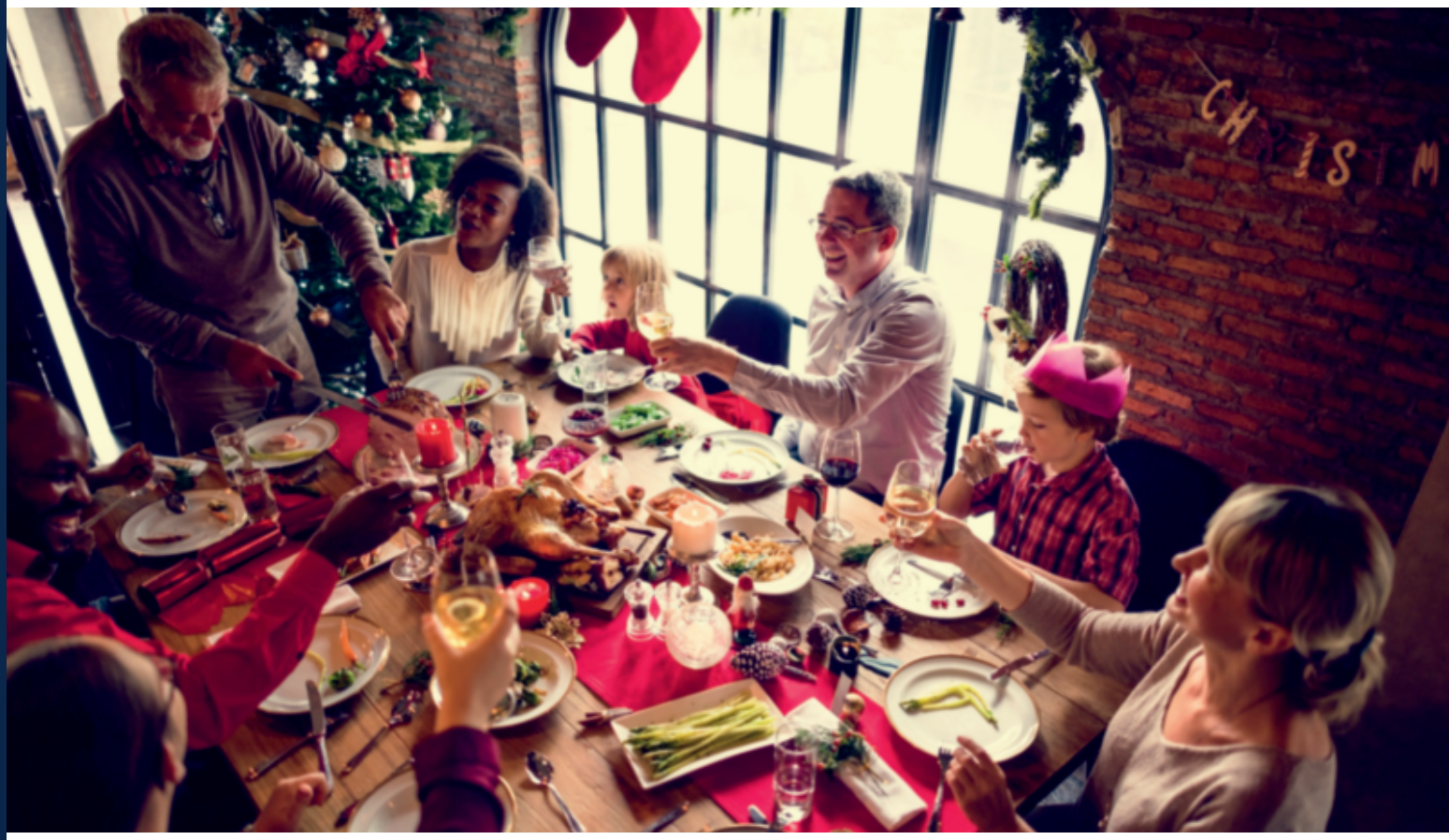
BULLETIN

YOUR ESSENTIAL FINANCIAL BRIEFING

ISSUE FIVE



Welcome to this series of topical articles to help you navigate your financial world

CALLUM AVELING
Wealth Management Consultant

SOVEREIGN WEALTH LTD
Principal Partner Practice of St. James's Place Wealth Management
Tel: 01302 721 633 | 07971 229 701
callum.aveling@sjpp.co.uk
www.sovereign-wealth.co.uk

SOVEREIGN
WEALTH

Use the Christmas period to get on top of your finances

Now is the time to take stock and make sure you're financially fit for the coming year

For most people the festive period represents some much-needed time and space before the new year begins and soon runs away with us, plus a chance to relax with friends and loved ones.

