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YOUR FINANCE **MATTERS**

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Investor confidence returns

A recent survey[1] suggests investors are becoming more confident despite ongoing challenges on the economic front. While this is certainly encouraging, maintaining a long-term outlook and retaining a strong sense of discipline in investment positioning remains a prerequisite for any successful investor.

An air of optimism

It's fair to say 2022 was a turbulent year for global markets with the war in Ukraine, soaring inflation and rising interest rates weighing heavily on a difficult 12-month period. Towards the end of the year, however, markets did stage a cautious recovery despite ongoing fears of a looming recession.

Inflation expected to fall

The final quarter of last year also witnessed a rebound in investor sentiment, with the same survey reporting a seven percentage point rise in confidence in the global economy, although this was before the recent woes in the banking sector. This optimism was driven by hopes that inflation has now peaked and is set to continue falling in the months ahead; a view reflected in the International Monetary Fund's latest economic musings[2] which predict global inflation will drop from 8.8% in 2022 to 6.6% this year and 4.3% in 2024.

Young guns

Data from the survey also revealed a majority of investors were either positive or ambivalent about last year's market volatility and its impact on their investing mindset. This was particularly true for younger investors with three-quarters of 18 to 34-year-olds either positive or indifferent compared to six in ten over-55s. This variation will partly reflect differing retirement time horizons, with younger investors more able to adopt a longer-term view.

Investor discipline is key

This is clearly encouraging as maintaining a long-term philosophy based on prudent risk management principles and avoiding panicked decisions has always been a key element for successful investing, maintaining discipline in investment positioning. In practice, this means achieving an appropriate level of diversification and understanding how to blend investments – that's what we do.

[1]eToro, 2023, [2]IMF, 2023

Taking steps to offset fiscal drag

The gradual reduction of disposable income due to inflation and changes in tax brackets, or frozen tax allowances, will weigh on your finances, causing *'fiscal drag'*.

By implementing various strategies, you can potentially reduce the impact of fiscal drag on your investments and increase your chances of achieving your long-term financial goals.

The worst thing to do is – nothing. By succumbing to inertia, you are more likely to pay increased levels of tax, whether in relation to Income Tax due to the frozen personal allowances and reduced Dividend Allowance, or other taxes including Capital Gains Tax (CGT) and Inheritance Tax (IHT).

The good news – there are legitimate mitigation strategies and, depending on your personal circumstances, allowances and tax reliefs available. By using your Individual Savings Account (ISA) allowance or making your pension contributions early in a new tax year you could benefit from extra potential growth, as well as receiving an element of your tax relief earlier on your pension and any pension contributions. Consider tax-efficient investments, diversify your portfolio and rebalance regularly to ensure your asset allocation remains aligned with your objectives and attitude to risk; rebalancing will help minimise the impact of fiscal drag over time.

The worst thing to do is – **nothing**

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Spring Budget recap

The Scottish Government detailed its plans for taxation and spending for 2023-24 back in December 2022. This was approved by the Scottish Parliament in February 2023. For the UK, Chancellor Jeremy Hunt delivered the Spring Budget, termed *"A Budget for Growth"* on 15 March 2023.

This included a range of new measures, starting with the latest economic projections from the Office for Budget Responsibility (OBR):

- The UK economy is expected to contract by 0.2% this year, with growth predicted to hit 1.8% in 2024 and 2.5% in 2025. A technical recession is expected to be avoided in 2023
- Inflation is predicted to fall from an average rate of 10.7% in Q4 2022 to 2.9% by the end of this year. This decline is partly due to the three-month extension to the Energy Price Guarantee (EPG), which the government confirmed on 15 March.

The Chancellor's strategy for growth focuses on four pillars *'Everywhere, Enterprise, Employment and Education.'* Key areas within these pillars include:

- Investment for *'Levelling-Up'* initiatives
- Providing the right conditions for businesses to succeed
- New measures to get people back to work, including childcare support.

