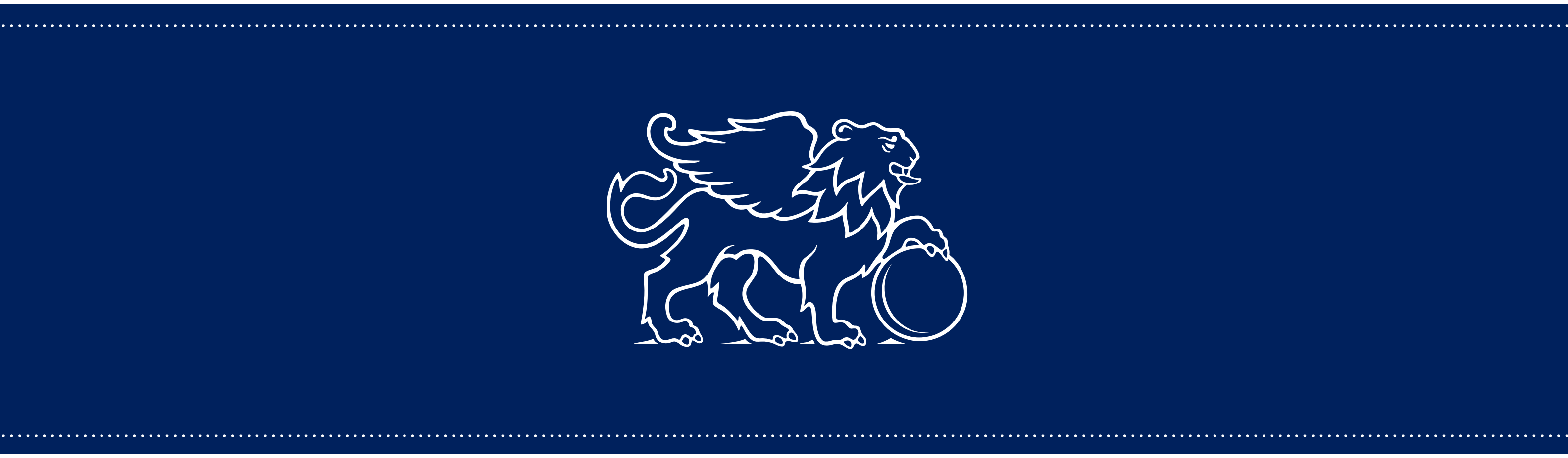
ST. JAMES'S PLACE
WEALTH MANAGEMENT

PUTTING FAMILY FIRST

PARTNERS IN MANAGING YOUR WEALTH



CONTENTS

A GROWING PROBLEM

It is becoming increasingly clear that there is a generational wealth gap in the UK.

Generally speaking, the economy has been kind to those born in the years immediately after the Second World War, and in the 1950s, but less so to other generations, especially those born in the 1980s and 1990s, many of whom find it harder to get jobs and to gain a footing on the property ladder. Consequently, many parents are having to support their children financially well into their adult lives.

While our children may be struggling with their finances, our parents are typically living longer. This has led to an increase in the need for residential and nursing care, which is likely to be financed from accumulated savings, the sale of property, or with support from close relatives.

These pressures mean that financial planning is becoming a family business. Instead of each generation making their own arrangements, families are starting to consider how to use their combined resources in the best, most tax-efficient way to benefit all members.

With the right advice, transferring wealth to others in your family can be extremely rewarding, offering simple ways to reduce or eliminate a future Inheritance Tax liability.

At St. James's Place we provide the expert advice and the solutions that enable families to work collaboratively to support each other across the generations. Whether you would like to help your children on to the housing ladder, contribute to a grandchild's education or wedding, or help your parents with later-life planning, careful consideration can ensure your wealth works harder for all your family without putting your own security and retirement at risk.

