Essentially Wealth

Do your retirement plans need a new year reboot?

Your new year investment focus

Estate planning deserves some airtime

Q1 2023

- Take back control – improve your wellbeing
- Scammers' *'magic tricks'* – stay one step ahead
- The tax year end is fast approaching

LIGHTHOUSE FINANCIAL ADVICE

In this issue

Your new year investment focus

With a series of shocks impacting markets, the last 12 months have been challenging for investors. As the new year embeds, although uncertainties remain, one constant on the investment horizon is the necessity to be strategic with your portfolio. Developing a sound strategy and making purposeful decisions, based on thorough research and reliable processes, will help put you on the front foot in 2023.

A combination of rising interest rates, high inflation and the Ukraine invasion presented challenges; consequently, markets struggled with bouts of volatility last year. Fund inflows slowed and, overall, cash as a percentage of investors' portfolios rose. This triggered warnings that investors need to be aware of limitations to the Financial Services Compensation Scheme (FSCS) for cash balances.

Seizing opportunities

People with the capacity to invest should consider adding back into their portfolios to take advantage of any potential low valuations.

Tackling inflation head on

In the current economic climate, those holding a large proportion of their assets in cash, even with savings rates improving, will inevitably see the value of their wealth reduce in real terms. Essentially, equities offer a better potential defence in the battle with inflation.

A carefully considered strategy

Adapting your mindset and focusing on investment strategy rather than market sentiment is key. Stock market investing clearly involves a level of risk but the adoption of a carefully considered strategy based on sound financial planning principles undoubtedly offers investors the best chance of success.

The tax year end is fast approaching

What action do you need to take before 5 April 2023? A top priority should be to think about how external factors, such as high inflation and reduced or frozen allowances, could impact your finances.

Have you considered whether you will be affected by the impending changes to Capital Gains Tax (CGT) or Dividend Tax, both announced in the Autumn Statement? If so, have you thought about investing up to £20,000 this tax year in a stocks and shares Individual Savings Account (ISA)?

The Dividend Allowance will be reduced from £2,000 to £1,000 this April 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 (from April 2023) and then to £3,000 the following tax year (from April 2024). Dividends received on any shares held within an ISA are tax free and won't impact your Dividend Allowance. In addition, any profit you make when selling investments in your stocks and shares ISA is free of CGT.

Prioritise your pension too

Both the Lifetime Allowance and the Annual Allowance are frozen, at £1,073,100 and £40,000 respectively. When you consider that 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.

Preparation is key

With an increasing number of people likely to be impacted, 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.

Global growth in 2023

What a year 2022 was! No one could have anticipated how quickly the year unfolded, as geopolitical events took hold and dominated.

Looking ahead, the International Monetary Fund (IMF)[1] has predicted a challenging 2023. In its latest World Economic Outlook entitled *'Countering the Cost-of-Living Crisis,'* the international soothsayer reduced its growth expectations for the year ahead and is predicting economic contraction in a third of the world.

The outlook suggests that with the cost-of-living crisis *'tightening financial conditions in most regions'*, in order to restore price stability, monetary policy should stay the course and fiscal policy should aim to alleviate pressures *'while maintaining a sufficiently tight stance.'*

Reflective of *'significant slowdowns'* for the largest economies, the global growth rate for 2023 has been revised down from previous expectations to 2.7%. The report shows that America's gross domestic product (GDP) contracted in the first half of 2022, followed by contraction in the Euro area in the second half of last year, while prolonged COVID-19 outbreaks and lockdowns in China took their toll. Turning to home shores, the IMF predicts growth of 3.6% in 2022 and 0.3% in 2023 for the UK.

[1]IMF, 2022

Reflective of 'significant slowdowns' for the largest economies, the global growth rate for 2023 has been revised down from previous expectations to 2.7%

Do your retirement plans need a new year reboot?

