Essentially Wealth

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Quilter Financial Advisers

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Economic outlook – signs of optimism?

Despite significant headwinds, statistics released during the early stages of the year have revealed that the global economy has shown signs of resilience. Economists began upgrading growth forecasts as a result and the World Economic Forum's latest Chief Economists Outlook has highlighted indicators of 'nascent optimism.'

First quarter data has shown that the global economy performed better than most economists had expected, with growth recorded across all regions. Uncertainty continues to be a key feature, with pressure being exerted from a number of issues.

Inflationary pressures set to recede

For policymakers around the globe, tighter financial conditions and persistent inflationary pressures remain key challenges. While economists do expect inflation to fall over the rest of the year, this decline is predicted to be slower paced than previously anticipated.

'Enabling resilient economic growth'

During the World Economic Forum's recent Growth Summit, a key theme was *'enabling resilient economic growth'* with conversations focusing on equitable globalisation and sustainable, inclusive growth. Their updated forecast highlighted a notable strengthening in growth expectations, although sharp regional variations are evident. With China's reopening expected to drive a rebound, buoyant activity is predicted for Asia, while growth prospects are thought to be less robust in Europe.

An improving outlook should create opportunities for investors. The divergent regional dynamics and uncertain backdrop inevitably means asset, sector and geographic diversification will remain a vital component in any investor's armoury, as will professional financial advice.

Striking the right balance

It comes as no surprise, with financial challenges impacting everyone's pockets, that parents are prioritising worries regarding their children's finances above their own, a trend highlighted in a recent survey of advisers[1].

According to the survey, 55% of respondents specified that amid cost-of-living challenges adult children were being prioritised in clients' wealth planning, with many stepping in to help with their offspring's financial struggles.

Top requests made by parents keen to provide financial support include releasing funds (25%) for their adult children. While 55% of the surveyed advisers have clients choosing to access their pension savings to enhance their disposable income to support family members, with 18% of those clients taking an additional lump sum specifically to help their grown-up children. Over half of advisers have clients keen to adjust their finances, with 40% reportedly requesting advice on ensuring investments stay ahead of inflation.

Although people are understandably concerned about their children's financial circumstances, it's important to be mindful about striking the right balance and not to lose focus on your own financial objectives.

[1]Royal London, 2023

IHT hits the mainstream

Recent data from HM Revenue & Customs (HMRC) has shown that Inheritance Tax (IHT) receipts for the 2022–23 tax year totalled £7.1bn, up £1bn from the previous tax year. With receipts consistently rising, this significant uplift can be attributed in part to *'a combination of the recent rises in asset values and the government's decision to maintain the IHT nil rate band thresholds at their 2020 to 2021 levels up to and including 2025 to 2026,'* according to HMRC.

Over the next five years, IHT is expected to bring in £38bn for the Treasury, as detailed in the Spring Budget. This means annual receipts should exceed £8bn by 2027-28, with 6.7% of deaths expected to trigger an IHT charge, versus 3.76% of UK deaths in 2019-20.

Previously regarded as a tax on the wealthy, record receipts have prompted suggestions that the tax has now become mainstream, with elevated house prices and frozen thresholds having an impact despite the main residence nil-rate band introduced in 2017.

The good news...

Expert planning can help you legitimately mitigate IHT, so you can pass on assets to your family as you'd intended. Depending on your unique circumstances, there are different strategies you can implement such as considering placing assets into trust, making use of exemptions, making gifts during your lifetime, and thinking about leaving something to charity. With reliefs and exemptions on gifts to consider and the interaction with other taxes, IHT is complex. With many more estates likely to be subject to IHT over the coming years, taking expert advice has never been so important.

Top requests made by parents keen to provide financial support include:

25%
release funds for their adult children

55%
access their pension savings to enhance their disposable income to support family members

18%
take an additional lump sum specifically to help their grown-up children

What's changing with your pension?

Several changes to pensions were announced during the Spring Budget. Regarded as the most significant since pensions freedoms in 2015, the changes, expected to provide greater flexibility and opportunity, have largely had a positive reception. The overhaul is intended to make it more straightforward for individuals to accumulate a bigger pension pot and not be penalised by taxes.

The changes primarily impact high earners, those with generous company pensions and those planning to aggressively fund their pensions later in life. The government hopes that the changes will incentivise people in certain high demand, high earning professions such as NHS consultants to delay retirement.