But this free time might also be a golden opportunity to refocus your finances and decide where you want them to be in the future. If that's the case, how can you take advantage?

NO TIME LIKE THE PRESENT

The first step is to address any gaps or issues that became evident during the year.

That might be about building up your rainy-day fund (having three to six months' worth of funds saved is advisable); setting a budget so you have greater control over your income and outgoings; or putting some form of protection insurance in place.

Income protection plans, for instance, offer peace of mind by helping you cover outgoings such as mortgage repayments, rent and bills if you're unable to work because of illness or an accident.

Any expensive debts that need repaying, such as credit cards and unsecured loans, should be a priority, even if it's just reducing the amount outstanding.

Then you can look beyond the short term, says Tony Clark, Senior Propositions Manager at St. James's Place Wealth Management: "We think a lot about what we save and how, but now is a good time to think about the purpose for the money and your objectives."

Those goals could range from increasing pension and/or investment contributions to paying more off the mortgage and helping family members (with Christmas a good chance to pass some funds to those who could use a financial helping hand).

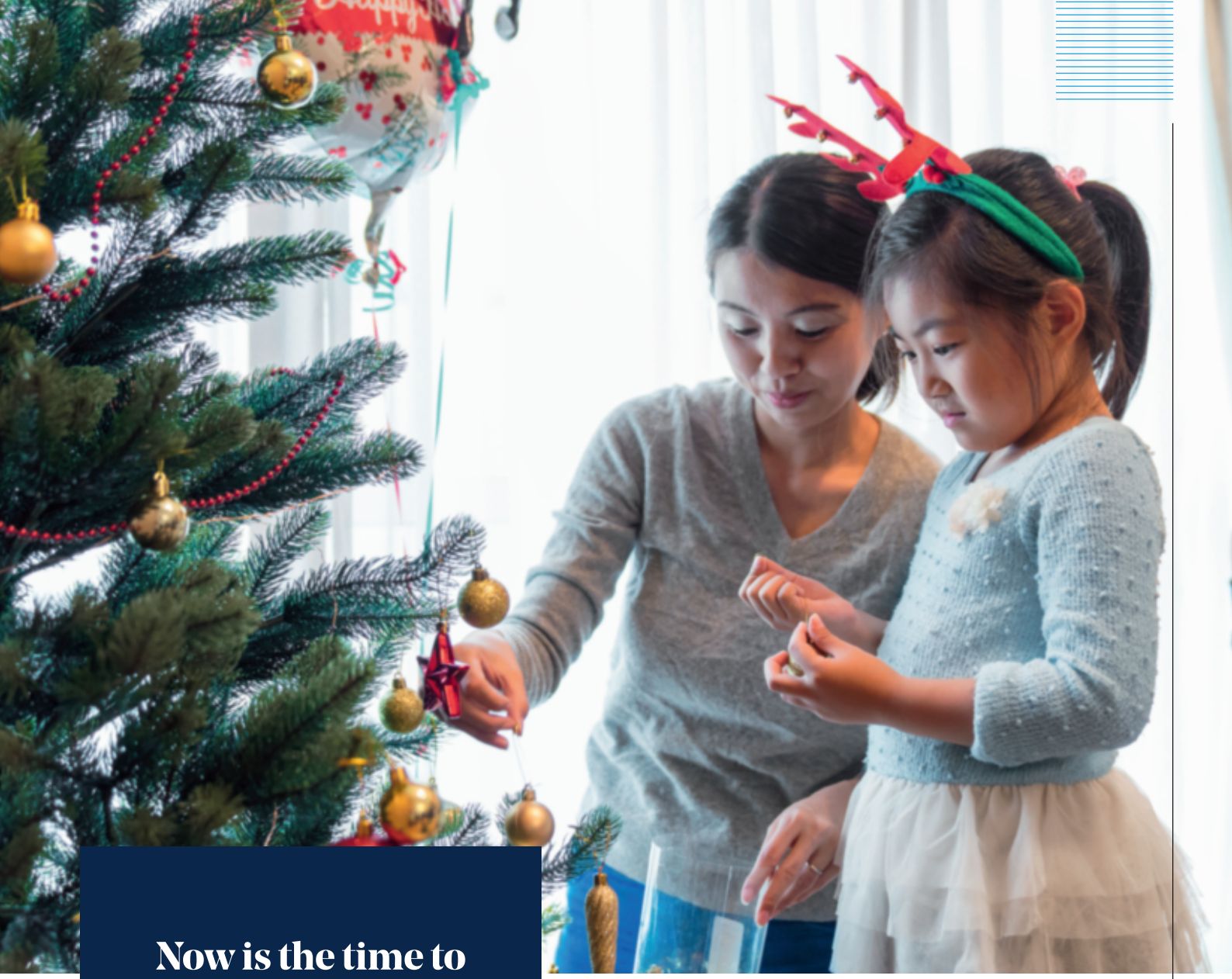
And if you have pension savings, can you confidently say how well they are working for you? "Even if you're not in a position to access them, it's useful to know where they are and how they are invested," says Clark.

