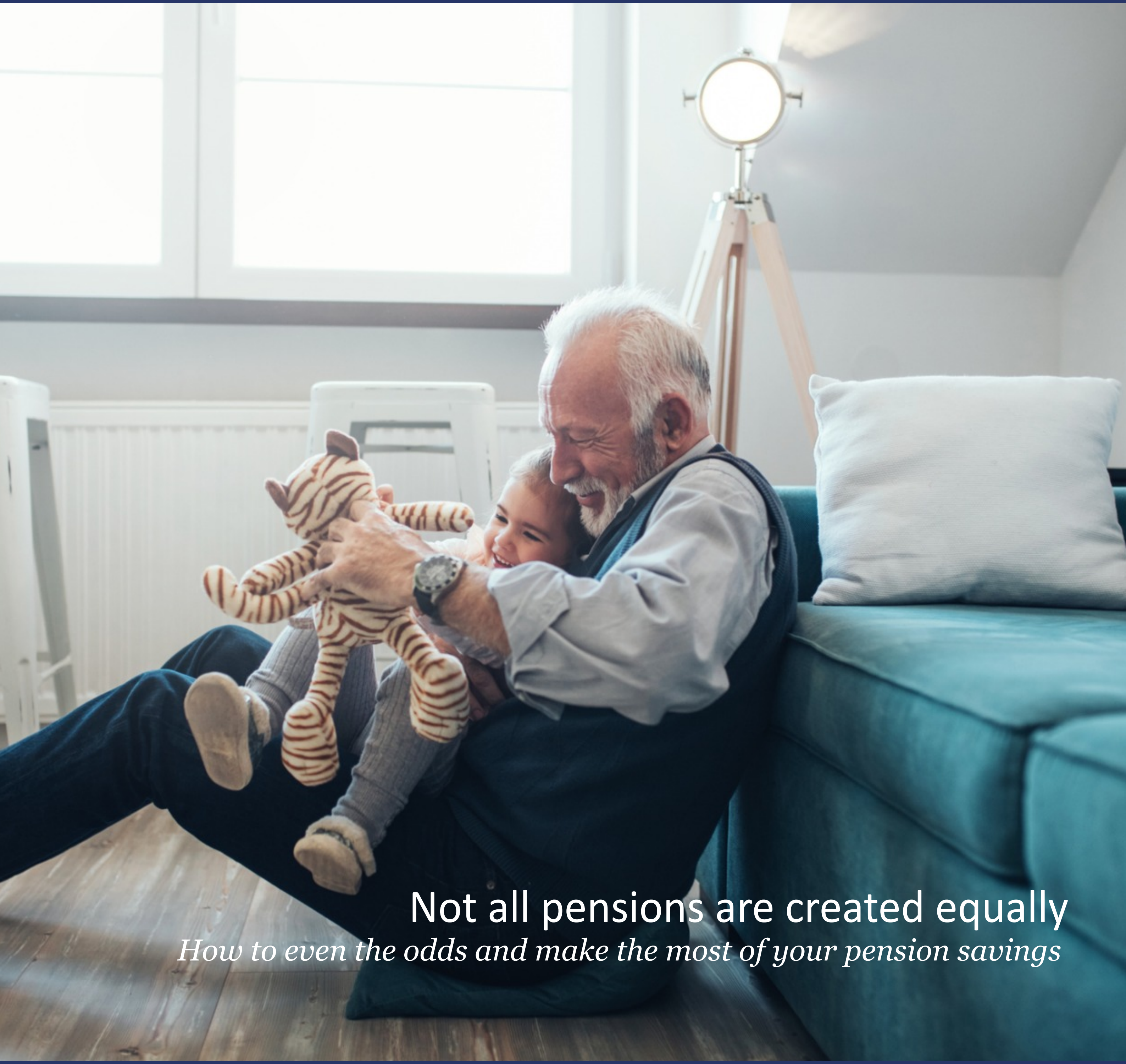
Smitton Wealth Solutions

Spring Newsletter 2023



Not all pensions are created equally

How to even the odds and make the most of your pension savings

T: 01452 699559   E: duncan@smittonwealthsolutions.com
30 Dunster Close, Tuffley, Gloucester, GL4 0TP

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Is financial uncertainty making retirement feel daunting?