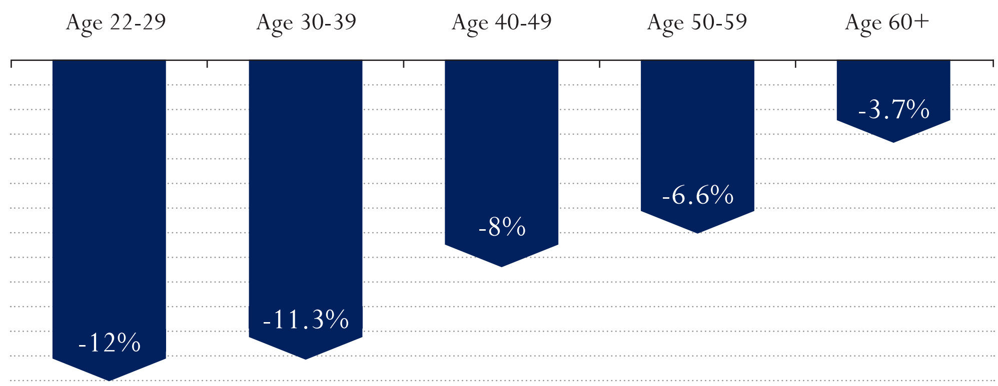
FEELING THE SQUEEZE

Those born after 1980 – the so-called 'millennials' – are the first post-war generation not to start their working years with higher incomes than their immediate predecessors[1], challenging the notion that each generation will do better than the last. The financial crisis was a watershed moment; young people experienced the biggest pay cut in its aftermath, and if current economic forecasts turn out to be correct, they will make much slower progress on pay than previous generations.

Furthermore, by their early 30s, those born in the early 1980s had an average net household wealth (including housing, savings and private pensions) of £27,000 per adult. This is about half of the average wealth of those born in the 1970s at around the same age (£53,000)[2].

Accepting that many young adults will go on to enjoy rewarding careers in their own right, many are not expected to inherit wealth until much later in their lives. Consequently, some parents with the financial means are starting to consider safely transferring assets to children within their own lifetimes – and while they still have the opportunity to see them benefit. This may be to help them gain a foothold on the housing ladder, clear debts, or build a fund for retirement.

CUMULATIVE CHANGE IN REAL-TERMS MEDIAN HOURLY PAY 2009 - 2015



Resolution Foundation, *Low Pay Britain 2016*, October 2016.
Based on its analysis of the Office for National Statistics' *Annual Survey of Hours and Earnings.*

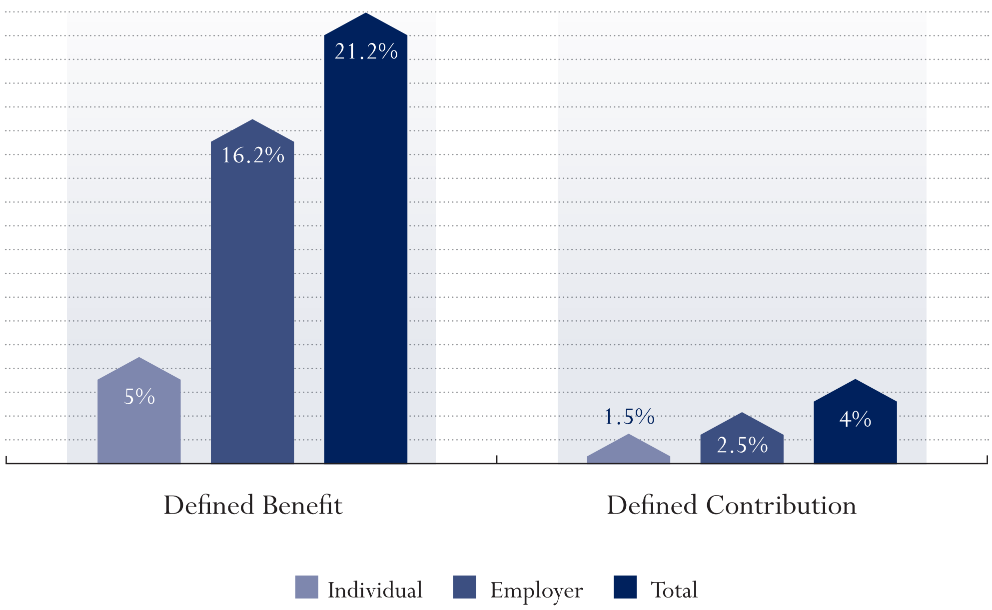
[1] Cribb, J., Hood, A. and Joyce, R., The Economic Circumstances of Different Generations: The Latest Picture, Institute for Fiscal Studies, 2016. [2] ibid.