"There's been market volatility this year, so you need to ensure that your plans are appropriately invested to contribute to your goals."

STRENGTHENING YOUR FOUNDATIONS

If you're not taking advantage of your employer's pension scheme, you're missing out on both government tax relief and contributions from your employer.

Starting or increasing your pension payments is



Now is the time to make sure your finances are ready for the year ahead

perhaps the most tax-efficient way of boosting your long-term finances as we enter 2022.

For anyone within a decade or so of retirement, now's a good chance to get a handle on how your retirement plans are looking.

"Are you rethinking when you retire or how you go about it? There may be worries around whether or not current retirement lifestyles are sustainable, so there's a lot to discuss if you're in the retirement phase," says Clark.

Similarly, if you're taking an income from a drawdown arrangement, it's vital to check that it's a sustainable level of withdrawals and not eating into your pension savings too quickly.

ASK AN EXPERT

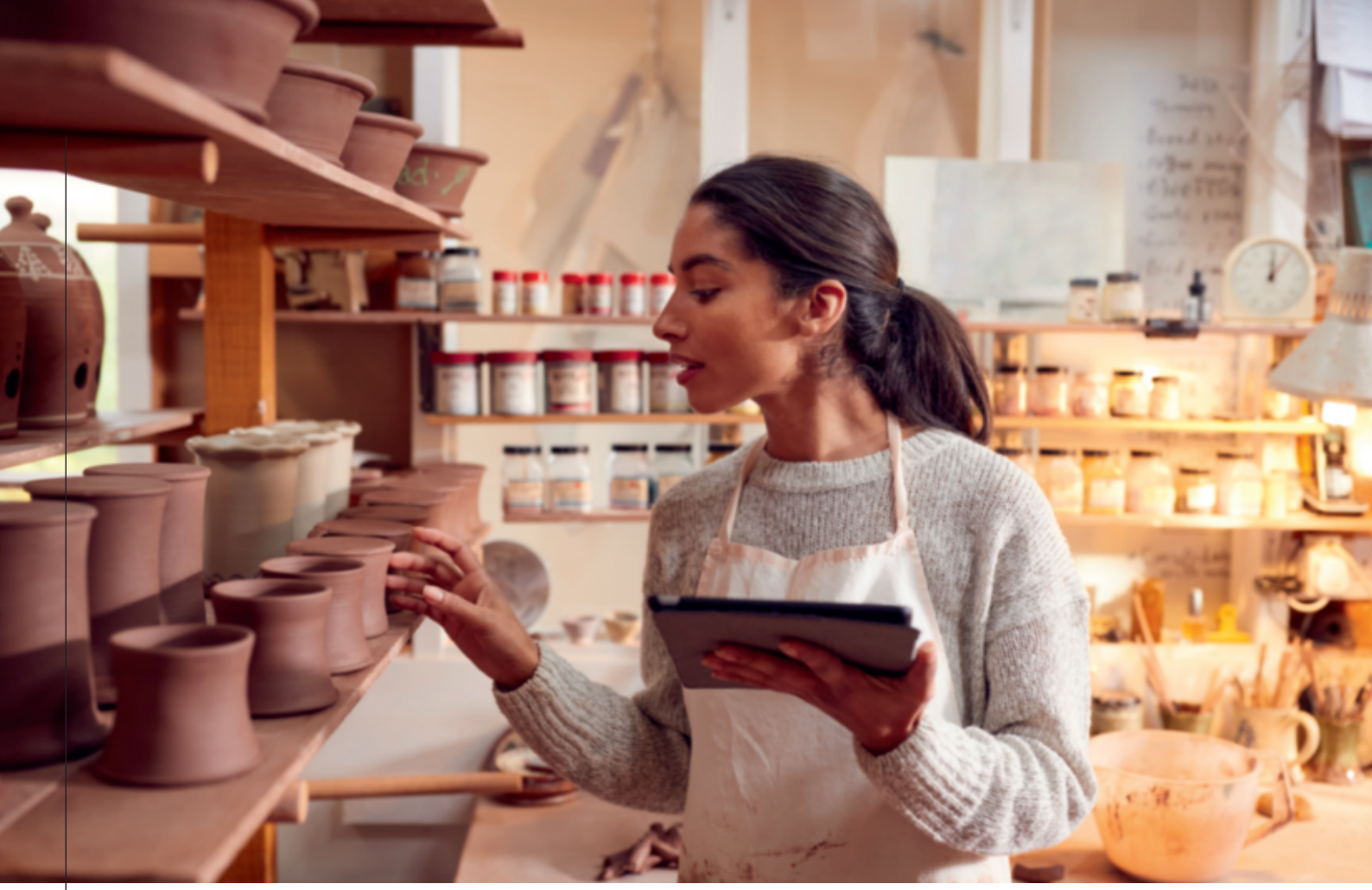
Your plans, circumstances and priorities may have changed this year. Now is the time to make sure your finances reflect that, and to benefit from the insight that we can offer.

