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Vision INDEPENDENT FINANCIAL PLANNING

YOUR WINDOW ON ***MONEY*** WINTER 2023

Financial fitness: Building retirement resilience

Although there are many challenges on the household finance front at the moment, the start of a new year always provides the perfect opportunity for a financial health check; and a key element of any finance MOT will inevitably be an honest appraisal of your financial fitness for life after work.

Retirement income targets
A good starting point for any retirement health check is to consider the lifestyle you want to enjoy when you retire and how much it will cost to fund that standard of living. Recent research[1] provides an indication of how much retirees typically spend, with a two-person household requiring an annual income of around £28,000 to be *'comfortable'* or £45,000 if they want to include luxuries such as long-haul trips.

Many not saving enough
Worryingly though, a report[2] from The Pensions and Lifetime Savings Association (PLSA) suggests many people are still not saving enough for retirement. They estimate that around half of all savers risk missing targets set by the Pensions Commission in 2005, including a significant proportion on average earnings. The report also suggests one in five households risks failing to achieve even a *'minimum'* standard of living in retirement.

'Set and forget'
The introduction of auto enrolment ten years ago did provide a big advance in terms of normalising workplace pension provision. This success, however, has not translated into genuine pension engagement, but rather encouraged a *'set and forget'* mentality, with people still often unsure how much they actually need to save; and, for many, relying solely on auto enrolment contributions will not guarantee a comfortable, let alone luxurious, retirement.

We're here for you
Whatever your age, retirement planning needs to be on your financial radar, as starting to save at the earliest opportunity provides the best chance of accumulating a pension pot capable of funding the retirement you deserve. Let's make 2023 the year you get your retirement savings plans firmly on track.

[1]Which?, 2022, [2]PLSA, 2022

Tax year end reminder

As the end of the tax year approaches, a prime consideration should be how external factors such as reduced or frozen allowances, together with high inflation, could impact your finances and what action you need to take before 5 April 2023.

If you are affected by the impending changes to Dividend Tax or Capital Gains Tax (CGT) announced in the Autumn Statement, have you considered investing up to £20,000 this tax year in a stocks and shares Individual Savings Account (ISA)? From April 2023, the Dividend Allowance will be cut from £2,000 to £1,000 and then fall further to £500 from April 2024. In addition, the annual CGT exemption will fall from £12,300 to £6,000 next tax year and then to £3,000 the following tax year. Dividends received on shares within an ISA are tax free and won't impact your Dividend Allowance. Also, any profit you make when selling investments in your stocks and shares ISA is free of CGT.

Both the Annual Allowance and Lifetime Allowance are frozen, at £40,000 and £1,073,100 respectively. As these allowances haven't increased with inflation, it effectively means those saving to the maximum extent possible with tax concessions can save less in real terms each year.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

INSIDE THIS ISSUE:

IN THE NEWS

Child Trust Fund – on your radar?

His Majesty's Revenue & Customs (HMRC) has reminded teenagers and people in their twenties to claim their matured Child Trust Fund (CTF) savings. CTFs are long-term savings accounts set up for every child born between 1 September 2002 and 2 January 2011. The government provided an initial deposit of at least £250 to open the account and encourage future saving. An estimated 6.3 million CTF accounts were set up throughout the duration of the scheme, containing about £9bn. You can continue to add up to £9,000 a year to an existing CTF until age 18. The last CTFs will mature in 2029. To trace a CTF visit www.gov.uk/child-trust-funds/find-a-child-trust-fund.

Women are still financially less secure

According to a recent government research paper[3] women are far less positive about their financial future than men. Just one in five (20%) women feel positive, compared to more than a third (35%) of men, while only 13% of women are confident that they have enough saved towards retirement, compared to 27% of men. Former Pensions Minister Baroness Ros Altmann said, *"It's alarming that… the gender savings and pension gap remains, and women are still not confident that they have saved enough for retirement."*

[3]Cushon, 2022

Family finances: It's good to talk

New research[4] suggests young adults and their parents are becoming increasingly comfortable talking about money matters, which should ensure future generations are much better equipped to tackle their financial affairs.