What decisions you make about your retirement can shape your future. Many will be worried about how well they will manage in light of the current economic climate.

Not all pensions are created equally

We have taken a look behind the scenes at pension income statistics across the UK. We have seen regional differences as well as an income gap between men and women in retirement.

Thinking about your pension income and the amount of money you need can be daunting, it's important more now than ever to make the most of your pension income.

How about a spring clean?

We may be in times of uncertainty, but this doesn't have to extend to your finances. Performing a health check now, can help you feel more in control. We've outlined a few savings tips to get you started.

Give your ISA the best chance

By making regular payments throughout the year (a stocks and shares ISA) you could ride out some of the market volatility.

Welcome to the spring edition of our quarterly client newsletter, which provides topical financial articles.

If you have any questions in relation to the articles contained within this newsletter, please do not hesitate to contact us and we will be happy to provide any guidance required.

Whatever your financial need, we are always pleased to speak with you.

E: duncan@smittonwealthsolutions.com
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Any information in this newsletter does not constitute advice and should not be acted upon without taking professional guidance.

The value of investments can fall as well as rise. You may get back less than you invested.

Is financial uncertainty making retirement feel daunting?

During 2022 we have seen the Bank of England base rate continuing to rise in order to counteract inflation. If rates rise and you have a loan or mortgage, your interest payments may get more expensive. And, if you have savings, you may be paid more interest.

If you are close to, or about to retire the immediate outlook can feel unsettling, what decisions you make about your retirement can shape your future. Many will be worried about how well they will manage with higher inflation and rising costs.

Plan for the uncertainty in retirement

You can't control inflation or interest rates but you can plan for differing rates of inflation and interest rates and look at how your future income will allow you to enjoy the lifestyle you want.

It can be really helpful to get financial advice on any decisions you make on your personal or workplace pensions. We would be happy to help you consider your options on accessing money from your pension pot(s). You may decide to defer taking your pension to boost your income later on, particularly with the rise in interest rates.

You should also consider how you'll stay active and social after you leave work and how you are going to transition into your "new life". The most important thing is that you enjoy your retirement.

Retirement Checklist

It's a good idea to start planning when you're getting close to retirement. Here's a few things you can do to prepare.

Get a pension forecast - work out what money you'll have coming in. Think about how your spending might change once you're retired – factor in inflation and look at budgeting.

Gradually ease yourself into retirement – with prices rising, once you have a budget planned, you may wish to consider reducing your days or hours at work and ease gradually into retirement.

Keep a watchful eye - It's important to review your pensions at least yearly. This ensures you stay on track with your retirement plan.

Find all your pension correspondence - It is likely over your lifetime that you may have worked for several companies. Get in touch with all your pension providers and let them know you're planning for retirement - they'll usually send you important information about your pension.

Consider leaving your pension pot to someone when you die – there may be tax implications for doing this, so you should talk to your pension provider or your financial adviser.

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Not all pensions are created equally

We have taken a look behind the scenes at pension income statistics across the UK. We have seen regional differences as well as an income gap between men and women in retirement. Not all pensions are created equally, but there are steps you can take to help even up the odds.

Pension source

Pensioners receive income from a range of different sources. Changes in the composition of pensioners' incomes reflect underlying economic factors. In April 2020-2021, benefit income, which includes State Pension, was the largest component of total gross income for both pensioner couples and single pensioners. This was 56% for single pensioners, with 29% being from occupational pensions and 6% from earnings. For pensioner couples 37% was from benefits/state pension, 35% from occupational pensions and 15% from earnings.

Men's vs women's pensions

Caring responsibilities can mean women have been more likely to take time out of work or work part-time to look after children and care for elderly relatives.

