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OPINION

Personal Finance Advice & Comment

A 10-step 'wealth workout'

Now is the perfect time to reassess and improve your financial fitness

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Move over, Joe Wicks. The health guru's online exercise classes may have got the nation moving under lockdown, but if my client conversations are any guide, households are also playing close attention to financial fitness.

The following regime will do little for your cardiovascular Fitbit scores, but it should leave you feeling at peace — and perhaps with more money to spend when normal life fully resumes.

1 Sort out your will

Check that your will is still relevant, especially if you have divorced, married or had children or grandchildren since you wrote it. Are you still in touch with your executors?

If you planned to leave between 4 and 10 per cent of your net estate to charity, consider lifting it to 10 per cent. At this level, it triggers a drop in your inheritance tax rate from 40 to 36 per cent. Allow me to crunch the numbers: leave 5 per cent of a £100,000 net estate to charity and your other beneficiaries receive £57,000 after inheritance tax (IHT). Leave 10 per cent and they get £57,600.

You can probably speak to a solicitor through Zoom. With lockdown easing, sorting the necessary witness signatures may be just about manageable now.

If not, put this near the top of your post-lockdown job list. An up-to-date will is the only way of ensuring that your estate goes where you want it to.

2 Set up lasting powers of attorney

Lasting powers of attorney empower identified loved ones or trusted professionals to make financial and health decisions on your behalf if you are incapacitated. This is not just for the elderly — the forms need to be completed when you are of sound mind, as incapacity can strike in many ways at any age.

Be careful about choosing only peers as trustees. A client recently realised her attorney was older than her — and she is in her 90s. As with wills, you need witness signatures. We recommend taking legal advice, but you can start the process by visiting gov.uk/power-of-attorney

3 Expression of wishes forms

Pensions fall outside of your estate for tax purposes, so you must tell your pension provider who you nominate to benefit from these assets on your death. This can often be done easily through a provider's website.

4 Reassess insurance needs

Review your life insurance, income protection and critical illness policies to check they are still necessary, appropriate and competitively priced. You can ringfence any life policy proceeds from the rest of your estate to protect them from IHT by placing them in trust. This also avoids probate delay. Most insurers will provide a standard trust wording. You can review this with your solicitor if needed.

5 Think about IHT and giving regularly

The simplest way to avoid IHT is to give your money away (or spend it) before you die — but you must ensure you have enough to live on before then and that any giving is sustainable.

I am a fan of giving regularly out of normal income. This is IHT-free, but keep a record of donations in case challenged by HM Revenue & Customs (I suggest setting up a standing order for monthly gifts to children and grandchildren).

6 Sort financial paperwork

You could save your executors a lot of effort and confusion by shredding unnecessary, obsolete financial paperwork clogging up your filing cabinet.

Produce a summary of all your assets — where to find them, bank account numbers and passwords etc — and place it somewhere secure. Ensure that you tell your executors and attorneys where to find this document.

7 Bill-bust your bank statement

Trawl through your bank statement and review outgoings for unnecessary bills. Changing energy suppliers is incredibly easy through platforms like uswitch.com. Switch to a Sim-only contract if you have come to the end of a mobile phone deal and are still happy with the handset. Make a note in your diary a month or six weeks before your home and car insurances are up for renewal so you have time to find competing quotes. Review your subscription services. Do you really need them all? This exercise saved one of my clients more than £1,000 a year.

8 Review cash savings accounts

Are your cash savings languishing in a current account? Consider moving them to National Savings & Investments (NS&I). It may not offer the highest rate, but it consistently pays more than many banks or building societies. The NS&I income bond no-notice account pays 1.15 per cent gross a year, compared with 0.05 per cent for a comparable account with some high street banks. At those rates, £100,000 over two years will generate £2,213 more interest from the NS&I account.

NS&I is government-guaranteed, so the only limits on how much you can safely invest are the account limits — up to £1m.

9 Review your investments

Potentially depressing at the moment, but review your investments to ensure they are in the right place. Make sure you are still taking the correct level of risk (your risk profile might have changed if you have just retired or lost your job).

Matching an investment portfolio accurately to your risk profile is one of the hardest tasks for DIY investors. Too many are taking on more risk than they understand; others too little. A good adviser or wealth manager can help with this, saving more than they cost. Ask how they have performed against industry peer group benchmarks such as the Asset Risk Consultants (ARC) Private Client Indices. Most reputable managers will subscribe to this set of indices for the sake of transparency.

If relevant, review your company pension to ensure you are making the optimum level of contribution. Most pensions offer a choice of risk options and a moderately cautious default option. Too many investors under 50 who can afford a higher risk profile opt for the default option because it is easiest.

It could cost them tens of thousands of pounds in their pension pot at retirement. Take advice if you are heading close to the lifetime allowance (£1,073,000 this year).

Consider setting up monthly contributions to drip-feed money into the markets if you are worried about investing any lump sums.

You might have lots of pensions and other investments in different places. Think about consolidating some to reduce the administrative burden (and, potentially, costs) — but be careful that you do not inadvertently sacrifice useful pension benefits in the process.

10 Use your tax allowances

Each of us has a number of tax allowances in a year (Isas, pension tax relief, capital gains tax etc). It is important to make best use of them. It may be beneficial for married couples and civil partners to divide assets between them to make the most of these various allowances.

And breathe. This regime may feel painful and the bad news is that you should do it every year. The good news is that wealth fitness, like health fitness, hurts less with regular exercise.

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