Breaking the taboo

Historically, intergenerational discussions about finances have too often been viewed as a no-go area, but the research suggests UK families are beginning to open up, with young adults significantly more likely to have talked to their parents about the issue than previous generations. In total, three out of four 18 to 24-year-olds said they spoke with their parents about money matters when they were growing up; this compares to just four in ten over-65s and half of 55 to 64-year-olds.

Reaping the rewards

Experts have long advocated the benefits of families talking openly about financial affairs. Parents who do so are more likely to ensure their children are better prepared to deal with money matters when they reach adulthood, whether in relation to day-to-day spending issues or the need to develop longer-term savings habits.

Young wealth owners

The need for young adults to be financially savvy has perhaps never been greater, with a growing proportion of this generation now owning a considerable amount of wealth. Indeed, estimates[5] suggest the number of UK Millennial and Generation Z millionaires has doubled over the past year and now stands at a record high of 2,000.

Keep talking

An increasing desire for families to discuss financial affairs is definitely a positive trend which should help the next generation realise the value of money and establish good financial habits at a young age. So, keep the conversations going to help secure your children's financial futures.

[4]Royal London, 2022, [5]Bowmore, 2022

Resolution – review and rebalance

Did you know that during periods of market volatility, portfolio drift can be accelerated, meaning your investments may no longer be aligned with your risk preferences and objectives? This is why it's good practice to have regular portfolio reviews, in order to implement effective rebalancing if required. Regular reviews are also a great opportunity to make us aware of any changes in your objectives or circumstances. Why not start the new year as you mean to go on? Get in touch.

Plan ahead to beat the tax chill

Following his controversial *'stealth tax'* Statement in November, the Chancellor made a raft of key personal taxation and pension announcements.

The government pledged its commitment to the pensions Triple Lock, which will increase the State Pension in line with September's Consumer Prices Index (CPI) rate of 10.1%. This means that the value of the basic State Pension will increase in April 2023 from £141.85 per week to £156.20 per week, while the full new State Pension will rise from £185.15 to £203.85 per week.

In addition to the Dividend Allowance and CGT allowance reductions (as per 'Tax year end reminder' article), other key personal tax announcements included:

- The Income Tax additional rate threshold (ART) at which 45p becomes payable will be lowered from £150,000 to £125,140 from 6 April 2023. The ART for non-savings and non-dividend income will apply to taxpayers in England, Wales and Northern Ireland. The ART for savings and dividend income will apply UK-wide. This move is set to push 250,000 more people into this band
- The Income Tax Personal Allowance and higher rate threshold are to remain at current levels – £12,570 and £50,270 respectively – until April 2028 (rates and thresholds may differ for taxpayers in parts of the UK where Income Tax is devolved)
- Inheritance Tax nil-rate bands remain at £325,000 nil-rate band, £175,000 residence nil-rate band, with taper starting at £2m – fixed at these levels for a further two years until April 2028.

With an increasing number of people likely to be impacted by these changes, we can't stress enough the importance of tax year end planning. Although some of these changes don't come in with immediate effect, it is vital to ensure you are in the best place possible to take advantage of any allowances, exemptions and reliefs available this year and to prepare for the changes that come in over the next few years. With plenty to consider and factor into your financial plan, valuable financial advice remains central to achieving your goals and aspirations.

FCA issues *'magic'* scam alert

The Financial Conduct Authority (FCA) has warned pension holders to beware of scammers' 'magic tricks' as research shows the economic squeeze is encouraging more people to withdraw pension savings.

ScamSmart
Britain's financial watchdog recently launched its latest ScamSmart campaign aiming to give consumers the knowledge and tools to avoid scams. Over 700,000 pension plans were accessed for the first time in 2021-22 and FCA research suggests that number could increase this year, with a quarter of all pension holders considering an early raid due to cost of living pressures. This puts a significant number of people at risk of potential scams.

