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YOUR WINDOW ON ***MONEY*** SPRING 2024

Crafting your retirement strategy

Have you developed a retirement strategy yet? Whether you're nearing retirement, or you still have many years of your working life ahead, careful planning is essential to secure financial stability and peace of mind when you stop working.

Active planning is important

According to a recent report[1], individuals on average begin actively planning for retirement around the age of 36. At this age, 63% of respondents expressed confidence in their financial decision-making abilities, a notable increase compared to younger demographics where only 56% share the same level of confidence.

With more than a decade of work experience under their belt by age 36, the 'age of responsibility' arrives for many people, with increasing awareness of the importance of financial planning, including actively thinking about their retirement.

Whatever your age, a well-thought-out retirement strategy is a must!

Decades to go?

Younger individuals can afford to adopt a more aggressive investment approach with their pension pot, embracing riskier assets for potentially higher returns over time, if they are comfortable doing so. Although this strategy does involve exposure to short-term market fluctuations, the longer investment horizon allows ample time for recovery from any downturns (during which monthly pension contributions may be invested at the cheaper asset prices).

If you're closer to retirement

For those on the cusp of retirement in the next few years, a prudent approach involves creating a smooth, non-volatile investment profile which minimises risk for the first five to ten years of retirement, with the remainder invested in more volatile funds which have the potential to grow over the longer term. This approach should help to shield your pension pot from the unpredictable nature of market volatility, as witnessed during events like the pandemic or financial crashes. By maintaining a stable portfolio for the initial years of retirement, you minimise the risk, thus safeguarding your financial wellbeing.

How about the 'inbetweeners'?

For those falling between these two extremes, a balanced and risk-managed approach is advisable. The strategy here is to aim for a balanced mix of stable and more volatile investments, aligned to your risk tolerance and personal financial goals. Diversifying your portfolio across various asset classes helps mitigate risk while providing the potential for growth.

The importance of rebalancing

Regular portfolio rebalancing is vital for a sound retirement strategy. Market fluctuations and varying asset performances can cause your portfolio to deviate from its original allocation over time. Without intervention, this drift could lead to unintended asset concentration and increased risk exposure.

[1]Standard Life, 2024

Planning children's financial futures

We all want a good start in life for the children in our family. After providing for the immediate needs of younger children, thoughts turn towards the future and consideration of longer-term goals. You may want to consider investing for your child's future to potentially build something significant which they can call on in later life.

It sounds simple, but such thoughts also bring with them a number of questions:

- What are you saving for?
- How much flexibility do you need?
- Which investments are appropriate?
- How much control do you want over when they can access the money?
- How can any tax be minimised?

The first step is to decide the investment goal or goals and the timeframe. Do you want to help a child or grandchild onto the property ladder, support them through higher education, help with a major expense, such as a wedding, or even start a pension pot for them? Perhaps a Junior ISA (JISA) may be a suitable option.

To make plans to secure the financial security of the children in your family, please get in touch, we can explore the specific options for your circumstances.

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.

Find lost money!

Up to £800m of pension and insurance assets and an even higher amount of savings could be lying dormant, according to new data[2]. Bank and savings accounts may be declared dormant if you don't touch the account for several years and any letters from the bank or building society may fail to reach you if you've changed address.

You can check for free if you have any forgotten savings or current accounts at the government-backed website www.mylostaccount.org.uk, making sure to check that the service is suitable for you.

Future generations prioritised

According to research[3], parents and guardians have been prioritising their children's savings rather than investing for themselves. Between October and December 2023, the number of JISAs opened soared by 101% compared to 2019 when data was first tracked. There was a corresponding drop in ISA investments in the same period. Mothers led the way – since the start of 2019, the number of new JISAs opened was up by 115%, compared to fathers, which was up by 87%. It's important to find the balance between your own financial stability and that of your children.

[2]Commission on Dormant Assets, 2024,
[3]Scottish Friendly, 2024

A plan to grow the economy

With the Office for Budget Responsibility (OBR) predicting the UK economy will expand by 0.8% this year, and by 1.9% in 2025, Jeremy Hunt delivered his last Spring Budget ahead of the General Election, highlighting reforms aimed to ensure the tax system is simple, fair, keeps pace with economic developments, and supports public finances.

Expectations are that the rate of inflation will fall below the Bank of England's 2% target level in *"a few months' time,"* with the OBR forecast showing the government is on track to meet its fiscal rules to grow the economy, reduce debt and halve inflation.

Changes to National Insurance contributions (NICs)
In line with speculation, following reductions to NICs announced during the Autumn Statement, the Chancellor announced further changes, specifically a reduction in the main rate of employee NICs by 2p in the pound from 10% to 8%, and a further 2p cut from the main rate of self-employed NICs, meaning the main rate of Class 4 NICs for the self-employed will reduce from 9% to 6%.

UK savings in focus
In order to promote more investment in UK assets, the government announced the introduction of a UK Individual Savings Account (ISA) with a £5,000 annual allowance in addition to the existing ISA allowance of £20,000. It will be a new tax-free savings product for people to invest in UK-focused assets (a consultation regarding implementation will be running to 6 June 2024). And a British Savings Bond will be delivered through National Savings & Investments (NS&I) in April 2024, offering a guaranteed interest rate, fixed for three years.

The 2024/25 tax year JISA allowance remains at £9,000.

IHT consultation
It was announced that there will be a consultation on moving to a residence-based regime for Inheritance Tax (IHT). No changes to IHT will take effect before 6 April 2025, nil-rate band remains at £325,000 and the main residence nil-rate band at £175,000, with taper starting at £2m (estate value). From 1 April 2024, personal representatives of estates will no longer need to take out commercial loans to pay IHT before applying to obtain a grant on credit from HMRC.

Reviewing non-dom status and Child Benefit
In addition, it was announced that the non-dom status will be replaced by a new residence-based system from 6 April 2025. The government also announced an intention to move to a residence-based regime for IHT, with plans to publish a policy consultation on these changes, followed by draft legislation for a technical legislation, later in the year.

Changes to the Child Benefit system included an increase to the threshold for the High Income Child Benefit Charge to £60,000 in April. The rate of the charge will be halved, so that Child Benefit is not lost in full until an individual earns £80,000 per annum, and by April 2026, the Child Benefit system will be based on household rather than individual incomes.

And pensions...
The government remain committed to the pensions Triple Lock. The value of the new State Pension will increased to £221.20 per week in April, while the basic State Pension increase to £169.50 per week.

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The cost of dying

Nearly half (48%) of adults aged 18 to 40 don't have life insurance[4]. This puts many in a precarious position, as the unfortunate reality is that the cost of dying is high.

Research has found that a premature death can cost surviving family members an average of £195,475 over the course of ten years[5]. These estimates are based on the hypothetical basis that someone leaves behind a partner and two children. The figure fluctuates depending on the location – London is the most expensive area (£261,754), while North East England is the cheapest (£130,160). The average cost in Wales was calculated to be £147,858 and it was £153,631 in Scotland.

Higher funeral costs

Of the adults under forty who do have life insurance, 27% said they took cover out to pay for a funeral. This is an important cost to consider as a recent report has found that the average cost of dying, which includes a funeral, professional fees and send off costs, is at a record high of £9,658[6].

Mitigate the pressure on loved ones

Whatever your age, it is advisable to seriously consider taking out life insurance if you have dependents. Planning ahead now could significantly alleviate the stress on your loved ones, should anything happen.

We can find the appropriate level of cover based on your specific circumstances and can advise you about writing the policy in trust so that the money will go directly to your chosen beneficiaries. This is also something that could be a useful tool for IHT planning, so get in touch.

[4,5] Beagle Street, 2023, [6]SunLife, 2024

AI & scams – don't get caught out

Although there is much excitement surrounding the advent and development of artificial intelligence (AI), there are some serious risks involved - namely, the prevalence of scams that are becoming increasingly sophisticated.