Pensions

The spotlight also fell on pensions. To encourage over-50s to extend their working lives, the government is increasing tax relief limits on pension contributions and pots:

- The Annual Allowance will be raised from £40,000 to £60,000 from April 2023; the Lifetime Allowance (LTA) charge will be removed from April 2023, and the LTA will be abolished from April 2024
- The maximum amount that can be accessed tax free (Pension Commencement Lump Sum) will be frozen at its current level of £268,275 (25% of current LTA)
- From April, the minimum Tapered Annual Allowance (TAA) and the Money Purchase Annual Allowance (MPAA) will increase from £4,000 to £10,000. The adjusted income threshold for the TAA will also rise, from £240,000 to £260,000.

In addition, previously announced State Pension increases from April 2023 are as follows:

- Basic State Pension – increase to £156.20 per week
- Full new State Pension – increase to £203.85 per week.

The Chancellor's strategy for growth focuses on four pillars ***'Everywhere, Enterprise, Employment and Education'***

In the news

Land driving surge in UK's net worth

Recent data from the Office for National Statistics (ONS)[3] shows that the UK's net worth rose by £1trn in 2021, to total £11.8trn, the largest annual increase on record (9.2%). This rise can be attributed to the increasing value of land, accounting for over 60% of net worth. Aligned with this, the data shows that households' net worth grew to £12.3trn in 2021, 7.6% up on the previous year, representing the strongest growth since 2016. *'Land continues to be the largest asset driving more than half of the sector's growth,'* according to ONS.

Crypto clampdown

The UK government has unveiled plans to *'robustly regulate'* cryptocurrency market activities like trading and lending by bringing the regulation of crypto assets closer to that of traditional finance. The Treasury confirmed, *'We remain steadfast in our commitment to grow the economy and enable technological change and innovation – and this includes crypto asset technology. But we must also protect consumers who are embracing this new technology – ensuring robust, transparent, and fair standards.'* A consultation has been launched which runs until 30 April 2023; once legislation is made, the Financial Conduct Authority (FCA) will consult on its detailed rules for the sector.

[3]ONS, 2023

Transferring wealth, your way

With the coming years set to see record flows of assets pass down the generations, the thorny issue of wealth transfer has inevitably become an increasingly important financial topic. Seeking professional advice is a crucial step that can ease any inheritance planning anxieties and facilitate the transfer of assets in the way that you want.

'Great wealth transfer'

The next three decades are set to witness the largest ever intergenerational transfer of wealth as baby boomers pass on assets to their heirs. Analysts have dubbed it the *'great wealth transfer'*, with trillions set to cascade down the generations.

Intergenerational mismatch

A new survey[4], however, highlights baby boomer concerns about how their money may ultimately be spent. According to the research, a third of baby boomers are reluctant to pass wealth to someone whose attitude to money differs from their own; additionally, Gen Z were found to be much more likely to adopt a short-term financial outlook than their forebears. Researchers fear this disparity in attitudes could therefore impact older generations' wealth transfer decisions.

Bridging the divide

While such differences could create intergenerational conflict, we can help alleviate any issues by building cross-generational connections and ensuring any asset transfer is conducted in a way that meets your specific needs. Developing relationships with your beneficiaries to ensure younger generations will receive financial decision-making support can create invaluable peace of mind for both you and your heirs.

Inheritance options

A range of options are available for people looking to transfer wealth, with lifetime gifting amongst the popular methods of passing on money. Complexities with Inheritance Tax and rules in establishing trusts, though, mean sound advice is critical in order to adopt the most efficient approach.

Here to support you

All the evidence suggests developing strong relationships is key to the success of intergenerational financial planning. So get in touch and, with our support, you and your family can work towards determining and achieving your inheritance planning objectives.

[4]abrdn, 2023

The next three decades are set to witness the largest ever intergenerational transfer of wealth

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A pension – the best (retirement) gift for your child?

With the cost of children's birthday presents and parties often totalling hundreds of pounds – could there be a better way to provide for your child or grandchild?

Investing in a pension for your child can provide numerous long-term benefits and go some way to helping them secure a financially stable future. Setting up a pension for your child can also help teach them about the importance of saving and investing for the future.

Who can set up a child's pension?
A parent or legal guardian can set up the pension; this can be done as soon as the child is born.

Who can contribute?
If you're a grandparent keen to help out, the good news is that anyone can contribute into the pension, as well as godparents, relatives or friends. As a parent, you manage the pension saving plan until the child turns 18.

What happens when they turn 18?

Whilst they gain control at 18, they won't be able to access the money until they reach the normal minimum pension age.

How much can you contribute?
Under current rules you can pay up to £2,880 into a children's pension each year. This will then receive basic rate tax relief, so the government will boost this to £3,600. The majority of people setting up a children's pension won't pay this much in, instead choosing to make smaller contributions, which will still build up over time and benefit from tax relief.

Why choose a children's pension?
It may seem odd thinking about a pension for your child when they are so young, but not only will it help your child later on in life when they think about retirement, but also help with the amount they might contribute into their pension during their lifetime, potentially freeing up more money to fund other life events.

What about a Junior ISA (JISA)?
Another worthwhile tax-efficient children's saving option is a JISA. One key difference between children's pensions and JISAs is that with the latter, your child can access the money when they turn 18. With any pension, the money can only be used to save for retirement.

The early bird
Investing in a pension plan for your child can provide them with the financial security they need to achieve their goals in the future. By starting early, they can benefit from compound interest and reinvested dividends, tax benefits, and the potential to grow their savings over time.

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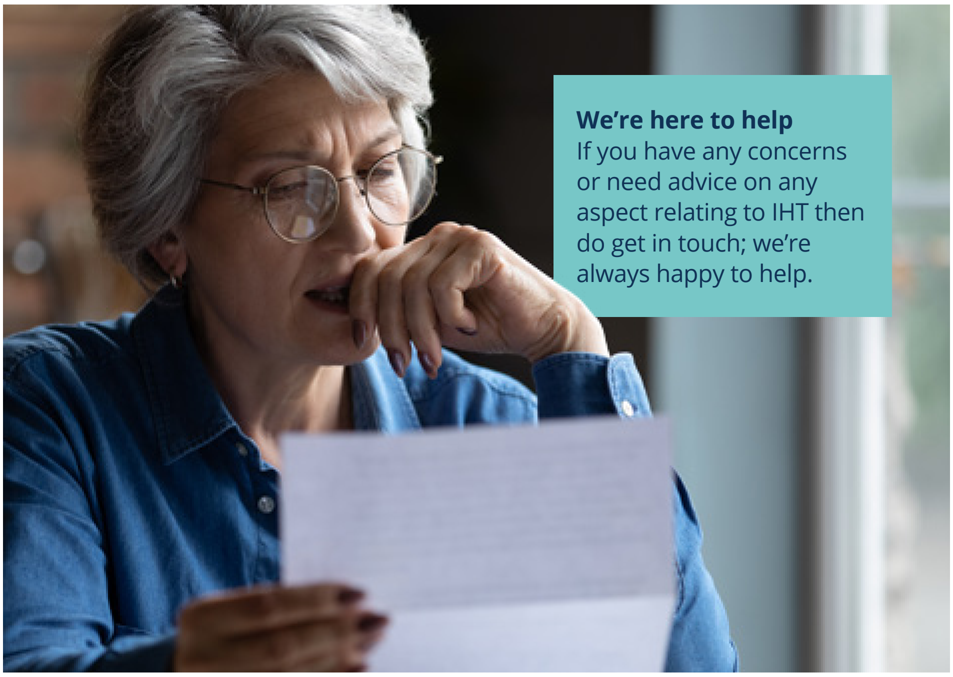
Taxman on the trail of unpaid IHT

HMRC has set up a new specialist team to target estates of wealthy deceased individuals in order to check whether a greater Inheritance Tax (IHT) liability may have been due than originally calculated by estate executors. This clampdown has seen record amounts of unpaid tax being clawed back by HMRC with levels expected to rise further in the coming years.



