



SPRING NEWSLETTER 2023

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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Openwork
PARTNERSHIP

4 The Bluestone Centre,, Sunrise Way, Amesbury, Salisbury SP4 7YR
don@gem-fs.co.uk | www.gemfsltd.co.uk | 01980 670403

Decumulation

Why a plan is crucial when you start to spend your wealth

Making your retirement savings last a lifetime

To help ensure a sustainable income, you first need to understand how much you'll need to live on.

- **On the go** – during the early stages of retirement, there's a strong likelihood that you'll spend more on travel, hobbies, or home improvements
- **Slowing down** – while you may be slightly less active, you're still busy with hobbies, but you may be less inclined to long-haul travel
- **Coming to a stop** – in later life, your mobility may be more limited, and you may require care.

Structuring a sustainable income

The most efficient retirement income strategy should be planned well in advance and ensure that:

- Allowances and exemptions are used to their full capacity
- Married couples plan together so income and assets are allocated effectively.

Regarding capital withdrawals, you may want to consider decumulating using cash first, followed by taxable investments, ISAs, and finally pensions.

Tax efficiency is key

While tax-efficient accumulation helps enhance your wealth for the retirement you desire, tax-efficient decumulation helps preserve your capital and increases the chance of having money to leave to your loved ones.

So, maximise all your tax allowances including:

- Income Tax allowances
- The Dividend allowance
- 5% return of capital allowance from investment bonds
- Personal savings allowance
- ISA allowance
- Capital Gains Tax allowance

By planning together, couples can use these allowances to maximise the amount of tax-free income available.

Consider spending excess cash first

Ideally, you should hold an emergency fund to cover around six months of regular expenditure. If you have more cash available, consider using this before withdrawing from pensions investments. Using excess cash allows you to leave funds invested, which may provide enough time for funds to recover any lost value.

Get in touch

If you'd like help to create a financial plan to structure a tax-efficient income in retirement, we can help. Please get in touch to arrange a time to chat.

Think twice before drawing on your pension

While you may consider your pension as the foundation of your retirement plan, if you have other income that uses your tax allowances, it may be prudent to defer drawing on your pension.

Since pension funds benefit from tax-free growth, interest, and dividends, leaving your pension invested is especially useful for maintaining capital value. Plus, pension funds are usually not subject to IHT. So, leaving your pension fund intact while drawing on other investments may help to reduce your IHT liability.

Enjoy flexibility from ISA savings

ISAs are considerably more flexible than pensions. Growth, interest, and dividends are all free of tax and you can withdraw money tax-free without restriction. As for IHT, ISAs can be passed between spouses on death, which preserves the tax-efficient treatment.

Useful in reducing tax in retirement, you can use your ISA to:

- Fund large, one-off purchases
- Top up your income – especially useful if your pension exceeds your tax-free allowance
- Make your portfolio more efficient over time, by gradually moving taxable funds across.

Take a savvy approach to investment accounts

A basic and flexible wrapper, investment accounts can hold funds, shares and investment trusts. Interest and dividends are taxable at your marginal rate and selling assets can incur Capital Gains Tax (CGT) if your profit exceeds your annual exemption (£12,300 for 2021/2022 or, for a couple, £24,600. In the 2023/24 tax year, the CGT exempt amount will fall to just £6,000, or £12,000 for a couple).

The following strategies can help reduce tax:


- Phase your taxable investment accounts into ISAs
- Use your annual CGT exemption to avoid large gains rolling up
- Structure your investments depending on the type of income they generate

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.

Past performance is not a guide to future performance and should not be relied upon. An ISA is a medium- to long-term investment, which aims to increase the value of the money you invest for growth or income or both.

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





Investment strategies as you approach retirement

It's usually a good idea to start reducing the risk of your pension fund as you approach retirement. But it's important to strike the right balance so you can continue to power the growth of your portfolio for many years to come as well as draw an income.

As we move through the different stages of life it's important that our investment strategies adapt. Typically, your financial goals change when you retire. You may want a regular reliable income, which usually means you have to take less risk when it comes to investing. People nearing retirement traditionally switch savings out of risky investments and into safer assets to protect their portfolios from market downturns.