Single male pensioners had higher average incomes than single female pensioners from April 2020-2021. Single men had an average weekly income of £260 and single women had an average income of £241. Sixty per cent of the total income for single female pensioners was benefit income, whereas for single men, this value was 50%. The difference in incomes between single male and single female pensioners reflects differences in the components that make up individuals' total gross income.

Regional differences

Significant variation exists between the pensioner income across the UK.

The UK average weekly income over the period April 2019-2021 was £494 for pensioner couples. On average, pensioner couple incomes were lowest in Yorkshire and the Humber, where incomes were 9% below the UK average, whereas in the Southeast the highest average income was 14% higher than the UK average.
Differences between regions are likely to be associated with demographic and economic variations, including housing costs.

The cost of living increase

Thinking about your pension income and the amount of money you need can be daunting, it's important more now than ever to make the most of your pension income.

The cost of living has increased significantly over the last 12 months. The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 8.8% in the 12 months to January 2023, down from 9.2% in December 2022. The largest upward contributors came from housing and household services (principally from electricity, gas and other fuels), and food and non-alcoholic beverages.

Residual income squeeze

In the squeeze between consumer costs and inflation growing more rapidly than retirement incomes, it is essential to do everything possible to increase income and reduce outgoings.

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Some simple but useful ways to increase your pension income should incorporate steps to maximise your income and minimise costs.

If you've not yet retired, think about what you want for your retirement and set realistic targets. Seek advice on likely investment yields to help you decide how to invest for best effect and when to retire.

Maximise your income

Ways to maximise your pension income can include increasing pension contributions and making the most of tax relief. Not forgetting to fill any gaps in your National Insurance record. Voluntary National Insurance contributions can improve your state pension income and can be good value, but you need to weigh up whether it's the right thing to do. If you look after your grandchildren then it's possible for credits to be passed on to you as a way to top up your national insurance record.

It may be worthwhile checking your records for forgotten bank accounts and pensions, taking the maximum benefit from investment Tax breaks and Individual Savings Accounts (ISAs), ensuring you use your full entitlement to ISAs in every tax year, either cash ISAs or share ISAs (or a combination of both).

It can be beneficial to seek out the best available bank interest rates and actively managing accounts/portfolios. Bank interest rates can vary greatly over time and it is not unusual for some banks to reduce interest rates for existing customers, whilst offering better rates for new investors. Where possible, consider locking money away for longer periods, to achieve better rates.

Minimise costs

As well as taking steps to maximise your income you should also look at minimising costs. This can be achieved by paying off any debt, particularly credit card debt. Check credit card bills & bank account statements to see if there are any areas of expenditure which could be eliminated, such as unnecessary purchases, unwanted subscriptions/memberships, standing orders &direct debits. Turn down your home heating by 1 or 2 degrees and review times your central heating/hot water operates, to see if it is appropriate. Also turn off heating in unused rooms. Consider using better value retailers rather than sticking to more expensive options.

https://www.gov.uk/government/statistics/pensioners-incomes-series-financial-year-2020-to-2021/pensioners-incomes-series-financial-year-2020-to-2021
https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/january2023

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Review your savings

Get proactive with your savings and make them work harder. Paying small amounts into a stocks and share ISA or a tax-efficient pension fund may help your savings grow. You have until April 5th 2024 - a whole year away, to use your annual Individual savings allowance (ISA). Don't wait until the year's up as you may miss out on compound interest.

Leave your credit cards at home

Cashless spending since COVID has become ever more popular. But it can make it easier for us to lose track of our spending habits. Next time you go shopping, write a list of what you need to buy and leave your credit card at home.

Ditch unused subscriptions

With spring cleaning should come a clean bill of health for your finances. Go through your monthly statements and weed out your subscriptions. Thinking about how often you use that gym membership, watch Netflix or listen to any music streaming channels.. Ask yourself if you truly need them.

