FOSTERTALK**MONEY**

The personal finance newsletter for members of FosterTalk published by Lighthouse Financial Advice **SPRING 2019**

FosterTalk supporting those who care

Time to spring-clean your finances!

Now, with the end of the tax year fast approaching (it ends on 5 April in case you are wondering), is a good time to spring-clean your finances.

In this issue of FosterTalk Money, we give you a range of tips that could help you make your money work harder, now and in the future. Here are a few tips to help you optimise your finances in the 2018/19 tax year – and possibly for many years ahead. To be effective for the current tax year you need to act before 6 April.

Use or lose annual allowances

Using the annual allowances that the government gives you each year can help you optimise your tax now and shelter as much money as possible from tax in the future.

- Will your personal pension and any other pensions you may have, for instance from former employers, are likely to provide. Will they give you enough income when you retire? If not, consider paying in more, especially as the 20% income tax you paid is added to your contributions and any growth is free of tax.
- Are your savings tax-efficient? Have you and your family made the most of your £20,000 ISA allowances for the 2018/19 tax year? ISAs are an efficient way of saving because there is no tax to pay when you withdraw money and, unlike pensions, you can access them whenever you want.
- Would you like to help family financially? If so, you could consider paying in to an ISA on their behalf. You could also pay into your spouse's or children's pensions.

Reducing income tax

This is particularly important if you are self-employed. Plus, if your income is between £50,000 - £60,000 you could lose child benefit for your own children.

- Make sure you claim foster care relief, keep records of all payments you receive for fostering and pay your National Insurance contributions if applicable.
- Have you included charitable donations on your tax return and, if you pay higher rate tax, reclaimed it on gift aid donations?
- Could you contribute more to your pension without going over your annual contribution and lifetime allowance limits?
- Could you transfer some income-producing assets to your spouse or partner or vice versa, if one of you does not use your full personal allowance or pays a higher rate of tax?

There are pros and cons to these suggestions and it is important to understand the full implications of what you are considering. It therefore makes sense to talk to one of our professional financial advisers before you act.

The value of your investments can go down as well as up and you may get back less than you paid in. A pension is a long-term investment and inflation will reduce how much your income is worth over the years. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation. Tax advice with no investment element is not regulated by the Financial Conduct Authority.

Also in this issue

Book your complimentary initial consultation

We are offering all FosterTalk members a complimentary initial consultation with one of our professional financial advisers.

Call 08000 85 85 90 or email appointments@lighthousefa.co.uk

or contact your usual Lighthouse Financial Adviser.

Take control of your finances!

Getting to grips with your finances doesn't have to be daunting. Striking a balance between spending and saving is not as difficult as it seems and you won't necessarily have to sacrifice things you enjoy now. Here are our suggestions for getting started.

It may seem obvious but spend less than you earn. Work out your monthly income: this includes your self-employed income, your partner's income, any maintenance or other regular payments, interest from savings and income from investments. Only include income that you know you will receive.

Track how much you spend

Write down how much you and your household spend and on what. Include everything, from your mortgage and insurance to a sandwich at lunchtime and a drink after work. Check it weekly – it will be less daunting than doing it monthly. You will soon start noticing fluctuations in the amounts you spend on regular purchases – work out why they have increased or decreased.

Limit regular payments

Some regular payments are essential, for instance council tax and utility bills. However, the more that goes out of your account each month automatically, the less you have to spend on items of your choice. Do you really need those subscriptions, even if they only cost a few pounds a month each?

Work out what is important to you

Deciding what you really want will help you spend less on things that could prevent you achieving that. So, for instance, if you want to have enough for the deposit on your first (or a bigger) home, or you would really like to take a year off when you hit fifty, you may find that having treats now becomes less important to you.

Make your progress visible

Think of the amount you are going to save as an expense. Don't wait to see how much you have left over at the end of the month. Set up a regular payment to transfer a fixed amount each month to a savings account. As well as making sure that you do actually save, this also makes it easier to check on your progress.

Allow yourself some fun

Your monthly expenditure should include some "fun" money, for you and your family to spend on whatever takes your fancy. That way you won't be tempted to dip in to or "borrow from" your savings.

Make saving a family affair

Teaching children in your care about budgeting, saving and managing money from an early age will help them make good financial choices when they start earning money themselves.

Encourage the whole family – parents and children, grandparents and grandchildren, brothers and sisters, nieces and nephews – to open ISAs and pay in as much as possible. Any growth and income they take is tax-free.

If you have money to spare, consider paying in to your children's or grandchildren's pensions, as money in the fund can grow tax-free. There are restrictions on the total that can be paid in each year and you need to make sure you are paying into a suitable pension fund.

You should therefore take professional financial advice, in conjunction with your relative if they are over 18, before doing anything.

And make sure you stay in control!

Staying in control of your finances should be relatively straight-forward if you follow a few simple steps.

Check your monthly statements
Check your bank and credit card statements each month for payments you no longer need. If you spot any cancel them. You may also spot the occasional error or fraudulent payment, which, if you act quickly, your bank or credit card company should be able to refund.

Claim benefits and allowances
Make sure that you are claiming the full allowances, tax exemptions and tax relief to which you are entitled as a foster carer. Check that you are receiving National Insurance and Working Tax credits if you are eligible. If you rent, are you entitled to housing benefit? Could you apply for a Council Tax reduction? If you have a job apart from fostering you may be entitled to free child care.