THE SHIFTING LANDSCAPE

Perhaps nowhere is the wealth division between the generations clearer than in the rise and fall of 'defined benefit' or 'final salary' pensions. These schemes, which offer members a guaranteed pension income based on earnings and length of service, are mostly being phased out and replaced with 'defined contribution' pensions, which offer no promises and require participants to manage a variety of risks. With younger workers less likely to have access to defined benefit pensions – and the vastly different contribution rates compared to defined contribution schemes – their ability to build up the kind of pension savings their predecessors had looks limited.

Nevertheless, younger generations have very long-term investment horizons and greater opportunities to benefit from compound growth, so helping a child to invest even a small amount on a regular basis could make an enormous difference by the time they reach retirement. In fact, doing so can often encourage them to start learning more about the basics of managing and building wealth, budgeting, and optimising tax allowances and reliefs.

CONTRIBUTION RATES TO PRIVATE SECTOR WORKPLACE PENSION SCHEMES AS A PERCENTAGE OF INCOME: UK, 2015



Office for National Statistics, *Occupational Pension Schemes Survey*, September 2016.

A COLLABORATIVE APPROACH TO WEALTH MANAGEMENT

Younger generations are technologically savvy and their lives tend to be dominated by social media, but this is not a place where they want to make life decisions. Instead, they overwhelmingly see their parents as the primary source of advice on financial planning[1].

Consequently, as older generations discuss transferring wealth to children and grandchildren, they might also want to pass on virtues about managing money, equipping them to make sound financial decisions long before they have to do so themselves.

As families continue to grow and diverge, it becomes ever more important to reach out to all members so that they can understand and be actively engaged in wealth management decisions made on their behalf. But there is another good reason for involving all family members – intergenerational planning is not, ultimately, a one-way street. Even as you support your children, the understanding is that the wealth may be returned in some form in the future, perhaps to support your own care needs.

St. James's Place offers young adults and their parents, both individually and collectively, advice and support that takes into account both the family's near-term objectives and its long-term vision – and offers help for parents who want to involve their children in all aspects of wealth management.

[1]BNY Mellon, The Generation Game: Savings for the New Millennial, 2014.

ESTATE PLANNING

In addition to passing on knowledge, there are various ways to pass on wealth, and that is where effective estate planning comes into play. Thoughtful estate planning helps you preserve your wealth and pass it on to your designated beneficiaries in the manner you choose, while reducing your taxable estate.

One of the easiest ways to transfer excess capital during your own lifetime is by gifting. The rules allow gifts of up to £3,000, free of Inheritance Tax, every tax year, and small gifts of up to £250 to as many people as you like. This money moves immediately out of your estate for Inheritance Tax purposes – you don't have to survive for another seven years, as is usually the case with larger gifts.

The rules for 'normal gifts out of income', however, allow wealth to be passed down on a much greater scale while remaining exempt from Inheritance Tax. The gift(s) must be part of a regular pattern – monthly, quarterly, annually, perhaps – and must come from income, not capital. Parents could, for example, set up a Junior ISA for a child and add to it every birthday; or they could make regular gifts to help them save up for university fees.

Equally, gifting could help a child to build a solid pension pot of their own. With the earnings of younger workers lagging behind previous generations, investing into a pension in the early years is arguably more crucial today than it has ever been.

The key consideration with gifting from income is that, having made the payment, the donor must still have enough income to sustain their normal standard of living.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are dependent on individual circumstances.

In recognition of the vital role trusts play in modern financial planning, St. James's Place Wealth Management has a range of solutions to suit your family's objectives.

TRUSTS AND TRUSTEES

Family members can pass wealth to successive generations both before and after death, but inevitably they will have concerns about passing on large gifts if they do not have control over who the beneficiaries will be.

