



NEWSLETTER



Photo by Andrew Spybey@TheGuildfordian

SPRING 2024



Welcome



With 2024 already well underway, we look forward to the coming year with anticipation. The end of the current tax year is not far off and we would advocate, as always, using available tax allowances where possible and affordable.

Those with larger pension fund values and benefits will be aware that the HMRC Lifetime Allowance (standard limit £1,073,100) is due to be abolished in the new tax year, starting on 06 April, just after Easter. Many will want to make changes in the first half of the tax year, especially if the ending of restrictive pension rule changes is reversed by new government views.

The months ahead will be a year of challenge and change with the likely position that we will head to the voting booths in autumn, if not sooner. The UK is not alone in having elections this year and America will see numerous elections due to be held in November 2024. The media coverage will be frenetic and perhaps a time of change in political directions for our respective nations whenever they occur over the next year.

Investment markets for 2023 offered mixed returns globally. American and European share markets largely offered significant returns, with UK indices seeing marginal increases being achieved. This is of course not a guarantee of future returns.

We believe that these example market variations continue to highlight the benefits of diverse asset allocation within client funds, based on individual attitude to investment risk. We recommend a regular review to ensure that your funds continue to match your requirements.

Since our last newsletter, we have had the Autumn Statement from the Chancellor, and have the Budget ahead on 06 March 2024. Unusually, there were some tax 'giveaways' in the Autumn Statement, and also some greater flexibilities in the use of overall ISA allowances, although the limits remained unchanged. We believe that there is still some surplus available and it will be interesting to see if he has 'kept his powder dry' for additional changes, such as the current inheritance tax thresholds, to sweeten the electorate as possibly the last opportunity before future voting occurs.

One area that did not remain static during 2023 was that of pension annuity rates, which saw a steady and strong rise over the year (approximately 40% on standard terms at age 65), levelling at their elevated position towards the end of the year. For those who are looking for greater certainty from their pension values, annuities may now offer attractive terms, although of course at the potential loss of flexibility. Annuity rates can fall as well as rise and it will be interesting to watch their position over the coming period. It should be noted that many annuity providers' administration speed is slow in recent times. More on this topic can be found later in this newsletter.

Inflation is anticipated to fall further during 2024, although it may be many months before this is reflected in any Bank of England base rate reduction, with inflation continuing to be their main target. We witnessed that the 'Bank of Mum & Dad / Relatives' was very busy during the past year, and I am sure this might well continue in the year ahead. We would advise careful consideration on large gifts to ensure that clients maintain their own cashflow both now and into later life.

Late 2024 sees Chapters Financial reach its 20th anniversary as a business, and we send our thanks for your support over the years.

Keith Churchouse



Stress-testing your retirement savings



The vast majority of workers in the UK are likely to be saving into a pension plan, thanks to workplace pension legislation – employers are now required to provide a pension scheme for their employees, which has meant that millions more people have been put into the pension system since automatic enrolment began in October 2012.

It's interesting to note that until 2020, the UK pension market was the second largest in the world, with only the US ahead, at 62% of worldwide pensions assets. In 2020, Japan overtook the UK, representing 6.9% to the UK's 6.8%, and in 2023, the UK slid into fourth place, mainly due to losses incurred within pension funds following the autumn 2022 mini-budget. (sources: Thinking Ahead Institute Global Pension Assets Study 2021 and 2023).

Despite the challenges we have all faced over the past few years, the UK pension market is still resilient, and for many people, pensions remain in place, invested and active. However, the recent period has brought into sharp focus for some the importance of reviewing retirement plans, as these for some have arrived somewhat earlier than expected owing to redundancy or changed life choices.

It is easy to forget about your pensions – and most of us have a number of them – old ones just sit there, active ones receive contributions every month, and that's about it. How many of us actually think about how much we are saving for retirement, in whatever form that takes, and whether it will be adequate for our needs when we do stop work? Don't forget the State Pension as well!

