



NEWSLETTER



Photo by Andrew Spybey@TheGuildfordian

Early Winter 2022



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Welcome



With so much having happened, and still happening, with our political system in the UK over the last quarter, I hope you will forgive me for wondering where to start with our latest newsletter. You might anticipate that we have delayed this newsletter slightly to encompass the Chancellor's announcements on 17 November 2022 in his fiscal statement. This was put back approximately two weeks following the second change in Prime Minister, and the almost total unwinding of the previous mini budget.

One point I would raise immediately is that I and the team are here to help, so please get in contact to review your existing arrangements, if needed. Changes in your circumstances may signpost a need to make changes to your arrangements. This can be achieved with a meeting at our office in Guildford, or virtually, via Zoom as an example, to suit you.

With central bank base rates rising, we have also seen deposit savings rates rise. In the current market, it is possible to gain gross fixed-rate deposit rates above 4.5% over a 1-year period, unheard of for some time. Please do remember the deposit protection limit of £85,000. In addition, we have seen pension annuity rates rise sharply in recent months, and we have looked at this further in this newsletter.

As I am sure you will be aware, inflation (the CPI measure) reached 11.1% in October and is expected to continue to rise. The Bank of England now suggests around 12% by December 2022/early 2023, based on current forecasts.

The Ofgem energy price cap rose at the beginning of October 2022 and will do so again in January 2023. The unit price cap may be welcome in many households, although the final cost to the taxpayer of this government support is not really fully understood at this time, especially with government borrowing costs

having increased and now becoming more stable following the roll-back of the Truss budget. It will be interesting to see how this position continues, as markets indicate some confidence in our new Cabinet.

The last few months have been volatile for investment markets, along with the changing economic environment. The reverse page of our Investment Risk Scale, that many of you have, illustrates investment volatility over time and is a good illustration of the effects of short-term investment volatility.

At the beginning of this month, Chapters Financial was proud to be one of the main sponsors of Guildford's annual fireworks display again this year. The spectacle was, as ever, well run and received, and for me, the ups and downs of the illuminations were a reasonable metaphor for most sections of the financial markets over the autumn period thus far. The press has been only too keen to offer comment on bond, equity and currency markets against the backdrop of the turmoil of global geo-political positions, along with the well noted turns and U-turns of our new government. We, of course, keep a close eye on the various positions through our Investment Committee.

Sadly, the war in Ukraine continues and now seems entrenched, with significant consequences, both human and economic. With all that is going on, we expect further market volatility over the winter.

As a final note, we wanted to send our thanks to those who have recommended our services to friends and colleagues over recent times. Referrals are always welcome, and it has been an honour to help others, particularly in these pressing financial times.

I and the team look forward to speaking to you soon.

Keith Churchouse



Early Winter 2022

Autumn Statement: 17 November 2022



At 11.30am on 17 November, the Chancellor, Jeremy Hunt MP, set out his plan for stabilising the UK economy and tackling rising inflation. After former Chancellor Kwasi Kwarteng's mini-budget on 23 September triggered market turmoil, it was clear that decisive action would be needed to restore credibility and confidence in the UK, and to try to fill the fiscal black hole, which the Treasury has estimated stands at around £54bn.

These aims have a price, however, and taking money out of the economy now through spending cuts and tax rises risks making a recession even more difficult. An unenviable dilemma indeed, and it was evident from the Chancellor's speech that there were no easy answers.

We have collated a summary of some of the key announcements which we hope will be helpful.

State of the UK economy

- The Office for Budget Responsibility (OBR) judges the UK to be in recession (meaning that economic growth has slowed for two quarters in a row)
- The OBR predicts growth of 4.2% overall in 2022, shrinkage of 1.4% in 2023, and growth of 1.3%, 2.6% and 2.7% in 2024, 2025 and 2026
- Inflation is predicted to be 9.1% this year and 7.4% in 2023
- Unemployment is predicted to rise from 3.6% currently to 4.9% in 2024