Moreover, the rise in second and third marriages is adding layers of complexity to family relationships, with many families now embracing step-parents and step-children. As ‘blended families’ become more common, parents and grandparents will increasingly express a desire to maintain a certain level of control over who gets the gifted assets and when.

For centuries, families have been using trusts* to preserve and manage wealth for the benefit of their heirs. While the expression ‘trust fund’ might conjure up images of entitlement and dynasty, in reality trusts can provide asset protection to families who do not consider themselves to be wealthy. A trust allows you to choose how your assets are used, when they can be received, and even when they can’t be. Trusts can also ensure that assets are allowed to grow rather than being spent.

Unlike a Will, a trust can be used to begin distributing property both before and after death – and it takes effect as soon as you create it. Moreover, trusts can help families avoid the delays and administration caused by probate – the legal process involved in dealing with the assets of person who has died.

Some trusts even protect your wealth for future generations while giving you a right to a regular income from the assets you placed in trust. Indeed, a trust might be created with the knowledge that an income will be returned in the future, should you require it.

You can even set up a trust to receive the benefits from a life insurance policy. In fact, ensuring that life insurance pays into a trust is one of the best, and often overlooked, ways to protect it against probate delays and Inheritance Tax.

**Trusts are not regulated by the Financial Conduct Authority.*

THE ROLE OF PENSIONS IN ESTATE PLANNING

A few years ago, a pension was solely intended for the purpose of seeing someone through retirement. If you had a defined contribution pension, it was, in most cases, used to purchase an annuity on retirement; and a guaranteed income was paid thereafter until death. However, reforms to these types of pensions have given people greater choice of how and when to access the funds. More importantly from an estate planning perspective are the changes to the way benefits can be paid out to loved ones on death.

With a pension pot, there's no seven-year wait for it to be outside the estate for Inheritance Tax purposes – it's free of Inheritance Tax immediately. Moreover, the pension can be left entirely free of UK Income Tax if you pass away before the age of 75. After 75, your nominated beneficiaries would pay Income Tax at their own marginal rate – but only when the money is withdrawn from the inherited pension pot.

Your pension savings could be used to provide an income or lump sum for whomever you choose. This could be your spouse, civil partner, children, grandchildren or anyone who is not financially dependent on you. It is also possible for the wealth to remain within the pension plan indefinitely, cascading down several generations until it is finally depleted.

If your pension is your only source of income in retirement, you should use it to maintain your own lifestyle. But if you have the financial means, it may make sense to draw down on other assets that are not exempt from Inheritance Tax (such as ISAs and bank accounts) and treat the pension much like a multi-generational trust fund. In fact, your pension might be the last income tap that you turn on.

Nevertheless, you will not want to leave potentially large sums to others unless you have a say over who those individuals are. This is where an 'expression of wishes' form and the use of trust structures to receive the pension funds give you greater control and security. With the benefit of advice, you can ensure your pension goes to whom you intend, without putting your own retirement security at risk.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are dependent on individual circumstances.

HELPING CHILDREN ESCAPE THE COSTLY RENTAL MARKET

Traditionally, home ownership has been a marker of social progress. Yet in the last ten years, the number of home owners who are under 25 has more than halved[1]. Soaring house prices and years without real-terms wages growth have prompted a growing number of younger people to give up on the idea of ever owning their own home. Often, the biggest challenge facing them is how to save enough for a deposit. The larger the deposit, the lower the mortgage rate they will be offered.

Parents can (and do) help their children onto the housing ladder. However, this may not always be in the parents' best interests if, in raising the funds for a deposit, they have to sell long-term investments and perhaps crystallise a Capital Gains Tax liability. And while it has always been possible to act as a guarantor on a child's mortgage, not everyone is happy to take on that risk.

Working with Metro Bank, St. James's Place has developed an innovative solution for parents who face challenges like this, and offers a mortgage concept that has been specifically designed to mitigate some of the pitfalls that can arise from helping children with home ownership.

If your child, or grandchild, chooses a mortgage from the St. James's Place intergenerational range, you could support them financially while significantly reducing the burden of tax and the impact on your own personal assets. For instance, rather than sell your St. James's Place investments, you could borrow against them to provide extra mortgage security. This effectively lowers the loan-to-value ratio, and reduces your child's mortgage payments.

