

ANNUITY RATES RECOVER

Changing perspectives on retirement income

WHY WILLS MATTER

Delay to intestacy limit increase costs estates

FTSE REACHES MIDDLE AGE

Lessons from 40 years of a key index



Financial FOCUS

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WINTER 2023

Autumn Statement outcomes

The Chancellor's give and take on tax



How expensive are your habits?

If your new year's resolution is to save money in 2024, it might be time to review your regular payments like subscription services – you may be spending a lot more than you think.

The cost of many content providers has gone up over the past year, with, for example, popular entertainment services – from Netflix to Spotify to Disney+ – all increasing monthly fees.

It isn't 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. Even high street coffee shops offer 'memberships' with unlimited hot drinks to those paying monthly fees.

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. But not everyone is getting value for money, with one in ten claiming they don't use some services at all.

It's not hard to see how this happens. Providers often offer a free or low-cost introduction – knowing many of us will forget to cancel within the given period. While the cost of any single subscription may look modest, once you're paying for a few, the costs quickly mount.

LOSE IT IF YOU DON'T USE IT

Review how often you use your subscriptions to calculate the cost of each 'free' cup of coffee or streamed TV show. Generally there's no contract so it's easy to cancel payments for services that are just not working for you. You can always rejoin, should your favourite show return for a further series. In fact, many companies dangle discounts or special offers to get you to return.

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 service. Don't forget to double check subscriptions that charge annual fees, rather than monthly payments. These can be easily missed, until the next payment disappears from your bank account 12 months later.

Once you've saved money from raking through regular subscriptions, make sure you 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.



In this issue...

The Chancellor's Autumn Statement seems to have kicked off the countdown to the next election. With some unexpected tax cuts against the background of tamed inflation in the shape of national insurance decreases, the message should have been upbeat. However the Office for Budget Responsibility underlined how the toll of recent tax freezes and threshold cuts has created a different story. In this edition of our newsletter we explore the outcomes of the Autumn Statement. We also look at the changing face of retirement planning, from the rising popularity of annuities in the face of greater returns, to changes in legislation that will make it even easier to save earlier for your pension. With the FTSE100 index coming up to its 40th birthday, we look at investment lessons from taking the long view. And on that subject, while around 50% of people in the UK don't have a will, we have a salutary lesson in the importance of not leaving things up to the intestacy rules.

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PENSIONS

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, a fraction of the current 5.25%. In December 2020 you could have bought a government bond maturing in 2035 giving you a gilt-edged annual return of less than 0.4%. Today's 15-year gilt, maturing in 2038, offers around 5%.

ANNUITIES BOOST

While the change in bank rate has had wide-ranging effects for many and received plenty of media coverage, the move in long-term government bond yields has attracted much less attention. Higher bond yields have pushed up the amount the government pays on its £2,600 billion debt pile, but another effect is that annuity rates have risen 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. Wind forward to October 2023 and for the equivalent 65-year-old buying an annuity today the rate is around 7.5% – an increase of over a half. The jump in annuity rates has prompted a surge in annuity sales, with the Association of British Insurers

reporting a year-on-year increase of over a third in the first half of 2023. Some buyers may be turning away from the uncertainties of income drawdown after a disappointing 2022 in most investment markets.

EARLY WITHDRAWAL RISK

Drawdown has become the main way to take a retirement income since pension flexibility was introduced, but it does involve investment risk, as last year underlined. Some retirees learned the hard way in 2022 of dangers inherent in drawdown known as 'sequencing risk'. When values fall sharply in the early year(s) of regular withdrawals, they leave a rapidly depleted fund that will probably not sustain the same level of withdrawals for the remainder of the investor's life.

CHOOSING THE RIGHT OPTION

If you are about to start taking an income from your pension fund or 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 may be set up as level or increasing, either at a pre-determined rate or in line with inflation. For that typical 65-year-old, full RPI inflation protection cuts the rate to about 4.9%.
- Joint life annuities are an option, meaning that a guaranteed income is paid for both your and your partner's lifetimes.

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.

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 Office for Budget Responsibility (OBR) has the job of analysing the financial impact of the Autumn Statement. The executive summary of the OBR's 170-page 'Economic and Fiscal Outlook' summarised what is happening beneath the headlines:

"...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 did indeed make some significant tax cuts, the painful fact is that they are outweighed by earlier tax increases over the last few years.

NATIONAL INSURANCE

The most eye-catching 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 from £12,570 to £50,270 reduces from 12% to 10%. Income above £50,270 will remain at 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 the coming tax year. By 2028/29 that advantage will exceed £44 billion.