We're here to help
If you have any concerns or need advice on any aspect relating to IHT then do get in touch; we're always happy to help.

Record sums recovered
Data obtained through a Freedom of Information request has revealed that a total of £326m was collected by HMRC as a result of targeted IHT investigations in the year to March 2022. This was the largest amount ever recovered and represents a 28% increase on the amount raised by investigators in the previous 12-month period.

Threshold freeze
The standard IHT rate is currently 40%, paid on the value of any estate above £325,000; in addition, homeowners benefit from an extra £175,000 allowance if they pass on their primary residence to a child or grandchild. These thresholds, however, have been frozen until 2028, which inevitably means more people are likely to be dragged into the IHT net. In 2021-22, families collectively paid £6.1bn in death duties, up from £5.4bn the previous year, and monthly data up to December suggests the figure for 2022-23 will be even higher.

Complex rules
More than 13,000 individuals have been embroiled in IHT investigations since 2019. While some of these bereaved families may have acted deliberately, others are likely to have made innocent mistakes and simply fallen foul of IHT rule complexities. Two areas where mistakes commonly occur relate to the provision of lifetime gifts and the valuation of personal possessions.

Are you a wealth accumulator?

Having your finances in order brings tremendous peace of mind. Financial wellbeing varies from person to person but fundamentally encompasses having security around money, now and in the future, plus knowing what makes us happy, and having money goals in place to achieve this happiness[5].

The combination of money and mindset is crucial, findings show that even if an individual feels confident about their money *'building blocks'* (income, long-term savings, safety net, debt awareness, assets), they won't achieve optimal levels of financial wellbeing without a well-considered and focused mindset too; think *'happiness, future self, written plans, long-term perspective.'*

Engage your mind
Aegon's Wellbeing Index also shows that being a high earner doesn't necessarily equate to being a long-term saver. If a saver has a connection to their future self and understands what gives them joy and purpose, they find long-term perspective. Being one of the highest earners doesn't necessarily mean that they have long-term perspective. *'The wealth accumulator' persona for example has a high level of wealth now and probably in the future, but when it comes to creating a healthy financial mindset, they might not have spent the time thinking, 'what's it all for?'* and truly connecting with the mindset element of financial wellbeing.

[5]Aegon, 2022

The combination of money and mindset is crucial

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Rising prices add almost 20% to retirement costs

It can be difficult to understand what funds you'll need to finance the retirement you dream about and how this compares to your projected pensions income. It's even harder to keep track when the cost of living is spiralling.

Setting standards
The Pensions and Lifetime Savings Association (PLSA) developed its Retirement Living Standards[6] to help us to picture what kind of lifestyle we could have in retirement at different levels and what a range of common goods and services would cost for each level.

The cost of a **Minimum** lifestyle for a single person has increased from £10,900 in 2021 to £12,800 in 2022, a rise of 18%. For a couple, an income of £16,700 required in 2021 rose to £19,900 (19% increase). Costs factored into this lifestyle include – £96 for a couple's weekly food shop, eating out about once a month, a week's annual holiday in the UK and some affordable leisure activities about twice a week. But there is no budget to run a car.

Want more than the minimum?
At the **Comfortable** Retirement Living Standard, retirees can expect more luxuries like regular beauty treatments, three weeks' holiday in Europe each year and theatre trips. The weekly food shop for a couple in this lifestyle amounts to £238 per week. At this level, the cost of living increased 11% to £37,300 for one person and 10% to £54,500 for a two-person household.