We also offer you alternative approaches to funding your child's deposit, and ways to add your income to that of your child so that the burden of the mortgage is shared by the family. The important thing is to choose a mortgage that works for you all, and doesn't compromise your own financial wellbeing.

The home on which the mortgage is secured will be repossessed if mortgage repayments are not kept up to date.

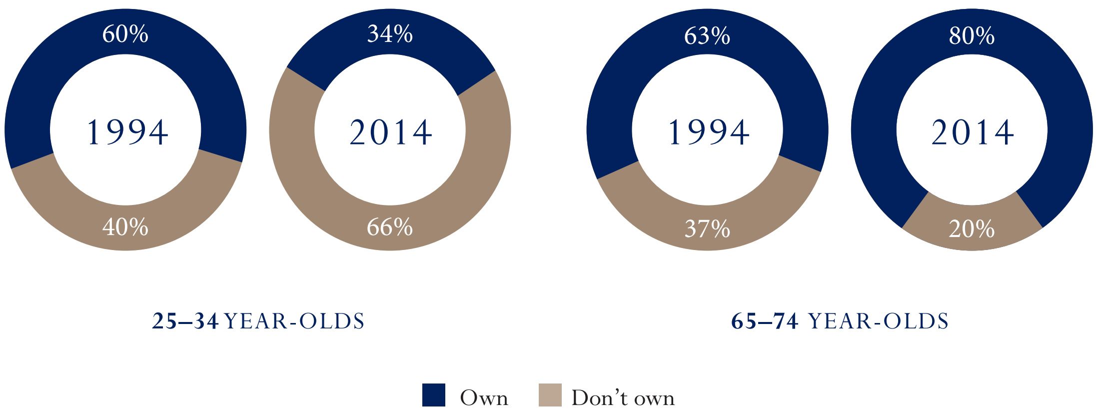
[1] *Social Mobility Commission, State of the Nation 2016: Social Mobility in Great Britain, Nov 2016.*

LOCKED OUT

Years of low interest rates have greatly benefited a generation who could afford to borrow, while booming house prices and tighter lending criteria have locked out young aspiring buyers.

Consequently, home ownership among the older population has risen, while it has fallen dramatically for younger generations. The chart below illustrates the change over 20 years. The fact that ownership among younger people isn't even lower owes much to the help received by them from their parents, grandparents and others. More than half of under-35s have relied on the support of family or friends when buying their current home[1].

HOME OWNERSHIP BY AGE GROUP (1994 - 2014)



Sources: Institute for Fiscal Studies, Office for National Statistics.

[1] *www.legalandgeneral.com, accessed March 2017.*

Across the UK, the proportion of private renters more than doubled between 2002 and 2015[1]. The Resolution Foundation estimates that the average millennial spent £25,000 more in real terms on rent in their twenties than the previous generation, and £44,000 more than the average baby boomer did. With more of their income being diverted towards paying rent, today's young are perhaps more reliant on parents for help with buying a first home than previous generations.

[1] *Office for National Statistics, House Price Index, February 2016.*

LOOKING AFTER OUR PARENTS

We face calls on our wealth from a variety of family members, but often increasingly from our own parents. Rising life expectancy inevitably leads to an increase in the need for residential and nursing care, which will need to be financed from accumulated savings, the sale of property, or with support from other family members.

If a parent moves into care – unless they enjoy a very high net income to pay the fees – it will have an effect on the wider family, who will inherit less. How should residential care be funded, and can your parents avoid selling their home? With careful planning, these issues can be managed. While equity release or selling property could be an option to free up the money needed, many will view this as a last resort. It is therefore important for individuals and families to anticipate future care needs and invest appropriately, or buy the right kind of financial protection. If care is required at the point of need, you might need to discuss how best to fund a regular income to meet your relative's care costs for the rest of their life.

