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# Succession planning

Taking advice early and developing a personal financial plan is crucial to meeting long-term goals

Succession planning may be one of the most challenging experiences facing any leader, especially an entrepreneurial business person who has built a family business from scratch, so it is crucial to get right. For a family business, transition is a once-in-a-lifetime decision. Perhaps no challenge has as much potential to exacerbate the special stresses – or, conversely, highlight the special advantages – of operating a family business.

## PROSPERITY FOR GENERATIONS TO COME

A good succession plan can be the first step in maintaining the strength of an enterprise and the family's prosperity for generations to come. Discussing how a family business should continue beyond the career, or even the life, of the founder can be difficult, as it often crosses business and personal spheres. Issues around succession planning make up four of the top ten worries keeping family business owners awake at night, according to research from Close Brothers Asset Management (CBAM), conducted by Family Business United.

## SECOND AND THIRD GENERATIONS

The challenges faced by the second and third generations are substantially different from that faced by the first generation. Also, given that the

first generation of business owners are often highly entrepreneurial, they may tend to overlook succession planning until the last moment. This makes the process even harder.

## MAINTAINING FAMILY VALUES

A survey of family businesses found that management succession planning was a worry for 39% of business owners, while 35% cited engaging and developing the next generation as a concern. Ownership succession and developing responsible future owners were stated as worries by more than a third (34%) of business owners. The same number also highlighted identifying and maintaining family values as an ongoing concern.

## REMAINING A PROFITABLE BUSINESS

The day-to-day running of the business came in as the top worry for family business owners, with

40% saying that continuing to develop and remain a profitable business was a key concern. Personal finances also stood out, with worries about planning for later life highlighted by 38% of owners.

## REGULATION AND LEGISLATION ARE WORRIES

Outside of family businesses' immediate control, four in ten (39%) business owners said red tape, regulation and legislation were worries. Family businesses employ almost 12 million people<sup>[1]</sup> and turn over an estimated £1.3 trillion each year, over a third of the turnover of the private sector<sup>[2]</sup>.

## FAMILY-OWNED SMALL BUSINESSES

UK Small and Medium-sized Enterprises (SMEs) face a multitude of challenges, and family-owned small businesses can have an especially hard time navigating regulation and adapting to changing





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policy while remaining loyal to their unique set of family values. All this must be done in addition to running a profitable business.

### **CRUCIAL TO ALLEVIATING ANXIETY**

Succession planning is naturally a significant concern for family businesses and requires careful consideration. Not only must owners consider developing their replacement, and ensure family values are adhered to, but they must also plan for their own retirement. Taking advice early and developing a personal financial plan is crucial to alleviating anxiety and meeting long-term goals.

### **TOP TEN WORRIES KEEPING FAMILY BUSINESS OWNERS AWAKE AT NIGHT**

1. Continuing to develop and remain a profitable business
2. Management succession planning
3. Red tape, regulation and legislation
4. Planning for later life
5. Engaging and developing the next generation
6. Ownership succession and developing responsible future owners
7. Identifying and maintaining family values
8. Extracting value from the business
9. Taxation
10. Developing effective marketing, social media and PR strategies

### **Source data:**

*The research was commissioned by Close Brothers Asset Management and conducted by Family Business United in Q4 2015. 173 family businesses were surveyed across the UK.*

*[1] Figures from Oxford Economics for the Institute of Family Business (IFB)*

*[2] Figures from research conducted by Family Business United (2015)*

### **LOOKING TO DEVELOP A SUSTAINABLE ORGANISATION FOR YEARS TO COME?**

Handing a family business to the next generation is a major process, from selecting and developing the successors to protecting the brand reputation and retaining knowledge. However, the effort is crucial to develop a sustainable organisation for years to come. To discuss your requirements, please contact us for further information.

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# Pension freedoms

Will the new retirement rule of 'no rules' offer people a better financial future?

Following pension reforms, there are now more options for using your private pension pot. Since April 2015, some people over 55 have greater freedom in how they can access their pension pots – the money they've built up during their working life.

