THE UNMARRIED TRAP
Creating financial and legal safeguards

RETIREMENT PREMIUM
The rising costs of a comfortable retirement

UNEVEN INFLATION EFFECT
Where is your money going?

Asset & Investment Management

Financial FOCUS

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SPRING 2023

The Budget and beyond

Preparing for the new tax year

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The reappearance of a full Budget in March almost three years after the start of the pandemic marked a return to 'business as usual'. The circumstances, however, with record inflation and a cost of living crisis, are anything but usual. Although many tax rates and thresholds have either been frozen or cut, the Budget held one surprise in the virtual abolition of the pension lifetime allowance. We look at what's ahead in tax planning for 2023/24 in our feature for this edition. Earlier in the year, the Pensions and Lifetime Savings Association reported that funding a basic standard of living in retirement is now 19% more expensive than it was in 2021, nearly double the peak of recent inflation, which should focus the mind. Ensuring financial security should also be a priority for the growing numbers of cohabiting couples who may believe they have financial and legal safeguards under 'common law' which don't exist. Recent change in the law extending bereavement benefits to unmarried partners highlights the need for open and explicit financial planning.

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INVESTMENT

Fixed interest in a different world

World events in 2022 may have changed the investment landscape more than you might realise.

At the start of last year the Bank of England base rate was 0.25%. Simultaneously, a 10-year government bond (gilt) offered a return for the following decade of about 1.1% a year. With hindsight those rates look pitifully low, but back then we had all become accustomed to minimal rates – the Bank of England's rate had been below 1% for 13 years.

On 23 March 2023, the Bank of England announced its eleventh consecutive rate increase, taking the base rate to 4.25% – the highest since 2008. At the same time, the return on the 10-year gilt was 2.5% higher than in January 2022 at 3.6%. A similar period of rising short- and long-term interest rates occurred in the US and the Eurozone. As in the UK, the higher rates were a response to a sharp jump in inflation.

While the change in bank rates grabbed the media headlines, for investors the upward move in bond yields was the more significant event. For about 40 years until 2022, the yield on UK government bonds had largely moved in one direction – downwards. Again, it was much the same picture in Europe and the US. In fact, for about three years from the start of 2019, 10-year bond yields in some parts of Europe were negative – guaranteeing the investor a loss to maturity.

The revival in bond yields has important consequences:

- Bonds have become more attractive investments, particularly if you are seeking longer-term income.
- There is now more potential for capital growth from investment in bonds as prices fell across 2022. Partly this is because scope for yields to fall (and thus bond prices to rise) now exists, whereas it had virtually disappeared with near-zero rates.
- Bonds now have a potentially greater role in a diversified portfolio of investments. When yields were on the floor, there was no incentive to hold bonds in preference to equally low-yielding cash.
- Higher bond yields mean better annuity rates, which could alter how you choose to arrange your retirement income.

There are many ways to gain access to the wide variety of bond investments. Advice is essential: while yield is important information, there are many other factors to consider.

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

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.

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PLANNING

Caught in the unmarried trap?

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Being frank about your finances is important in any relationship. But cohabiting couples in particular, who do not have the same legal protections as those who are married or in civil partnerships, need to know where they stand should one of them die or the relationship break down.

Many are unaware of their position. A 2022 Women and Equalities Committee report included a reminder that 46% of people in England and Wales wrongly assume that couples living together are in a 'common law' marriage – a concept which does not in fact exist in UK law.

This misconception is a problem as there are now 3.6m unmarried couples living together in the UK, more than two times the 1.5m 27 years ago.

The legal position has not changed significantly since then, with the government recently rejecting calls to give more legal rights to cohabiting couples. However there has been one moderate concession, with unmarried people now entitled to claim State bereavement benefits should their partner die.

PROTECTING FINANCIAL RIGHTS

While this change is welcome, it still means cohabiting partners do not inherit assets tax-free if their partner dies — unless the estate is under £325,000 and left to them in a will – and may not inherit anything at all if there is no will. They may also not be in line to receive funds from pensions or life insurance policies. Buying a property together or having children does not automatically give you these rights — so couples in this situation, who have ongoing financial responsibilities, need to plan their finances carefully.

Surprisingly, the Scottish Widows research found that only half (52%) of unmarried adults in a relationship knew whether or not their partner had a life insurance policy. The research also showed that four out of 10 people with this cover (43%) had taken no steps to ensure their other half would receive a payout in the event of their death.