How much do I need to save?
For a comfortable retirement PLSA estimate that a couple who are both in receipt of the full new State Pension would need to accumulate a retirement pot of £328,000 each, based on an annuity rate of £6,200 per £100,000.

Your lifestyle, your choice
If you're concerned about your retirement planning we can help you prepare for the lifestyle you want to enjoy. Retirement planning involves visualising your key goals for your retirement years and setting up a plan to help you achieve those goals through financial planning.

[6]PLSA, 2023

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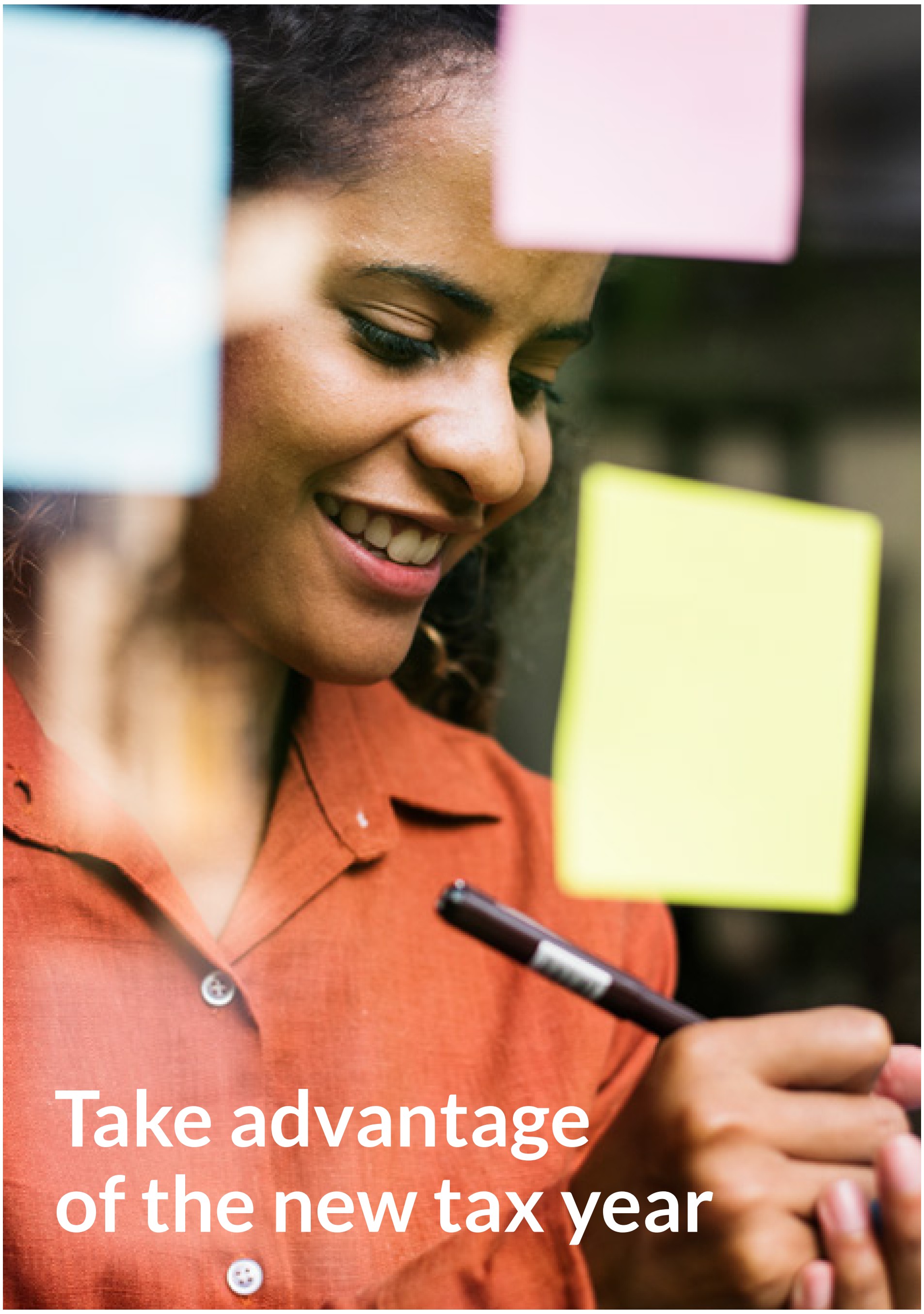

