ESSENTIALLY WEALTH

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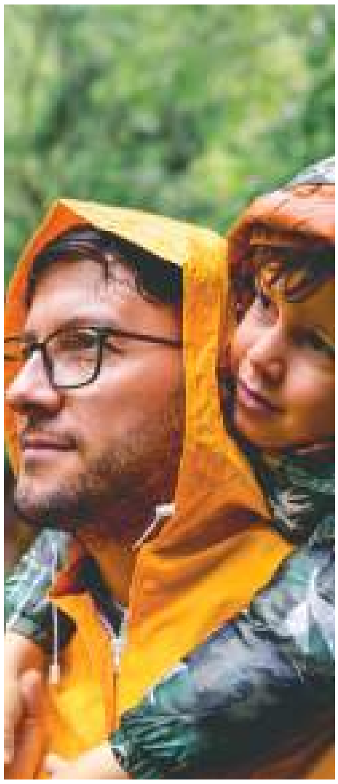

INVESTING TO ACHIEVE YOUR LONG-TERM FINANCIAL GOALS

After more than a decade of putting up with low returns on cash savings, the substantial increase in rates over the past two years has been welcomed by savers, but it's important not to rely too heavily on cash savings and to carry on investing to maximise potential returns and target long-term financial goals.

Consider the wider picture

Although the availability of higher rates has provided a boost to cash savings, it's always difficult to assess the appropriate amount to hold in rainy-day and fixed-term funds, particularly given recent cost-of-living pressures. However, history suggests that holding too much in cash can hold back your future wealth, as returns on both equities and bonds have a better long-term track record when it comes to outpacing inflation, though there is no guarantee of this in the future.

Time in the market

Long periods out of the investment market have also been shown to increase investors' chances of underperforming. This is because, while cash rates may look attractive, knowing when to sell and buy back into the market is extremely difficult if not impossible, particularly during times of volatility. It's normally a good idea to stay in the market and build a portfolio capable of capitalising on any improved outlook to maximise potential long-term gains.

Don't be fearful – let us help

Another reason why some people might shy away from investing is because they feel overawed by the whole process. Indeed, a recent survey[1] found that half of the UK population admits to being intimidated by investing, with more respondents saying it would be easier to learn a new language than start investing. On a more positive note, however, other research[2] recently showed growth in the uptake of regulated financial advice, with 4.4 million UK adults seeking advice in 2022, up from 3.8 million two years earlier.

[1]Lloyds Bank, July 2023, [2]Financial Conduct Authority, July 2023

LONG PERIODS OUT OF THE INVESTMENT MARKET HAVE ALSO BEEN SHOWN TO INCREASE INVESTORS' CHANCES OF UNDERPERFORMING

PENSION BOOST FOLLOWING REMOVAL OF LIFETIME ALLOWANCE

A recent survey[3] has revealed the dramatic impact that Chancellor Jeremy Hunt's decision to scrap the pension Lifetime Allowance (LTA), made several months ago, is having on people's retirement planning.

The decision

In his first Spring Budget Statement delivered on 15 March, the Chancellor announced that the LTA charge would be removed from April 2023 and that the LTA would be abolished altogether from April 2024. The decision was designed to remove a disincentive for retirement saving amongst higher earners and also dissuade an increasing number of this group from retiring early.

Boosting pension contributions

The research suggests the change has already had a significant impact on higher earners' pension saving and retirement planning decisions, both in terms of encouraging more pension contributions and persuading people to delay their retirement. According to the survey, 51% of higher rate taxpayers have restarted, increased, or plan to increase their pension payments since the announcement, with average additional payments amounting to £650 a month.

Delaying retirement

In addition, 23% of respondents said they had delayed their planned retirement or are likely to do so because they can now save more into their pension pot without facing a heavy tax charge later. Around 10% said they had come out of retirement as a result of the change, while another 6% were planning to rejoin the workforce.