Personal finances

- The State Pension, benefits and tax credits will rise by 10.1% from April 2023, in line with September's inflation figure and maintaining the State Pension 'triple lock'
- Household energy price cap extended for one year beyond April 2023, although less generous, with typical bills capped at £3,000 pa rather than £2,500 pa
- The rate at which the highest earners start to pay additional rate income tax (45% / 39.35% on dividend income) will be lowered from April 2023, from £150,000 gross pa to £125,140 gross pa
- The personal income tax allowance remains frozen at £12,570 until April 2028 (originally planned to be until April 2026)
- The higher rate income tax threshold remains frozen at £50,270 until April 2028
- Inheritance tax thresholds remain frozen at £325,000 (standard nil rate band) and £175,000 (residence nil rate band if applicable) until April 2028
- Main National Insurance thresholds frozen until April 2028
- The annual exempt amount for capital gains (CGT) will reduce from its current level of £12,300 to £6,000 from April 2023 and £3,000 from April 2024
- The dividend allowance (the amount of dividends an individual can receive before paying tax) will reduce from its current level of £2,000 gross pa to £1,000 gross pa from April 2023 and £500 gross pa from April 2024

- The National Living Wage will increase from £9.50 to £10.42 per hour from April 2023. This is a 9.7% increase in the minimum wage for all aged 23 and over.
- The Stamp Duty cuts first announced in the mini-budget will end in March 2025
- Electric vehicles (EVs) will from April 2025 no longer be exempt from vehicle excise duty
- The lifetime cap on social care costs due in England in October 2023 has been delayed by two years
- No changes to pensions or ISAs

Business

- Employer National Insurance Contribution threshold frozen to April 2028
- Employment Allowance, allowing eligible employers to reduce their annual National Insurance liability, retained at £5,000 until March 2026
- Windfall tax on profits of oil and gas companies increased from 25% to 35% and

extended to March 2028, plus a new 'temporary' 45% tax on excess returns of electricity generating companies to apply from January 2023 to March 2028

- The VAT threshold remains unchanged
- The Corporation Tax increase to 25% from 19% will go ahead at the start of the new tax year

...and for full details

The notes above are only part of the headlines revealed in the speech, and full details may be found at this website:

<https://www.gov.uk/government/publications/autumn-statement-2022-documents>

Summary

We hope this update is helpful in looking at the Autumn Statement 2022. It is clear that many of these tax changes and freezes will see an effective tax rise across most sectors of the UK, and the Chancellor freely admitted this at the start of his speech.

Chapters Financial News

Chapters Financial turns 18!



Chapters Financial is pleased to have reached its eighteenth birthday on 04 October this year and on this happy occasion we wanted to send a huge thanks to all our clients, supporters, professional connections, and contacts for your support over the last close on two decades. Our new office in Tunsgate has been a great evolution in our plans as we look forward to the next decade as part of the Guildford and Surrey business community.

Planet Mark Certification

The team at Chapters Financial is delighted to have been certified by Planet Mark again this year. The process allows us to look at our overall carbon footprint, with the aim of reducing this every year. We are thrilled to have achieved this certification again, achieving

Starting in autumn 2004, we have navigated recessions, Brexit, regulatory change, growth and everything in between. It has been a roller-coaster at times, but always fascinating as our company started its journey and has evolved ever since.

The Chapters Financial team has grown and as a core has been together for many years, bringing stability and welcome continuity to our clients through our service.

Thank you again to you all for making Chapters Financial such a success over the years and we look forward to continuing to work with you into the future.

nearly a decade of certification, allowing for one year's break for the office move. If you would like to know more about Planet Mark then please visit their website: www.planetmark.com



Are annuities making a comeback?



Annuity purchase might sound like a bit of pensions history to our younger readers. Those of us of a certain age will remember the heady days of the 1980s and 1990s, when annuity rates were in double digits. It may also come as a surprise to some that prior to April 2011, annuity purchase was compulsory on reaching the age of 75.

When annuity rates peaked in the UK in 1990, a healthy 65-year-old male could have received an annuity rate of around 15% (£15,000 a year on a fund of £100,000) for a single life annuity, level in payment with no guarantees. In 2016, on the same basis, this income would have fallen to around £4,700 (just under 4.7%).

Some will also remember the demise of Equitable Life in 2000, when the guaranteed annuity rate terms offered by the company within some of the policies (invariably in double digits) became valuable as conventional annuity rates started to fall significantly below this level. In what was described as a 'death blow' for annuities, in 2015, the then Chancellor, George Osborne, introduced pensions freedoms, allowing savers access to their entire pension pots in one lump sum, should they so wish, and declaring that 'nobody will have to buy an annuity'.

However, annuity rates hadn't been particularly gripping for quite some time before his announcement. Annuity rates are based on gilt yields, and in particular 15-year gilt yields (gilts essentially meaning government debt). The historically low interest rate environment the UK experienced from late 2008 to very recently, along with other economic factors, meant that 15-year gilt rates were also historically low, which pulled down annuity rates significantly.