Calculating what you have and where it will get you can be complicated, and of course, both pension savings and expected needs in retirement will evolve and change over time. However, it is sensible to take stock of what you have now, whether it's in the right places, and how much it might give you in retirement – a 'stress-test', if you like, for your pension strategy.

These days, retirement income is likely to come from more than one source, and may include as examples pensions, investments, cash savings, property and more. There's a lot you can do to try to make sure things are as on track as possible for you and your loved ones, such as:

- Making sure your pensions and investments are invested in line with your attitude to investment risk and capacity for loss
- Checking that the plans you hold are competitive in their charging structure – some older plans can be significantly more expensive than more modern ones (but take professional advice before making any changes)
- Having a look at the contributions that you and your employer are making – could you save more? And if you do, will your employer match your increase?
- Using tax-efficient pension and investment allowances each year where affordable and available – for example, the ISA allowance of £20,000 each year and the annual allowance for pensions (normally £60,000 gross pa from all sources but varies depending on your circumstances)
- Checking that the nominations of death benefits on your pension plans are up to date and as you would wish, to make sure that your loved ones benefit in the event of your death
- Check your State Pension online at www.gov.uk/check-state-pension

A regular review of your retirement strategy with a qualified professional is a great way to make sure that you are doing all you can for a comfortable older age; some stress-testing now might avoid a lot of stress when you start to consider your options for retirement.

Is there a conflict between long term care and inheritance tax planning?



Conflicts of interest within financial planning don't come up very often for an individual; however, one area that does engender concern is the issue of providing for the potential need for long-term care, whilst also looking at ways to reduce the effects of inheritance tax.

We are aware that there is much speculation in the press that the Chancellor may make changes to inheritance tax charges in his Budget on 06 March 2024, and we plan to send our clients and contacts a tax card after his announcement to help update the position looking forward.

On the one hand, the need to cater for the costs of long-term care (as a rough estimate, approximately £1,500 per week in the South East / £78,000 pa – and that's out of net income) really does focus the mind on financial planning. On the other hand, the objective of reducing any liability to inheritance tax, charged at 40% above the nil rate band (and now with the residence nil rate band if applicable), possibly by gifting money away in good time, usually seven years to fall outside the estate, does not normally combine well with long-term care cost planning. Gifting assets away to save inheritance tax is common. However, if financial support is then sought from the local authority for care costs, the gifting can be seen as 'deliberate deprivation of assets', a specific term, and the gifting can be (and is likely to be) challenged by councils to cover their costs.

For reference on what to consider when paying for care costs, Age UK has produced various fact sheets. Two produced in April and May 2023 (Factsheet 10 – Paying for permanent residential care and Factsheet 46 – Paying for care and support at home) are very helpful in looking at the issues of paying for care, either at home or in a residential care facility. These factsheets can both be found at www.ageuk.org.uk.

It is important to assess the assets and income available, both now and into the future. Circumstances can and do change, and this may affect allowances available, such as Attendance Allowance. Attendance Allowance is paid at two different levels (lower and higher rate) and how much you get depends on the level of care that you need because of your disability. Attendance Allowance currently offers £68.10 or £101.75 a week to help with personal support for those over State Pension age, and more can be found on the Government website www.gov.uk/attendance-allowance.

Taking advice on the matters at hand from an adviser qualified to deal with the topics above is important with the aim of achieving all that is possible, particularly with the emotional issues that are involved in long-term care and inheritance tax planning. Please do contact us if you would like to discuss your own situation, or that of a relative.



Photo by Andrew Spybey@TheGuildfordian

What does the State give my spouse and family when I die?

Admittedly not the happiest of topics, but if you have not got much in your estate, this might be an important question for your loved ones as they pick up the pieces after your death. You may know that State Pensions were topical over 2023, with many struggling to be able to top up any missing years. The deadline for topping up has now sensibly been put back to 2025, and this has in part highlighted the real value that the State Pension offers. With inflation remaining high, the government's 'Triple Lock' has seen significant increases in pensions in payment over the last year or two.

