

Bulletin

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How expensive are your habits?

This new year make time to review your regular payments such as subscription services – you may be spending more than you think.

Many content providers for example – from Netflix and Disney+ to Spotify – have increased monthly fees over the past year. However it's not just entertainment platforms looking to lock consumers into regular payment plans. There are now subscription services for podcasts, audio books, online newspapers, wine deliveries, make-your-own meal boxes and pet food supplies – to name but a few.

Research suggests the average person spends £39 per month on subscriptions, though many will pay significantly more. Collectively, this means UK households spend £1.6bn a month on such services. Yet not everyone is getting value for money, with one in ten claiming they don't use some services at all.

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It's not hard to see how this happens. Providers often have low-cost or free introductory offers – knowing many of us forget to unsubscribe within the cancellation period. And while the cost of any single subscription may look modest, once you're paying for a few, the costs quickly mount.

A regular review of how often you use these services can pay. There is generally no contract, so it's easy to cancel payments for subscriptions that are just not working for you.

If it's a service you do use regularly, check whether you can 'downgrade' your payment plan. Streaming services, for example, often have cheaper options with advertisements. Family plans can also be cost effective if more than one person in your household pays for the same platform. Don't forget to double check subscriptions that charge annual fees, rather than monthly payments, which can be easy to overlook.

Once you've saved money from raking through regular subscriptions, conduct a more thorough audit of your finances by looking at other regular bills: from gas and electricity contracts to home and car insurance – savings can often be made by switching to better priced deals.

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A guaranteed income for life attracts more interest

Rising interest rates are changing retirement income perspectives.

Three years ago was another era when it comes to interest rates. The Bank of England's Bank Rate was just 0.1% in December 2020 when a government bond maturing in 2035 delivered a gilt-edged annual return of less than 0.4%. Today's 15-year gilt offers around 5%.

While the change in bank rate received plenty of media coverage, the move in long-term government bond yields has attracted much less attention. Those higher bond yields have pushed up annuity rates significantly across the board. For example, in December 2020, a typical non-smoking 65-year-old (man or woman) could have secured a 4.8% guaranteed income for life by purchasing an annuity. In October 2023, the equivalent 65-year-old buying an annuity would receive a rate of around 7.5%.

Choosing the right option

If you are about to start taking an income from your pension fund or are considering a move away from income withdrawals, look carefully at what today's annuity market can offer you. Annuity tables are at best only a very broad guide for a variety of reasons:

- Annuity rates are now close to being individually calculated. Where you live, whether you smoke, how much you drink, any medical conditions you have and your relationship status are all factors that can determine your personal annuity rate.
- Annuities can be set up as level or increasing, either at a pre-determined rate or in line with inflation.
- Joint life annuities are an option, meaning that a guaranteed income is paid for both

your and your partner's lifetimes, or the second person could be a dependent child.

To learn more about all your annuity choices and the latest rates, get in touch.

✦ *The value of your investment and the 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.

Occupational pension schemes are regulated by The Pensions Regulator.

INSURANCE

Is your protection level enough?

Income protection insurance can ensure essential bills will be paid if you are unable to work due to ill-health. But with the cost of living rising significantly over the last 18 months, it is worth checking that any policy you have in place will still cover mortgage or rent, food and energy costs.

Income protection covers a fixed proportion of your salary and typically only pays out after you have been signed off sick from work for several weeks. The longer this deferral period, the lower the starting premium.

If you've insured 50% of your salary, for example, it is worth checking this is sufficient to cover essential bills given the rise in energy costs and interest rates.

If not, you might want to increase the benefit on the policy, although this will result in higher monthly premiums. Alternatively look to build more substantial rainy day savings, which could be used to cover any shortfalls in an emergency.

ESTATE PLANNING

Why wills matter: intestacy rules change delay

The intestacy rules for England and Wales have been changed...belatedly and with real consequences for some estates.

If you do not have a valid will then the decisions about what happens to your estate on your death are governed by the laws of intestacy. These may not work as you might hope or expect them to. The rules differ between England and Wales, Scotland and Northern Ireland, but in all three jurisdictions a surviving spouse or civil partner (not cohabitee) receives only a specified share of the estate if there are also children or grandchildren.

