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YOUR WINDOW ON ***MONEY*** SUMMER 2024

Brighter days ahead

This year, summer brings hope of a better financial future as inflationary pressures recede and the economy continues to grow. It could therefore be an ideal opportunity to prioritise a range of pension-related issues in order to ensure brighter days do lie ahead.

Pension withdrawals up

Many people have faced significant financial challenges over the last few years. Recently released Financial Conduct Authority data covering 2022/23 highlights these difficulties, with the number of pension plans accessed for the first time up by 5%. However, as recent challenges begin to ease, it is hoped that, rather than dipping into pension savings, people's focus will increasingly return to boosting their retirement pots and sorting out other pension-related concerns.

Expression of wishes

One pertinent issue relates to inheritance, with research[1] showing that almost half of all UK pension savers have not considered who will inherit or otherwise benefit from their retirement savings. Since April's Lifetime Allowance changes, decisions around pension beneficiaries have become more vital due to the way such pensions are taxed on receipt. It is therefore extremely worrying that the research also found over half of respondents had not completed an expression of wishes form, with a further one in ten unaware if their forms were up to date.

Taxing issues

Most people appreciate the tax advantages associated with pension contributions, but what is often less well-known is their potential to pass on wealth tax-efficiently. This means pensions can play an important role in supporting loved ones after you pass away. Pensions can also be advantageously used to navigate the Child Benefit trap, as pension contributions reduce taxable income and can thereby enable some people to avoid paying the Child Benefit Charge.

Pension conversations

We all appreciate the importance of devoting time to our pension arrangements now to ensure we reap the benefits later. If you need help with any retirement-related issues, we can talk through your options and make sure you are maximising your pension benefits.

[1]Canada Life, 2024

Positive news for UK dividends, but will it continue?

Dividend investors have been rewarded so far in 2024, with payouts from UK shares rising by 4.9% in the first three months of the year compared with the same period in 2023[2].

The data tracks dividend payouts from 900 UK companies and comes as good news for income seekers. Computershare upgraded their headline forecast from £93.9bn to £94.5bn in total payouts for 2024 – a 4.3% year-on-year increase versus the previous forecast of 3.7%.

Most of this is likely to be driven by special dividends, which are expected to be significantly larger than in 2023. Regular dividends are predicted to be worth £89.5bn, up 1.5% year-on-year, down from 2% last year.

What about share prices?

While dividends rose, so did share prices. As a result, prospective yields on UK equities are around the same as a year ago at 4% on average.

The fastest dividend growth rates so far this year have been in the airline, leisure and travel sectors, which continue to recover from the pandemic. However, according to the report, banks are likely to make the largest contribution to dividend growth in the UK for the third year running.

[2]Computershare Dividend Monitor, 2024

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Financial goals fall by the wayside

A poll has found that 57% of adults had money-related goals for 2024, such as reducing debt and wanting more disposable income[3]. However, two-thirds (67%) had given up on achieving their financial aims by the end of Q1; 16% said this was due to having unrealistic expectations, and 10% put it down to laziness.

Retirement clients fear exhausting their savings

A survey of financial advisers has revealed what clients are most worried about when it comes to retirement. Some 71% of respondents reported that the most common client fear is running out of money[4]. Meanwhile, 64% of advisers cited the cost-of-living crisis as a cause for concern, and 49% mentioned the costs of long-term care.

Wedding guests have a price to pay

About 9.5 million Brits have plans to attend a wedding this year,[5] but the celebrations come at a cost, as research suggests that an average guest spends £398 on a UK wedding. Getting married abroad is becoming increasingly popular, with guests typically expecting to pay about £1,000 each if they attend a destination wedding[6].

Gen Z most financially confident

Younger generations are more confident about their finances, a study has found[7]. In a survey of employees from across the globe, 38% of Gen Z (born between 1997 and 2012) said they were very confident about reaching their financial goals. However, only 23% of Gen Xers (born between 1966 and 1980) felt the same.

