WINTER NEWSLETTER

GEM FS LTD

Please enjoy reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us.

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Start of the tax year checklist

The new tax year on 6 April 2023 marks a great time for your adviser to help you organise your money and make the most of the allowances available to you.

A new tax year means annual allowances are back to zero and ready to be filled or topped up, to make the most of your money.

This is a good time to work with your adviser and run through your existing pensions and investments and review the allowances available to you, as well as looking into opening any new forms of investment.

With interest rates on the rise, your adviser is ideally placed to guide you through ways to grow your savings, depending on your needs.

Note: The following figures are applicable to the 2022/2023 tax year, which starts on 6 April 2022 and ends on 5 April 2023.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

ISAs

The maximum you can invest across your ISAs (if it's a cash ISA, stocks and shares ISA or innovative finance ISA) is £20,000. For a lifetime ISA, the annual allowance is £4,000.

Junior ISAs

If you're looking to put some cash aside for your children, Junior ISAs (JISAs) are a great option and often come with higher interest rates. In the new tax year, you can save or invest up to £9,000 in a cash JISA, a stocks and shares JISA, or a combination of the two.

Pension allowance

Your personal pension contribution allowance is £40,000, although it can be lower for higher earners and where pension savings have been flexibly accessed already. Any contributions you (or your employer) make receive tax relief from the government (based on your income tax band) of 20% or more – and the money in your pension pot will grow tax free.

Child's pension

A child's pension can be set up by a parent or guardian, but anyone can contribute. You can pay up to £2,880 in the new tax year into a pension on behalf of a child and the government automatically tops this up with 20% tax relief on the total amount contributed, taking the figure up to £3,600.

Gift allowances

A financial gift is a great way of using tax-free allowances, and your adviser can help explain the options available.

Making a cash gift can help a loved one (and help with your estate planning). Everyone has an annual gifting limit of £3,000 that is exempt from inheritance tax (IHT). This is known as your annual exemption. If you fail to use it one year, you can carry it over to the next tax year (so if you didn't use the gift last year you could give away £6,000).

It's worth remembering that any gift you give, even to family members, could be subject to capital gains tax (CGT). CGT is the tax you pay on any profit or gain you make when you dispose of an asset, such as a second home or shares. If you gift an asset and it has risen in value compared to what you have paid for it, you could be liable to CGT. The CGT allowance for the new tax year is £12,300. This is the amount of profit you can make before CGT is applied.

Marriage allowance

If you are married you might be able to take advantage of the marriage tax allowance. It allows one half of a couple who earns less than the income tax threshold (£12,570) to transfer up to £1,260 to their higher-earning spouse (who must be a basic rate taxpayer).

Our financial advisers can help you make the most of your annual allowances now that we are into a new tax year.

OW3989 Exp. 05/04/2023

Cost of living crisis: Why you should review your budget and plans

The cost of living is rising. Reviewing your finances now is crucial for understanding what effect inflation could have on your lifestyle and long-term plans.

Inflation was at an almost 40-year high. In the 12 months to August 2022, it was 9.9%. There are several factors contributing to rising inflation, including the conflict in Ukraine, which has disrupted energy and food supplies.

Rising inflation means now is the ideal time to review your budget

Keeping track of your finances during the cost of living crisis is crucial. In the short term, you should review your budget. Can your budget absorb the higher costs, or do you need to make lifestyle changes?

The Bank of England expects inflation to peak at around 13%. It's also said it doesn't expect the rate to fall to its target of 2% for several years.

So, you should look at what that means for you in the coming years. Will rising energy prices mean you need to be more mindful of energy use or cut back expenses in other areas?

While the headline inflation figure can give you an idea of how prices are changing, your personal inflation rate may be very different. If you commute long distances, for instance, the steep rise in fuel costs may mean your outgoings rise more than you expect.

Going through your budget and calculating how your regular costs have changed in the last year can help you better manage your finances.

In some cases, you may decide to draw on savings or other assets to bridge a gap if your expenses rise. You should ensure this is sustainable.

The steps you take could affect your long-term plans

While it's important to focus on how the cost of living crisis is affecting your finances now, don't forget to consider the long-term effects too. Decisions you make now could affect your income and financial security for years to come.

If you're using assets to create an income, such as your pension, you need to be aware of how increased withdrawals may affect you. Could taking a higher income from your pension now to cover costs mean that you deplete your savings faster than you expect? If so, it could mean you face an income shortfall later in life.