Some of the main changes took effect from 6 April 2023, and include:

- The **Lifetime Allowance (LTA)** charge was removed, with the LTA (currently £1,073,100) itself expected to be formally abolished (likely to be April 2024), allowing people to save more into their pension over their lifetime without facing tax charges for exceeding it

- The standard **Annual Allowance (AA)** increased from £40,000 to £60,000 (max 100% of earnings), allowing many individuals to pay more into their pension each tax year and receive tax relief on it. Individuals are still able to carry forward any unutilised allowance from the previous three tax years. Increasing the AA will particularly benefit workers approaching retirement who may have neglected pension saving in the past, who will be able to pay more into their pension each year and receive tax relief

- The **'adjusted income'** threshold for Annual Allowance tapering increased from £240,000 to £260,000 and the minimum tapered Annual Allowance increased from £4,000 to £10,000 (meaning that individuals with annual adjusted income of £360,000 or more will have an Annual Allowance of £10,000). The tapered Annual Allowance is the reduced pension Annual Allowance that is applied to those who now have an 'adjusted income' over £260,000; for every £2 earned above the £260,000 threshold the normal Annual Allowance is reduced by £1

- The **Money Purchase Annual Allowance (MPAA)** increased from £4,000 per tax year to £10,000, to encourage those drawing a pension to continue working. This is the amount you can pay into your pension after you have accessed pension benefits, and still enjoy tax relief. The additional MPAA means anyone already using their pension but continuing to work, or looking to return to work, will be incentivised to do so as they can increase the size of their pension pot and receive tax relief.

To ensure you make the most suitable decisions with your pension and to maximise your pension provision without encountering tax issues, professional advice is essential.

Boardroom gender balance – *"a defining moment"*

The target of achieving 40% female board representation in FTSE 350 companies has been met three years early, according to the latest FTSE Women Leaders Review[2].

Women's board representation increased by nearly 3% in 2022 across the FTSE 350 (40.2%), a stat the government describe as *'a huge milestone'*. Minister for Women Maria Caulfield commented on the news, *"Making sure the right people are in the top roles is not just morally right, it makes good business sense. I'm delighted to see this huge progress, years ahead of when we expected it."*

This is significant when you consider that, just over ten years ago, 152 of the FTSE 350 boards had no women on them at all. The report highlights *'steady progress'* in getting women leaders to the top table of business in the UK, with Nimesh Patel and Penny James, co-chairs of the Review, describing the achievement as *"a defining moment and testament to the power of the voluntary approach and the collective efforts of many businesses and individuals over the last decade."*

[2]FTSE Women Leaders, 2023

Are you a new tax year front runner?

Investing early in the tax year can offer several benefits:

- It gives your investments more time to grow tax-free or tax-deferred, benefiting from compounded returns
- There is time to spread your contributions throughout the tax year, making budgeting easier
- It can help you avoid a last-minute rush to make contributions before the end of the tax year, which can lead to missed opportunities or mistakes.

Goal setting and staying power

Think about what you want for yourself and your family in the future. By considering your financial goals, we can develop a financial plan that aligns with those goals. Maintain discipline and keep focused on your long-term objectives, even during market fluctuations.

We can work with you to identify your financial goals and establish plans so that you can get ahead early in the tax year, providing powerful strategies for building wealth and achieving financial security.

Setting the record straight

Do you feel the world of investing is shrouded in mystery, only accessible to the super-rich? In reality, this isn't the case at all. Let's separate myth from reality...

Research[4] has highlighted why people are sometimes reluctant to invest, with the prime reason (cited by 45% of respondents) being they don't think they have enough money. Just under a quarter of respondents (23%) feel they are not knowledgeable enough about investing and 21% are worried about losing money.

These findings mirror a number of common misconceptions surrounding investing, one of which is that only wealthy people invest. While this may have been the case in the past, it is certainly not true nowadays, with investment options available for people with smaller sums to invest.

You also don't have to be a stock market genius and monitor your investments on a daily basis. Advice is readily available to guide investors throughout their investment journey, while taking a long-term approach is always advisable.

Risk averse?

All investing does involve risk – that's true, but not all investments are similarly risky. Anyone who is concerned about losing money can adopt a more cautious approach by holding a higher proportion of less-risky assets in their portfolio.

New to investing?

Investing gives everyone an opportunity to potentially secure a higher return on their hard-earned money. We can help get you started.