Take advantage of the new tax year

A new tax year has begun and with it comes the chance to start your tax planning early, but why rush when there's almost a year to go? Here are a few reasons:

- You can take advantage of various tax allowances available for the year, such as your Individual Savings Account (ISA) and pension annual allowances
- You're likely to benefit from having your money invested for longer. Some interesting research[7] has found that an investor could potentially lose up to £25,000 over 25 years by investing the maximum into their ISA at the end of the tax year rather than at the start
- If you can't invest a lump sum, you can set up a regular payment into your ISA or pension, to spread the cost over 12 months
- Avoiding the last minute rush allows you to get everything done
- You can establish a system for keeping track of all your income, expenses and other financial transactions throughout the year, helping you to budget
- There is time to research your options and get financial advice to make informed decisions.

Why not get the new tax year off to the best start – get in touch.

[7]Vanguard, 2023

In other news

Digital pound likely this decade

The Treasury and the Bank of England have started consultations on a potential digital pound, or central bank digital currency (CBDC), that could be used by households and businesses instead of cash for everyday payments in-store and online. Chancellor Jeremy Hunt said, *"We want to investigate what is possible first, whilst always making sure we protect financial stability."* He added that CBDC could be a new *"trusted and accessible"* way to pay. No decision has been taken at this stage when to introduce CBDC and it is unlikely to be built until at least 2025.

Are you a financial secret keeper?

Research[8] has shown that nearly two in five people in a relationship in the UK are committing *'financial infidelity'* which includes *'deceptions'* such as having secret credit cards or savings accounts and hiding purchases from partners. Although just over two thirds of couples (67%) have a joint current account and 51% have joint savings accounts, 38% of those surveyed have *'money stashed away'* that their partner is unaware of. For 32% of respondents, their motivation for having a secret account is because they want to keep some control, or maintain some independence of their finances, while a quarter (25%) want to be able to treat themselves without their partner knowing.

[8]Aviva, 2023

Bringing clarity to your financial decision-making

In today's increasingly complex and challenging world, financial advice to help people navigate through life's journey is more important than ever; a point vividly highlighted by a new study from the Financial Services Compensation Scheme (FSCS)[9] which raises fears over the consequences of a worrying financial *'advice gap.'*

Scammers' paradise
FSCS research shows that almost two-thirds of UK adults with savings, investments or a mortgage have not sought regulated financial advice in the last five years. Caroline Rainbird, Chief Executive of FSCS, warned that this financial *'advice gap'* is a concern, as it puts people *"at greater risk of making poor decisions about their money"* by leaving them open to scammers who *"prey on people's fears and exploit any gaps in their financial knowledge."*

We can support you
This warning highlights the key role we can play in helping people like you take control of your finances. Expert advice provides clarity to financial decision-making and thereby works towards ensuring people avoid taking any undue risks or making costly mistakes with their hard-earned cash.

Advice is for all
Another worrying finding from the FSCS survey was that over half of all adults who hold a financial product believe professional advice is just for the wealthy. This is clearly a commonly held misconception, but the reality is that everyone can benefit from expert help, not just wealthy individuals holding a complicated array of assets.

Building a relationship
Taking the time to construct a clear and tailored plan that meets each client's unique set of needs and circumstances is the key to making sound financial decisions. In addition, developing a strong and enduring relationship by holding regular reviews builds in the flexibility for plans to be adapted when life events inevitably dictate change.