ADDRESS CHALLENGING TOPICS

Many couples — married and unmarried — find it difficult to talk about money, particularly when it also involves more challenging topics, like discussing serious illness or death. But there are simple, inexpensive ways to ensure you are providing financial security for your partner and any children, whatever the future holds.

Cohabitees can help protect themselves by taking the following three steps:

- **Start talking:** Have an open and frank discussion about money, covering earnings, assets and debts, held individually or jointly.

Cohabiting partners do not inherit assets tax-free from their partners unless the estate is under £325,000 and left to them in a will.

- **Check property ownership:** Your property could be owned as a 'joint tenancy' or 'tenancy in common'. Will arrangements meet your needs if one of you dies?
- **Write a will:** These can be individual or 'mirror wills' for couples setting out who inherits assets and looks after any children in the event of one or both partners dying.
- **Nominate your partner as a beneficiary on your pension or life insurance policy:** This generally involves filling out one form, which can often be done online.

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

Life assurance plans typically have no cash in value at any time and cover will cease at the end of term. If premiums stop, then cover will lapse.

TAX

The Budget and beyond: preparing for the new tax year

The Spring Budget created some unexpected headlines, particularly with the surprise proposed abolition of the lifetime allowance. Taken with the announcements from the Autumn Statement, the tax planning landscape for 2023/24 is now in sharp focus.

November's Statement – a Budget in all but name – increased the overall tax take by more than most Budgets. In contrast the Spring Budget cut net revenues, although by a smaller amount, while still containing those headline surprises.

Heading into the new tax year, the following key areas of change – and non-change – mean you should start your planning early.

Income tax The personal allowance and higher rate threshold (outside Scotland) will be frozen until April 2028. The additional rate threshold (and top rate threshold in Scotland) will be reduced by nearly £25,000 to £125,140 for 2023/24.

Not only will this mean you pay more tax as your income rises – even if it grows slower than inflation – but it also means you may move up a tax band. For example, the Office for Budget Responsibility estimates by 2024/25 there will be two million more higher rate taxpayers than would have been the case had the higher rate threshold been indexed rather than frozen.

Dividend allowance The dividend allowance will halve from the current £2,000 to £1,000 in 2023/24 and then again to £500 in 2024/25 – a tenth of its original level in 2016/17. These reductions make it even more important to maximise your UK tax-free ISA investment.

Capital gains tax The annual exempt amount will fall from £12,300 in 2022/23 to £6,000 in 2023/24 and then to just £3,000 in 2024/25. The maximum corresponding amount for trusts will be half these figures.

Pensions The Budget contained three significant changes to pension rules that take effect from 6 April 2023:

- The lifetime allowance, which had been frozen at £1,073,100, will effectively be abolished. All the potential tax charges associated with it will disappear for 2023/24.
- The annual allowance will increase by 50% to a maximum of £60,000 and to a minimum of £10,000 where taper rules apply. The same £10,000 figure will apply to the money purchase annual allowance, which is triggered when income is first drawn flexibly.
- There will be a new monetary cap on the tax-free pension commencement lump sum of £268,275, unless you have earlier lump sum protection.

These reforms are designed to encourage high earners to stay in work and the retired to re-join the labour force. However, they have wider relevance and could mean your retirement planning strategy needs to be revised.

Corporation tax From 1 April 2023 the main corporation tax rate for companies with profits of at least £250,000 will rise from 19% to 25%. For companies with up to £50,000 profits, the 19% rate will continue to apply. For companies with profits in the £50,000–£250,000 band, the first £50,000 of profits will also be taxed at 19%, with the excess subject to an effective rate of 26.5%.

These changes may discourage directors from extracting corporate profits through dividends.

> The annual allowance will increase by 50% to a maximum of £60,000 and to a minimum of £10,000 where taper rules apply.

Pension contributions have become more attractive, following the Budget allowance changes. Similarly, if you are self-employed incorporating your business has lost some of its appeal from the tax viewpoint.

If you have been left financially dizzy after Mr Hunt's one–two punch of Autumn Statement and Spring Budget, please talk to us about a tax planning review.

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

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.

TAX

Digitally deferred

HMRC's plans for digital tax have been delayed...again.

In December 2015 HMRC published 'Making Tax Digital' (MTD), a paper in which it said 'By 2020, businesses and individual taxpayers will be able to register, file, pay and update their information at any time of the day or night, and at any point in the year, to suit them. For the vast majority, there will be no need to fill in an annual tax return.'

It has not quite worked out that way.

IMPLEMENTATION HAS SLOWED

Almost exactly seven years after the original MTD paper was published, a House of Commons written statement revealed the introduction of the MTD regime for the self-employed and landlords, requiring income and expense data to be submitted online quarterly, would be deferred for at least two years:

- For those with gross income of over £50,000 a year, MTD will now become mandatory from April 2026.
- Those with a gross income of over £30,000 a year will join MTD from April 2027.

What will happen to the self-employed and landlords with income of £30,000 or less is unclear – the government has promised a review. General partnerships have similarly been told their start date has been deferred from April 2025 'to a later [unspecified] date'.

It seems certain that MTD for income tax will eventually happen, but at least for now it remains confined to VAT.

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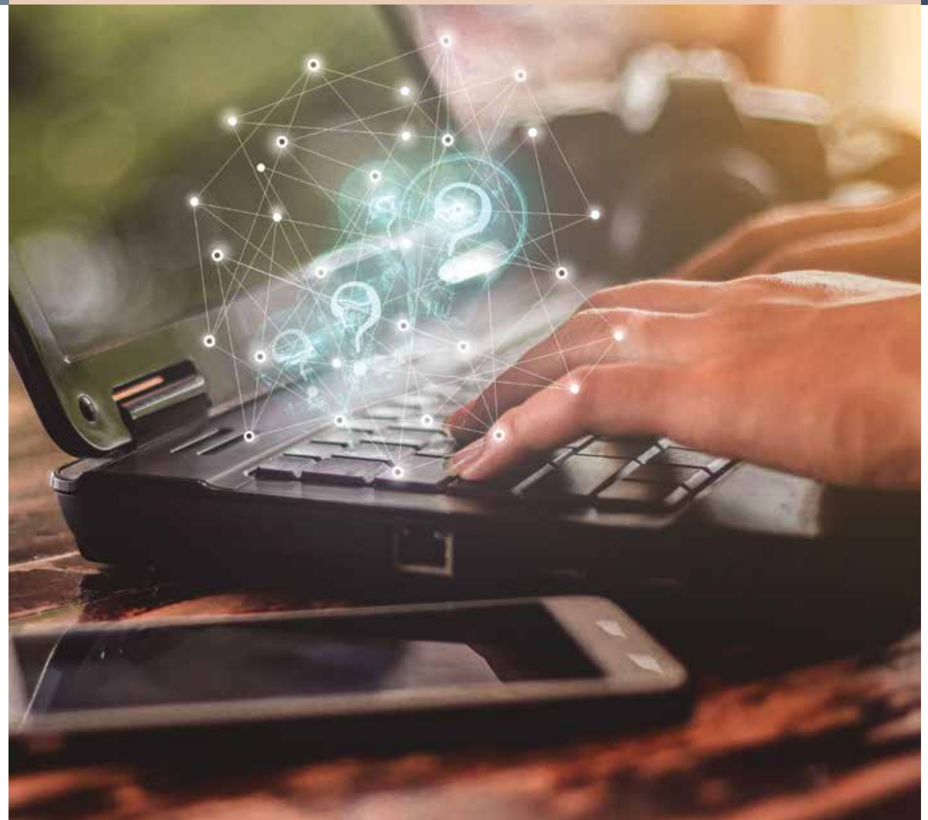

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PENSIONS

Can you meet the rising cost of retirement?

The recent rise in the cost of living, alongside potential changes to the State pension age (SPA), may have pushed your previous retirement assumptions out of line. Some people may need to save more each month or postpone retirement — or possibly both — to get retirement plans back on track.

A study published in January 2023 by the Pensions and Lifetime Savings Association (PLSA) reckoned that the minimum income pensioners need to ensure a basic standard of living had increased by 19% for a couple since 2021 — significantly more than the headline rate of inflation.

Single people looking for a 'moderate' level of income in retirement (allowing for spending on leisure activities, for example) now need £23,300 a year, or £34,000 for couples. Those looking for a more 'comfortable' retirement (potentially including holidays or presents for family) should be looking to generate an income of £37,300 (or £54,500 for a couple) – an increase of around 11% on previous levels, according to the study.