Research also suggests that some people are cutting back outgoings that could improve long-term financial security. According to Canada Life, 5% of adults have already stopped contributing to their workplace pension due to budget pressures. A further 6% are actively thinking about pausing their pension contributions.

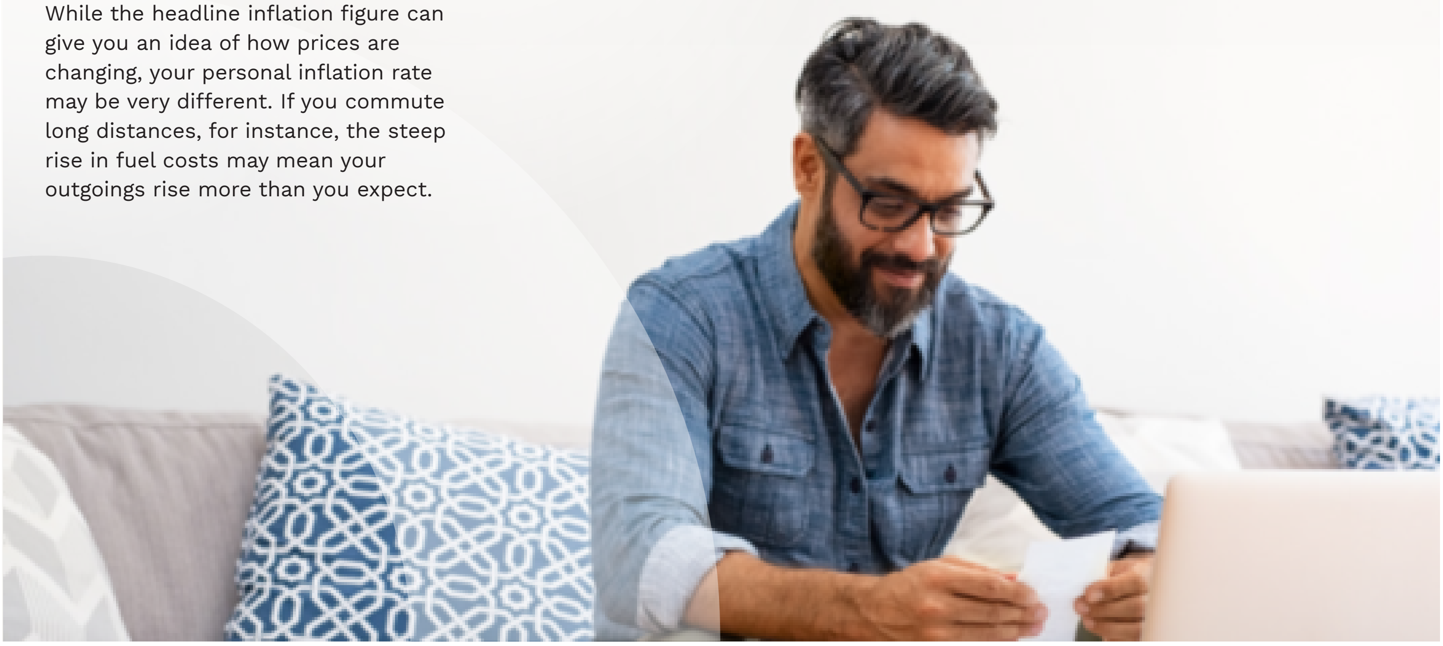
While pausing contributions for a few months may seem like it will have little effect on your retirement, it can be larger than you think. The power of compounding means that pausing pension contributions for just a year could reduce the value of your pension at retirement by 4%.

It's not just stopping pension contributions that could affect your long-term plans. Things like reducing how much you add to your savings account or investment portfolio could affect whether you can reach your goals in the future, whether that's to support children through university or retire early.

Contact us to review your finances

Amid the current economic uncertainty, reviewing your financial plan can give you peace of mind and confidence. We'll help you understand how your current budget has been affected and the steps you can take now to create long-term financial security.

Please contact us to arrange a meeting to discuss your goals and the effect the cost of living crisis could have.



OW4240 Exp. 17/02/2023

Pension lifetime allowance – how it affects you

In his 2021 Budget, the Chancellor announced a five-year freeze on the lifetime pension allowance. What does this mean for you and your retirement fund?