Talk about money
Who runs the family finances in your household? If it's you, do you talk about money with your partner? Doing so can help reduce over-spending, not to mention arguments about money. If your partner is in charge of the family finances, why not ask them to explain things to you, not least in case the unexpected happens?

Embrace austerity – and help save the planet
Make a shopping list and stick to it, to reduce impulse purchases. Where possible buy unpackaged produce from market stalls and local, independent shops. As well as reducing your food bills and eating more healthily, you will be helping, albeit in a small way, save the planet.

Use technology to stick to your budget
Use the app provided by your bank combined with other personal finance apps, depending on what you want to achieve. For instance, get an alert when you are about to go overdrawn; set a maximum amount to spend each week or month and get an alert you when you are about to reach your limit; schedule in key dates such as when your insurance is up for renewal, or the repayment date for credit cards.

Keep track of what you've got
Document, on a spreadsheet or a sheet of paper – whichever suits you best, your (and if appropriate your partner's) monthly income and expenditure. Check them every month, to make sure you are on track.

On a separate sheet put the details and values of your pensions, savings accounts, insurance policies and levels of cover, together with regular payments in or out. Review these at least once a year. As well as helping keep your finances on an even keel, this will help you spot any duplications or gaps in your finances.

Make things easier for yourself
As a foster carer, you have to complete a self-assessment tax return. To avoid a last minute scramble next year, put all documents you need into a folder as soon as you receive them. If you receive some online and others by post, use two folders, one digital and the other physical. Create a check list and tick off each document as it arrives. That way, you will have all the information you (or your accountant) need(s) when you come to fill out your next tax return.

Eliminate duplication
If your partner is employed, do you know exactly what benefits they get from their employer? Check the detail. You may find that it includes life insurance and other types of insurance that you may already have taken out personally. You may be able to save money by eliminating duplicates – benefits provided by an employer are likely to be more cost-effective to those you take out privately.

What would happen if you lost your income?

If you are unable to continue fostering, for instance because you have an accident or fall seriously ill, how would you survive financially? The bills would still need to be paid.

It is advisable to take out insurance that provides you with a lump sum or regular payments if you or your partner were to be off work long-term due to an accident or serious illness. To find out more

call 08000 85 85 90 or email appointments@lighthousefa.co.uk

or contact your usual Lighthouse Financial Adviser.

How to save for a future free from money worries

To be able to enjoy a comfortable retirement later in life you need to start saving now. This is particularly important if you are self-employed. Here are some tips to help you start securing a future free from money worries.

Money to spare? Top up your pension

Making contributions to your pension fund is the most tax-efficient way of investing, as contributions benefit from income tax relief at your highest rate.

Rather than guess, work out what you have already accumulated, how much income this might give you when you retire and how much income you are likely to need to be financially independent. Then you will be able to work out whether you need to save more. It is best to ask a financial adviser to work this out as it is a complex calculation and you need to make sure that the figures are as accurate as possible.

If you do need to save more, in most cases you should consider making additional contributions into your personal pension. You pay contributions out of taxed income, but the government tops up your contributions by the amount of tax you paid on them. For instance, if you are a basic rate taxpayer, for every £80 you pay in the government pays in an additional £20.

Check your pension at least once a year. If you have personal pensions or are a member of schemes that are based on defined contributions (ie which are not based on defined benefits such as final or career average salary) from previous jobs, you should make sure that the funds are invested in a way that matches your objectives. It might also make sense to consolidate them into a single fund. To do this you should consult a professional financial adviser.

Still got money to spare?

If you still have even a few pounds spare each month, consider increasing your mortgage repayments, assuming that your mortgage provider allows you to do this. Over payments go towards paying off the amount you have borrowed, gradually reducing the amount you owe.

Lazy savings?

Do you have money, over and above "rainy day" money equivalent to roughly three months' expenditure, sitting in cash saving accounts? If so and you are saving for the medium-to-longer term, consider moving the money to stock market-based investment funds. This will give it the potential to work harder for you.

Cash you have in savings accounts is earning very little in interest and will therefore have been decreasing in value in real terms since 2008. To buy something that cost £100 in 2008 you would now need £130.90 (Source http://www.in2013dollars.com/2008-GBP-in-2018). So unless your savings have grown by 30.90% in the last ten years you are worse off now than you were ten years ago.

In contrast, during the 10 years ended November of 2018, the FTSE 100 returned 63% (Source https://www.forecast-chart.com/historical-ftse-100.html). Stock market investments are inherently risky – the value of stocks, shares and funds can go down as well as up – but there are ways of reducing risk. One is by not buying individual stocks, shares, bonds or other types of investments directly. Most people put their money into one or more investment funds that then invest the pool of investors' money across a broad range of types of investments. This ensures that you do not have all your eggs in one basket.

Another is by choosing investment funds that are managed in a way that suits your attitude to risk. Some people are more willing or can afford to take more risk than others. Your financial adviser will help you work out your risk profile and can then recommend investment funds that match it. Your risk profile may change with your age and circumstances.

Get in touch

If you would like to boost your pension provision and optimise your savings get in touch now.

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or contact your usual Lighthouse Financial Adviser.

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