Reduce risk in your portfolio as you near retirement

Managing your portfolio's risk level (the possibility of losing the money you invest) as you get older is important to ensure you meet your financial goals. Younger investors with longer timelines to retirement (typically 30 to 40 years) are generally encouraged to take more risk in their portfolios as if there are any market falls, they have longer to recover.

As you get older and approach retirement the more important it is to preserve the wealth you have accumulated. This is

because as the timeline to retiring gets shorter, your portfolio has less time to recover in the event of a market decline.

So, it's a good idea to lower the level of risk to reduce the possibility of your investments falling in value. In most cases, this means reducing exposure to equities and increasing exposure to lower-risk investments that produce an income such as bonds to shield your investments from the ups and downs of the market.

Why it's important to diversify

Portfolio diversification is a way of reducing potential risks by spreading your investments across different assets, rather than having it concentrated in one place. By investing across different asset classes, companies, countries, and sectors, you can help reduce the impact of any major market swings on your portfolio.

While you can't eliminate all investment risk, diversification can help smooth out any fluctuations that happen over time. For instance, stocks can earn more money than other asset classes, but they tend to be more volatile. Therefore, most financial professionals agree that as you approach retirement it is best to reduce the allocation to equities in your portfolio.

Government bonds are less likely to lose money than stocks and are seen as a better bet for retirement thanks to their predictability and income-generating potential. Bond prices are also not

affected by the same market conditions that move stock prices. By shifting their investments out of stocks and into bonds, people nearing retirement can lower their risk and enjoy greater financial stability.

Finding the right balance

It's always important to review your investments before any big life changes, which is particularly true if you are approaching retirement. With any decision about your investments, there are trade-offs. The greater the risk you are prepared to tolerate, the more potential there is for your investments to grow.

While reducing risk with bonds can help shield you from any downturns in the market, your returns could be lower. As you approach retirement, it's important to strike the right balance between assets reducing risk in your portfolio so you can continue to power its growth for many years to come as well as draw an income.

A financial adviser can help you build a well-diversified portfolio appropriate for your risk tolerance and investment goals and adapt it, so the strategy always reflects your age and circumstances.

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.

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.

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.





Lifetime mortgages are more popular than ever, but is one right for you?

A lifetime mortgage releases tax-free cash from the equity in your home

A lifetime mortgage allows you to convert some of the equity in your home into tax-free cash while still retaining ownership.

Although interest is charged on them, unlike residential mortgages, you do not need to repay the loan or the interest until you either move into long-term care or pass away – hence the name “lifetime” mortgage.

Even though the interest accrues over time, ERC-approved products have a “no negative equity guarantee”, which means that the total amount you repay will never exceed the value of your home.

You can also repay some of the interest or loan on a monthly basis to reduce the overall amount owed.

To be eligible for a lifetime mortgage, you must be over 55, own your home, and be a UK resident.

The amount of equity you can release will depend on the value of your home, your age, your health, and whether you are applying for a single or joint mortgage. We can create a personalised illustration of what you could borrow.

Since a lifetime mortgage will affect how much you can leave to beneficiaries in your will, it's a good idea to discuss the decision with your family.

Money from your lifetime mortgage could help you achieve your financial goals

A lifetime mortgage can be paid to you as one lump sum or in a series of smaller lump sums over time. If you choose the latter option, interest will be charged based on the rates when you receive each lump sum.

There are no restrictions on what you can use your lifetime mortgage for.

You could use the cash to:

- Fund home improvements
- Help your children or grandchildren buy their first home
- Pay for a once-in-a-lifetime holiday
- Repay an interest-only mortgage
- Clear existing debts.

If clearing debts is your priority, remember that the interest accrued on a lifetime mortgage might make this an expensive way to do that. We can help you explore all options for debt consolidation before you decide on a lifetime mortgage.

What are the pros and cons of equity release?

Benefits of lifetime mortgages

- Allows you to access tax-free cash without having to move house
- You retain ownership of your home
- No monthly payments required.

Disadvantages of lifetime mortgages

- Interest is charged on the original loan you take out, as well as the interest that has been added, so the total that you owe will grow over time
- Taking equity from your home means you may have less to leave to beneficiaries in your will
- The interest rates on lifetime mortgages tend to be higher than those on traditional residential mortgages.

There are additional costs to be aware of when taking out a lifetime mortgage, too. Legal and financial adviser fees, as well as valuation and completion fees, are fairly standard. There may also be an early redemption fee if you pay off the loan early.