CAPITAL ALLOWANCES

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.

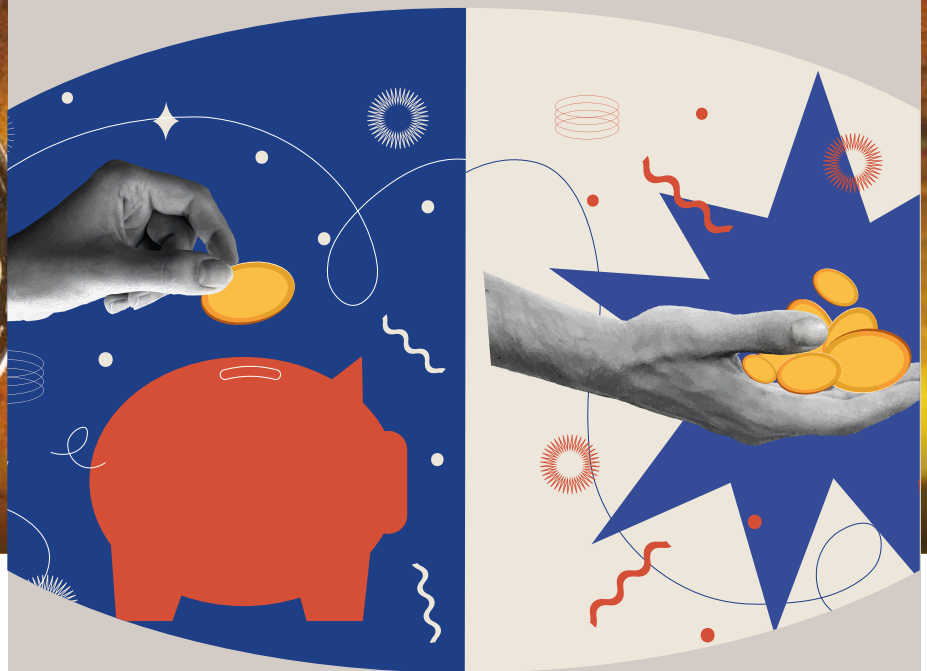
WAVE OF CHANGE?

As with any 'fiscal event', there was a host of other changes, proposals and consultations in the forest of documentation from HMRC and the Treasury. Among the 110 proposals were:

- Long overdue simplification of the ISA rules from 6 April 2024 and consultation on allowing partial shares to be eligible investments.
- A change to the rules on off-payroll working (IR35) that will avoid the double taxation that can currently arise.
- A raft 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.

Alternative to deposits

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



- More changes to Making Tax Digital (MTD), aimed at simplifying the procedures of this much-delayed reform.
- An overhaul of research and development (R&D) tax reliefs, merging the two existing schemes for accounting periods beginning after 31 March 2024.
- 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.

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

One alternative to traditional high street accounts is money market funds. 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.

TEMPORARY STOP-GAP

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.

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Past performance is not a reliable indicator of future performance.

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

PENSIONS

New takes on retirement planning

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

Credit: Mila Supinskaya Glashchenko/Shutterstock.com

The answer is now 36 years old according to research undertaken by a major pension provider. That's over three decades before a 36-year-old's current State Pension Age (SPA) of 68 (which could change in the future).

For today's retirees, the starting age for planning was on average 49. Over half of that group now wishes that they had begun planning earlier.

THE PROS OF EARLY PLANNING

There are some good arguments 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 for many at 36 life should have gained a settled pattern.

- The research also showed that by age 36, nearly two thirds of respondents were confident in their abilities to make financial decisions.
- Up until 2016, state pension provision for employees had both a flat rate and earnings-related elements. Since 2016 there has only been a flat rate component (currently providing up to £203.85 a week).

- The retirement landscape of the 2050s will look very different from that facing today's retirees who will have been members of final salary pension schemes at some stage in their working lives – or possibly all of it. Such generous (and costly) employer pension schemes have now largely disappeared from the private sector and, where they remain in the public sector, have often been pared back to career average schemes.

AUTO-ENROLMENT BENEFITS

One element common to today's retirees and the 36-year-olds is that for the last 11 years both groups have lived in the world of automatic enrolment (AE) into workplace pensions. By the 2050s, the pensions built up by auto-enrolment 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 legislation that was passed in September 2023. This paves the way for the government to:

- Make the 8% minimum contribution level cover all earnings (currently it's up to a maximum of £50,270) and excludes the first £6,240; and

- Reduce the minimum age for automatic enrolment from the current 22 to 18.