Types of scams

There are a few main scams to be aware of:

- Deepfakes are essentially fake media content that is very believable. For example, a video clip of financial expert and broadcaster Martin Lewis was recently fabricated, aiming to convince viewers to part with their money. This AI software can also clone voices and use them to make fraudulent phone calls. In a recent survey[7], 77% of those respondents who had been victims said they had lost money because of this kind of scam
- Images and videos can be created of people to pass through security and verification checks, thus gaining access to bank accounts
- ChatGPT enables phishing scams to seem more convincing by making the tone more human and filtering out any spelling or grammatical errors.

Who is at threat?

Everyone risks falling victim to these scams, regardless of age. In fact, research[8] has found that 48% of adults between the ages of 25 and 34 have experienced financial fraud, while only 28% of over 55s said the same.

What can we do?

Andrew Bailey, Governor of the Bank of England, commented, *"The time to act to safeguard our society from AI-enabled fraud is now, and all organisations need to think carefully about how AI may create fraud risks for their business and their customers. This will require ongoing vigilance, including monitoring and the sharing of insight and best practice between firms and across sectors."*

We understand that the threat of scams can feel overwhelming, especially when the capability of AI is constantly changing and developing. That's why it's important to question everything, equip yourself with knowledge so you're not vulnerable and, if in doubt, get in touch for guidance.

[7]McAfee, 2024, [8]GFT UK

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Retirement living costs surge

According to the Pensions and Lifetime Savings Association (PLSA)[9], a 'moderate' standard of living that includes £55 per week on groceries, a two-week all-inclusive holiday, £10 a week on takeaways and £100 a month to take others out for a meal, could cost a single person £31,300 a year, which is £8,000 more than last year. For couples, £43,100 a year is required to live at this standard.

Minimum, moderate or comfortable

The PLSA's Retirement Living Standards report details what levels of income retirees will need to live either a 'minimum,' 'moderate,' or 'comfortable' life in retirement. However, the forecast does not factor in any rent or mortgage payments.

As well as the cost of a 'moderate' life in retirement rising, so has the cost of having a 'minimum' living standard, which shot up by 12% from £12,800 a year, to £14,400 for a single person and £22,400 for a couple.

A 'comfortable' standard of living, where there is more financial freedom and some luxuries, could now cost £43,100 per year for one person – a jump from £37,300 a year earlier. This rises to £59,000 for couples to live comfortably.

Inflation and more

The increase in inflation, particularly in energy bills and food prices, over the last few years has contributed to the rising costs of retirement lifestyles. Helping family during the cost-of-living crisis, coupled with people's expectations of living standards, also played a part.

It's important not only to focus on your current needs, but to provide for the future and to understand how much you need to save for the standard of living you want in retirement.

[9]PLSA, 2024

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Adopting an Olympic mindset when investing

The countdown is well and truly underway to this summer's Olympic and Paralympic Games in Paris when we are all sure to be watching in awe as the world's leading elite athletes showcase their talents. And investors could boost their chances of success by emulating an Olympian's mindset and thereby improving their financial wellbeing.

Attributes of an Olympian

Many of the attributes associated with successful Olympic or Paralympic athletes are the same as those required to be a successful investor. A growth mindset, for instance, is important, as is managing nerves, being confident and resilient, having a well-thought-out strategy, blocking out 'noise' or distractions, setting clear objectives and realistic attainable goals, displaying discipline, and making small alterations or rebalancing.

The coach's role

There are also similarities in terms of the relationship between an athlete and their coach, and a financial adviser's role with clients. Both relationships, for example, are based on trust and honesty, and rely on a coach or adviser imparting knowledge and experience. Indeed, the provision of quality financial advice, just like a good coaching relationship, should be empowering.

Taking advice

Just like elite athletes, clients who receive professional advice are typically better prepared, more focused, more likely to maintain a positive mindset and avoid behavioural mistakes that can derail any investor's plans. So, make Olympic year the time you fully utilise the ongoing guidance and mentoring we can provide in order to ensure your investment plans stay firmly on track and give you the best chance of attaining your life goals.

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