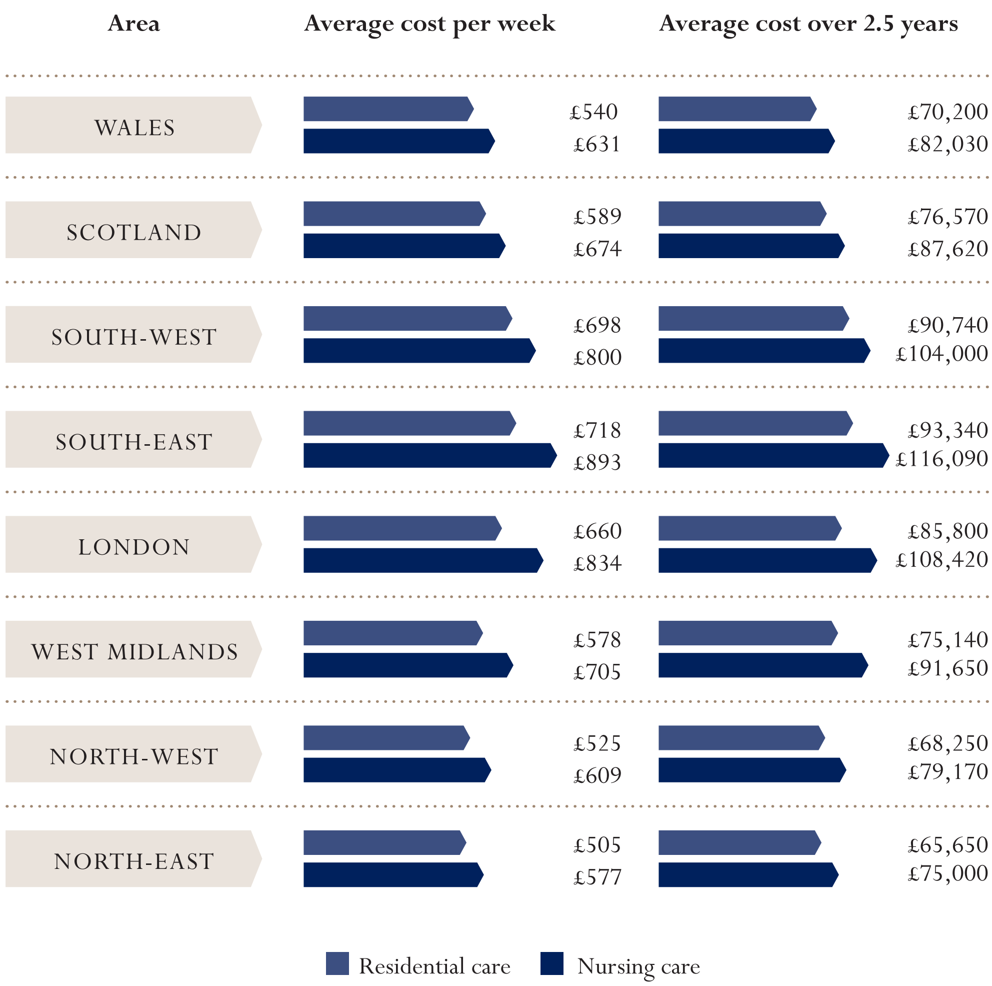
Advising families on receiving and paying for care is a complex area that requires knowledge and experience. Within the St. James's Place Partnership are highly qualified specialists who can advise on long-term care needs. They will be able to check whether your loved one does, in fact, have to pay for care, help them decide the most suitable way of paying for it, and ensure that they are receiving all state benefits to which they are entitled. Some self-financing options are quite straightforward, while others are much more complicated. A qualified adviser will be able to explain all the costs and risks involved with each recommendation.

Whatever the context, all financial planning should include making a Will and setting up a lasting power of attorney. Not only does this avoid unnecessary delays and complication on death – or in the event of a family member becoming incapacitated and unable to take decisions for themselves – it's also a useful way of engaging your family in discussions about wealth, particularly in families where talking about money does not come easily.

Advice relating to a Will or Lasting Power of Attorney involves the referral to a service that is separate and distinct to those offered by St. James's Place. Wills and Lasting Powers of Attorney are not regulated by the Financial Conduct Authority.