The changes to private pensions affect those in a defined contribution pension scheme. This is one where you build up savings (your 'pension pot') throughout your life to fund your retirement. Before making any decisions, it's important that you consider your options and the impact that your decision could have on your tax bill or benefit entitlements.

## WHAT BEST SUITS YOUR NEEDS

If you have a defined contribution pension, you have more options for how to use the money according to what best suits your needs. You are no longer restricted to simply buying an annuity. Instead, you can withdraw some or all of the money as a lump sum.

It's important to obtain professional financial advice before making any decisions, as the options you choose could affect your income, overall retirement savings, benefits entitlements and how much tax you pay.

## MOST POPULOUS AGE GROUP

New population data<sup>[1]</sup> shows that the new pension freedoms will face their peak test in the

coming five years. The most populous age group in the UK today consists of those aged 51 – a total of 945,000 people. This group will gain access to the pension freedoms in 2020. This year will test if the new retirement rule of 'no rules' will offer people a better financial future.

In the tax year 2016/17, 393,000 individuals took advantage of the freedoms across the UK, withdrawing £6.45 billion from their pensions. As the number of people reaching the age of 55 in the coming five years peaks – at 945,000 in 2020 – the pension freedoms will face their greatest test on whether they can offer a sustainable financial future<sup>[2]</sup>.

## SERIOUS CONSIDERATION OF FUTURE NEEDS

Recent government research identified that only one in three (34%) people in the 45–54 age group had given any consideration to how many years of retirement they may need to fund<sup>[3]</sup>. Entering the arena of the pension freedoms without serious consideration of future needs could spell trouble for many savers.

Thursday 6 April 2017 marked two years since the introduction of some of the most radical

reforms to UK pensions in a generation. You can only take advantage of the pension freedoms from age 55. Anyone thinking of withdrawing lump sums from their pension fund should consider the impact this will have on future retirement income. ■

## Source data:

[1] [www.ons.gov.uk/releases/](http://www.ons.gov.uk/releases/)

## HOW WILL YOU DECIDE WHAT THE BEST COURSE OF ACTION TO TAKE IS?

The choices you make for your pension fund can determine the level of income you receive for the rest of your life. For this reason, you should seek professional financial advice and guidance to decide the best course of action to take. For more information, please contact us.





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# Planning for your retirement

## Getting ready to slow things down

One of the critical aspects of retirement planning is how you structure your financial affairs to make sure you have sufficient money if and when you stop working.

Making sure you have enough money in retirement to enable you to spend your time the way you want to, doing those things you always intended to do, is likely to be at the heart of planning for your retirement.

### TOO COMPLICATED TO THINK ABOUT

People surveyed for BlackRock's Investor Pulse survey stated that their biggest financial priority was 'funding a comfortable retirement'. Yet many people spend more time planning their holiday than their own retirement – perhaps because planning for retirement seems too complicated to think about?

### DON'T KNOW WHERE TO START

We are all living longer; the State Pension Age is increasing and pensions legislation is ever-changing. Understandably, we want an active, comfortable retirement but often don't know where to start the savings process. If confusion and a lack of understanding around your retirement needs have led you to put off planning and saving anything, you're not alone. In fact, over half of people in the UK are in the same position.

You can start now though. Planning will help you think about the changes you could make and enable you to take steps towards securing a better future.

### STEP 1 – TARGET

#### KNOW WHAT YOU NEED – SET YOURSELF A TARGET

The closer you are to retirement, the more likely you are to know how much income you will need to cover your outgoings. If you have longer to go until retirement, it is still good to have an idea of what you are aiming for – and you can review this each year as you get closer.

### STEP 2 – PLAN

#### KNOW WHAT YOU ALREADY HAVE

The second step is simple – understanding what you have already saved. Knowing what you already have will help you to understand how far you are towards your retirement target. If you have a lot of different pensions, it may be worth considering bringing those all together into one account if appropriate.