For England and Wales, that surviving spouse or civil partner's entitlement consists of personal possessions, assets up to a fixed cash value and half of any remaining estate.

Disparity across jurisdictions

The legislation for England and Wales requires that fixed cash value to be updated once total inflation has exceeded 15% since the last update. No such indexation provision applies to the intestacy laws of Scotland and Northern Ireland.

Unfortunately, although the 15% inflation threshold was triggered in November 2022, the Ministry of Justice did not act until 26 July 2023, by which time the Lord Chancellor's legislated increase raised the cash sum by 19.3% to £322,000.

Throughout the UK, intestacy law is not a subject at the forefront of legislators' minds. But at a personal level, the defaults imposed by intestacy rules can have serious effects. The families of those who died intestate between November 2022 and July 2023 have potentially lost a substantial amount.

Research shows 50% of UK adults do not have a will. If you are among them or your will has not been reviewed for some years, the time to act is now. Procrastination, as the Ministry of Justice showed, can be costly.

✦ *The Financial Conduct Authority does not regulate will writing and some forms of estate planning.*



Autumn Statement outcomes – give and take

The Chancellor presented a programme of tax cuts in his Autumn Statement, yet the tax burden continues to increase.

The verdict from the Office for Budget Responsibility (OBR), whose job it is to analyse the financial impact of the Autumn Statement, found:

“... while personal and business tax cuts reduce the tax burden by half a percentage point, it still rises in each of the next five years to a post-war high of 38 per cent of GDP.”

While Mr Hunt made some significant tax cuts, they are outweighed by earlier tax increases over the last few years.

National insurance changes

The most notable announcements were cuts made to national insurance contributions (NICs):

- If you are an employee under State pension age (currently 66), then from 6 January 2024 the main class 1 contribution rate on earnings between £12,570 and £50,270 will be reduced from 12% to 10%. Earnings above £50,270 will remain subject to the current 2% rate.
- If you are self-employed and under State pension age, from 6 April 2024:
 - Flat rate class 2 NICs (currently £3.45 a week) will no longer be required. However, if your annual profits are below £6,725 you can continue to make voluntary class 2 contributions to secure contributory benefits, such as the state pension.
 - The class 4 contribution rate on profits between £12,570 and £50,270 will be reduced from 9% to 8%. For profits above £50,270 the existing 2% rate remains unchanged.

These changes are worth up to £556 a year if you are self-employed and £754 a year if you are an employee. Their total cost to the Exchequer is about £10 billion a year by 2028/29. However, the freezes to income tax and NIC allowances and thresholds since 2021/22, and this year's lowered additional (top) rate threshold, mean the Treasury will be gaining £27 billion in 2024/25.

For companies the major news was that the 100% capital allowance for most investments in new plant and machinery, which was due to disappear after March 2026, will be made permanent, at an initial annual cost of around £10.7 billion.

Wave of change?

As with any 'fiscal event', there was a raft of other changes, proposals and consultations in the forest of documentation from HMRC and the Treasury – 110 proposals in all. These include:

- Long overdue simplification of the ISA rules from 6 April 2024.
- A change to the rules on off-payroll working (IR35) that will avoid the double taxation that can currently arise.
- A collection of papers on various aspects of pensions, the most noteworthy of which was probably a first step towards allowing individuals to have a single pension pot which moves with them from employer to employer.
- More changes to Making Tax Digital (MTD), aimed at simplifying the procedures of this much-delayed reform.
- A 9.8% increase in the National Living Wage to £11.44 an hour from April 2024.

For more information on the changes mentioned above or any other aspects of the Autumn Statement, please contact us.

✦ *The value of your pension or investment and the income from it can go down as well as up and you may not get back the full amount you invested.*

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

The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.



Alternative to deposits

Higher interest rates are good news for savers – although some banks have been slow to raise rates paid on deposit accounts.

However, money market funds could be a good choice for some savers, providing an alternative to traditional high-street accounts. These funds invest in short-term debt issued by governments, banks and companies with high credit ratings and typically pay investors a monthly return.

These are relatively low-risk funds, certainly compared with equities and longer-term bonds, but this doesn't mean they are entirely risk free. Interest rate movements can affect the value of the underlying holdings and payments made to investors. There is also the risk an issuer could go bust, defaulting on payments, although the spread of securities minimises this to some extent.