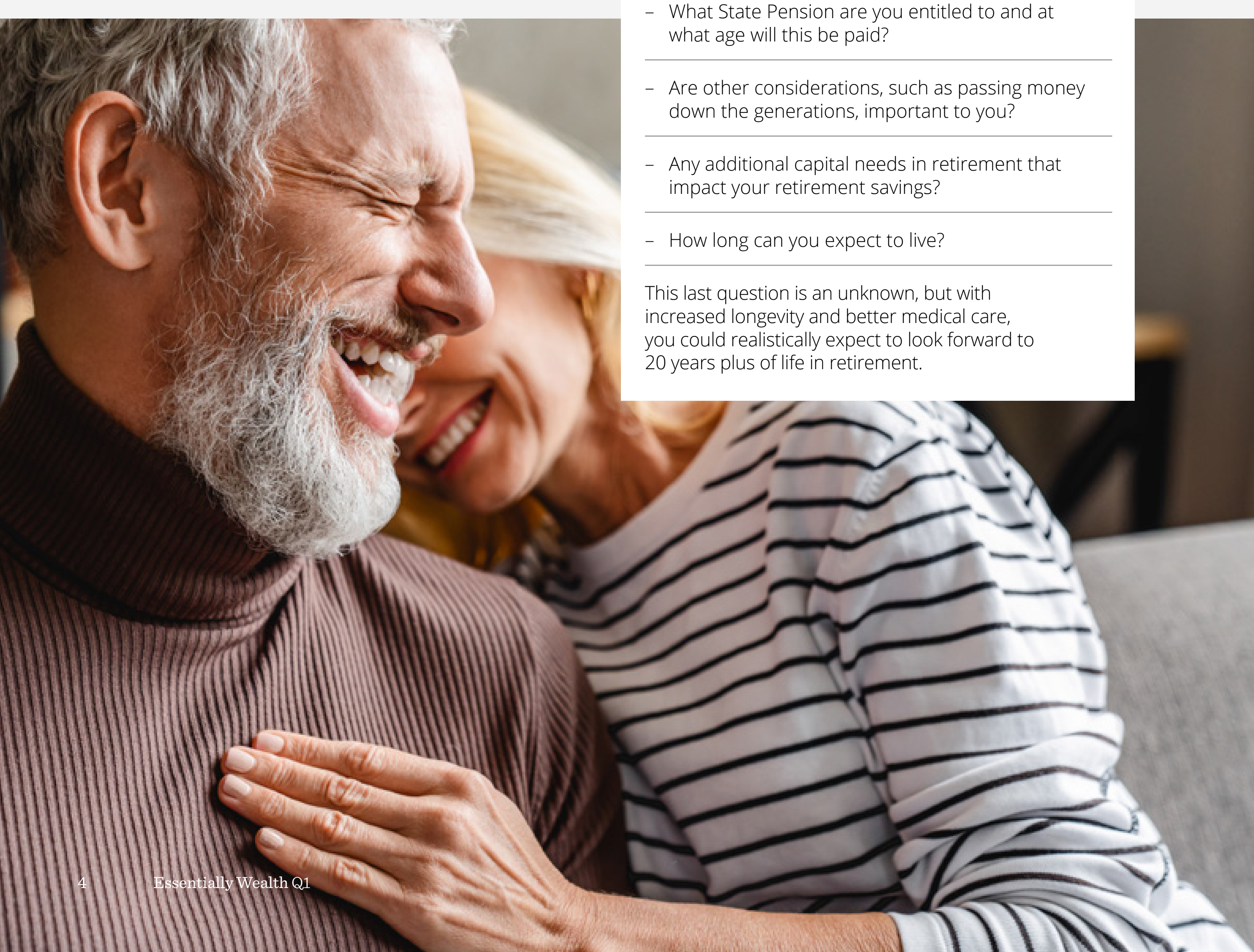
Life is busy, and with cost-of-living financial pressures intensifying, it's understandable if your retirement plans have been bumped down the list.

If you're looking to revisit your plans and get them moving in the right direction, so you can relax and fully enjoy your retirement years, then the new year is a good time to act. There are so many more choices open to you than ever before, and more things you need to consider, like how to manage your finances to provide the income you'll need to live on, how you'll transition into full retirement and what lifestyle you want to enjoy in your later years. Visualising the type of retirement you want to enjoy is important. A well thought out process needs to be adopted in order to develop a robust plan to reflect your wishes, so get in touch.