15-year gilt rates reached a historic low of 0.162% in March 2020, mainly due to the coronavirus lockdown and the threat to global economic

growth. Over recent times, though, we've seen a steady upward trend, with rates at approximately 4% as of 08 November 2022. Annuity rates have ticked up accordingly and hence are starting to come up in conversations with clients and enquirers in more detail. We have always discussed annuity purchase as an option – however, it has not been a sensible move for most people for a long time, given the pretty derisory income available, the inflexibility of the arrangement and the poor death benefits relative to an income drawdown arrangement.

Income drawdown or annuity?

For most people, this hasn't been a realistic choice for quite some years. For money purchase pension plans, income drawdown has been the sensible option for the overwhelming majority, aside from those who are extremely cautious in their approach to investment risk, or those with underlying health conditions who may receive enhanced annuity rates.

Blended approach

It is possible to take a blended approach with your pension pot where only part of the funds are used to buy an annuity whilst the remainder goes into income drawdown. Also bear in mind that moving into an income drawdown fund does not preclude you from using these funds in the future to buy an annuity in part or in whole.

On a broader note, we often find that retirement income comes from a range of sources, such as pensions, investment holdings, or rental properties to name but a few.

Summary

The increase in annuity rates is certainly a point to consider when contemplating your retirement options, especially if you have a cautious attitude to investment risk or a particular need for a regular and guaranteed income.

Income drawdown prevails at the moment – providing both flexibility and death benefits – but watch this space should annuity rates climb towards double digits again.

Early retirement: is it final?



You may well have read in recent press and economic commentary about the number of workers aged over 50 who have left employment since the start of the coronavirus pandemic. Each individual will have a different reason for leaving the labour market, such as their own wellbeing, or to focus on their family, and this decision may have been sparked for a range of good reasons, for example redundancy or a period of illness.

For some people, an early exit from the world of work has been absolutely the right decision – and, crucially, has been affordable. For others who have made this momentous decision, though, the outcome has not been as rosy as expected.

The Office for National Statistics released at the end of September 2022 the latest figures for workers over the age of 50 who have left employment since March 2020. This publication details the main findings from the second wave of the Over 50s Lifestyle Study, which looks at the motivations of those aged between 50-65 for leaving work, including why they left and whether or not they intend to return to work.

A key point to note from the interview responses is that almost nine in 10 (86%) of early retirees between the ages of 50 and 54 would consider returning to work as the current cost-of-living crisis squeezes household budgets. 65% of those aged 55-59 and 44% of the age group 60-65 said that they would consider working again. In this second wave of interviews, a much higher overall proportion of adults aged 50 to 59 years said they would consider returning to work (72% - August 2022) than in the first wave of interviews (58% - February 2022).

55% of 60–65-year-olds were somewhat or very confident that the provisions they had made for their retirement would be sufficient for their needs. This is concerning in itself – however, only 38% of those aged between 50-54 were somewhat or very confident in this point.

Financial resilience varied by age, with those aged 50 to 54 significantly less likely to be debt-free than those aged 60 to 65, and more likely to have credit card debt. Nearly half (49%) of those who have left work and not returned reported that their household savings had decreased since the start of the coronavirus pandemic. Just under a quarter (23%) adults in the ONS sample said that they could not afford an unexpected expense of £850. Unforeseen circumstances and costs in life can and do occur!

Early retirement is not a decision to be taken lightly, as you will appreciate, and of course sometimes it is more of a necessity than a choice. However, in many cases, there will be time to plan for retirement and to ensure as far as possible that provision has been made for your financial needs once work stops.

The notes above give a pretty stark illustration of how temporary an early retirement could be without adequate preparation. You don't want to be heading back into the labour market in your seventies – or if you do, it should be a choice and not a necessity.

If you want to know more about the options available to draw pension benefits, you can find details on our Pension and Retirement Planning page on our website.

Our new book "Coming in to Land: Runway to Retirement" outlines what you need to know about the lead up to retirement and discusses the process of what should be considered before taking this life-changing step. Further details of the book can be found on Amazon.

If you are thinking about early retirement or winding down work, talk to the team at Chapters Financial well in advance for a clear understanding of your options.

Summary & Review

Please do pass our details on to contacts you may have that may benefit from our service. We are always pleased to receive referrals.

Please contact the team at Chapters Financial; Keith, Vicky, Esther, Julia, Catherine or Suzanne on 01483 578800 or by email at info@chaptersfinancial.com to discuss your requirements and to book a meeting or financial planning review.

If you would like to receive this information in e-mail format, please let us know.



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