

5. Leaving a legacy

As well as planning for your present and future, consider thinking about the legacy you'll leave to your family once you pass away.

It can be helpful to include this as part of your mid-life MOT. Here are a few aspects to think about.

Creating a will

Your will is the cornerstone of legacy planning.

In your will, you can outline important information such as:

- Who will receive your wealth and possessions
- Who you would like to be the guardian of your children if they are under 18
- Instructions for your funeral
- Who you are naming as your executors – that is, the individuals responsible for administering your estate on your death

Despite how important they are, half of UK adults do not have a will.[8]

Source: Canada Life

Without a will, your estate will instead be divided by the intestacy laws. This may see your estate separated in a way you deem unfair, or your wealth given to individuals you may not have chosen yourself. This could sadly cause disagreements between your loved ones.

You can remove the potential for these issues by creating a clear, comprehensive will.

Putting a Lasting Power of Attorney in place

Having a Lasting Power of Attorney (LPA) in place can be immensely useful. Yet, figures show that 4 in 5 UK adults do not have one.[9]

An LPA allows you to appoint an attorney (or attorneys) to make decisions on your behalf should you lose capacity or develop a condition that affects your mental faculties such as dementia.

There are two types of LPA:

- **Property and financial affairs**
  Allowing your attorney(s) to make decisions or assist you with financial matters involving money and property, including banking, tax, bills, and selling your home.
- **Health and welfare**
  Allowing your attorney(s) to make decisions about elements of your general health and welfare, including your daily routine, medical care, moving you into a care home, and life-sustaining treatment.

You must separately apply for both kinds if you want your attorney(s) to be able to make decisions over both your finances, and your health and welfare.

This practical step can ensure that you have a trusted individual acting in your best interests if you ever become unable to make decisions for yourself.

Remember: you must put an LPA in place before you lose capacity. If you don't, this can be a more difficult and drawn-out and costly process for your loved ones.

[8] Half of UK adults don't have a will Canada Life.
[9] Four in five UK adults do not have a Lasting Power of Attorney Canada Life.

Planning for Inheritance Tax

Your beneficiaries may face Inheritance Tax (IHT) on your assets when you pass away. Charged at 40% as standard, this could put a severe dent into what you leave to your loved ones.

You do have a tax-free threshold that allows you to pass on a portion of your estate before IHT is due. This is called the “nil-rate band” and stands at £325,000 in 2023/24.

> IHT receipts reached record highs in 2022, climbing by £1 billion year-on-year to £7.1 billion.[10]
>
> Source: FTAdviser

You may also be able to pass on an additional £175,000 if your direct descendants, such as your children or grandchildren, inherit your main residence.

And, as you can combine your nil-rate band with a spouse or partner, this means you can pass on up to £1 million without your beneficiaries facing a tax charge.

However, you may want to consider methods to reduce your IHT liability if you have assets exceeding these thresholds. This might include:

- Spending your wealth to move your estate below the nil-rate band
- Gifting assets during your lifetime
- Putting assets in trust
- Leaving some of your wealth to charity

IHT planning can be highly complex. So, if you want to mitigate a tax bill on your death, it is sensible to seek advice.

[10]IHT receipts grow by £1bn year-on-year FTAdviser.

Please note:

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits.

The Financial Conduct Authority does not regulate estate planning, tax planning or will writing.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it.

Note that life insurance plans typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.