A couple sharing costs would need to save around £328,000 in private and workplace pensions for a comfortable retirement, on top of two full State pensions. While the State pension will rise by 10.1% in April, future increases are unlikely to be as generous.

There has been a bigger increase in the cost of basic living standards, as a far greater proportion of people's income is used to buy food and fuel – sectors with some of the biggest price rises recently.

BUILD IN FLEXIBILITY

Higher bills aren't the only thing that would-be retirees need to consider. Changes to the State pension age (SPA) could mean having to save more to make up shortfalls or work for longer.

The SPA of 66 is due to rise to 67 by 2028 and to 68 by 2046. Recent reports suggested the government was considering bringing forward that latter increase to 2035, potentially affecting millions born in the 1970s. The next pension age review is due in May, but falling life expectancy figures may have put that change on hold for now.

Whether or not these changes take place, it is worth checking when you will receive your State pension and what it will be worth. Recent research by Standard Life found that one in three workers didn't know when they would receive this benefit, with almost one in two (44%) having no idea what it would be worth.

Saving sufficient sums to fund a decent retirement can seem like an uphill task — particularly if the goalposts keep moving. But reviewing plans regularly and building in some flexibility is increasingly important. Identifying potential shortfalls at an earlier stage means savers are in a better position to plug these gaps over the longer term and secure a more comfortable retirement.

As ever, expert advice should be your first port of call.

+ Occupational pension schemes are regulated by The Pensions Regulator.

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.

PROTECTION

Matters of life and death: using the right cover

The Financial Conduct Authority (FCA) has issued a consumer warning on an unusual form of life cover.

Before your executors can deal with your estate, they will usually need to obtain probate (Confirmation in Scotland), even if there is no inheritance tax to pay. While it is possible for executors to apply for probate personally, the process can be complex and many prefer to use a solicitor.

Probate costs can be significant – *Which?* suggests on average solicitor firms will charge 2% of the estate value, while banks typically charge double that. For some older people, that expense can be a concern.

The FCA recently issued a warning about a relatively new type of plan being marketed to such worried people – pre-paid probate plans. These plans claim to meet the cost of probate on your estate in exchange for a one-off payment. However, they do not pay out cash; instead, your executors are required to use the probate practitioners nominated by the plan provider.

UNREGULATED MARKET

The FCA is concerned that there are no regulatory protections in place for the plans. Should the provider go bust, the pre-payment could become no payment. Pre-paid funeral plans began on a similar footing and were eventually brought under FCA regulation after several providers failed, leaving their clients with no compensation. Now, some of the pre-paid funeral providers who did not receive FCA approval have started to promote pre-paid probate plans.

These new operators are trying to sell life assurance without any of the regulations that apply to the marketing of such businesses and the operation of insurance companies. That legal framework is there for good reason. Life assurance is a complex business, with pricing that is poorly understood by the public – a combination that has obvious attractions to scammers. Life assurance also normally involves a long-term contract. If a claim results in no payout, there are likely to be devastating financial consequences.

If you need a lump sum to cover a liability that will arise on death, be it the cost of probate, an outstanding mortgage or something else, straightforward life assurance will normally provide a more flexible and lower-cost solution than an unregulated packaged plan.

✢ *The Financial Conduct Authority does not regulate pre-paid probate plans, will writing and some forms of estate planning.*

Life Assurance plans typically have no cash in value at any time and cover will cease at the end of term. If premiums stop, then cover will lapse.

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PENSIONS

Do you have a national insurance gap?

An important pension deadline has been extended.

In 2013, as part of the launch of the new state pension, the government announced that until 5 April 2023 people could fill in gaps in their national insurance contribution (NIC) record between April 2006 and April 2016.

The offer was potentially valuable because under the new pension regime, a ten-year minimum of NIC contributions (including any NIC credits) are needed for any state pension entitlement. In theory, for someone with a nine-year NIC record, filling in just a single year's gap – typically at a current cost of £829.40 – means the difference between no state pension and one of just over £3,000 a year.

In early 2023, this opportunity belatedly gained the national press coverage it deserved, resulting in HMRC and the Department for Work and Pensions being swamped with enquiries. The government has responded by extending the deadline to 31 July.

