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YOUR WINDOW ON ***MONEY*** SUMMER 2023

Making purposeful financial decisions to combat inflation

The upsurge in inflation over the last year or so has again vividly highlighted the devastating impact sharply rising price levels can wreak on people's finances. Carefully reviewing your financial choices now, though, can ensure you continue making appropriate decisions that will help to stop inflation leaving a lasting impression on your financial future.

A lack of understanding

Official statistics show the headline rate of inflation peaked at a 41-year high of 11.1% last October but, although economists expect it to continue falling for the rest of this year, the rate has so far remained stubbornly high. Research[1], however, suggests the impact inflation has on our finances is not widely understood, with over half of UK adults failing to grasp how rising prices eat into the buying power of their savings.

Limiting the damage

Inheritance is another area where high inflation can have a profound effect. When combined with the continuing nil-rate threshold freeze, soaring prices inevitably mean more estates are likely to be dragged into the Inheritance Tax net. Careful planning now, though, can limit any future liability and preserve people's ability to pass on assets to their heirs.

Pension pressures

Retirement provision is also a concern, with growing evidence that cost-of-living pressures are leading some to cut back contributions as a way to make ends meet, without realising the lasting damage such decisions can make. For instance, analysis[2] based on various assumptions (about such factors as salary, pension contribution rates and investment growth) shows that if someone opts out of pension contributions for five years in their 20s it could reduce their final retirement pot at age 66 by £114,000.

Stay on plan

At times like these, it is often worth revisiting what initially inspired you to set your financial goals. Reconnecting with those original motivations can encourage you to stick to your plans and thereby help maintain control over your financial destiny.

Here for you

As ever, we're here to help; so please get in touch if you need to review your finances and, together, we'll plan to mitigate inflation's impact on your future financial wellbeing.

[1]Aviva, 2022, [2]Standard Life, 2023

The benefits of being a new tax year front runner

The longer days of summer are the ideal time to think about what you want for yourself and your family in the future, to set specific financial goals and to benefit from getting plans organised early in the tax year.

Setting your goals

Considering your individual financial goals and developing a financial plan that aligns with those goals can help you to identify what is important to you, to stay disciplined and focused on your long-term objectives, avoiding short-term market fluctuations or investment fads.

The early bird

Investing early in the tax year can offer several benefits:

- It gives your investments more time to grow tax-free or tax-deferred, benefiting from compounded returns
- It can help you avoid a last-minute rush to make contributions before the end of the tax year, which can lead to mistakes or missed opportunities
- There is time to spread your contributions over the year, making budgeting easier.

Work with us

We can work with you to identify your financial goals and set up plans so that you can get ahead early in the tax year, giving you powerful strategies for building wealth and achieving financial security.

INSIDE THIS ISSUE:

In the news // Investing myths debunked // How does age affect your life insurance? // Pensions round-up // The importance and value of financial advice today // Your retirement – don't do it a disservice

IN THE NEWS

National Insurance (NI) gap

If you want to boost your State Pension and plug a gap in your NI record, the government has just extended the deadline for doing so from 31 July 2023 to 5 April 2025. The government has been allowing eligible people to retrospectively build up their April 2006 to April 2016 NI record through voluntary contributions, as part of transitional arrangements introduced alongside the new State Pension. You can check your NI record here *www.gov.uk/check-national-insurance-record*.