Looking at the value that the State Pension can offer in the event of a death, amongst other plans, it can be a real conundrum in trying to grieve, whilst organising the funeral as you hope the deceased would want it, paying the costs, collecting together any papers and valuables, understanding what money is where, why and how it can be accounted for, before seeking to gain probate. A very helpful guide, notes on how to deal with some of the paperwork, and what needs to be considered may be found at www.gov.uk/when-someone-dies. This includes the useful 'Tell Us Once' system as a simple way of notifying many authorities in one go.

As a first important point, we would always advocate making a suitable Will and keeping it up to date.

Useful information on the benefits that are available can be found at www.gov.uk/death-spouse-benefits-tax-pension. The key points with regards to pensions are outlined below.

State Pension

You need to be over State Pension age to claim extra payments from your husband, wife or civil partner's State Pension and you should contact the Pension Service to check what you can claim. What you get and how you claim will depend on when you reached State Pension age.

If you reached State Pension age before 6 April 2016

You'll get any State Pension based on your husband, wife or civil partner's National Insurance contribution when you claim your own pension. It is important to note that you will not get it if you remarry or form a new civil partnership before you reach State Pension age.



If you reached State Pension age on or after 6 April 2016

You'll receive the 'new State Pension' and you may be able to inherit an extra payment on top of your pension.

Bereavement Support Payment

It is possible to be eligible for a Bereavement Support Payment from the State and you can find more details about what you might receive at www.gov.uk/bereavement-support-payment.

Private Pensions

Private pensions are dealt with in different ways, and it is usually important to make a nomination on these fund values in the event of death to guide scheme trustees to your chosen beneficiary(ies). These nominations can be updated, noting that we are aware that HMRC may investigate any pension nomination changes (or indeed any transfers) that occur within two years prior to death. HMRC will seek to ensure that the change was not arranged to avoid any tax on the pension benefits affected.

Under current rules, the value of your defined contribution pension plan remains outside your estate for inheritance tax purposes and would normally pass tax-free to your chosen beneficiary/beneficiaries on your death before your age of 75. After this time, the fund can pass to your beneficiaries but will be taxed at their marginal rate of income tax.

Final salary (defined benefit) pension benefits would normally provide a spouse's pension on death of the scheme member.

Summary

We can see from the links above that the State is not going to provide much. Therefore, making your own preparations and planning to protect loved ones is important in making sure that your legacy is as effective as possible, rather than the opposite.

What's in a word? Direction or discretion?



Pension Death Benefits

They sound like fairly innocuous words don't they - direction or discretion? In many situations, you might be quite happy to leave a death benefits decision to the discretion of someone you trust. However, you might be quite surprised at the difference it could make to the tax take from your pension pots if you die – two very similar words, however possibly two very different tax outcomes.

Care needs to be taken and this raises the question: how do pension death benefits work?

Money purchase / Personal pension type arrangement

Under a money purchase / personal pension type arrangement, on your death before the age of 75, the value of your pension pot can be paid as a lump sum (or a drawdown pension if the provider allows this) to any beneficiary free of any tax. On death after the age of 75, the value of the fund or a drawdown pension can be paid to any beneficiary and will be taxed at the beneficiary's highest marginal rate of income tax.

Your pension provider will be able to tell you how to put a death nomination in place, and this is usually either through a form or a letter to the provider. It's really worth doing, to ensure that the pension provider is aware of the people you would want to benefit if you die.

You could fairly argue that this is a way of providing free life cover to your loved ones while the pension fund remains in place and undrawn.