Pension scam tactics
Scammers typically prey on consumers' misunderstanding of how pensions work and pension pots grow. To help people avoid falling victim, the FCA has compiled a list of common scam techniques which include: high-pressure sales tactics using *'time-limited offers'*; guaranteed higher returns; unusual unregulated investments; arrangements involving several parties; any offer to release pension funds for under-55s.

Distraction techniques
FCA research also highlights consumer vulnerability to some classic *'distraction'* tactics scammers employ. Around 44% of pension holders, for instance, said they would take up the offer of a free pension review, while 46% could be swayed by a scammer providing details of a third party (falsely) vouching for their offer.

Devastating consequences
Mark Steward, FCA Executive Director of Enforcement, is urging consumers to check out the watchdog's ScamSmart website in order to *"avoid being tricked by scammers."* He added, *"Pension scammers are tricking victims with false promises of a better lifestyle in retirement. Like the magician's trick, thousands can disappear in seconds, but this time the consequences can be devastating."*

Trust your instinct
If you ever have any doubts when contacted in relation to your pension, trust your instinct and get in touch with us.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. The Financial Conduct Authority (FCA) does not regulate Will writing, tax and trust advice and certain forms of estate planning.

New year prompt to check your protection

The start of a new year is a great opportunity to reassess your finances. In 2023, with difficult economic conditions causing cost-of-living difficulties for many, it is especially important to make sure everything's in order.

Protection is an essential part of long-term financial planning. The right protection for your unique needs is an indispensable safety net against any unexpected downturn in your financial situation.

2023 checklist

Is the level and type of cover you have suitable for your current needs? If your circumstances have changed, it is possible that you might need to update your cover too. We know that soaring prices and bills are making things challenging right now. That's why it is more important than ever to consider the role protection plays in your financial plan. Having the right protection in place provides certainty in the most challenging times.

Think twice

When assessing your finances, it is important to think carefully about your decisions. As well as leaving you and your loved ones without essential cover, if you cancel your protection now then take out a new policy in the future, it will more likely than not end up costing you more. Think about any other spending that could be cancelled first. Remember that cancelling protection can undermine a carefully constructed financial plan.

Get in touch

If you are thinking about changing your protection in the new year, don't act in haste. Contact us today to see how we can help.

Take control to improve your wellbeing

With financial concerns at the fore for many people, unfortunately it's no surprise over half of adults have experienced anxiety as a direct result of rising bills, with a quarter suffering with feelings of depression as escalating costs take their toll, according to a new study[6].

Nearly half of adults are staying at home more to save money, in a form of self-imposed financial lockdown, rather than for health reasons. The survey also exposed a deep generational divide, with over three quarters of 25 to 34-year-olds experiencing anxiety over rising bills, compared to 26% of over 65s.

Older generations lend a hand

With financial anxieties more acute for younger people, data shows over four million retirees have provided financial support to family and friends (over a six-month period to August 2022), specifically to help with day-to-day costs and bills. On average, those helping their grandchildren gave £15,000; the average amount given overall was £8,400[7].

Lifestyle downsizing

Under 35s have delayed major financial milestones, including moving house or starting a family, effectively putting life events on hold. Over a quarter of young adults (27%) are deferring major purchases like a car or home renovation, 17% are holding off buying a house and one in eight (12%) are even putting off starting a family[8].

"Take back control"

President of the Personal Finance Society, Caroline Stuart commented on the findings, *"British people are struggling to cope not just financially, but mentally with rising bills. More people are experiencing depression and anxiety whilst eating less healthily and going out less. There is now a risk of turning a cost-of-living crisis into a public health crisis too. At a time when anxieties are running high, professional financial planners can help people manage and organise their finances in a way which can weather the storm, ease the burden, take back control of their money and plan for the future."*

As ever, we want to reassure you that we are on hand to support you through any challenges, by taking control and adopting a proactive approach to managing your money. Whether you need help planning your finances or you have loved ones you're in a position to support financially, we can help you. The new year provides the perfect opportunity for us all to stop, step back and take a full review of our long-term financial wellbeing.

[6]Personal Finance Society, 2022, [7]LV=, 2022, [8]Starling Bank, 2022

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IF YOU WOULD LIKE ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.