[4]HSBC, 2022

Locked Child Trust Funds

According to a new report[3], around 80,000 young people who lack the capacity to make financial decisions have been unable to access money in their Child Trust Fund (CTF).

Instead of being able to withdraw their money when they turned 18, families are having to pay to go through the Court of Protection (CoP), a lengthy and costly process. Ministry of Justice figures show that just 15 CTF accounts were accessed through this method in 2021. By 2029, the report suggests there could be up to £210m locked in CTF accounts, with some young people having as much as £75,000 in their account.

In 2021, the government announced plans to simplify the process for families of disabled children to withdraw money from CTFs, without the need to get permission from CoP.

Following a year-long consultation, earlier this year the government decided to retain the current process to *'protect against fraud and abuse.'*

[3]Renaissance Legal, 2023

The impact of age on (your) life insurance

When determining the cost of life insurance, age is a key factor. In general, the younger someone is when they purchase a policy, the cheaper regular premiums are likely to be because the risk to the insurer is lower, as younger people are statistically less likely to die during the term of the policy.

It makes sense that as you age, the cost of new life insurance cover generally increases because the likelihood of death increases, especially true for people who have developed health issues or who engage in risky behaviours including smoking or extreme sports.

For example, a 65-year-old smoker with a history of health problems is likely to pay significantly more than a 25-year-old non-smoker in good health for the same level and duration of cover. Insurers will also consider your age when determining the length of the policy term, with longer terms generally being available to younger people. Although maximum age limits vary, many insurance companies offer a maximum term of around 40 years.

Other factors

Age is just one factor affecting the cost; the insurance company will also consider your occupation, family medical history, overall health, lifestyle and the length of policy.

In general, the younger someone is when they purchase a policy, the cheaper regular premiums are likely to be because the risk to the insurer is lower

Respect your retirement (planning)

According to research[5], 90% of people currently in their 30s and 40s are saving less than they need to sustain a decent standard of living in retirement. The researchers established that the current generation of pensioners is doing better than any previously, although they did conclude that future generations won't fare as well.

It seems many employees are saving very little for retirement, with 60% of middle-earning private sector employees who contribute to a pension, saving under 8% of their earnings. Especially concerning though is the fact that fewer than one-in-five self-employed workers are saving into a pension.

Paul Johnson, Director of the Institute for Fiscal Studies, who conducted the research, commented, *"Despite the number of self-employed people growing considerably, many fewer of them are saving in a pension. Most private sector workers are left having to manage considerable risks – not least over how long their retirement will be – which for many will be incredibly difficult to balance well."*

The big picture

Current rules allow you take money from your pension at age 55 (57 from 2028), but you may not have enough in your pension pot to make this a viable option. Remember though - even small contributions, made regularly, can help boost your pension pot and you'll get tax relief too.

Discussing your options with us can give you the bigger picture and help you to be realistic with your plans. We can help you to plan for an enjoyable and fulfilling retirement, whatever your circumstances.

[5]IFS, 2023

Purposeful financial decisions to tackle inflation

Official statistics show the headline rate of inflation peaked at a 41-year high of 11.1% last October, and although economists expect it to continue falling for the rest of this year, the rate has so far remained stubbornly high.

Over the last year, the elevated rate of inflation has had a far-reaching effect on people's financial circumstances, but research[6] suggests the impact is not widely understood, with over half of UK adults failing to grasp how rising prices eat into the buying power of their savings.

Damage limitation

Taking time to review your financial choices can ensure you continue to make appropriate decisions that will limit inflation leaving a lasting impression on your financial future. For example, inheritance is one area where high inflation can have a profound effect. When combined with the continuing nil-rate threshold freeze, soaring prices inevitably mean more estates are likely to be dragged into the Inheritance Tax net. Careful planning can limit any future liability and preserve people's ability to pass on assets.

Cost-of-living pressures are leading many people to cut back on pension contributions to make ends meet, without realising the lasting damage such decisions can make. Analysis[7] based on various assumptions (about factors such as salary, investment growth and pension contribution rates) shows that if someone opts out of pension contributions for five years in their 20s it could reduce their final retirement pot by £114,000 at age 66.

Reconnect

It is often worth revisiting what initially inspired you to set your financial goals in the first place. Reconnecting with those original motivations can encourage you to stick to your plans and help maintain control over your financial destiny. We can implement a plan to limit inflation's impact on your future financial wellbeing.

[6]Aviva, 2022, [7]Standard Life, 2023