We can use strategies such as cashflow planning to either put a plan together for you or revise your existing one, mapping out how to get where you want to go.

"If plans are changing, you should revisit your cashflow modelling with an adviser," says Clark. "If the model you have now is based on information that's a year old it may need a complete refresh."

The value of an investment with St. James's Place will be directly linked to the performance of the funds you select and the value can therefore go down as well as up. You may get back less than you invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief generally depends on individual circumstances.



Lining up your tools – why ISAs are a valuable shield against tax in retirement

Help maximise your savings by investing in an ISA alongside your pension

These days, saving for retirement is all about choice and flexibility. No longer is it about relying solely on a pension in retirement.

With people working today expected to live for two or three decades in retirement, and more income options available on reaching that stage, it's important to make the best of the different tools at your disposal.

So, while pensions remain the cornerstone of any decent retirement plan, they can work well alongside other options.

The most obvious is an Individual Savings Account (ISA).

Introduced in 1999 to replace Personal Equity Plans (PEPs), ISAs are now a big part of the retirement savings landscape.

"Now that it's easier to access a pension as well as an ISA, the two products are much more broadly aligned," says Tony Clark, Senior Propositions Manager at St. James's Place Wealth Management. There's long been a debate as to whether ISAs or pensions are the best retirement savings option.

In reality, however, using both a pension and an ISA is perhaps the best approach of all, not least because that gives you instant diversification and more options. "Having both offers more choices when making retirement decisions, and with the tax advantages you're getting the best of both worlds," says Clark.

COMPLEMENTING AND DOVETAILING

The main difference between ISAs and pensions is their tax treatment. The annual ISA allowance is currently £20,000, which can be used across Cash ISAs, Stocks & Shares ISAs, Innovative Finance ISAs, Lifetime ISAs and Junior ISAs (albeit with annual limits of £4,000 and £9,000 on the latter two respectively).

It's Stocks & Shares ISAs that we're usually referring to in the context of retirement saving, although Cash ISAs are also an important part of the toolkit. While the money you pay into an ISA will generally be taxed beforehand, as it's paid out of net income, there's no Income Tax due on the interest or dividends you receive.

In contrast, with pensions there's no tax when you pay in. This is because the government gives you tax relief on pension contributions at your marginal Income Tax rate.

This means that for every £80 paid in, your pension scheme can claim another £20 in tax relief (so that a £100 contribution costs just £80). Higher-rate taxpayers get 40% pension tax relief, so they have to pay in only £60 for every £100 contribution, while those on the 45% Income Tax rate can claim relief at 45%. Anything over the basic rate of tax must be reclaimed via the individual's tax return and are subject to eligibility. However, Income Tax is charged on pension withdrawals above the 25% tax-free cash entitlement.