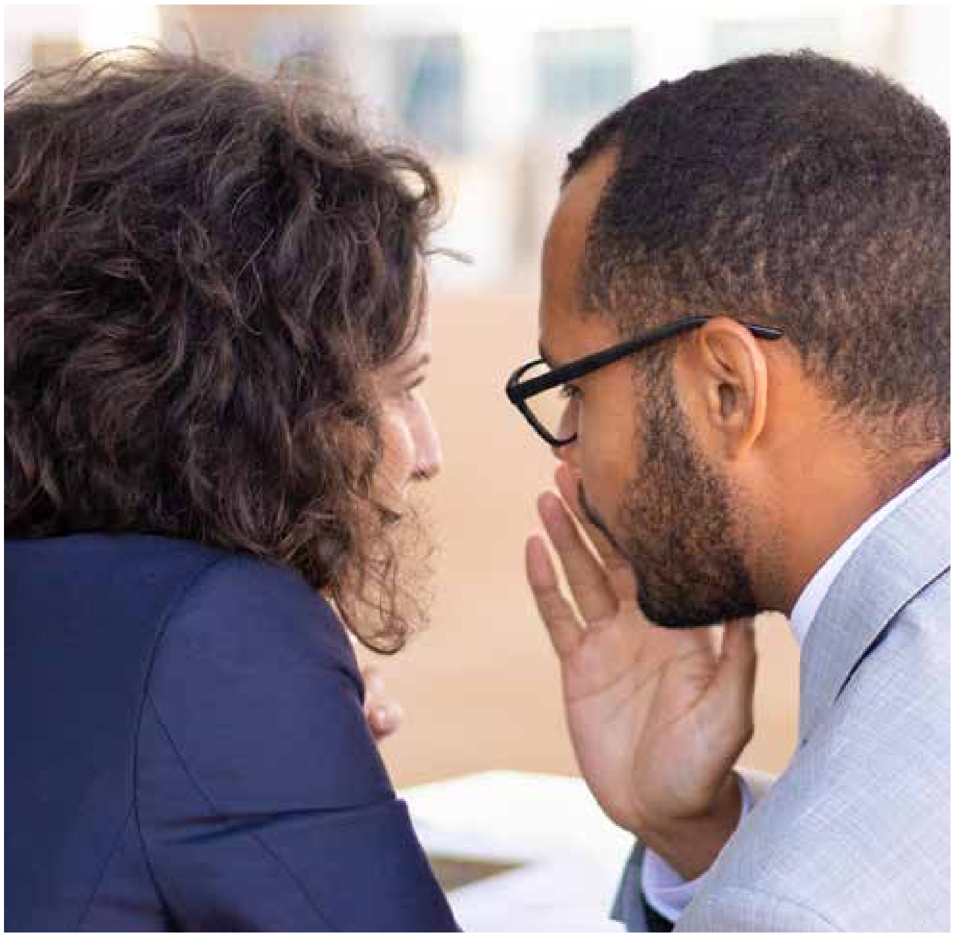
Locked Child Trust Funds

Around 80,000 young people who lack the capacity to make financial decisions have been unable to access money in their Child Trust Fund[3]. Instead of being able to withdraw the money when they turned 18, families are having to pay to go through the Court of Protection, a long-winded and costly process. Ministry of Justice figures show only 15 accounts were accessed through this process in 2021.

Using property wealth to support grandchildren

Research[4] has found that 79% of grandparents are providing financial support for their grandchildren, with one in 12 (8%) using their property wealth to do this. Grandparents aged 50 to 64 are twice as likely to use property wealth to gift to grandchildren compared with 65 to 74-year-olds, indicating that the next generation of grandparents are likely to use equity in their property for financial planning.

[3]Renaissance Legal, 2023, [4]L&G, 2023



Investment myths debunked

To many, the world of investing is shrouded in mystery; the realm of financial whizz-kids and the super-rich. In reality, however, this is not the case and, once myth is separated from reality, it should be clear that investing is actually accessible to all.

Can't invest, won't invest!
Research[5] has highlighted several reasons why people are sometimes reluctant to invest. The main one, cited by 45% of respondents, is because they don't have sufficient money, while 23% feel they are not knowledgeable enough about investing and 21% are worried about losing money.

Only for the rich?
These findings mirror a number of common misconceptions surrounding investing, one of which is that only wealthy people invest. However, while this may have been the case in the past, it is certainly not true nowadays, with investment options available for people with relatively small sums to invest.

Expertise and devotion required?
Other common investment myths include the idea that you have to be a stock market genius and monitor your investments on a daily basis. Both of these are untrue: advice is readily available to guide novice investors throughout their investment journey, while taking a long-term approach is always advisable.

Too risky by far?
While it is true that all investing involves risk, not all investments are similarly risky. So, anyone who is worried about losing money can take a more cautious approach by holding a greater proportion of less-risky assets in their portfolio.

Help at hand
If you're new to investing then get in touch and we can help get you started. We'll show you that investing is not just for the very wealthy but it does give everyone a chance to potentially secure a higher return on their hard-earned cash.

[5]HSBC, 2022

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. Think carefully before securing other debts against your home. Equity released from your home will be secured against it.

How does age affect your life insurance?

Age is a key factor in determining cost when you take out life insurance. Generally, the younger you are when you purchase a policy, the less expensive your regular premiums will be, because younger people are statistically less likely to die than older people, so the risk to the insurer is lower.

Assessing the risks
Insurers consider how likely it is that they will have to pay out a claim if you were to die during the term of the policy. As you age, the cost of new life insurance cover generally increases because the likelihood of death increases. This is especially true for people who have developed health issues or who engage in risky behaviours such as extreme sports or smoking.

For example, a 25-year-old non-smoker in good health is likely to pay significantly less for the same level and duration of cover than a 65-year-old smoker with a history of health problems. Insurers will also consider your age when determining the length of the policy term, with longer terms generally being available to younger people. Many insurance companies offer a maximum term of around 40 years, but maximum age limits can vary.

It's not all about age
Your age is just one factor that will affect the cost. The insurance company will also consider your overall health, lifestyle, occupation, family medical history and the length of policy you require.

Pensions round-up

How up to date are you with your pension? Here are a few things to consider.

How much is in your pension pot?
According to research[6], three quarters of UK adults don't know how much is in their pension pot. This figure rises to 79% of 55 to 64-year-olds who say they can't put a figure on the value of their pension – especially worrying as this is a crucial stage for retirement planning. The research highlighted that women (81%) are more likely than men (68%) not to know how much they have accumulated in pensions saving.

Consider the gender gap
Research[7] has again found a widening of the gender pension gap from the age of 35. The gap between women's and men's contributions for 35 to 39-year-olds is 21%, up from 18% in the previous year. Other research[8] has highlighted how pension inequality is exacerbated for minority women, with over half (54%) of Black women saying they don't have any retirement savings, compared to 40% of South Asian women and 35% of White women.

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State Pension passes £10,000, but watch the tax
There was a welcome boost to pensioners' incomes in April. The single-tier State Pension is now £203.85 a week or £10,600.20 a year. Those in receipt of the basic State Pension now get £156.20 a week, which may be topped up further by the Additional State Pension.

However, the freezing of the Income Tax personal allowance since 2021-22 means that the State Pension takes up 84% of the allowance, meaning pensioners will only need to earn £1,969.80 before they start paying Income Tax.

[6]Standard Life, [7]Aviva, [8]Scottish Widows 2023

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The importance and value of financial advice today

There are clearly a variety of reasons why people utilise the services of a financial adviser, but among the key motivating factors is undoubtedly the peace of mind professional advice affords to clients. And, in challenging times like these, it is clearly not difficult to understand why that particular benefit is deemed so important.

Peace of mind

A recent survey[9] sought to ascertain the main reasons why investors seek the expertise of a financial adviser and it found that more than half of those that use one did so for peace of mind. In contrast, just a third said they used an adviser due to their own lack of financial expertise, while less than a fifth did so because of time constraints.

Soft factors are important

The research also asked investors which aspects of advice they place most value on, with two-thirds saying investment returns were critical and just over four in ten attributing value to tax management efficiency. Interestingly, however, the study also found that a number of soft factors were equally, if not more, important to investors. For instance, half of respondents said they valued the ability to plan how they will attain their financial goals.

Support key in difficult times

The value of support provided by an adviser tends to be accentuated during challenging economic times when clients typically need greater reassurance and the confidence required to maintain a long-term outlook. During such periods, for example, advisers perform a vital role by ensuring clients do not fall into the trap of 'selling low' or 'buying high.'

Avoiding expensive mistakes

This latter point perhaps highlights the true value gained from using a financial adviser, which is that it helps clients avoid making costly mistakes. In essence, value therefore seems to stem less from picking the best investments and more from constantly making smart decisions across a range of issues, whether that be: tax, cost or income management, asset allocation, portfolio rebalancing, or withdrawal strategies.

[9]Hymans Robertson, 2023

Your retirement – don't do it a disservice

The Institute for Fiscal Studies (IFS) has warned that 90% of those currently in their 30s and 40s are saving less than they need to if they want to have a decent standard of living in retirement. Whilst the IFS researchers found that the current generation of pensioners is doing better than any before it, they also concluded that future generations are unlikely to fare as well.

Saving enough

IFS found that many employees are saving very little for retirement; 60% of middle-earning private sector employees who contribute to a pension are saving less than 8% of their earnings. Fewer than one-in-five self-employed workers save into a pension at all.

Paul Johnson, IFS Director, commented, *"Despite the number of self-employed people growing considerably, many fewer of them are saving in a pension. Most private sector workers are left having to manage considerable risks – not least over how long their retirement will be – which for many will be incredibly difficult to balance well."*

When can I retire?

Although current rules let you take money from your pension at age 55 (57 from 2028), you may not have enough in your pension pot to make this a viable option. Discussing your options with us can give you the bigger picture and help you to be realistic with your plans – even small contributions, made regularly, can help boost your pension pot and you'll get tax relief too.

So, whatever your circumstances, we can help you to plan for an enjoyable and fulfilling retirement.

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