# NEWSLETTER

Photo by Andrew Spybey@TheGuildfordian

## Early Spring 2023

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# Welcome

2023 is well underway and February is upon us. With many of the changes planned from the Autumn Statement of mid-November 2022 now only a few weeks away from coming into effect, we will reach the end of this tax year on 05 April. With this year's Easter break falling almost immediately afterwards, arranging your financial planning in good time to take advantage of any annual allowances you plan to use may well be important. If you would like to consider the use of your annual tax allowances, if not already achieved, then please let us know.

The economic hangover from 2022 remains with most developed nations, and this is reflected in high inflation rates, along with central bank base interest rates being increased to try to tame the position. It was good to see that the Consumer Prices Index (CPI) rate fell slightly in the announcement in December (to 10.7%), although there is still a long way to fall. The Bank of England still expects inflation rates to reduce firmly towards the end of 2023, although time will tell if this occurs. The base interest rate may still rise further, noting the increase of 0.5% to 3.5% in December 2022, and this is being reflected in the cost of borrowing and variable mortgage rates. Many will also be aware that there is now data evidence to suggest that house/property prices are on the wane, and we have commented on this in our article later in this newsletter.

As a plus point, many providers offering deposit savings rates are now giving reasonable interest on cash if you shop around, and we can help in this regard.

We have also seen indicated returns on National Savings & Investments (NS&I) Premium Bonds and some other NS&I products increase over the last six months.

You may be aware that we are advocates of maintaining an emergency deposit fund of easily accessible cash type funds in case of the unforeseen. Please do make sure that you are getting some interest on these funds now rates have risen. Some providers rely on consumer apathy to increase their profits.

YouGov, the research group, studied New Year resolutions and what most plan to focus on at the beginning of the year. One in five of us plans to make a resolution this year (2023), up from one in seven last year. The younger you are, the more likely you are to make a resolution. The usual candidates (weight loss and exercise) are in the top five; however, this year, in the biggest change year-on-year in terms of resolutions, four in ten Britons who are making resolutions (41%) say they want to save more money, up from 30% who resolved to put more money into their savings in 2022. This resolution is also more important to women with 46% saying they hope to save money as part of their plans for 2023 compared to 34% of men.

It is clear that global economies which have seen ultra-low inflation and interest rates over the last decade or so are beginning to adjust to increases and we may be entering a new era of higher rates in both areas going forward. This will be factored into any monetary planning going forward as central banks continue with the challenges of bringing inflation under control, whilst still achieving growth.

Talking of new eras, we will see the coronation of His Majesty King Charles III on Saturday 06 May 2023, with an extra bank holiday on Monday 08 May to mark this occasion. I am sure it will be a great celebration for all, and the start of a transition for our Royal Family. We wish them well.

I am sure many hope and plan for a better year as 2023 evolves.

Keith Churchouse

## Would you sell your house if you thought the price was going down?


Residential property prices are starting to come into focus as the UK economy, along with other global economies, slows and the word 'recession' rears its head. We have seen the Bank of England raise the base interest rate to 3.5% so far, with some predicting that rates will rise still further, with the aim of controlling the escalating inflation position. We are aware that mortgage rates have followed suit.

Nothing is guaranteed; however, industry experts are expecting house prices to fall this year by 5-10% as an example and more can be found in the Residential Forecast 2023-27 published on the Savills website: www.savills.co.uk.

This raises the question; would you sell your house if you thought the price was going down? The answer is invariably no, unless you had to, or if you were taking a big step up, when factoring in the Stamp Duty costs, which still enjoy some relief until 31 March 2025, based on current plans.

***Property***

Thinking about this a stage further, the fundamentals of your home have not changed. The number of bricks in the property does not change, and the purpose of the property - your home - to offer you shelter and accommodation remains unchanged. You're not likely to panic, and although the value may change, this does not mean that the purpose is any different. And in the longer term, the expectation that property prices will rise over time also remains unchanged. The Savills Residential Forecast mentioned earlier indicates that house prices are expected to rise by a net 6% over five years.