Advice is key

The abolition of the LTA – while positive for many – does add some complexity to the system, particularly around when to take your tax free cash. The threshold for the maximum amount of tax free cash that can be withdrawn from a pension was also frozen by the Chancellor at £268,275, so this needs to be considered if your pension pot is at or above the old LTA threshold. Not to mention the risk that the decision could be overturned by future governments. Professional financial advice is therefore key to navigating these complex decisions.

[3]Investec, July 2023

THE ABOLITION OF THE LTA – WHILE POSITIVE FOR MANY – DOES ADD SOME COMPLEXITY TO THE SYSTEM, PARTICULARLY AROUND WHEN TO TAKE YOUR TAX FREE CASH

Tax treatment varies according to individual circumstances and is subject to change.

IT'S GOOD TO TALK

A pandemic closely followed by a cost-of-living crisis has undoubtedly created a challenging financial backdrop for us all, potentially heightening money-related anxiety. At times like these, it's more important than ever to talk through any concerns to protect both your financial and mental wellbeing.

A clear link

Research[4] highlights a clear, if intricate, link between financial and mental health, with a poll conducted by the Money and Mental Health Policy Institute revealing that 86% of people experiencing mental health problems believe their financial situation has impacted their mental wellbeing.

Thinking long term

Its normal to worry about finances but do try to keep a perspective. If you already have a well-structured long-term financial plan, talking through any potential problems with us typically provides reassurance and we can address any concerns you may have.

We can provide clients with a more holistic view that considers positive as well as negative factors and provides a sharp focus on potential opportunities. This can bring considerable comfort and peace of mind to clients, with the reassurance of knowing long-term financial plans remain firmly on track.

So, if you're feeling stressed or anxious about any aspect of your finances please get in touch.

[4]Money and Mental Health Policy Institute, 2023

PROTECTION – A FINANCIAL AND WELLBEING SAFETY NET

Have you considered how your family would cope in the event of loss of income caused by death or illness? When faced with the unpredictable twists and turns of fate, it is comforting to have the right protection cover in place.

As well as providing financial support, protection can support your mental wellbeing. Mental health issues are one of the top reasons for claiming under income protection, with one leading provider[5] paying £6m in income protection claims last year of which a third (£1.91m) related to mental health claims. Many life and critical illness policies also include support services for mental health issues.

Having the right protection cover is an indispensable financial and wellbeing safety net for you and your loved ones.

[5]Zurich, 2023

GENDER DIVISION IN MONEY MATTERS

Despite women's earning power having increased significantly over the decades, the division of financial responsibilities does not appear to have evolved.

A survey[6] of 4,000 UK adults has found that women still typically have greater oversight of domestically focused financial matters, such as household costs (67% of women versus 51% of men) and utility bills (74% of women versus 66% of men). In contrast, men continue to hold more responsibility for longer-term products, such as investments (35% of men versus 19% of women) and pensions (43% of men versus 31% of women).

Equal consideration

When it comes to financial planning, if one person in a couple takes on the role of spokesperson, it's important that they do not only speak for themselves in any meetings or discussions, as this raises questions about how suitable any advice will be for both parties.

Are things changing?

Worryingly, according to the survey, women under 30 years old are overall twice as likely as women over 30 to believe that they are naturally bad at managing their finances. This is despite younger generations saying that they've had a better financial education than older generations.

Financial confidence

We're here to guide and support all our clients, irrespective of their gender or their level of confidence in money matters.

[6]Handelsbanken, 2023

A SURVEY OF 4,000 UK ADULTS HAS FOUND THAT WOMEN STILL TYPICALLY HAVE GREATER OVERSIGHT OF DOMESTICALLY FOCUSED FINANCIAL MATTERS

END TO RISING WEALTH

Over the last four decades, total wealth owned by UK households has been on a steady upwards path, rising from around three-times the value of Gross Domestic Product (GDP) in the mid-1980s to almost eight times GDP (840%) in early 2021[7].