### STEP 3 – ACTION

- What you need to think about.
- Are you contributing the right amount?
- Are you invested in the right kind of fund?

### WHEN CAN YOU REALISTICALLY RETIRE?

Don't put off planning for retirement. By following these simple steps and reviewing your retirement plan at least once a year, you are planning for a better future. ■

## HOW CLOSE ARE YOU TO ACHIEVING YOUR RETIREMENT GOALS?

We will help you understand your own situation using our expertise, because only then can you start to talk about what you want and need in order to form your retirement goals. When we know these, we can identify how close or not you are to achieving those goals based on your current planning. Don't leave it to chance – contact us to discuss your requirements.

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# Financially unprotected

Dads putting their family's financial security at risk if the unexpected were to happen

What would happen to you and your family in the event of unforeseen circumstances, such as the diagnosis of a serious illness or premature death? Worryingly, research from Scottish Widows reveals that more than half (53%) of men in the UK with dependent children have no life cover, meaning that 3.9 million dads<sup>[1]</sup> are potentially putting their family's financial security at risk if the unexpected were to happen.

## INSURING AGAINST SERIOUS ILLNESS

Only 16% of dads have a critical illness policy, leaving many more millions at financial risk if they were to become seriously ill. Fathers are, in fact, more likely to insure their mobile phones (21%) than to insure themselves against serious illness.

More than a fifth (22%) of dads admit their household would be placed at financial risk if they lost their income due to unforeseen circumstances, and 28% say they could only pay their household bills for a minimum of three months. Two fifths (40%) say they'd have to dip into their savings to manage financially, but 42% say that their savings would last for a maximum of just three months.

## BASIC LEVEL OF SUPPORT

The research shows that in the event of themselves or their partner dying, 22% of men with dependent children believe they could rely on state benefits to support their family. While this provides a basic level of support, we would firmly advise people to make their own provision for themselves and their families in order to provide peace of mind with the knowledge that there's a financial safety net in place.

Many fathers don't consider having insurance as a necessity, with 18% saying they don't see critical illness cover as a financial priority, 19% saying they don't think they need it and 17% saying they can't afford it.

## BEREAVEMENT SUPPORT PAYMENT SYSTEM

With a new Bereavement Support Payment system now in place, it's more important than ever for dads to review their financial protection needs. You

may be able to get Bereavement Support Payment if your husband, wife or registered civil partner died on or after 6 April 2017.

It's estimated that 91% of widowed parents will be supported for a shorter period of time (now just 18 months) than they would under the previous system, which could pay out until the youngest child left school, according to research from the Childhood Bereavement Network. In 2014, 70% of claimants were female<sup>[2]</sup>, so it's important that fathers seek advice to make sure their household is covered.

## CLAIMING FOR BEREAVEMENT BENEFITS

This is especially the case for cohabitants, who are not eligible to claim for bereavement benefits, despite the fact that 21% of couples with children are not married, according to figures from the Office for National Statistics for 2016.

There are many things to consider when looking to protect you and your family. Being diagnosed as suffering from a specified illness or the loss of income need to be considered as part of an effective protection planning strategy. ■

### Source data:

*Scottish Widows' protection research is based on a survey carried out online by Opinium, who interviewed a total of 5,077 adults in the UK between 16 and 27 March 2017.*

*[1] Percentage of adult population that are fathers with dependents =  $735/5077 = 14.48\%$ ; 14.48% of adult population of 51,339,000 = 7.4 million; 53% of these don't have cover, so 3.9 million.*

*[2] Childhood Bereavement Network submission to the Commons Work and Pensions Select Committee*

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## DO YOU HAVE APPROPRIATE PROVISION IN PLACE TO PROTECT YOUR FINANCIAL PLANS?

No matter what our personal circumstances, it is vital for all of us to ensure we have an appropriate plan in place to protect our finances, helping avoid the need to dip into our savings, which could present even greater challenges further down the line. If you have any questions or queries, or you'd just like to know more about how to protect yourself and your family, get in touch with us and we'll be happy to help.



