# SPRING NEWSLETTER 2024

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.

PART OF THE Openwork PARTNERSHIP

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

# Investment myths

Understanding investments can be daunting, and there are several myths that are likely to put you off if you are new to investing. In this blog, we'll debunk five misconceptions about investing. By unravelling these myths, you'll gain a clearer perspective on how to navigate the world of finance and make informed investment decisions.

## 1 You need to be wealthy

You can invest with less than you may think. Making small regular investments can provide more benefits than investing a lump sum. You can invest a small amount into the markets every month. One big benefit of investing a small regular sum is that, instead of saving your cash until you have a lump sum, you're putting your money to work straight away. Even with rising interest rates, leaving money sitting in a bank account can be less profitable than investing it in the market.

## 2 It's too much of a risk

With any type of investment, there is a risk of losing your money. It's all a balance between risk and reward, meaning the greater the risk, the greater the potential reward. If you understand the risks involved and the level of risk you're comfortable with, you'll be able to make an educated decision as to whether it's worthwhile.

## 3 You need to know the best time to buy

Most people think you need to invest when stocks are low and sell when they're high, but there are so many factors that can change the stock market, it's pretty much impossible to predict the outcome. The best thing to do is start investing as soon as you can for as long as you can. There may be fluctuation, some good and some bad, but the longer you're able to hold on to your investment, the more time you'll have to recover from any lows.

## 4 Your money will be inaccessible

It is true that the longer you keep your money invested, the more chance you have of making a return, however this doesn't have to mean your money is inaccessible. There are lots of investment options where you can access your money at any time. You should leave your investments untouched for them to have the most potential, but should a situation arise where you may need your funds, you will be able to access them.

## 5 You have to monitor your investments every day

Checking your investments every day can lead to risky decisions such as changing investments or withdrawing funds altogether. Investments usually span over a long period of time, so it's best not to make potentially harmful decisions based on short-term market performance. If you're opting for a low-risk investment, you won't need to check it often. It's recommended to monitor your investments every three months just to see how they're doing.

## Get in touch

If you're interested in finding out more about how you could invest your money wisely, we're here to help.

**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.**

**Approved by The Openwork Partnership on 30/06/23.**

OW4477 Exp. 30/06/2024

# "Stealth taxes"

## will push more than 3 million workers into a higher Income Tax bracket by 2029

"Stealth taxes" refer to government policies that increase tax revenue even though they're not labelled as tax hikes. Through freezing Income Tax thresholds, the government may benefit more than you expect.

### Income Tax thresholds are frozen until April 2028

Income above your Personal Allowance, which is £12,570 in 2024/25, could be subject to Income Tax.

The rate of Income Tax you pay depends on which band your earnings fall into. The current Income Tax thresholds and rates are:

| Band | Taxable income | Tax rate |
|---|---|---|
| Personal allowance | Up to £12,570 | 0% |
| Basic rate | £12,571 to £50,270 | 20% |
| Higher rate | £50,271 to £125,140 | 40% |
| Additional rate | over £125,140 | 45% |

NB Income Tax bands, thresholds, and rates are different in Scotland.

Crucially, the Personal Allowance and Income Tax thresholds are frozen until the 2027/28 tax year rather than increasing in line with inflation. This can lead to "fiscal drag", where taxpayers are dragged into a higher tax bracket, even if their income hasn't increased in real terms.

While you might have benefited from a rise in income, for much of the last two years, inflation has been higher than wage growth. So, many workers haven't experienced a boost in their salary in real terms.

### Millions of taxpayers are expected to be affected by fiscal drag

According to figures from the Office for Budget Responsibility (OBR), the government's policy of freezing Income Tax thresholds means that by 2028/29:

- Nearly 4 million additional people are expected to pay Income Tax
- 3 million more will start paying the higher rate
- 400,000 workers will be dragged into the additional-rate bracket.

The figures represent a significant increase in the number of taxpayers in each band of Income Tax. The number of higher-rate and additional-rate taxpayers is expected to soar by 68% and 49% respectively.

Of course, this will boost government coffers. The freezes are estimated to raise £42.9 billion by 2027/28.

Indeed, the OBR said frozen thresholds are the ***"largest contributor to the rising overall economy-wide tax burden – responsible for almost a third of the 4.5% of GDP increase in taxes from 2019/20 to 2028/29".***

Source: Office for Budget Responsibility. Economic and fiscal outlook – November 2023

The cuts to National Insurance (NI) offset some of the fiscal drag, but many taxpayers are likely to find their tax burden is higher overall.