[3]NatWest, 2024, [4]Aegon, 2024, [5]Censuswide, 2024, [6]Aviva, 2024, [7]nudge, 2024

ISAs: 25 years and counting

Since being launched on 6 April 1999 as successor to PEPs and TESSAs, the Individual Savings Account (ISA) has become an integral part of the UK savings and investment landscape.

Worth celebrating

By any measure, the humble ISA has been a huge success. The latest HMRC figures show that more than 22 million UK adults have one, with the combined market value of these accounts standing at over £740bn. Their principal benefit is that holders do not have to pay tax on dividends, interest or capital growth; indeed, in total, ISAs will collectively save investors around £7bn in tax this year.

Maxed out

Estimates[8] suggest that anyone who invested the maximum stocks and shares annual ISA allowance each year over the last quarter of a century could, depending on the performance of their chosen investments, have accumulated an investment pot worth around £900,000.

The evidence also suggests that people who invested early in a tax year were likely to have amassed a larger amount than those who waited until the end – in other words, it's time in the market that counts rather than timing the market.

Make the most of your allowance

By any measure, the humble ISA has been a huge success

For some people though, little and often is the preferred way to invest in ISAs and this approach can certainly amount to significant sums being saved as well. Indeed, whether investing a lump sum or saving on a regular basis, the real key is making sure you utilise as much as possible (having regard for other aspects of your current and future finances) of your ISA allowance each year.

[8]Vanguard, 2024

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Why *'home bias'* could mean missing out on investment returns

Does your investment portfolio suffer from too much *'home bias'*? It's natural for investors to stay close to home when thinking about investing, contemplating well-known UK companies or UK-focused funds rather than looking further afield. But if your portfolio becomes too heavily concentrated in the UK, you risk missing out on valuable diversification benefits and better potential returns elsewhere.

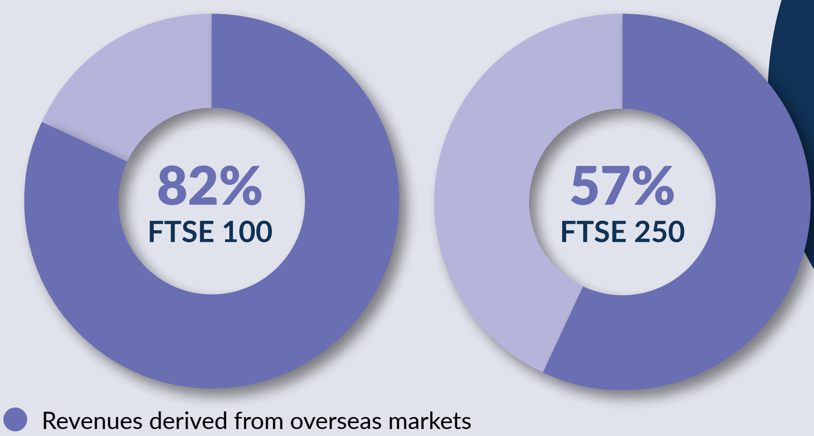
The drawbacks of home bias
One of the biggest reasons to avoid home bias is that it limits your portfolio's growth potential. Investing with a global perspective opens up your portfolio to a world of different countries, industries and companies to invest in, potentially leading to higher returns over time. Importantly, investing globally means you're more likely to gain exposure to high-growth sectors or companies that are not always present in your domestic market, whereas sticking with the UK means narrowing your opportunities, even if you own some outstanding local companies.

The benefits of diversification
At the same time, home bias in a portfolio breaks one of the biggest investment rules: diversification. Spreading your portfolio across different asset classes, countries and companies is one of the simplest – yet most effective – ways to mitigate risk within your portfolio and helps you achieve more consistent returns over time. Studies and historical data show that including international investments in a portfolio can lead to better risk-adjusted returns due to diversification benefits, though geopolitical risks must be considered. Global markets offer a wider range of asset classes and reduce your vulnerability to economic downturns specific to your home country.

However, over-diversification is a risk to be wary of too! It occurs when additional investments diminish returns without lowering risk significantly. Regular reviews and rebalancing help maintain a well-diversified portfolio and manage any potential concentration risk that may occur over time.