The Resolution Foundation has found that the cost-of-living crisis, coupled with increased interest rates brought about by the monetary policy response, has put an end to the trend of rising wealth in the UK. The independent think-tank estimates that the wealth-to-GDP ratio fell to around 650% in early 2023, by far the biggest fall on record as a proportion of GDP, wiping out £2.1trn of household net worth in cash terms.

Looking ahead, should the rise in long-term interest rates persist, the Resolution Foundation predicts that household wealth would settle at around 550% of GDP, a level last seen in 2007. But, if downward pressure on long-term interest rates resumes, this could see wealth settling at around ten-times GDP.

[7]Resolution Foundation, 2023

THE IMPORTANCE OF PORTFOLIO REBALANCING

Autumn is very much a season of change; a time when nature rebalances and adapts. Similarly, investors need to adapt to their changing landscape; and this is achieved by periodically rebalancing portfolios to optimise returns and maintain an appropriate balance between risk and reward.

A fine balance

Investing does not simply involve building an initial portfolio and then leaving it to perform unaltered until retirement. A portfolio consists of a combination of various asset classes that have been carefully tailored to suit each individual investor's risk appetite and return objectives. Over time, however, market fluctuations inevitably result in investment values changing, which can lead to a portfolio drifting away from an investor's original asset allocation.

Disciplined approach

From time to time, a portfolio therefore needs fine tuning, or rebalancing, to ensure that the desired allocation of assets remains in line with an investor's chosen strategy. Adopting a disciplined approach to rebalancing is essential if investors are to maintain an appropriate level of risk within their portfolios and also to enhance expected returns.

Changing landscape

The importance of rebalancing has been heightened by the significant changes in the investment landscape witnessed over the last year or so. The higher interest rate environment prevailing now and the resulting impact on bond yields, for instance, may mean that some investors need to reconsider whether their allocation to bonds remains appropriate in the current economic climate.

We're here to help

Portfolio rebalancing is clearly a powerful tool that can help restore an investor's original investment plan and adapt to changing market conditions. The process requires careful analysis and decision making to balance consideration of various factors including tax implications. This is where we can help – by regularly reviewing and rebalancing a portfolio, when necessary, we can help you to pursue your financial goals with greater confidence and provide stability throughout your investment journey.

INVESTING DOES NOT SIMPLY INVOLVE BUILDING AN INITIAL PORTFOLIO AND THEN LEAVING IT TO PERFORM UNALTERED UNTIL RETIREMENT

FIRE – FINANCIAL INDEPENDENCE, RETIRE EARLY

Many of us dream about an early retirement, spending time doing things we enjoy. Financial realities inevitably mean few of us will realise those dreams.

You may have heard of the Financial Independence, Retire Early (FIRE) movement, which claims it can boost people's chances of early retirement success. But how attainable is it really?

Igniting the fire
FIRE stands for 'Financial Independence, Retire Early.' The movement has a growing band of UK-based devotees, having taken off in the USA where followers adopt extreme saving techniques meaning they are able to invest as much as possible during their working years. The aim is to attain financial independence at a relatively young age, with some retiring in their late thirties or early forties, while for others it's simply the financial freedom to be able to work part-time.

Playing with fire
Some of the key principles associated with the FIRE movement include maximising savings, with followers setting aside up to 70% of their income every month; paying off a mortgage and other debt; and living exceptionally frugally. Devotees also invest, for example into a stocks and shares ISA, hoping to maximise returns while sheltering proceeds from tax.

Another pillar of the movement is the '4% rule.' In very simple terms, it's considered that 4% is the amount someone can typically afford to withdraw from their retirement pot each year without too much risk of running out of money. So, if someone expected to spend £20,000 a year, they would need a pot worth at least £500,000.

The reality of the FIRE approach to investing
The basic principle of FIRE may sound appealing, especially if it means you can retire in your 30s or 40s. But the reality is it requires extreme financial discipline to aggressively save money, and lifestyle changes often meaning you're living below your means.

For most people in the real world living this way is not going to be achievable, and only spending thrifty amounts of money all the time is a pretty miserable existence.