BETTER FOR LONGER

You may also have noticed that the new enrolment age of 18 is precisely half of 36. One simple yet significant element of retirement planning is all too frequently ignored: the sooner pension contributions begin, the better. A contribution made at age 18 will enjoy about half a century of investment returns before it starts to be drawn on. One made at 36 is invested for less than two thirds of that timescale.

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

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INVESTMENT

Footsie at 40 – taking the long view

Next year the FTSE100 – an index of the largest companies listed on the UK stock market – will be 40 years old. What can its history reveal about long-term investing?

The FTSE100 companies, often known as 'blue chips', include many of Britain's best-known brands such as Marks & Spencer, Barclays Bank and Sainsbury's. But they sit alongside several large international corporates, for example Chilean mining conglomerate Anglofagasta, or Anglo-Swedish pharmaceutical giant AstraZeneca. Although the index is rebalanced regularly, just over a quarter of the FTSE100's founding members remain on the list.

TAKING THE LONG VIEW

Tracking how this index has evolved over the past 40 years offers some important insights for investors. Any investor who put money into the FTSE100 at outset is sitting on a handsome return on their money. The index is up more than 660% (to the end of September 2023) – giving a compound annual return of 5.2%. This comfortably outperforms inflation (as measured by the retail price index) over the same period.

Of course there have been significant events and corrections during this period – the dotcom peak of 2000 or the global financial crisis in 2008 – when the share prices of these companies plummeted. Such intermittent volatility, however, only underlines why investors need to be able to stay invested for the longer term, riding out these shorter-term price movements.

Since the index launched just three of its companies have gone bust. One lesson investors may take from this is that larger companies can be more stable and less risky than smaller start-ups.

DIVERSIFICATION

However, the performance of the FTSE100 shows stock markets don't always deliver positive returns, even over longer periods. Prior to the dotcom bubble bursting the FTSE100 peaked at just under 7,000. It took another 16 years to pass the 7,000 barrier. This highlights another key investment lesson: the importance of diversification.

Energy companies, healthcare stocks and banks make up almost 40% of the list. Technology companies – which have delivered some of the strongest returns in recent years – comprise fewer than 1%. What's more, a significant proportion of the index is concentrated in just a few 'super stocks' with Shell's share (at the end of September) accounting for 9% of the total index.

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



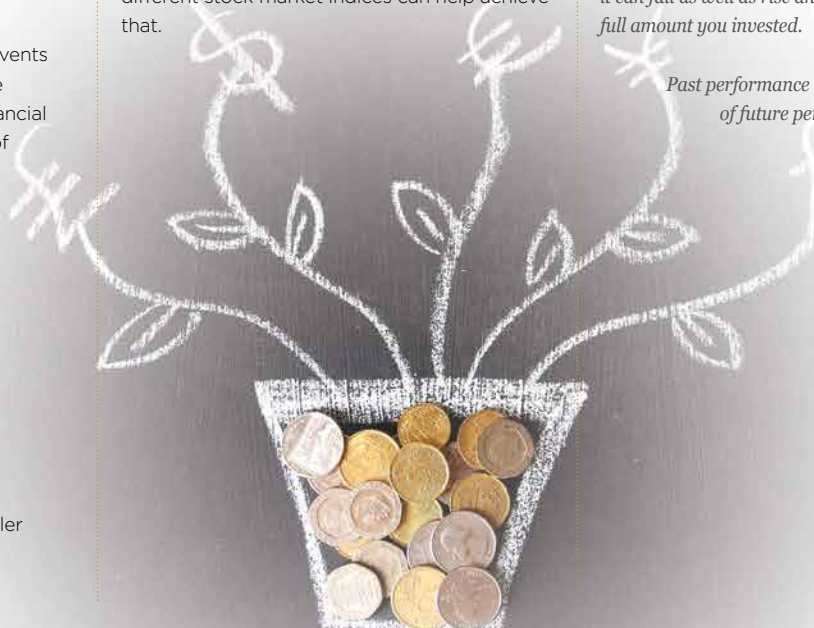
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Although the FTSE100 delivered returns of around 1% in the first two decades of this century, this is just a reflection of the share price of its constituent companies. Many of the companies listed also pay healthy dividends to shareholders, which are not reflected in the index 'price', but are an important part of total returns, particularly for a mature index like the FTSE100 made up of many long-standing industrial companies.

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NEWS ROUND UP

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.

Working longer

More than one in 10 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.

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.

Royal 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.

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.

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.*



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