When visualising your retirement, ask yourself:

- Do you have a bucket list which may mean spending more in retirement?
- How much money will you realistically need to live on during retirement?
- What pension savings do you have and what income will these provide?
- At what age do you want to retire?
- Do you want to retire fully or consider a phased retirement?
- What State Pension are you entitled to and at what age will this be paid?
- Are other considerations, such as passing money down the generations, important to you?
- Any additional capital needs in retirement that impact your retirement savings?
- How long can you expect to live?

This last question is an unknown, but with increased longevity and better medical care, you could realistically expect to look forward to 20 years plus of life in retirement.



Estate planning deserves some airtime

Following Jeremy Hunt's decision to freeze Inheritance Tax (IHT) thresholds for a further two years until April 2028, IHT is once again under the spotlight. Rising house prices and soaring inflation, combined with the extension to the frozen thresholds, mean that more estates are likely to be impacted, not just those of the hugely wealthy. Recent IHT figures detail total HM Revenue and Customs (HMRC) receipts for April 2022 to September 2022 were £3.5bn, £0.4bn higher than in the same period in 2021.

IHT is a tax payable on all your assets (less eligible debts) when you die and potentially on some gifts you make during your lifetime. If the estate is liable for IHT, it is usually payable at 40% on the value above a specified threshold.

Threshold refresh

An individual's current threshold, or nil-rate band, is **£325,000**. A couple (married or civil partners) has **£650,000**. Any unused nil-rate band can be passed to the surviving spouse or civil partner on death.

Six years ago, the government introduced an additional nil-rate band when a residence is passed on death to a direct descendant. The main residence nil-rate band is **£175,000** and when added to the existing threshold of **£325,000** could potentially give an overall allowance for individuals of **£500,000**.

In order to reduce the amount of IHT payable, many people consider giving assets away during their lifetime. Some gifts will be automatically free from IHT; for example, **£3,000** each financial year, certain wedding gifts and gifts to charities.

Don't tip the balance though

Getting the right balance between gifting money during your lifetime and ensuring you have enough for your future years requires careful planning. Expert planning can legitimately mitigate IHT, meaning you can pass on assets to your family as you'd intended.

Spotlight on UK dividends

With sterling weakness a key driver (as many dividends are declared in dollars), the latest Dividend Monitor[2] has highlighted that headline payouts for 2022 are expected to rise to £97.4bn, up 11.0% on an adjusted basis, with underlying dividends expected to rise 13.4% to £87.2bn.

It is expected that for the full year (2022), the extraordinary surge in the US dollar will add a record £5.7bn to UK dividends. However, sterling recovered some ground against the dollar in the closing weeks of 2022.

When will UK payouts regain their pre-pandemic highs?

Focusing on the new year, provisional forecasts for UK dividends imply a slight fall in headline dividends, with modest underlying growth.

Managing Director of Corporate Markets UK and Europe at Link Group, Ian Stokes, commented, *"For 2023, we expect a further reduction in mining dividends and likely lower one-off special dividends but outside the mining sector there is still room for payouts to rise, even with a weakening economy. Our provisional 2023 forecast suggests a slight drop in headline dividends to £96bn and a slight increase in the underlying total to £89bn. This implies no change in our expectation that UK payouts will only regain their pre-pandemic highs some time in 2025."*

[2]Link Group, 2022

The art of conversation

Intergenerational financial conversations have too often been viewed as a no-go area, but new research suggests UK families are beginning to open up[3]. Young adults are leading the way, with three quarters of 18 to 24-year-olds saying they have spoken with their parents about money matters when they were growing up; in comparison with just four in ten over-65s and half of 55 to 64-year-olds.

Beneficial all-round

These open conversations about money matters should ensure future generations are much better equipped to contend with their financial affairs. Experts have long advocated the benefits of families talking openly about financial affairs and parents who do so are more likely to ensure their children will deal better with money matters when they reach adulthood.

Young wealth

Whether discussions take place in relation to day-to-day spending issues or developing longer-term savings habits, the need for young adults to be financially clued-up has perhaps never been greater, with a growing proportion of this generation now owning a considerable amount of wealth. The number of UK Millennial and Generation Z millionaires has doubled over the past year alone and now stands at a record high of 2,000[4].