The other big difference is that you can't usually access your pension until you turn 55 (rising to 57 in 2028), whereas there's no such age restriction on withdrawing money from an ISA. "Pensions tax relief provides tax-efficient growth and access to a proportion of tax-free cash, while your ISA gives you another allowance entirely, so it makes sense to use both," says Clark.

ISAs are now a big part of the retirement savings landscape

MIXING AND MATCHING

Using both also helps savers navigate the annual and lifetime pension allowances. The former is the amount you can contribute in a tax year while still benefiting from tax relief (currently £40,000, but reducing by £1 for every £2 of adjusted income you earn over £240,000).

The lifetime allowance is the maximum amount of pension savings you can build up over your lifetime without facing a potential tax charge, and is currently frozen at £1,073,100.

The way to approach it from a tax perspective is to consider where the two products fit into your overall financial plans. This is where a financial adviser can add particular value, while also helping you answer questions such as which pot to access first in retirement and what the tax implications might be.

"When it comes to all the allowances and limits, the adviser will have a watching brief over those and guide you along the best course of action," says Clark.

"For example, your plan might be to access the ISA before age 55, especially if you want to retire before then.
It depends on your future plans, and that's where an adviser can help you map out which products to use."

We can also ensure you're investing in a way that's best suited to achieving the goals you're aiming for.

"If people aren't sure which to use, that tells us they're lacking a plan," says Clark. "An adviser will sit down with you and work out what you want to achieve and the purpose of the savings you're putting aside."

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

A Stocks and Shares ISA does not have the security of capital associated with a Cash ISA.

The levels and bases of taxation and reliefs from taxation can change at any time and are dependent on individual circumstances.

Please note that St. James's Place do not offer Cash, Innovative or Lifetime ISAs.

Talking to daughters and granddaughters about money

The right financial education for children is key to levelling the playing field between men and women

We need to ensure that the way we talk to girls about money is the same way that we speak to boys.

Girls needs a leg up – not to set them ahead of boys, just to put them on an equal footing.

We're all aware of the gender pay gap, of course – and slowly but surely it is starting to close. But women earning less than men is only part of the problem.

Having babies, raising children, running a household and caring for older family members further down the line all conspire to hinder some women's earning, saving and investing potential, meaning that women are likely to retire with a 40.3% smaller pension pot than the average man's1.

Women may need more money in retirement than men, too, with women living longer and on average needing to spend longer in residential care than men1.

These challenges are the result of long-standing social attitudes and acceptance of cultural norms for women in Britain. Put bluntly, they are embedded in our society.

Hopefully it will become the norm for child caring responsibilities to be more evenly shared between parents and elder caring more evenly split between genders. But in the meantime, there is still plenty we can do to support our daughters, granddaughters, nieces or goddaughters.

PROVIDE THE TOOLS TO OVERCOME CHALLENGES

Of course, we must teach them they can change the world if they want to, but even if they have more modest aspirations, we can still teach them how to thrive in the one we currently live in. It all comes down to financial education.

With the right savings and investment strategy, women can start to overcome the hurdles in their path. Taking time out to raise a family doesn't have to mean your pension takes a hit if you plan for it. Working part time doesn't mean you have to sacrifice career progression.

The key is to not only make our daughters and granddaughters aware of the challenges, but also give them the tools to beat them.

Financial education in schools is patchy to say the least, so the onus is very much on families to do the teaching.

Children can learn about budgeting by helping with the weekly shop or planning an outing, and about the benefits of saving with their own cash account. Paltry interest rates don't provide much of an incentive, but parents can always pay their own top-up – perhaps 20p for every £1 saved.

These are equally vital skills and should be taught to both boys and girls. Men need to be able to do a weekly shop without busting their budget as much as women need to invest for their futures.

SET AN EXAMPLE – THEY WILL FOLLOW SUIT

Thankfully, there is a lot of advice and resources available to parents to help teach their children the financial skills they need for life.

Rob Gardner, Director of Investment at St. James's Place, is an advocate of providing financial education to children and co-founded a company called RedSTART to improve the financial literacy of children and young people. Rob has also written a book on the subject called Save Your Acorns.

St. James's Place runs its own Financial Education Programme for Young People which has been created alongside teachers and is delivered by our own financial education specialists in schools across the country.