[9]FSCS, 2023

Time for a review
We're always here to help bring clarity to your financial decision-making as you progress on life's exciting journey. So please do get in touch – it would be great to talk with you.

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Review your resilience

Awareness of the importance of protection has risen since the pandemic and led many to reassess their financial and personal priorities. It's sensible to review your protection cover once a year and to discuss it with those close to you to make sure it still meets your needs.

Have the conversation

Only half (52%) of unmarried adults who are in a relationship know whether their partner has a life insurance policy and more than a quarter (27%) of those who do know are unaware of the policy's value[10].

Many people assume they will automatically be entitled to the life insurance payout in the event of their partner's death. This may not necessarily be the case. So, consider whether the policy should be put in trust to ensure the proceeds go where you want them to.

> How would you cope if you became ill?

Prepare for financial shocks

How would you cope if you became ill? Would you have to rely on your partner, or struggle on trying to work? Almost one in five (19%) working adults say they would have to rely on their partner's income or savings if they were unable to work, with 19% struggling to pay their mortgage or rent if they were unable to work for two months due to illness or injury. Some 11% would resort to taking on debt such as a loan, overdraft, or credit cards[11].

It makes sense to review your situation carefully if you're self-employed too. Only 6% of self-employed workers have an income protection policy and millions of self-employed people consider they would have to carry on working if they suffered an illness or injury.

[10]Scottish Widows, 2023, [11]LV=, 2023

Over 50 and re-joining the workforce? Remember your pension

It's estimated that the number of people aged 50 to 64 who are economically inactive sits at 3.6 million, which is 300,000 higher than pre-pandemic[12]. There is no doubt that the UK's economic growth will, in part, be reliant on getting the over-50s back into work.

If you retired early but are now having second thoughts and considering re-joining the workforce, here are a few essential pension tips.

- Find out if your new employer has a waiting period before auto-enrolling you into its workplace pension scheme. You could choose to opt into the scheme earlier to benefit from additional contributions
- Check how much you can save in your pension. As announced in the Budget, tax relief on pensions has changed. If you have any questions about your pension and how much you can contribute, get in touch
- Check whether your employer will match any additional contributions you make over your minimum 4% level
- Your employer may offer you the option to exchange some of your salary in return for a pension contribution, which the employer then pays into your pension scheme along with their pension contribution. This can prove to be extremely tax-efficient
- Decide how you want your contributions to be invested and select a realistic retirement date
- If you're self-employed, set up a personal pension
- Don't forget to review your other pension pots and investments to take account of your changed circumstances and ensure you have sufficient to be able to retire comfortably when the time comes.

[12]Centre for Ageing Better, 2023

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Baffled and confused? We speak your language

Financial jargon can be confusing and overwhelming. A new study[13] has revealed that seven in 10 UK adults are puzzled by financial jargon.

Age gap

The research also found that those aged under 25 are least likely to feel puzzled by financial jargon, with around half (52%) of those aged 18 to 24 stating this, compared to 69% across all age groups. However, there may be an explanation as to why this age group are less confused by financial jargon – they simply might not have heard of certain financial products or terms. For example, less than two thirds of UK adults (61%) in this age group report hearing the term *'pension'* compared to 97% of those aged 55 and above. In contrast, 18 to 24-year-olds are the group most likely to be aware of the term *'ESG fund'* (Environmental, Social and Governance).

But even if you have heard a term, it doesn't necessarily show that you understand its meaning. Just 61% of people who are aware of an *'ESG fund'* feel confident of its meaning.

Seven in ten UK adults are puzzled by financial jargon

Lost in translation

One of the biggest challenges when it comes to financial jargon is that it often feels like a language unto itself. Even if you're a skilled communicator in other areas, financial terminology may use specialist jargon that can leave you feeling lost.

We speak your language

Ultimately, it's important to remember that financial jargon is a tool for communicating complex concepts and ideas. We can explain everything you need to know in plain English. Get in touch – whatever your age!

[13]Aviva, 2022

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