The need for young adults to be financially clued-up has perhaps never been greater

A positive trend

An increasing desire for families to discuss financial affairs can only be regarded as a positive trend. Equipping the next generation to realise the value of money and establish good financial habits at an early age can help secure your children's financial future, so keep talking.

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

Investing patience is a virtue

Did you know that according to research[5], women are more likely to hold their nerve and avoid crystallising a loss when the market dips?

In an attempt to stem their losses, nearly half of men (48%) have sold investments at a loss when they've fallen in value. By way of comparison, just over a third (38%) of women have crystallised a loss on a market dip. This impatience could prove costly, with the research (based on £10,000 invested in 1992, adding 10% of average salary and reinvesting dividends until 2022) estimating that the real cost of *'impatient'* investing over 30 years could total almost £200,000!

Hold your nerve

The ability to avoid knee-jerk reactions when markets fall is valuable. Adopt a steady, long-term investment strategy and remember that market volatility is normal. History shows that those who are patient and stick to their plans are more likely to achieve their financial objectives. So, whatever the stock market has in store as the year unfolds, holding your nerve is key. Patience is a virtue.

[5]Alliance Trust, 2022

Scammers' *'magic tricks'* – stay one step ahead

Britain's financial watchdog, the Financial Conduct Authority (FCA), has cautioned pension holders to tune in to scammers' 'magic tricks.'

Research shows that the economic squeeze is encouraging more people to withdraw pension savings, with a quarter of all pension holders considering an early raid due to cost-of-living pressures. This is putting a significant number of people at risk of potential scams. Scammers are preying on consumers' misunderstanding of how pensions work and pension pots grow.

Tactics – tune in

FCA research has highlighted consumer vulnerability to some classic *'distraction'* tactics. For example, around 44% of pension holders said they would take up the offer of a free pension review.

"Pension scammers are tricking victims with false promises"

The FCA has compiled a list of common scam techniques to help people avoid falling victim, these 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.

Devastating consequences

FCA Executive Director of Enforcement, Mark Steward, is urging consumers to visit the watchdog's ScamSmart website to *"avoid being tricked by scammers."* Adding, *"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, get in touch.

Take back control – improve your wellbeing

Over half of adults[6] have experienced anxiety as a direct result of rising bills, with a quarter suffering with feelings of depression as escalating costs take their toll.

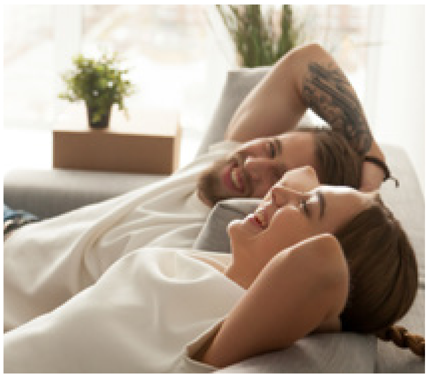
In a form of self-imposed financial lockdown, rather than for health reasons, almost half of adults are staying at home more to save money. Exposing a deep generational divide, the survey also discovered that over three quarters of 25 to 34-year-olds are experiencing anxiety over rising bills, compared to 26% of over-65s. Over four million retirees have provided financial support to family and friends (over a six-month period to August 2022), to help with day-to-day costs and bills.

Life on pause

Some people aged under 35 have effectively put life events on hold. Over a quarter of young adults (27%) are deferring major purchases like a home renovation or car, 17% are holding off buying a house and one in eight (12%) are putting off starting a family[7].

Time to *"take back control"*

Caroline Stuart, President of the Personal Finance Society, 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."*



Time to reflect

The new year provides the perfect opportunity for us all to stop and take a full review of our long-term financial wellbeing. Whether you need help planning your finances or you have loved ones you're in a position to support financially, we can help.

[6]Personal Finance Society, 2022
[7]Starling Bank, 2022

Take back control... and plan for the future

Review and rebalance – a worthwhile resolution

Portfolio drift can be accelerated during periods of market volatility. This basically means that natural shifts in the market can alter the asset allocation of your portfolio.

You could for example have a heavier weighting to an asset, exposing you to more risk than you are comfortable with, which could result in your overall portfolio no longer being aligned with your objectives and risk preferences.

In the loop

Managing portfolio drift is important and specialist.

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?