What if a lifetime mortgage isn't right for you?

Taking out a lifetime mortgage can have emotional as well as financial implications. Repaying the loan might require your property to be sold after you die, which might upset some family members if they had hoped to keep your home in the family. This is another reason to involve your family in the decision-making process and to think carefully before going ahead.

If a lifetime mortgage isn't the right option for you, there are several alternatives you could consider.

For example, you could consider downsizing. By moving into a smaller house, you could free up cash from the equity of your home without taking out a loan. Alternatively, if you have other savings or investments, it might be more appropriate to use these instead.

The number of new equity release plans hit record highs in the third quarter of 2022, with the Equity Release Council (ERC) noting a 32% jump in enquiries compared to the previous year. A lifetime mortgage is one type of equity release product that has grown in popularity in recent years.

Despite their rising popularity, though, the loans may not be suitable for everyone. Read on to learn more about how they work and the pros and cons you should consider.

GET IN TOUCH

If you'd like to learn more about whether a lifetime mortgage is right for you, we can help. We will review your circumstances to establish what is right for you, whether that be a Lifetime Mortgage or something else entirely. Please get in touch to arrange a time to chat.

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

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

A Lifetime Mortgage is not suitable for everyone and may affect your entitlement to means tested benefits, so it is important to seek financial advice before taking any action. If you are considering releasing equity from your home, you should consider all options available before equity release.

The interest that may be accrued over the long term with a Lifetime Mortgage, may mean it is not the cheapest solution. As interest is charged on both the original loan and the interest that has been added, the amount you owe will increase over time, reducing the equity left in your home and the value of any inheritance, potentially to nothing.

Although the final decision is yours, you are encouraged to discuss your plans with your family and beneficiaries, as a Lifetime Mortgage could have an impact on any potential inheritance. We would also encourage you to invite them to join any meetings with your Financial Adviser so they can ask questions and join in the decision, as we believe it is better to discuss your decision with them before you go ahead.



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.

The pros and cons of downsizing

Downsizing could mean lower overheads as well as the extra cash from the sale of your home. But there are factors to consider before you make the decision.

From reducing household bills to boosting retirement savings, there are plenty of reasons why people choose to downsize and move to a smaller property.

It's important to consider interim costs, however, like whether you decide to rent in the area you're thinking of moving to, as the search could take some time. There are also fees to pay when selling your home including stamp duty, survey costs, legal expenses, agents' fees and moving costs. Your adviser will be able to help breakdown these costs for you.

Practical benefits of downsizing

Along with cutting your bills, helping you to pay off debt and putting some money towards your retirement savings goals, downsizing has other benefits too.

The stress of maintaining a larger home might become unmanageable as you grow older – leaving you out of pocket and physically drained too. Moving to a less expensive-to-run, smaller home could make your life simpler, leaving you with more time to do the things you enjoy during your retirement years.

Downsizing and tax

Your financial adviser can guide you through the tax implications for downsizing, like inheritance tax and whether your estate may still be able to benefit from the residence nil rate band (RNRB) even if you have downsized your property before your death. The rules around this are complex and often come with qualifying conditions, however, so it's essential to let your adviser examine your options and potential tax implications beforehand.

If you're considering downsizing, your adviser can expertly guide you through the process, explain your options and ensure you are fully informed throughout the process

Plan ahead when downsizing

It pays to plan ahead for the type of home you need when you're downsizing. Your mortgage adviser can help you do this and ensure you're buying somewhere that's the right size for you, as well as keeping you updated on what your eventual mortgage payment might be. They will also be able to explain the advantages and disadvantages of other options, like moving to a retirement village.

It's an emotional decision too, especially if the home you are selling is where your children grew up and holds happy memories. Talk about it as a family so that you are all clear about the reasons for the move. Thinking about your future and planning what your retirement income and outgoings could be – in your current home compared to a smaller one – is also something your adviser can help with.

Things to think about if you've made the decision to downsize:

- Clear out any clutter before you move and consider selling items (like furniture) you will no longer need.
- Look at your home and assess whether any repairs are needed before you sell. Your mortgage adviser can help you with this.
- Your adviser will also be able to factor in the costs for selling your home and moving to a new one, to help you budget.
- Think about how much space you will need in your new home, for hobbies, work and when guests come to stay.



YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE