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Money++

from Griffins Financial Solutions

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Are you holding too much cash?

When inflation rises, cash needs careful management.

A recent strategy paper published by the Financial Conduct Authority (FCA) stated, "Many consumers who might gain from investing currently hold their savings in cash." Those words may sound as if they originated from a trade lobby for investment managers, but unusually, it's the FCA that is concerned. Research carried out on its behalf revealed that over a third of adults with more than £10,000 of investible assets held all those assets in cash.

Make no mistake: we all need some readily available money – a rainy day reserve – to help us cope with the unexpected, be it a car repair or broken boiler. Ideally, such money should be in an instant access account, so that it is immediately available, although at present these accounts pay minimal interest.

When interest rates are below the rate of inflation, the longer you hold cash, the more buying power it loses. For example, over the last five years to September 2021 annual CPI inflation averaged 2.1%, making £100 in September 2016 worth £89.95 half a decade later. During that period the Bank of England base rate was never above the inflation rate.

Interest rates are now expected to rise, but only gently, given the headwinds faced by the UK economy. Meanwhile, inflation is projected to be above 4% by January 2022. If you want to preserve the long-term value of your money, whether it is personal capital or invested in a pension plan, now is the time to consider alternatives to deposits. To discuss the non-cash options that best suit your circumstances, please contact us.

✢ Investments do not offer the same level of capital security as deposit accounts. The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.

achieving your goals, together

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The cost of retirement: setting your own standard

New research confirms the growing gap between what the State pension provides and a comfortable retirement.

In April 2022, all state pensions will increase by 3.1%. The new state pension will reach about £185 a week, approximately 5% less than if the triple lock basis for increases remained in place for 2022.

The new state pension rates came out shortly after an updated report was published looking at retirement living standards. The report calculated the cost of three different baskets of goods and services that equate to three retirement living standards:

- *minimum,* where income covers all needs, with 'some left over for fun';
- *moderate,* providing more financial security and flexibility; and
- *comfortable,* offering greater financial freedom and 'some luxuries'.

The research put annual after-tax costs to each living standard for couples and singles, with an adjustment for higher London expenses:

	MINIMUM		MODERATE		COMFORTABLE	
	Standard	London	Standard	London	Standard	London
Single	£10,900	£13,200	£20,800	£24,500	£33,600	£36,700
Couple	£16,700	£21,100	£30,600	£36,200	£49,700	£51,500

Source: Pensions and Lifetime Savings Association

Adjust for tax and, for example, a couple living in the Midlands who want a comfortable standard of living would each need pension income of about £28,000. The new state pension from April 2022 will be £9,628 a year, leaving a significant gap if your goal is anything other than a minimum retirement living standard (no car, no European holiday).

Bridging the gap between the retirement living standard you want and what the state will provide requires private retirement provision. Determining how much the gap-filling will cost and what form it takes begins with a detailed review of your current retirement plans. The sooner you contact us to start that process, the longer the period over which you can spread the investment required.


Credit: Image Source Collection/ Shutterstock.com

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Social care plans for England: not all they seem

The long-awaited details of funding new social care plans for England have been released – with associated UK-wide tax rises.

The basis of the new English social care regime was announced by the Prime Minister in September this year, with an update in November. Its key features are:

- **Start date** The new regime will only apply in England from October 2023. Any care costs incurred before then are ignored.
- **Fee cap** A cap of £86,000 (index-linked) on the total care costs you must to pay from your own resources will be introduced. This will cover only your personal care costs not the so-called 'hotel costs' of care, which will be set at a flat £200 a week.
- **Capital limits** The upper capital limit above which you must meet all your care costs (until the fee cap is reached) will rise from the current £23,250 to £100,000. The lower capital limit, below which you are not required to use your savings, increases from £14,250 to £20,000.
- **Income tariff** If you have capital between £20,000 and £100,000 you will be required to make an 'income tariff' contribution from that capital, which will be £1 a week for each £250 of capital over £20,000.

The corresponding tax rises begin from next tax year and will operate throughout the UK.

- All the main and higher rates of National Insurance Contributions (NICs) for employers, employees and the self-employed will effectively rise by 1.25 percentage points.
- From 2022/23 the tax rates on dividends will also increase by 1.25 percentage points.

Despite the large tax rises, the changes could still leave you having to meet all your social care costs, something that you should consider building into your retirement planning.

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Set the clock for year-end planning

There will be no Budget in spring 2022, leaving the path clear for your year-end tax planning.

The two Budgets of 2021 delivered a substantial amount of deferred tax increases, from higher corporation tax through to extra National Insurance contributions (NICs) and dividend tax. Fortunately, the October Budget did not add any more significant tax rises. Tax levels are set to rise to their "highest sustained level in peacetime" according to the Institute of Fiscal Studies. That might explain why the Chancellor included in his speech the statement that "By the end of this Parliament, I want taxes to be going down not up".

Pensions

Your starting point should be to check whether you have any unused pension annual allowance (£40,000 before tapering during the years considered here) from 2018/19. You have until the end of the current tax year to mop up this past allowance or lose it completely. However, it can only be used once your 2021/22 annual allowance is exhausted.