***Investments***

In principle, the same philosophy applies to investments in plans such as ISAs, pensions and the like. Invariably, the number of units held in an investment remains largely unchanged (the unit number might increase with re-invested dividend income, or decrease slightly with charges), but the value of those units will vary with market forces. This raises a similar question to the one above. Would you sell your investments if the value went down? And again the answer is usually no, unless there is a specific need to do so.

Most media sources have had much to write about regarding volatility in world markets, including the UK. The economy is changing, but the fundamentals of investing and the purpose of holding assets for income, capital growth, or both, have not.

If you would like to review your existing pension, ISA and investment arrangements then please do contact the team at the Guildford office.



## New Year – time to resolve to make the most of your allowances

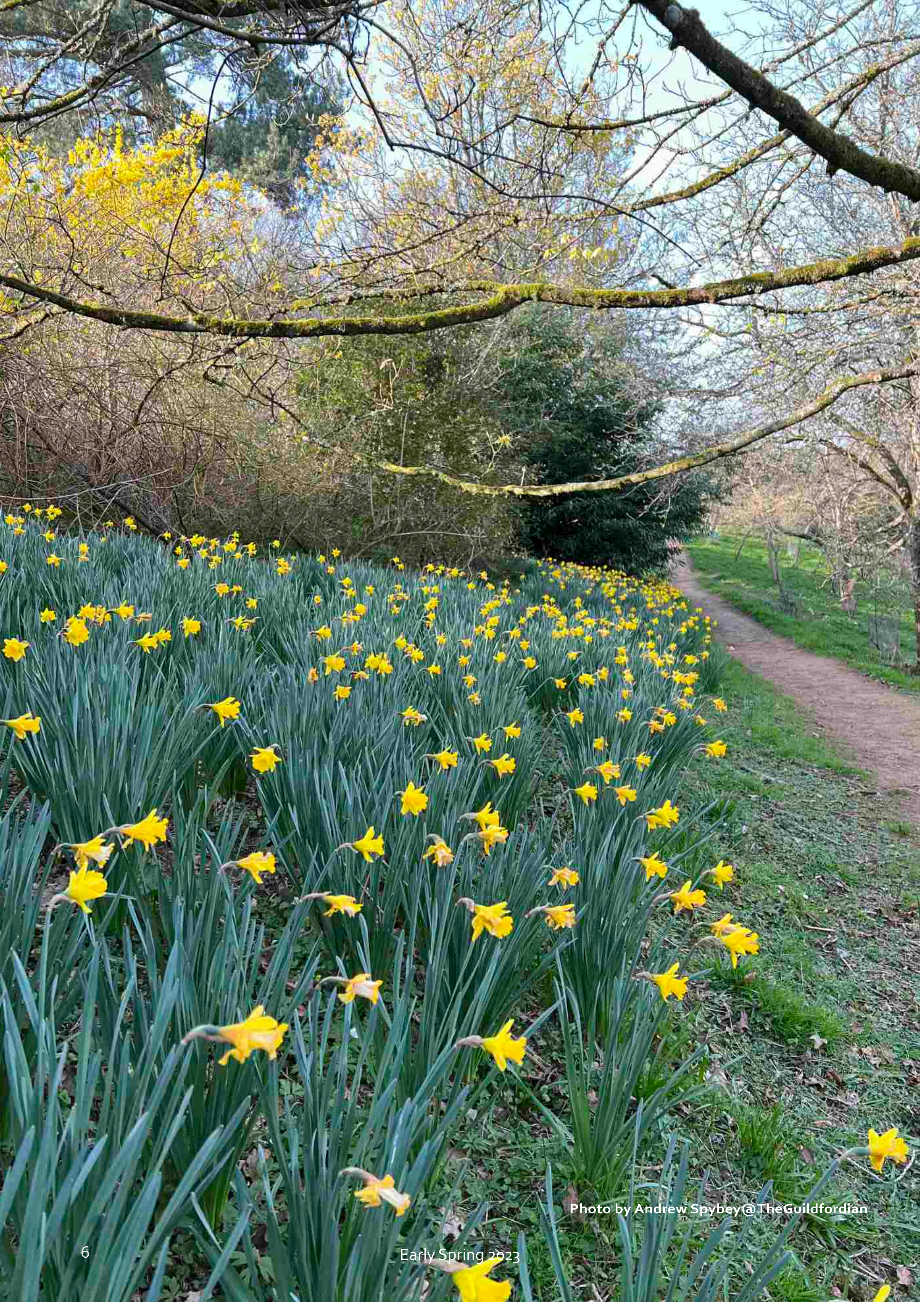

The start of a new year is always a good time to focus the mind on getting your finances in order. Life is busy, busy, busy, and it is easy to forget the tax allowances available in a tax year. Maybe this year more than ever, using tax allowances earlier to make your money go further might be worth looking at.

With less than 3 months to go until the deadline of 05 April, we thought we would share a reminder of some of the current allowances that might be used in this tax year 2022/2023 to potentially save tax, which in turn may save money:

| Standard Annual Allowance | Amount |
|---|---|
| Individual Savings Account (ISA) | £20,000 |
| Junior ISA (JISA) and Child Trust Fund (CTF) | £9,000 |
| Lifetime ISA (LISA)<br>Subject to eligibility criteria and counts towards standard ISA allowance | £4,000 |
| Capital gains tax allowance | £12,300* |
| Annual gift allowance<br>(for inheritance tax purposes) | £3,000<br>(You can go back one year if you did not use the tax year allowance in 2021/2022) |
| Pension contribution<br>(standard annual allowance) | £40,000 gross from all sources<br>(The limit may be higher or lower than this amount dependent on your individual circumstances) |
| Personal income tax allowance | £12,570 gross |
| Personal savings allowance | £1,000 gross for basic rate taxpayers<br>£500 gross for higher rate taxpayers<br>Nil for additional rate taxpayers |
| Dividend tax allowance | £2,000 gross* |