THE COST OF CARE IN THE UK

Medical advances have helped more people survive diseases like cancer, stroke and heart attacks, but increased longevity means that debilitating diseases like Alzheimer's and other forms of dementia have caused large rises in the demand for, and cost of, social care. The chart below shows the average cost of residential and nursing care per week and over two-and-a-half years – the average length of stay.

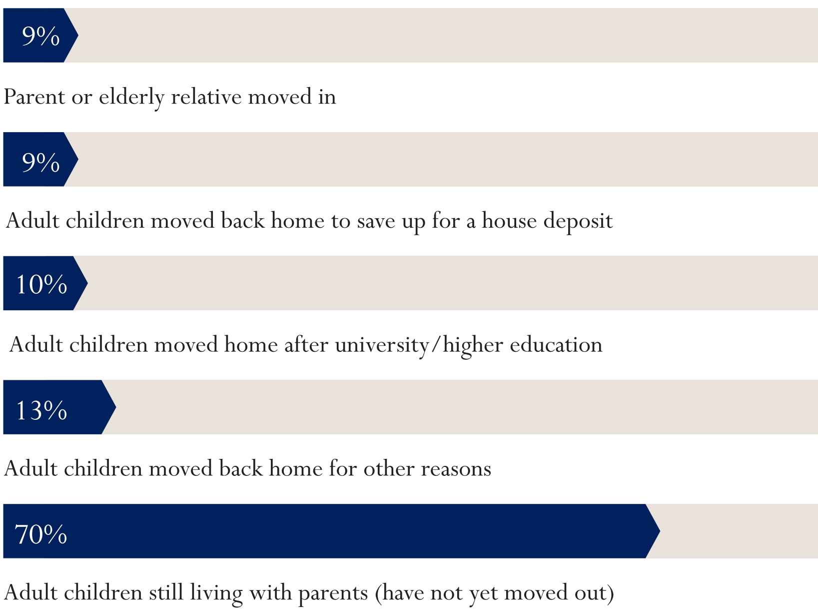


Knight Frank, *Care Homes Trading Performance Review 2015*; figures for privately and publicly funded rooms combined.

THE RISE OF THE MULTIGENERATIONAL HOUSEHOLD

The number of multigenerational households could be set to grow as property costs continue to rise. Very often, those completing university degrees or college courses return to the very homes they grew up in. But with increasing life expectancy and the high cost of residential care, it is also likely that more multigenerational households will contain elderly family members.

COMPOSITION OF MULTIGENERATIONAL HOUSEHOLDS



Aviva Home Series, *Changing Households*, 2016; figures exceed 100% as respondents could select more than one option. Research based on a nationally representative survey of 2,000 UK adults aged 16 and over.

PROTECTING YOUR WIDER FAMILY

It seems increasingly likely that more of us will need to use some or even all of the assets we were hoping to leave to our family to support ourselves through old age. However, if we are fortunate enough to be able to leave substantial wealth to our heirs, our families could face the burden of Inheritance Tax. Aside from making gifts, writing Wills and establishing trusts, there are other measures we can take while we are still alive to minimise liability to Inheritance Tax.

Taking out life insurance, for example, can be an extremely cost-effective way to help your family avoid paying unnecessary tax when you are gone. Life insurance pays a lump sum on death, and when the policy is written in trust, the pay-out can help offset or eliminate exposure to Inheritance Tax. Yet, according to a 2016 study, almost half of those with a potential Inheritance Tax liability said they would never take out life insurance and nearly three quarters said they didn't see a need to use it, indicating an acute lack of understanding among those individuals whose families are most likely to benefit[1].

A life insurance policy will give you the peace of mind that your family will have sufficient funds when you are gone. As well as meeting a potential Inheritance Tax bill, it could help with the purchase of a first home or help provide school or tuition fees for your children and grandchildren. After you have sought advice on how to achieve your objectives, putting a life policy in place can be very simple. However, there are some other simple steps you can take to protect your family against financial hardship.