Money market funds allow instant access and are often used by investors as a temporary safe haven when stock markets look turbulent. Returns vary, depending on the underlying investments, but many funds are currently yielding around 5%. Like all investment funds, though, there will be management fees to pay.

It's important to note that these funds are not covered by the Financial Services Compensation Scheme which protects deposits up to £85,000 in the event of a bank or building society going under.

✦ *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.

Investments do not offer the same level of capital security as deposit accounts.

Footsie at 40 – the long view

Next year the FTSE100 will be 40 years old. What can its history reveal about long-term investing?

The FTSE100 includes many of Britain's best-known brands, such as Marks & Spencer, Barclays Bank and Sainsbury's, sitting alongside many large, international corporates. Although the index is rebalanced regularly, just over a quarter of the founding members are still listed.

Tracking how this index has evolved offers some important insights for investors.

Original investors have received a compound annual return of 5.2% thanks to growth of 660% since its inception (to the end of September 2023). But there has also been significant volatility. Investors need to be able to stay invested for the longer term to ride out these shorter-term price movements.

What's more, since the index launched, just three of the original 100 have gone bust, demonstrating that larger companies can be more stable and less risky than smaller start-ups.

However the performance of the FTSE100 shows stock markets don't always deliver positive returns – even over longer periods.

This may reflect another key investment lesson: the importance of diversification. Around 40% of the FTSE100 is made up of energy, healthcare and banking stocks – while fewer than 1% are tech companies.

Investors should diversify where possible, by geography, sector and size of company. Investing across different stock market indices can help achieve that.

The slight returns of around 1% in the first two decades of this century reflect only the share price of its constituent companies and do not take account of the dividend payments which remain an important part of total returns, particularly for a mature index such as the FTSE100.

+ The value of your investment and the income from it can fall as well as rise and you may not get back the full amount you invested.

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News round up

Last tax return

Self-employed and high-earning individuals must file their tax returns and settle outstanding taxes by 31 January, with penalties for late submissions. But this will be the last year some higher earners go through this process. Currently those taxed through PAYE must complete a self-assessment form if they earn over £100,000. This is rising to £150,000 for the next tax year. However, this doesn't apply to the self-employed, those with untaxed income, or those receiving child benefit if their partner earns over £50,000.

Royal makeover for small change

The coins in your wallet will soon look a little different. After the coronation of King Charles III this year, the Royal Mint is releasing its first full set of redesigned coins, which will gradually replace those currently in circulation. The coins feature animals and plants from around the UK, including the red squirrel, oak tree and Atlantic salmon. Royal Mint's new design includes large numbering to make them more accessible, particularly to tourists and children.

More working for longer

More than one in ten over 65s are now working past their 65th birthday – double the number seen 20 years ago according to ONS figures. Many of these workers are self-employed or working part time, with a relatively high proportion on zero hours contracts. The only age group with a higher proportion on these insecure work contracts are the 16–24-year-olds. Many are choosing to work for longer as they remain in good health, but insufficient pension savings is also thought to be playing a part.



New takes on retirement planning

At what age did you (or will you) start actively planning for your retirement?

The answer is now 36 years old according to research undertaken by a major pension provider. By contrast, the starting age for today's retirees averaged 49. Over half of that group now wishes that they had begun planning earlier.

There are some good arguments for why a retirement focus now begins in the mid-30s. National Statistics data show that the average age of buying a first home and getting married are now both around 34, so at 36 life should have gained a settled pattern for many. Nearly two thirds of respondents were confident in their abilities to make financial decisions by age 36.

Both today's retirees and the 36-year-olds have experienced the new world of automatic enrolment into workplace pensions. When today's 36-year-olds retire, those pensions will be a much greater proportion of retirement benefits than they are today. Apart from the longer timeframe, auto-enrolment will also become more significant because of new legislation which paves the way for:

- an 8% minimum contribution level to cover all earnings (currently it's up to a maximum of £50,270 and excludes the first £6,240); and
- the auto-enrolment minimum age to drop from 22 to 18.

The lower enrolment age of 18 matters because the sooner pension contributions begin, the better. A contribution made at 18 will enjoy about half a century of investment returns before it starts to be drawn on.

The truth is that whatever your age, your retirement planning should be a primary focus.

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