What is the lifetime pension allowance?

The lifetime pension allowance sets a limit on how much you can save in your pension before you start paying tax on anything over the limit. For a few years before the 2021 announcement, the limit had been tied to inflation, meaning that it rose in line with the cost of living.

With the global pandemic and surge in inflation over the past couple of years, the decision was made to freeze the limit – at £1.073 million – until 2026. It's hoped that the freeze will generate additional revenue as savers slow down or stop contributing to their pensions and don't claim tax relief from the government.

How are my pensions affected by the lifetime allowance?

The lifetime allowance applies to all types of non-state pensions in your name – so that includes any defined benefit (final salary or career average) schemes you have along with any defined contribution pensions.

The limit of £1.073 million might seem like a huge amount. But if you're a medium-to-high earner, have saved into pensions from an early age and are approaching retirement, you could one of the millions who are affected (and caught unawares) by reaching the threshold.

As pensions are so complicated, seeking advice is important and we can help clarify the status of your pensions, discuss your retirement plans and how to proceed.

What happens if you exceed the lifetime allowance?

Many of us have more than one pension, usually accumulated through different jobs over the years. Keeping track of them and how much they contain can be tricky and time consuming, as you'll need to look at their expected value when the time comes. Your adviser is best placed to gather this information and help with your next steps.

If your total exceeds the lifetime allowance, the excess amount will be taxed as follows:

- 55% if you receive the amount as a lump sum from your provider
- 25% if your payments are gradual or are cash withdrawals

These are large penalties on your savings, so it's worth acting now to find a way to protect your hard-earned pension.

Your adviser is ready to help you navigate the complex area of pension and ensure you move forward in the strongest position for you and your loved ones.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Seek help to protect your pension

Protecting your pension and making sure you're able to live comfortably in retirement and keep up with the cost of living is something we can help with. So, if it looks like your pensions could be affected by reaching and exceeding the lifetime allowance, there are some options you can discuss with your financial adviser:

Divert savings into an ISA
You can earn tax-free and make withdrawals in most cases. Our advisers can help you calculate how much you will need to live comfortably in retirement and help plan your investment strategy to achieve that goal.

Combine pensions with your spouse
Consolidating your pensions can be an effective way to grow your retirement savings in one place. It can also save time on the administration involved, cut down on fees and create a more streamlined investment strategy.

Claim pension credit
Many pensioners are eligible for pension credit but fail to make a claim. It's available if you are over the state pension age and on a low income, are a carer, severely disabled or responsible for a child. It could boost your retirement income up to £182.60 a week if you're single, or £278.70 for couples. It's separate to the state pension, and we can help calculate whether you and your partner are eligible.

Pension allowance protection
Your adviser will be able to assess whether your pension could benefit from protections that help avoid the tax charge by offering a higher lifetime allowance. But there are several conditions and criteria you'll need to meet. Our experts can advise whether it would be applicable to your situation.

The effect of psychology on investors

You should base financial decisions on logic and facts. But psychology can have a much larger effect than you think, and it can lead to you making decisions that aren't right for you. Read on to find out more about what behavioural finance is and how it could affect you.

"Behavioural finance" was first coined in the 1970s by economist Robert Shiller and psychologists Daniel Kahneman and Amos Tversky. They used the term to refer to how unconscious biases and previous experiences affect the way people make financial decisions.

It can be used to explain why investors can make knee-jerk decisions or invest in opportunities that aren't in their own best interest. Rather than relying purely on facts, investors often have biases that affect how they react to certain situations.

Finance bias can lead to "irrational" decisions through shortcuts

There's a reason why people often make decisions based on biases: they can make the decision-making process quicker.

If you imagine how many decisions you need to make every single day, it's easy to see why this kind of decision-making can be useful. From what to eat for breakfast to which way to travel to work, it'd take up all your time if you carefully went through the facts for each decision you make. So, you make shortcuts by using biases.

However, while it can be a useful process in your day-to-day life, bias can have a negative effect when you're making important decisions, including financial ones.

Behavioural finance covers five concepts:

1. Mental accounting

Mental accounting can be incredibly useful when you're managing a budget. However, inflexibility could mean you miss out on opportunities.

The concept refers to how people may designate money for certain purposes. So, you may have different savings accounts for various goals. It's a process that can help you manage your outgoings and work towards goals.

However, it can also lead to irrational decision making.