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# Average age of divorce at an all-time-high

Forecasting the long-term effects of the settlement

The financial ramifications of a divorce can be devastating. The average age of divorce has reached an all-time high at 45 years and 11 months for men and 43 years and six months for women, according to data released from ONS<sup>[1]</sup>.

Obtaining professional financial advice is essential during a divorce, as it will set you on the right path towards a more secure future. This process is like to be a reality check whereby you have to translate your various life choices into real numbers and consider how much money it is going to take to achieve your future plans.

## LIFE-CHANGING EVENT

This could involve selling your home and starting a new life or taking some of the equity out of the home, starting a pension, ensuring that you are covered by insurance, paying university fees, or changing your career path. We all have dreams, but sometimes it takes a

life-changing event such as divorce for us to seriously consider them.

Private pension wealth is the biggest component of household wealth in the UK<sup>[2]</sup>, and agreeing a fair separation of this pension wealth at a time of divorce will be important to the future financial well-being for both parties.

## THE RISING AGE OF DIVORCE

In good news, the overall number of divorces is down to 101,000 – a number not seen since the early 1970s.

The average age of divorce, however, is rising to over 45 and 43 for men and women respectively. For both sexes, the average age of divorce has

been rising by about three months every year over the past decade – it has risen by about ten years since records began in 1950.

## PENSIONS – OUR BIGGEST ASSET AT A TIME OF DIVORCE

The UK holds a massive £11.1 trillion pounds in household wealth<sup>[3]</sup>. Private pensions represent the biggest single component of this wealth – at about 40% of the £11.1 trillion total.

Agreeing a fair separation of pension wealth at a time of divorce is therefore important for both parties. It is estimated that a typical couple could have about £120,000 in combined private pension assets





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if they were to divorce in their 50s, assuming they married when aged 30<sup>[4]</sup>.

**LARGER POOL OF WEALTH**

It is typical for our wealth to grow as we age. A rising average age of divorce will therefore typically bring with it a larger pool of wealth to separate. With the average age of divorce at an all-time high, it is fair to assume levels of wealth at a time of divorce may also be at an all-time high.

Those in their 50s today will typically have married in the late 1990s, when aged about 30. Sadly, about one in three of those marriages have since ended in divorce. Many in their fifties may have combined private pension assets worth more than £120,000. Agreeing a fair separation of this pension wealth will be a key step in finalising a divorce, and will be critical to the future financial well-being of both parties. ■

**Source data:**

[1] [www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/divorce/bulletins/divorcesinenglandandwales/2015](http://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/divorce/bulletins/divorcesinenglandandwales/2015)

[2] [www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/compendium/wealthingreatbritainwave4/2012to2014](http://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/compendium/wealthingreatbritainwave4/2012to2014)

[3] [webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/dcp171776\\_428683.pdf](http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/dcp171776_428683.pdf)

[4] Aviva – £120,000 calculation: for someone aged 50 today (i.e. born in 1967), their average age of marriage was about 30. This suggests that,

if divorcing at age 50, they may have been married for about twenty years. Average contribution rates to a defined contribution workplace pension are assumed to be 4% from the employee and 4% from the employer. For a basic rate taxpayer on an average salary of £28,000 who contributes the aforementioned averages, they could expect to amass about £60,000 in their pension pot after twenty years. (Source of average age of marriage – [www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/marriagecohabitationandcivilpartnerships/datasets/marriagesinenglandandwales2013](http://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/marriagecohabitationandcivilpartnerships/datasets/marriagesinenglandandwales2013) Source of average private pension contribution rates – [www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/datasets/occupationalpensionschemessurvey](http://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/datasets/occupationalpensionschemessurvey))

**AGREEING A FAIR SEPARATION OF PENSION ASSETS IS MORE IMPORTANT THAN EVER**

With the average age of divorce higher than ever, agreeing a fair separation of pension assets is more important than ever. For in-depth information on all key issues related to later-life divorce, please contact us for an assessment of your situation.

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