Most tax allowances are renewed each year and are lost if not used within the tax year. As suggested, looking at your tax allowances well before the end of this tax year might be worthwhile, along with an overall review of your financial planning.

***IMPORTANT:** Some may be aware that the Chancellor announced reductions in some allowances from 06 April 2023 to allow him to take more tax, and this is applicable to the capital gains tax allowance and dividend tax allowance which have been effectively halved for the tax year ahead.



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## The HMRC Lifetime Allowance at age 75 - what happens at re-test time?


Since the introduction of the HMRC Lifetime Allowance (LTA) test and tax charge system in 2006, much has varied over the years. However, the principle of HMRC seeking to tax the pensions of those affected has not.

With most personal tax allowances being frozen for the years ahead, including the HMRC Lifetime Allowance limit of £1,073,100 (unless you have protection), many more people with personal / money purchase style pensions will find any excess pension funds taxed, whether this is at the time of drawing, on death before the age of 75, or on re-test at age 75. The test at age 75 is the final test, based on current legislation.

Those with only defined benefit (final salary) type plans should be largely unaffected by the age 75 LTA test rule unless these pensions remain undrawn at that age.

Any tax charge applicable at age 75 is charged to the pension at a level of 25%, noting that any withdrawals thereafter will be subject to income tax at the individual's highest marginal rate. Therefore, the effective tax charge might be closer to the 55% often noted for the purposes of calculating any LTA charge. This may have the effect of potentially reducing any future tax-free cash available.

Please remember also that on death of the pension holder after the age of 75, the benefits available to any beneficiary will also be charged at their own individual income tax rate.

What does HMRC look for in their pension LTA re-test at age 75? They will check:

- The increase in value of any funds in drawdown from when the funds were first placed into drawdown. The value of funds at age 75 is compared with the original amount that was crystallised (after the payment of any tax-free cash). Drawdown funds created before 06 April 2006 are not subject to this test
- Any undrawn pension benefits

Many pension plans will allow any undrawn tax-free cash to be drawn after the age of 75, but please do check your individual arrangements in good time, because this is not always the case.