Options

You have two options (which are usually detailed on the nomination form). It's important to decide what you want and to select the one that is right for you:

Option A

Allowing the pension scheme administrator the ultimate say over who gets the death benefits of your pension plan (discretion). This would usually mean that the value of your pension pot will fall outside your estate for inheritance tax purposes and the funds should normally be available to your beneficiary/beneficiaries tax-free quite quickly. Pension scheme trustees will have a 'common-sense' approach and would usually pay the death benefits to whoever you've nominated. However, if there's a real anomaly (e.g. spouse and kids have been left out and need the cash) they are likely to raise questions and may change the direction of your original wishes.

Option B

Instructing the administrator / trustees exactly who should receive the death benefits of your pension plan, without giving them any choice (direction). This means that the death benefits will be paid out exactly as you instruct and they may be subject to inheritance tax. This won't always be the case, but unless you have a specific reason for wanting to put in place a binding instruction, it can be sensible to go for discretion rather than direction. This is because with direction, the death benefits may be taxed.

Please note that with either option, if you change your instructions and die within two years of achieving the change, HMRC reserves the right to check this to ensure that it was not made with the deliberate aim of reducing any tax they may otherwise have received.

Final Salary / Defined Benefit arrangement

The death benefits from this type of plan are likely to vary dependent on the scheme, but may include a pension, death in service payment and return of your pension contributions.

It is worth checking with the scheme to see how these add up to ensure that you maintain the protection you require for your family and loved ones.

Nomination Update

You can update your nominations at any time, so if your relationships / circumstances / wishes change then make sure you update your pension provider. And check your current nominations –

you might find you forgot to arrange one for a pension you started ages ago, or you might even find that it's nominated to someone who is no longer in your life and who you wouldn't want to benefit now.

We would recommend that you have a look at your old paperwork for nominees and if you can't find it, make new nominations – a few minutes' work now could make a big difference to your loved ones in the future.

Has the retirement income landscape changed?

Understandably, many find the options for providing pension income and tax-free cash daunting, with many abbreviations, words and phrases that are simply gobbledegook. The desire to access funds and benefits is there; it's just a case of which option, or combination of options, is best suited. And there are many pitfalls, particularly for those who do not seek advice and guidance. And there might be some big decisions to make to meet your overall financial needs.

Life junction

Accessing pension benefits is a big decision, indeed for many a life junction, perhaps at a point of ending or reducing working hours, mindful of some of the hobbies and pastimes that might be on the horizon with a little extra time. Our book, *Coming in to Land: Runway to Retirement* focuses on this life change and transition and more on this can be found at www.amazon.co.uk.

One question that arises is has the landscape of retirement income options changed over the last year to 18 months? Simply put, the answer is yes! One option that has come to the fore over this time is the purchase of a pension annuity for some or all of the funds (subject to your pension provider's rules).

Annuity rates have increased significantly over the course of the last year to 18 months (by an average of just under 40% on standard terms using the example of an individual aged 65). An annuity offers security of income on purchase; however, it usually means that the fund value is extinguished. As with most things financial, annuity rates can rise as well as fall and this indicated uplift position may change into the future. However, at the time of writing, annuities offer a value that they have been missing for many years.



State Pension check

Let's not forget that many rely on a few sources for their overall retirement income, and this can include the State Pension, particularly with the value that has been added by the triple lock over the last two years or so. Do check your State Pension forecast in good time, and if a shortfall is identified, then a top-up where available may offer value. More details can be found at www.gov.uk/check-state-pension.

Options & timing

We have detailed the way pension benefits can be accessed and used on our website www.chaptersfinancial.com.

If you are approaching a time when you need to consider your pension options, then start early. Two or three years out or more if possible is ideal, appreciating that leaving it to the last minute may not give the time needed to get the best from your existing arrangements.

Summary

With the annuity market changes noted above, we recommend a regular review of your retirement strategy with a qualified professional. This is usually a sensible way to make sure that you are doing all you can for a comfortable older age, or to at least manage expectations as to the income that may be available to you, usually combined with other sources of income, into the future.



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Fund mergers, closures, and mandate changes are not uncommon



During 2023 we saw an elevated level of changes being made to some individual investment funds, via mergers, closures and changes in fund investment mandates. We believe that this will continue into 2024, for a varied range of reasons.