St. James's Place is also a founding sponsor of a new charity, the Centre for Financial Capability, whose mission is for every primary aged child to receive an effective and high-quality financial education.

Ronni Allsopp, Corporate Responsibility Specialist for Education at St. James's Place said "Equipping our children with the knowledge and skills to manage their day-to-day finances is fundamental to their long-term financial well-being."

"It is part of our goal to ensure that all people, especially children and young people, are confident and in control of their financial future and we are proud to be a working with the Centre for Financial Capability, schools and charities to make this a reality."

However, as valuable as these activities can be, we need to be mindful that the biggest influence on children's money habits will always be their parents.

How we manage our own finances and how we talk to our children about money can benefit them far more than any one-off educational activity. Get in touch to find out how we can help.

How we talk to our children about money can benefit them far more than any one-off educational activity

Source:
[1] Achieving Gender Equality in Pensions, Prospect 2020

Dealing with changing priorities in retirement

These days, retirement is not an ending but a new beginning, and there are many decisions to make. It's important to take advice to ensure your investments are working in the way that's best for your needs at every stage

It's perhaps characteristic of these unusual times that even retirement is very different to how it used to be. It wasn't so long ago that it was typically the end of the journey, with most people retiring on reaching state-pension age and the job of saving and investing largely done.

These days it's quite different. Retirement is much more dynamic now, and in some ways more of a new road than the end of the journey.

A number of factors have combined in recent years to transform the retirement landscape, including rising longevity, the decline of final-salary pensions, and the 'pension freedoms' that opened up access to pension savings and introduced new flexibility around retirement-income decisions.

"You used to get to a certain age and stop. People would retire and while they might have taken advice at that point, it wasn't usually the case," says Tony Clark, Senior Propositions Manager at St. James's Place.

"But there are so many choices to make now and you have to treat it as a new beginning. People are realising that the 'set-and-forget' approach doesn't really exist anymore."

RESET AND REVIEW

With many people now entering drawdown on retirement and remaining invested, the option of putting your feet up and letting your pension income look after itself is off the table. While the modern approach offers greater choice and flexibility, there are more decisions to make as well.

These decisions will likely evolve over a retirement that could last for up to three decades or more. "It's important to bear in mind that retirement isn't a fixed line. It is completely different now and the decisions you make at 60 may not be appropriate at 65 or 70, and so on," says Clark.

"It's the same as your working life, with ups and downs and changing circumstances - none of that goes away. You may even end up returning to work, starting a business or embarking on a new career."

Many people are still getting to grips with what the changing pension landscape means for them and what they need to do, according to Clark. While there's plenty of flexibility and freedom, there's also a huge amount of responsibility and, with that, a much greater need for pension advice.

As Clark points out, modern retirement is littered with trigger points for speaking to an adviser. "Your sources of income will be different, for example, so you need an adviser to guide where you take your income from," he explains.

"Are you taking it from the right assets? Are you taking too much income or too little? Are the underlying investments structured in the right way or do you need to reconfigure them? You need to have a plan and an adviser on your side to figure it all out."

While the modern approach offers greater choice and flexibility, there are more decisions to make as well

CHANGING WITH THE TIMES

Other factors come into play, too. Your values and priorities will continue to evolve, and there will be developments to deal with and new stages of the journey to navigate, not least when considering how to meet long-term care costs and how to manage inheritance tax.

One area that a growing number of retirees are engaging with is climate change and using their money as a force for good with responsible investing. With a sizable proportion of pension savings still invested in retirement, retired investors can make a difference by having a say in how and where their money goes.

But while there are more ways than ever before to invest your pension in a way that benefits future generations, there are a lot of choices to make here too.

"The way that your investments are structured and how your money is invested can help you make an impact and a difference," says Clark. "But again, do this with an adviser so that any decisions you make are fully informed."

Those investment plans, and other financial arrangements you have in place, need to dovetail with short- and long-term goals that are likely to shift over time.

The choices you make before and during retirement may need updating and reviewing. The best way to ensure that happens and is done in a way that fits in with your overall plan is to get in touch so we can help steer you in the right direction.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

Paying for long-term care: what are your options?

Most people have to pay for their care in older age – here's what you need to consider

Almost half the UK's population believes that if they need social care, it will be funded by the NHS. According to research conducted by the Local Government Association, 44% of people think – wrongly – that the health service will pay for their care home costs or in-home care[1].