If you have ambitious retirement goals, the best thing you can do is talk to your Quilter adviser, who can help you put an achievable plan in place.

INVESTORS – WHAT DOES THE DIVIDEND ALLOWANCE CUT MEAN FOR YOU?

With the government on a mission to raise more income from taxes, understanding the full impact of fiscal changes on investments has arguably never been so critical. One area that has been subject to particularly sharp reductions is the Dividend Allowance, with changes likely to have a significant impact on many investors.

Six-year reduction
The annual tax-free Dividend Allowance was introduced in 2016/17 and originally stood at £5,000. In 2018/19, it was reduced to £2,000 and then halved to £1,000 from the start of the current tax year. This figure is set to halve again next April to stand at £500 – representing a 90% reduction in the value of the allowance in just six years.

Investor implications
An investor becomes liable for Income Tax on dividends after they've used their annual allowance, with the rate payable based on the Income Tax band they fall into. These changes will therefore inevitably increase the tax pressure on any individuals who own significant dividend-paying stocks or rely on dividends as a source of income.

What are the alternatives?
The Dividend Allowance is just one of the tax-free allowances UK investors can utilise. It may be beneficial for dividend-heavy investors to explore alternative options that offer exemption from dividend tax on qualifying shares, such as Individual Savings Accounts (ISAs). ISAs also benefit in being free of Capital Gains Tax. Another option could be to consider equities that prioritise long-term capital growth over dividend payments.

SAVERS FACE TAX PUNISHMENT

Recent figures from HM Revenue & Customs (HMRC) make interesting reading for savers who have shown thrift and prudence, with taxes on savings and dividends set to top £24bn in 2023/24.

Savers hit hard...

More savers have been drawn into paying tax by crossing the Income Tax savings threshold. Interest earned on savings is only tax-free up to a maximum of £1,000 a year for basic rate taxpayers and £500 for those paying the higher rate. HMRC is expected to raise £6.6bn from savers in 2023/24, which is more than five times higher than two years ago[8].

.. and those receiving dividends

Individuals who rely on dividends as a primary source of income or who own significant dividend-paying stocks have also been hit, with the annual Dividend Allowance having been halved in April 2023, and due to halve again in April 2024. The take on Dividend Tax is set to increase by almost £2bn to £17.6bn this tax year.

[8]HMRC, 2023

TIME FOR A MIDLIFE (FINANCIAL) MOT?

In the grand scheme of life, your 40s and 50s can be a unique and pivotal period. It's when you've accumulated a wealth of experience, both personally and professionally, but it's also the time when financial responsibilities tend to peak. It's no wonder that many turn to the concept of a midlife MOT to ensure their ongoing financial wellbeing during this critical phase.

Here are a few things to consider:

1. **Retirement Planning** – your retirement becomes more tangible, so now is the time to evaluate your pension savings, ensuring they align with your retirement goals
2. **Protection** – health can become a more significant concern, so it's important to make sure your protection cover is up to date and make any changes to maintain peace of mind
3. **Debt management** – middle age often coincides with mortgages, loans and other debts. A review can help you strategise on paying them off efficiently
4. **Investments** – this is a good time to reevaluate your portfolio to match your risk profile and long-term financial objectives
5. **Estate Planning** –ensuring your family is financially secure in case of unforeseen circumstances is essential. Time to make or review your will and lasting power of attorney (LPA) and consider how you can pass on your wealth.

Midlife MOT

Remember, a well-maintained financial plan can take you further with fewer bumps along the way.

Important Information: We have updated our Privacy Policy to better explain how we keep and use your information to profile groups based on factors like interests, age, location and more, so we can better understand our customers, to adapt and improve our products and services. To find out more, please read our Privacy Policy online.

Past performance may not be repeated in future. Future returns cannot be guaranteed. For ISA's, investors do not pay any personal tax on income or gains but ISAs do pay unrecoverable tax on income from stocks and shares received by the ISA manager. Tax treatment varies according to individual circumstances and is subject to change.

The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.

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