Ready to invest?
Recent research suggests that some Britons are starting to save more despite the cost-of-living crisis[9]. Now might be the right time to start thinking about investing if you have some money on the sidelines.

[9]Aldermore, 2024



Did you know

the UK's blue-chip index, the FTSE 100 is more exposed to foreign revenues than those in the mid cap orientated FTSE 250; with around 82% of the FTSE 100 revenues derived from overseas markets? This falls to nearly 57% for the FTSE 250.

Making sure you're sufficiently insured in your 'middle years'

Research[10] has found that people in their 30s and 40s could be slipping through the net when it comes to protection cover.

The data highlights that those in this age bracket are more likely to have inadequate protection cover for their mortgage, should the worst happen.

Has your protection caught up?
Many people experience significant life changes in their 30s and 40s, so it can be easy to forget to update your life insurance accordingly. With each 'trigger' event like getting married, becoming a parent or buying a house, comes a potential extra layer of cover that is needed to safeguard the future for you and your loved ones.

Protection provides a lifeline
So, it is vital to review your protection cover at regular intervals to make sure you have enough cover that is suitable for your unique circumstances.

[10]HL, 2024

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments

What advice would you give to your younger self?

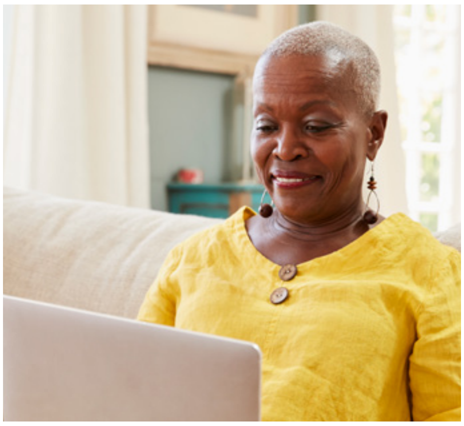
A survey[12] has found that 51% of people would tell themselves to start saving as soon as they can. Meanwhile, 41% would say to take more care of their health, and a third would advise worrying less about what other people think.

How old do you feel?
The same report also asked UK adults when they are likely to start feeling old, with most respondents saying their 50s and 60s. However, with people living longer, you could only be halfway through your life at the age of fifty. That's why it's important to have a financial plan in place that will allow you to enjoy a long and happy retirement.

No regrets
Regardless of how old you are, it's never too late to heed the advice and start saving, while having an emergency fund should be an objective, putting money into your pension should be a key priority too. Even a small increase in contributions can have a significant impact on the opportunities you create for yourself in later life.

Talk it through
Everyone's goals for retirement are different. We can help you understand how much you need to save depending on your specific needs.

[12]Aegon, 2024



Is your pension FSCS-protected?

The Financial Services Compensation Scheme (FSCS) has launched a public awareness campaign to emphasise the importance of ensuring your pension is FSCS-protected.

Why do I need it?
FSCS can protect you if your pension provider goes out of business. You may not think this will be an issue for you, but customers have lost nearly £2bn of their savings since 2019[11]. In that time, FSCS received over 43,000 claims relating to pensions losses.

Jeff Stelling captains campaign
FSCS has teamed up with Jeff Stelling MBE, sports broadcaster and football presenter, who spoke more about FSCS protection in a campaign video. He explained, *"The impact of losing retirement savings can be devastating. While they vary for each individual, negative outcomes can include a much lower than expected quality of life, with some forced to sell their homes, stay in work for longer than planned, or scale back their retirement plans."* Stelling called upon viewers to take action, saying, *"It has never been more important that you take time to check your money – and your future – is protected."*

How can I check?
FSCS has a free online tool (www.fscs.org.uk/check/pension-protection-checker/) which allows you to quickly check if your pension is protected, and how much compensation you would be eligible for, conditions do apply. Doing this now could not only protect you in future, but it will also give you peace of mind that you have done all you can to keep your savings safe. Please contact us with any questions on your pension.

[11]FSCS, 2024

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It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency. Taxation depends on individual circumstances as well as tax law and HMRC practice which can change.

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All details are correct at time of writing – June 2024.

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