Sudden illness can be devastating for families. It's therefore important to protect yourself against any loss of earnings due to ill-health or accidental injury. Furthermore, significant value is often stored in our homes, in cars and in any collections we have; safeguarding your family's possessions if they are lost, damaged or stolen can provide significant peace of mind. Sadly, many people in the UK are underinsured, particularly younger generations – who will often turn to their parents for support when they suffer a loss.

At St. James's Place we recognise the value and importance of comprehensive family insurance and the need for an alternative approach. As a result, we now have the UK's first intergenerational general insurance policy to meet the needs of an entire family.

[1]Canada Life, September 2016; survey of 1,001 UK consumers aged 45 or over with total assets exceeding the individual Inheritance Tax threshold (nil-rate band) of £325,000.

SUCCESSION PLANNING FOR YOUR BUSINESS

‘Succession’ means different things to different people. Whatever it means to you, it will inevitably be critical to the long-term success of your business. Sadly, despite the longevity of some family businesses, the average life-span across the sector is just three generations. Typically, only 12% make it that far, and the number surviving beyond four generations is just 3%[1].

Although many businesses stumble when children take over the reins, those that are well prepared can see the business flourish. Much depends on whether there is a clear and organised succession plan that family members can buy into – and one that doesn’t compromise your own lifestyle.

Which succession path you choose will depend on how much income you’ll need and whether you want to maintain some control. The choice will also be dictated by numerous tax, legal and commercial considerations; but just as important is ensuring you have the right people in the right positions.

Retaining shares in the business beyond retirement, and potentially receiving dividends to augment private pension provision, can be attractive given the Capital Gains Tax and Inheritance Tax advantages. However, consideration should also be given to the implications for the ongoing running of the business, by family members or others with little or no equity participation.

Where gifting of shares or a share in the business is envisaged, will this be an outright gift, or a gift into trust?

The Capital Gains Tax consequences will need to be considered, as will the short- and long-term implications of running the business.

Where a management buyout is an option, will this be a sale of the assets of the business or the sale of the shares?

In the event of the death of a shareholder or business owner undermining any plans to retain, gift or sell the business, how will any remaining interested parties ensure the purchase and the sale of the business occurs as smoothly as possible, leaving all parties with the right ownership of the business?

Similarly, in the event of a serious illness or loss of mental capacity, how will the business reorganise itself and adequately compensate all parties?

Whether succession means retention of shares beyond retirement, gifting shares to the next generation, or a management buyout, St. James's Place can guide you through your options, while ensuring the successful running of the business into the future.

[1] *Joseph Astrachan, Ph.D., editor, Family Business Review, 2009.*

ABOUT ST. JAMES'S PLACE

St. James's Place is a FTSE 100 company that provides highly personalised, face-to-face wealth management services to individuals, families, trustees and businesses. With over £75 billion of client funds under management, we are well established as one of the UK's leading wealth management organisations. Our wealth management advice service is delivered through the St. James's Place Partnership, which comprises some of the most experienced and able professionals working in wealth management today.

BUILDING LONG-TERM RELATIONSHIPS

We place clients at the very heart of everything we do and recognise that your circumstances and objectives are unique. Our advice and service are personally tailored to you, and are underpinned by our distinctive approach to investment management in which we select the best fund managers from around the world. Clients often continue the working relationship with their Partner over many years, appreciating a source of trusted advice as their financial needs and priorities evolve over time.

YOUR PERSONAL GUARANTEE

To provide you with added peace of mind and reassurance, we also guarantee the suitability of the advice given by members of the St. James's Place Partnership when recommending any of the wealth management products and services available from companies in the group, more details of which are set out on the group's website at www.sjp.co.uk/products.

What Investment READERS' AWARDS 2016 WINNER Best Wealth Manager St. James's Place

The Personal Finance Awards 2015/16 WINNER

BRITAIN'S MOST ADMIRED COMPANIES 2015/16 WINNER ST. JAMES'S PLACE

wealthadviser AWARD WINNER 2016

COLWMA CITY OF LONDON WEALTH MANAGEMENT AWARDS WINNER 2016

ST. JAMES'S PLACE
WEALTH MANAGEMENT

SJP4592-VR3 (05/17)