If you are close to the LTA limit, it is important to consider your individual position a stage further and where possible plan to draw value from the funds to control any tax take HMRC may apply when you reach age 75.

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# The success and 10-year anniversary of pensions auto-enrolment

Automatic enrolment – the legal requirement for an employer to enrol all eligible workers into a workplace pension and contribute to it – is one of the biggest changes we have seen in pensions legislation in recent times. The initiative has proved to be a great success with around 22.6 million now in a workplace pension in April 2021, although the fear is that many are simply not paying enough in.

October 2022 marked a decade since the first employees in the UK were automatically enrolled into workplace pension schemes. Large employers (with 250 or more workers) were required to start automatically enrolling their workers from October 2012, with other smaller organisations following in stages over subsequent years. Now, auto-enrolment rules apply to all employers, no matter how small.

To mark the 10-year anniversary of auto-enrolment, Royal London produced a fascinating report on the future of auto-enrolment, looking at the impact of workplace pension legislation to date and the ways in which successes may be built upon going forward. We have highlighted a few key points below.

**Impact on workplace pension participation**

The impact that auto-enrolment has had on UK pension membership is profound. In 2012, around 55% of UK employees had a workplace pension. In 2021, this had risen to 88% (source: Department for Work & Pensions).

The Royal London report notes that auto-enrolment has had some of the greatest impact for those in the lowest-paid and least secure employment sectors. Between 2012 and 2021, workplace pension participation rates in the accommodation and food service sectors rose from 5% to 51%, and in the administrative and support service sectors from 14% to 64%.

**Contribution levels**

Whilst the figures above are extremely encouraging, it is important to bear in mind that a significant number of employers and employees are contributing only the minimum amount required by law (8% gross pa in total of qualifying earnings – currently those earnings between £6,240 and £50,270 gross pa).

From an employee's point of view, this is in part a natural consequence of the default nature of automatic enrolment: as an employee is not required to take any active part in their enrolment, there may be less engagement with the pension plan and the level of contributions being made. The Royal London report notes that among workers with a workplace pension, 20% have never checked the value of their savings and a further 10% check less than once a year.

From the employer perspective, for many firms, there is a balance to be struck between providing attractive benefits to encourage recruitment and retention of good quality employees, and the costs of funding contributions above minimum levels.

**Is saving through auto-enrolment enough for retirement?**

For most people, saving only the statutory minimum contribution level into workplace pensions over a working lifetime would be insufficient to fund retirement. Royal London's research found that there is misplaced confidence amongst some sections of workers in the ability of their savings to provide a secure income for the duration of their retirement, particularly amongst those saving the least into workplace pensions.

**Building up additional funds for retirement**

Remaining in an auto-enrolment/workplace pension is invariably worthwhile, as long as it is affordable. If an individual opts out or leaves their workplace pension plan, they will not then benefit from the employer contribution, or from tax relief on their own contributions.

Workplace pension savings, whether at minimum levels or more significant, are certainly a helpful addition to the retirement portfolio. In many cases though, retirement income is likely to come from a range of sources, including pensions built up through work, along with private pensions, the State Pension, savings, property/rental income or investments as examples.

**Active engagement**

It's important to be actively engaged with your pension planning, and to check all your pension plans, and the level of savings you are making, on a regular basis. Complacency can be dangerous and seeking good independent advice early on the ways in which you save for retirement could make all the difference to your later years.

## Phased retirement and the cost of living

The best laid retirement plans for many certainly hit some bumps in the road over the last 3 or so years. First there was the pandemic, and just as we all thought we might be 'out of the woods', a war and a possible recession (both in the UK and further afield) have delayed or adjusted the exit from work, in full or in part, making it a greater challenge.