In fact, the reality is that the majority of us will have to foot the bill for our care when the time comes, should we need it.

What's more, those costs are frequently much higher than many people expect. For example, the average annual cost of a standard residential care home in the UK is £34,000, while for more specialised nursing care, it's around £48,000 on average[2].

Even care in your own home – for example, someone visiting for two hours a day seven days a week – averages £15,000 per year[3].

"It's important to make sure that people don't fall foul of any misconceptions when it comes to paying for social care," says Tony Clark, Senior Propositions Manager at St. James's Place.

"And even when the cap on care costs comes in, as recently announced by the government, this is more complex than it seems. While it will help towards limiting some of the costs, it won't alleviate all of them."

It's therefore likely that many of us will have to face up to making financial provision for our own care, particularly as we're living longer as a society, thus increasing our chances of needing support in older age.

"There's a good chance that most 30 to 40 year-olds around today will be living well into their nineties and many of them will need care," says Clark. "So whether you're that age, or in need of care right now, you're going to have to figure out how to pay for it."

Whatever your situation, the most important thing to do is to speak to us, particularly as the rules about who pays for what are so complex, not to mention regional variations and what's likely to happen in the future as the government implements its new policy.

"An adviser will help you and your family work through what you pay for and what you don't pay for, as well as the different ways of funding your care, as there is no one set formula," says Clark. "For example, you might not know what level of care you're likely to need or how your care needs are likely to increase in the future – so it's going to be different for everyone."

The various funding options available to you are as follows:

Income

This could be from, for example, your pensions and existing savings and investments, or rental income, and might be enough to cover some or all of your care costs.

Savings

This could include money you hold in cash, ISAs or other savings accounts. Here, you'll need to be careful your capital isn't eroded too quickly as interest rates are currently so low.

Immediate needs annuities

These are also known as 'care fee plans'. In return for a one-off lump sum, you receive a guaranteed tax-free income for life, as long as it's paid directly to the care provider.

Property

Of course, selling your home is one option – but not always necessary. Other courses of action you could take include:

Equity release*: If you are receiving care in your own home, various options are available here, which all involve borrowing against the value of your home, which will be paid back after you die and when the property is sold.

Renting: Letting out your property is a way of receiving an income while also not having to sell it, thus allowing you to pass it on to your loved ones as part of your estate. However, management costs can eat into a lot of your income and you also run the risk of the property being vacant.

Deferred payment agreement: If you qualify, this enables you to receive a loan from your local authority secured against your home. The debt must then be repaid, plus interest, within 90 days of your death, usually through the sale of the property. While it's important to have a good understanding of all of these options, we strongly advise not to make any decisions without first seeking advice – not least because of what could happen if your money runs out and you're no longer able to pay your care home fees.

"There are so many pitfalls," he says. "And if you run out of money, you run the risk of falling back on the state. Some people might think that's OK, but if that happens to you, you'll end up severely limiting your choices when it comes to care – and the one thing you want in order to be able to retain your dignity in older age is choices.

44% of people think – wrongly – that the NHS will pay for their care costs

"There are so many ways of paying for your care and there are no right or wrong answers," he adds. "So it's all about having a plan in place that you've drawn up with an adviser. That's the only way to do it while feeling reassured that your financial future will be secure."

If you'd like to discuss how you or your family might pay for care, please get in touch.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation and reliefs from taxation can change at any time and are dependent on individual circumstances.

*This is a lifetime mortgage or home reversion plan. To understand the features and risks associated with such products, please ask for a personalised illustration.

Source:

[1] Majority of people unprepared for adult social care costs, Local Government Association, October 2018

[2] Payingforcare.org, 2020 (Based on Laing & Buisson report 2020)

[3] Moneyadviceservice.org, 2021

ST. JAMES'S PLACE
WEALTH MANAGEMENT

Bring your goals a step closer.

Putting together a plan to utilise the savings allowances and exemptions available to you can have a big impact towards achieving your long-term goals. When it comes to investing, you might want to take action now to give your money longer to grow – or set up a regular savings plan to invest a little each month. The key is to plan ahead and take advantage of the tax breaks available.

So, whether it's making best use of your ISA allowance, topping up your pension or giving younger generations a helping hand, we can help you head in the right direction.

Why wait?

Contact your St. James's Place Partner today.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

SJP12432b V4 (08/21)