Audit your bank statement

Gather together your most recent bank and credit card statements and take a look at what you've been buying. If you notice a regular payment, then check if it's something you regularly use. If not, it could be worth cutting back.

Check your phone contract

If you have a phone contract and it's ended or ending soon, check out a better deal. If your provider isn't budging, or the deal isn't attractive enough then ask to speak to the loyalty or retention's team. Make sure what you're offered is as competitive as what's being offered to new clients.

Check out your other utility providers

Comparison websites allow you compare quotes, to see if you could be paying less for household expenses, such as gas, electricity or broadband.

Reduce your spending at the supermarket

Food shopping is one of the biggest weekly expenses for families in the UK. From setting a budget, to planning your meals and storing your food, there's a range of things you can do to cut your spending.

Why not try a 'no spend' weekend?

"Set yourself a 'no spend weekend', on a regular basis if you can. Try activities like going on walks, movie night, board games, picnics, free museums, photography or going to the library. Instead of focusing on not spending, put your energy into finding interesting and fun things to do that are free.

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Give your ISA the best chance

Each year you have an annual Individual Savings Allowance (ISA). You will have until the 5th April 2024 to take advantage of this year's annual ISA allowance of £20,000 for the tax-year 2023-2024. Why not think about your ISA at the start of the year rather than at the end?

Making regular or earlier payments

If you open a Stocks and Shares ISA, by making regular payments throughout the year – you could ride out some of the market volatility (i.e., take lows and highs of the market throughout the tax-year). With a cash ISA making early payments in the tax year means you benefit from compound interest.

Tax-Free

The key benefit is that any money you hold within an Individual Savings Account (ISA) is not subject to income or capital gains tax. Your ISAs won't close when the tax year finishes. You'll keep your savings on a tax-free basis for as long as you keep the money in your ISA accounts.

Your ISA allowance

The way you use your ISA allowance is up to you - there's no right or wrong way. You could either put everything into one ISA or split your total allowance between a number of different ISA accounts.

You're allowed to have more than one type of ISA, there are four different types available for adults in the UK. It's important to know that you can only pay into one of each ISA type per tax year. This means that you're not allowed to save in two Cash ISAs in the same tax year, but you could pay into a Cash ISA and a Stocks and Shares ISA at the same time as long as the total contributions across both types of ISA don't exceed the ISA allowance for that tax year.

There are many different types ISAs:

Cash ISA - you can invest cash in bank and building society accounts.

Stocks and shares ISA - used to invest in stocks and shares (often via collective investments such as unit trusts and OEICs).

Innovative finance ISA - peer-to-peer lending (high risk).

Lifetime ISA - £4,000 a year until you're 50 and you must make your first payment into your ISA before you're 40 (which forms part of the overall £20K allowance) into a Lifetime ISA and receive up to a 25% government funded bonus.

Junior ISA - under 18s (in the 2023-2024 tax year, the savings limit is £9,000). Children who are 16 or 17 are allowed to have an adult cash ISA as well as a Junior ISA. That means this age group has a larger ISA allowance than anyone else.

A stocks and shares ISA

A stocks and shares ISA is an investment account that lets you put your money into a range of different investments and benefit from tax-free returns. It is different from a cash ISA, which is a tax-free savings account. As an investment, there is greater risk with a stocks and shares ISA. But you could potentially make greater returns compared to cash, over the long term.

You can only open one stocks and shares ISA in any tax year. But you can retain stocks and shares ISAs from previous years. You can also open one cash ISA each tax year (if you have sufficient ISA allowance left over for the tax year).

Setting up an ISA may sound like a daunting task, but it doesn't have to be. We can help from advising you on building your ISA, to managing it on an ongoing basis.

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Tax treatment varies according to individual circumstances and is subject to change.

Smitton Wealth Solutions

30 Dunster Close,
Tuffley,
Gloucester,
GL4 0TP

E: duncan@smittonwealthsolutions.com
T: 01452 699559

www.smittonwealthsolutions.com

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