You may not dip into a savings account that you've allocated to buying a new car even when you face an emergency and it'd make sense logically.

How you receive the money may also affect how you use it. For instance, you may put off using money that was given as a gift in an emergency because you believe it should be used for something special.

2. Herd behaviour

Herd behaviour is something that's often seen in investing. When you hear that lots of people are selling certain stocks or buying a specific share, it can be easy to be led by this and follow suit.

It can lead to you making decisions that, while possibly right for others, don't suit you or your circumstances. It's not just investing where herd behaviour can have an effect. You may be tempted to purchase an item after a friend has or choose a savings account because someone you know has.

3. Anchoring

When you have some information, you may focus on this – anchoring your views to this data.

Setting a benchmark can be useful, but it can mean you don't take in other information, especially if it's contradictory.

So, you may hold on to investments even after the value has fallen because you've anchored its worth to a previous valuation.

4. Emotional gap

Emotions often play a role in financial decisions. You may sell a stock because you fear that the price will fall, or make an impulse purchase because you're happy.

Being comfortable with your financial plan is important, but an emotional gap can fuel irrational decisions as you're more likely to overlook data.

5. Self-attribution

This concept refers to how investors are likely to have overconfidence in their abilities.

You may believe you can reliably time the market to maximise profits when the markets are unpredictable. In this case, it's common to see "wins" as being down to your knowledge, while "losses" are attributed to things outside of your control.

Unconscious bias may affect your decisions in ways you don't expect. If you have any questions about your finances and the decisions you need to make, please contact us.

The value of your investment 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.

OW4262 EXP 6.12.23

How to protect your mortgage

Strengthening your ability to keep up with mortgage payments is important and will give you some peace of mind if your circumstances change.

Life insurance is the form of protection most of us would name as one that could pay down or pay off a mortgage. Yet there are other situations (apart from death) that could mean it's very difficult or even impossible to keep up with mortgage payments for an extended period – without the help from other types of coverage.

Here are some protection policies you might want to have in place (alongside life insurance) to give your mortgage some security if you are unable to keep up with mortgage payments. Your adviser can help you work out the best option for your situation.

Critical illness protection pays out a one-off, lump sum if you're diagnosed with a critical condition or disability that is covered by your policy. It can be offered when you buy for life insurance, as extra coverage.

Income protection pays out a percentage of your monthly income if you are unable to work due to illness, an accident or disability. Depending on the terms, you'll receive a regular income until you either return to paid work, retire, pass away or if the policy term comes to an end.

Mortgage payment protection insurance (MPPI) pays your monthly mortgage payments if you're unable to make them due to an accident or illness.

What's the difference between income protection and MPPI?

Income protection insurance is seen as more comprehensive than MPPI as it covers a proportion of your income and not just your monthly mortgage payments. It could also help to cover monthly bills aside from your mortgage. The period you're protected with income protection tends to be longer than MPPI, too.

Your adviser will help you find a policy that works for you and your needs, in terms of the length of cover you want and how much the premium might be. MPPI premiums could be lower than those for income protection and more affordable.

Our advisers are here to help if you're looking for ways to protect your mortgage.

What is critical illness cover?

Whether you need critical illness protection depends on your situation as well as any existing policies you might already have in place.

Critical illness insurance pays out a one-off, lump sum if you're diagnosed with a condition or disability that is covered by your policy. It can be offered when someone applies for life insurance – as extra coverage.

In a similar way to some life insurance plans, critical illness covers a set number of years. You can specify whether you want the payout to rise over the course of the term (so it keeps up with inflation) or the opposite – decreasing because your aim is to cover something specific like your mortgage.

If you're thinking about critical illness cover, it's important to speak to your financial adviser who can help you decide how much cover you'll need and how long the term should last.

What does critical illness cover?

Products vary depending on the provider. Certain illnesses are covered as standard by most insurers, including, cancer, heart attack, stroke, organ failure, multiple sclerosis, loss of arms or legs and Alzheimer's and Parkinson's disease.

Some providers may allow you to add additional illnesses to your policy, which you'll pay more for. Your children could also be covered as part of your policy so it's worth asking your adviser about these options if it's something you're keen to have in place.

What does critical illness not cover?

Although a diagnosis of a critical illness can mark the start of a claim in some policies, others may only begin to offer protection once your illness hits a certain level of severity. For example, if you are diagnosed with cancer, payments may only begin when permanent symptoms have been officially diagnosed. Additionally, not all types of cancer are necessarily covered by critical illness protection.