The insurance firm Legal & General (L&G) carries out significant research into retirement trends, changes and figures in the UK. L&G's most recent work has focused on the topic of phased retirement and how the cost of living may affect the plans of those who intended to move into retirement gradually. The research makes for interesting reading and certainly confirms that people are not alone in facing additional financial headwinds in recent times.

This research was carried out in mid-October 2022 and the press release may be viewed on the L&G website: www.legalandgeneral.com.

The study found that 3.3 million pre-retirees (34% of over-55s who are still working in some form) have started phasing into retirement by reducing their hours and responsibilities. 48% of employees aged 55 expect to take a phased approach to retirement rather than stopping completely.

The option to phase retirement, rather than ceasing abruptly on a set retirement date, has become easier over time, for example through the scrapping of the default retirement age of 65 in April 2011, and the introduction of pensions freedoms in 2016. Retirement is no longer a 'line in the sand', as the study notes. L&G found that 37% of respondents were keen to take the phased retirement route by reducing their hours, in order to stay employed but reduce their stress. However, 44% of people noted that they are making the decision to phase retirement because they cannot afford to retire in full.

On average, L&G notes that over half of people taking a phased approach to retirement reduce their paid work by at least 15 hours every month, earning on average £9,150 less per year than before. As a result, 38% expect to have to adjust their lifestyle to accommodate the drop in income, and 17% anticipate that they may struggle with the cost of household essentials.

The benefits available from the State Pension may influence any decision to retire and it is usually important to check the value available to you in advance of reaching your State Pension age.

Amongst those who planned to slow down at work, the increased cost of living has had an impact, with one in 10 people who had begun their phased retirement having to increase their working hours or commitments again. 40% of individuals who had planned to phase into retirement over the next five years are now concerned that living costs will not allow this to happen.

However you choose to approach the end of your working life and the beginning of your retirement, phased or full, it is important that this is carefully planned and managed. Talk to the team at Chapters Financial well in advance for a clear understanding of your options. One recommendation we would make is to start your retirement planning as early as possible.



## And finally…
## New Year Premium Bonds boost and other NS&I increases

We have long been advocates of Premium Bonds as they offer a tax efficient opportunity, whilst being both secure (£50,000 max per individual) and readily accessible. This New Year saw customers get a welcome boost with an extra £80 million in prizes up for grabs from the January prize draw. This saw the prize fund rate increase from 2.20% to 3.00%.

This change to the Premium Bonds prize fund rate is the third upwards change that NS&I has made in recent times, with the prize fund rate tripling from the 1.00% it was at in May 2022. The January 2023 prize fund was expected to hit £299,572,750.

The odds will stay fixed at 24,000 to 1, but the changes will mean that customers will have more opportunities each month to win high value prizes, with more than three times as many prizes worth £100,000, £50,000, £25,000, £10,000 and £5,000 available.

NS&I also announced in December increases in the interest rates on both the Direct Saver and Income Bonds which rose from 1.80% to 2.30%. The rate on the Direct Saver is now at its highest level since the account was launched in March 2010, whilst the interest rate on Income Bonds is the highest it has been since February 2009.

The interest rate on the NS&I Investment Account also rose from 0.40% to 0.60%.

NS&I Chief Executive, Ian Ackerley, said: "The New Year increase to the Premium Bonds prize fund rate means that customers will have seen the prize fund rate triple in less than a year. This means a bigger prize pot and more higher value prizes for our customers – a great way to start 2023.

"The change to the Premium Bonds prize funds rate, as well as the changes to Direct Saver, Income Bonds and Investment Account, will mean that our products are priced appropriately when compared to the rest of the savings market. This will also ensure that we continue to balance the interests of savers, taxpayers and the broader financial services sector."

**Premium Bonds prizes from January 2023**

| | |
|---|---|
| **New prize fund rate** | **3.00% tax-free** |
| **Odds from January 2023** | **24,000 to 1** |
| **Number of £1,000,000 prizes** | **2** |
| **Number of £100,000 prizes** | **56** |
| **Number of £50,000 prizes** | **112** |

## 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, 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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