If you think this could affect you, do not wait any longer to act.

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NEWS ROUND UP

Premium bonds boost

National Savings & Investments has added £15m in higher-value prizes to its monthly Premium Bond draw, replacing thousands of £25 prizes with £50 to £100,000 pay outs. This pushes up the prize fund rate to 3.3% — the fifth increase in the last 12 months. This rate reflects the return bondholders get with 'average' luck. In reality many will get less, and the chance of winning a prize remains at 24,000 to 1.

NS&I Green Bonds rate increase

National Savings & Investments (NS&I) made changes on some of its products, including its fixed-term Green Savings Bonds, which raise money for environmental projects. These three-year bonds now pay 4.2% – up from 3%, and its one-year savings bond is now at 4%. Savers won't be able to access their money during the fixed term, but can invest up to £1m in these accounts.

✢ *National Savings & Investments are not regulated by The Financial Conduct Authority.*

HMRC's new text service

HMRC is piloting a new text service which it hopes will improve customer service standards at its call centres following recent criticism from MPs. Enquiries regarding forgotten user IDs, or password resets, for example, will now be met with a link to the relevant information via text. A similar 'text' answer will be given to those looking to register for self-assessment. Taxpayers will still have the option to talk to an individual over the phone.

INFLATION

Where is your money going?

Inflation is everywhere, but your experience of it may not match with the figures in the headlines.

In 2022 four main measures of inflation published by the Office for National Statistics (ONS) ranged from 9.2% to 13.4%, with the most used, the Consumer Prices Index (CPI), registering at 10.5%.

That inflation is not a single figure or even a narrow range of numbers is further illustrated by a breakdown of the 2022 inflation rate into each of the dozen categories which make up the CPI, shown below. Predictably the highest rate of inflation was in the category including electricity (up 65.4%) and gas (up 128.9%).

The ONS, which reviews the contents of the CPI 'shopping basket' each coming year, gave electricity and gas a combined 2022 weighting of 3.6% of overall household expenditure. That low percentage reflects the timing of world events: the basket weightings were set before Ukraine was invaded.

If you are retired or work from home, utility bills will impact your finances more than if an employer provides a warm working environment. Similarly, lower earners are likely to spend more of their income on the essentials, like home heating and food (the second highest inflation category in 2022).

The Spring Budget projected that CPI would drop to 2.9% by the end of the year. However, as 2022 and February's surprisingly high inflation figure both remind us, forecasts from even the most respected sources are not the same as outcomes.

The CPI in December 2022 was 17.6% higher than in January 2020. After such a spike, a review of your personal finances to see whether any adjustments are needed makes good sense. For example, funding plans for school/university fees, potential inheritance tax liabilities or even that retirement world cruise may now be inadequate. Remember, just because the future rate of inflation looks set to drop does not mean the cumulative damage caused by past inflation will disappear.

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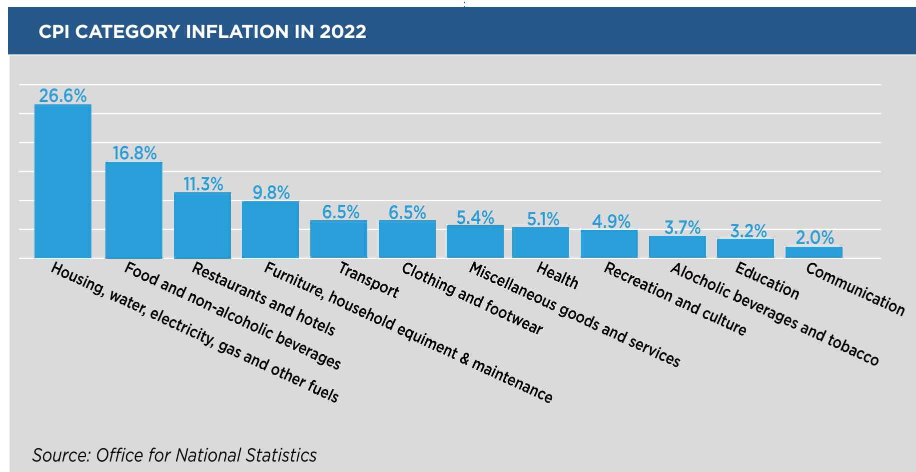

Source: Office for National Statistics

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