It's important to work with your financial adviser when reviewing a policy and all the small print before you commit to make sure you are sufficiently covered – and aware of areas not included.

Pre-existing conditions

Just like the life insurance application process, critical illness protection requires you to disclose any pre-existing conditions. If you don't then your policy could be invalid.

Your adviser can search the market for a suitable plan, but you'll probably have to pay more in premiums and there will likely be some extra exclusions. The price you pay will vary, based on things like age, occupation, state of health, lifestyle and how much coverage you need and for how long.

Do you need critical illness cover?

There are things to consider if you're worried about being diagnosed with a critical illness and the impact on your income and ability to keep up with bills (which would not be covered by state benefits when you're unable to work).

Your adviser will help you look at the following areas:

- Your employer's coverage – is there any paid leave for illness or disability and for how long?
- Do you have an existing life insurance policy and if so, does it have any illness coverage included?
- Could you consider income protection insurance as an alternative to critical illness?
- Do you have sufficient savings and investments you could use in place of critical illness cover?

If you want to proceed, it's important to work with your adviser to see how much protection you'll need. This means looking at your monthly outgoings and how much you and your family require to live comfortably. You might want to add in any potential costs from medical treatment you may need.

During these important decisions it's easy to lose track of the small details, which is why your adviser can help make the process easier for you and your family and give you some peace of mind.

We can examine your needs and existing policies and then find you the right cover that protects your finances – and your family – should anything happen.

OW4160 Exp. 29/09/2023

Home insurance explained

This year sees new rules from insurers that could bring you savings on your home insurance renewal.

The Financial Conduct Authority (FCA) has announced that insurers will have to offer the same deals to new customers and renewing customers for their home insurance.

Home insurance customers are particularly affected by hikes in renewals, so this is a good time to review your policy with your financial adviser.

What is buildings insurance?

Buildings insurance covers the building itself and its structure – like the roof, floors, windows and in some cases external walls and garages. It will also cover permanent fittings in your kitchen and bathroom (but not your boiler – you'll need specific boiler protection for that).

Mortgage lenders require homeowners to have buildings insurance in place. It's there to protect your property's structure from damaging events like fires, storms, earthquakes, flooding and natural disasters, as well as things like subsidence and even malicious damage or vandalism.

What does buildings insurance not cover?

Buildings insurance won't cover:

- Accidents or normal wear and tear in the home
- Issues arising from neglect of the property
- Damage to gates, fencing or plants
- Effects of frost to external pipes and brickwork
- Damage from pests, insects or birds

To cover some of these issues, your insurance provider may offer accidental coverage as an extra to your policy – but you'll pay more for it. Your adviser can help you decide whether the cost of accidental damage cover is worth it in terms of what the policy actually includes.

It's worth noting that buildings insurance coverage is invalidated if the property is left unattended for more than 30 consecutive days.

What does contents insurance cover?

In a home insurance policy, the contents coverage allows you to select a sum of money (for example £10,000) that you estimate will cover the replacement of contents inside your home if they are damaged, destroyed or stolen.

These items could include electronics and entertainment consoles, kitchenware, furniture, antiques, gym equipment and jewellery. If you have a particularly expensive single item (like a piece of jewellery, a watch or a painting) you may have to declare it separately, depending on your provider's conditions of coverage. This could increase your insurance premium, however. We can help you assess your contents and what your level of coverage should be.

Do you need contents coverage?

Although contents coverage is not compulsory when you own a property, most owners take out some cover (and most providers offer a discounted premium if you have buildings and contents insurance together). Having both means if you need to make a claim for something that affected the building but also some of your contents (for example, flooding damage to your home's foundation and soft furnishings) you would be able to claim for both – using the same policy.

Even if you are renting a property, some contents cover is a good idea to insure your valuable items and provide peace of mind should anything happen.

Home insurance
How we can help you save

Your adviser can search the market and find a home insurance policy that covers your property's structure sufficiently, along with giving you the best advice on how much contents cover you really need. We're here to make sure you're not overpaying for a renewal and will examine your existing plan's small print to check that it properly covers at-risk areas of your home and meets your needs.

Your adviser can help review your home insurance – especially when it's time to renewal – and help ensure you're not overpaying for your policy.