Unused relief can also be picked up from the years after 2018/19, again once the current year's allowance is covered. The calculations involved can be complex, so please contact us as soon as possible if you want to take advantage of this carry forward option.

Capital gains tax

In May 2021 the Office of Tax Simplification (OTS) published the second part of a review of capital gains tax (CGT), originally requested by Mr Sunak. Some radical proposals could have significantly increased the tax payable by many investors. At the end of November, however, the Treasury formally rejected any major CGT redesign, simplifying potentially complex year end CGT planning.

If you have capital gains in your portfolio, you should consider realising them up to your available annual exempt amount before the end of the tax year. You could reinvest the proceeds in an ISA or a pension.


Credit: Joyseulay/Shutterstock.com

Inheritance tax

Inheritance tax was also subject to a separate OTS review undertaken before the CGT review. The absence of any mention of the IHT reports in the last three Budgets has, like the CGT review, complicated year end planning. Again the Treasury has now removed that uncertainty, confirming that it accepted only one (administrative) proposal and rejected all others. Now is a good time to consider using the three main yearly IHT exemptions (£3,000 annual,£250 small gifts and 'normal expenditure out of income').

ISAs

The value in tax-free ISAs is growing due to the frozen personal allowance and higher rate threshold, dividend tax increases and rising inflation. There is no carry forward of your ISA allowance, so make sure you review your 2021/22 ISA contributions before 6 April.

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Keeping up with powers of attorney

The number of people registering a lasting power of attorney (LPA) dropped by 30% during the first year of the Covid-19 pandemic.

An LPA is a legal document citing who will be responsible for your financial welfare or personal care if you are no longer able to make these decisions. As Covid hit it became more difficult to complete these forms which require the signatures of the person setting up the LPA, the certificate provider and the individual (or individuals) appointed as attorney. Donor and attorney signatures also needed to be independently witnessed.

Covid protocols

However, guidance introduced to combat these difficulties now enables people, particularly those who might be shielding for health reasons, to complete these processes in a more Covid-secure way.

Tailor the LPA to you

You don't need to be old or in ill-health, however, to set up an LPA. It can be set up so that your attorneys can start making decisions on your behalf straight away, or not until such time as you are deemed to have lost mental capacity. In England and Wales LPA forms needs to be registered with the Office of the Public Guardian (OPG). This process can take up to 20 weeks and costs £82.

Scotland and Northern Ireland

In Scotland residents need to apply for a Power of Attorney (PoA), which is registered with the OPG Scotland. In Northern Ireland an Enduring Power of Attorney can be registered through the Office of Care and Protection.

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Christmas gifts that keep on giving

An investment could be a wise present to children this Christmas.

What are you going to buy your children or grandchildren this festive season?

Supply chain issues, widely reported in the media, are likely to limit the choice of presents available in 2021. As an alternative yuletide approach instead of toys, why not make a longer-term gift of an investment?

There are several obvious advantages: there's no risk of stock shortages, no batteries are required or tricky wrapping and it cannot be broken or discarded on Boxing Day.

Most importantly, an investment is something set aside for a child's future, potentially offering an early piece of financial education. Such an initial grounding matters because even in the 15–18 age range, over a third of children have no in-school access to financial education according to recent research.

The choice of investments and how ownership should be structured depends upon a variety of factors, not least of which is tax. Children are nearly always non-taxpayers. However, if an investment is given to a minor unmarried child by their parent,any income generated may end up being taxed as if it were the parent's own.

No such rule applies to gifts from grandparents. Using a trust to hold the investment will give the person making the gift more control over when and how it is used. For information on this and other aspects of investment gifts, please talk to us.

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Taking your pension lump sum?

Withdrawing the tax-free lump sum from your pension at an early age could put your financial security in retirement at risk.

Some savers can currently access their pension savings from the age of 55, and in most cases can withdraw a quarter of this fund as a tax-free lump sum. Any withdrawals above this level will be subject to income tax.

New research by Legal & General found a third of women (33%) and 22% of men withdraw the full 25% tax free lump sum at the age of 55. This money is often used to fund home improvements and holidays, with surplus money often squirrelled away in bank accounts and cash ISAs. But at the age of 55 most people are still at least ten years away from retirement. Spending this money can seriously reduce retirement savings, while switching to cash means losing out on any future investment growth.

Potential pitfalls

Accessing your pension early can create other problems. Withdrawals of more than 25% may be subject to income tax at the marginal rate. Significant sums can potentially push you into a higher tax bracket. Those taking more than 25% also face restrictions on future pension savings, with the annual allowance falling from £40,000 to £4,000 a year.

The L&G research found a significant number of those taking their tax-free lump sum had other savings they could use for short-term spending needs. Keeping money in your pension should maximise its long-term growth and may be more tax-efficient. Remember this 'tax-free' option does not disappear after age 55. You can withdraw the lump sum later, when it may be 25% of a larger fund.

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