The Financial Conduct Authority's (FCA's) Consumer Duty has encouraged many fund managers, amongst others, to look further at the costs, charges, and the economic viability of operating each fund to ensure that they continue to offer value for both the consumer and of course for the fund management company.

Often the reason for a fund merger or closure is simply the smaller size of the fund, rather than its performance or management, with smaller funds being merged with larger funds to provide economic viability for all. In some cases, the funds are not merged with another fund but are sold to cash, which can thereafter be reinvested as appropriate.

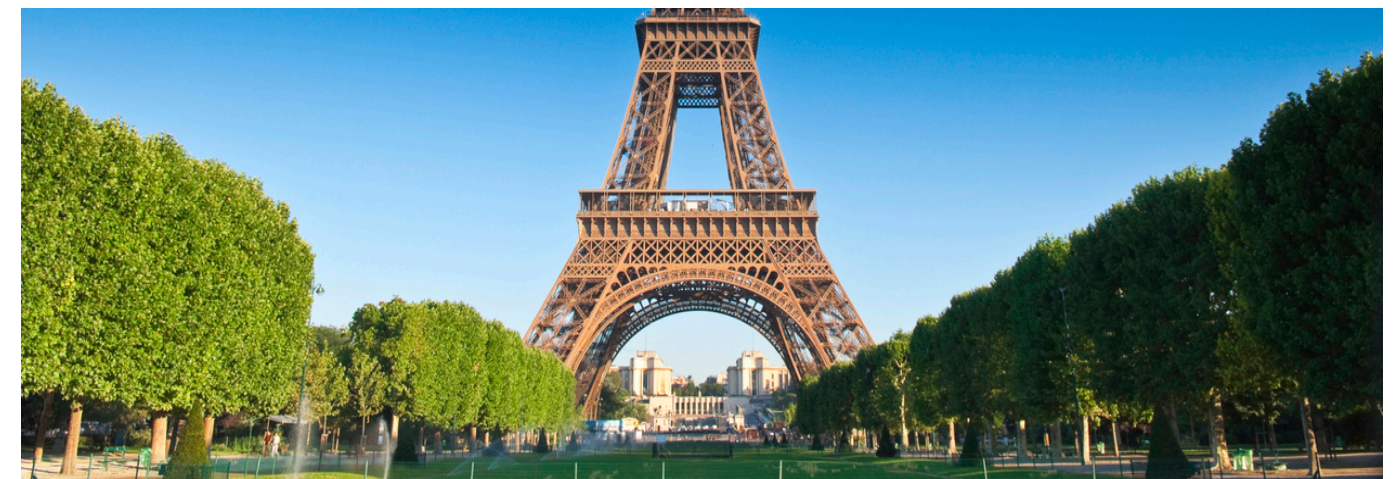
In addition, some funds change their existing investment mandate to provide greater scope for investment, and hopefully returns, although these are not guaranteed.

Most managers are required to provide significant notice when closing out a fund position and you may receive a notification directly in the post or through an investment portal. These are not uncommon in current times.

If you have any questions that arise from a fund change which is notified, then please let us know and we would be happy to check that any change continues to fit with the agreed asset allocation of your funds and your attitude to investment risk.

And finally ...

Paris 2024



It's going to be a big year for sport, particularly focused in the summer on the Olympics in Paris, France, beginning in July.

Billions of television viewers worldwide will watch over 350,000 hours of TV broadcast as 10,500 athletes take part at 41 venues. Many British spectators may plan to travel across the channel to enjoy an event or two.

You may not know that the five rings on the flag represent the inhabited continents of the world. The flag was designed to contain the colours yellow, green, blue, black and red which are usually common to most flags around the world.

Apparently, the highest (current) cost of hosting the Olympic Games was the 2016 Rio de Janeiro Summer Games, costing an estimated US \$11.1 billion!

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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