On 6 January 2024, the main rate of employee NI was cut from 12% to 10% – saving the average employee earning £35,400 a year more than £450 annually. In addition, NI contributions for the self-employed will be cut from April 2024.

Yet, the OBR finds that the reduction in the employee rate of NI will reduce the government's budget by only £180 million – far below the amount it expects to raise through Income Tax threshold freezes.

### There may be ways you could reduce your Income Tax bill

The good news is that there may be steps you could take to reduce your Income Tax bill in a way that supports your finances now as well as your long-term goals.

Depending on your circumstances, you may want to:

- Check if you could use the Marriage Allowance if your spouse or civil partner's income doesn't exceed the Personal Allowance
- Increase your pension contributions to reduce your taxable income
- Save through an ISA to reduce the tax you pay on the interest your savings earn
- Make use of salary sacrifice schemes your employer offers
- Use dividends to supplement your salary.

The above list isn't exhaustive and it's important to weigh up the pros and cons before you proceed.

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.

OPW_0029_A347_Feb24 | OW 5150 Expires 11/03/25

# What is a lasting power of attorney? And do I need one?

## A lasting power of attorney (LPA) is a legal document that allows you to appoint one or more people to make decisions on your behalf during your lifetime.

The people you appoint to manage your affairs are called the attorneys. An LPA is a completely separate legal document to your will although many people put them in place at the same time as getting their will written, as part of planning for their future.

### What does a LPA cover?

There are two types of LPA which come into effect when you are no longer able to make your own decisions.

**A health and care LPA** lets your attorney make decisions about your medical treatment and day-to-day care. This can include where you live, what you eat, what medical treatment you receive and who you see.

**A financial decisions LPA** lets your attorney handle (and make decisions about) your money and property. This can include paying your bills, selling your property, collecting your pension and collecting your benefits.

### Do you need an LPA?

Without an LPA, if you need someone to step in and manage your finances or make decisions about your healthcare in the future, their only option will be to apply for a deputyship order through the court. This can be a costly, complex and lengthy process. If you have an LPA, it can take effect as soon as it's needed, meaning your chosen attorney can step in to help straight away.

Once your LPA is in place, you have peace of mind in knowing that someone you trust can look after your affairs if you're ever unable to yourself, because of an illness or an accident.

### Don't put it off

More than 75% of the over 55s have not registered an LPA. The benefits and the simplicity of putting one in place should encourage you to make the decision to get your ducks in a row before it's too late.

Which is where we can help. Getting it right is too important to leave to chance, so get in touch and we can ensure you're directed to the right place to organise and register your LPA.

Will writing and Lasting Power of Attorney are not regulated by the Financial Conduct Authority.

OPW_0032_A347_Marb24 | OW 5097 Expires 18/02/25

# How to move into the decumulation phase of retirement planning

## 1. Accumulation:

During your working life, you focus on building up your assets. This might involve contributing to a pension, saving in other accounts, or investing in property. The goal is to create a financial cushion that will support you in retirement.

## 2. Decumulation:

Once you stop working, you shift your focus to using your accumulated assets to fund your retirement lifestyle. This might involve drawing down on your pension, selling investments, or accessing other sources of income. The goal is to manage your spending wisely so that your assets last throughout your retirement years.

Transitioning into retirement can present new challenges, not least, understanding how to sustainably start using your assets to create an income. As you move into the decumulation phase, you might worry about balancing your needs now with your long-term financial security, but a plan could give you more confidence.

Managing the decumulation of assets is something more people will need to do in retirement as the number of workers with a defined contribution (DC) pension rises.

With a DC pension, you'll retire with a pot of money that you'll have to decide how and when to access. You may need to ensure the pension you've built up over your career will continue to provide an income for the rest of your life.

According to a report in FTAdviser, the Pensions Policy Institute (PPI) expects the assets held in DC workplace pension schemes by over-55s still in work to increase almost threefold to £527 billion over the next decade.

With most workers now automatically enrolled into their employer's pension scheme, which is usually a DC pension, the figure could rise significantly in the future.

## Switching from accumulation to decumulation might require changing your mindset

Switching your mindset to start depleting your assets could be more difficult than you think.

To secure your retirement, you may have diligently saved into a pension or built-up other assets over decades. Watching the value of your assets grow can be satisfying and might help you feel more financially secure. When it comes to using those assets to create an income, it can be challenging.

So, what can you do as you move into the decumulation phase of retirement planning to effectively manage your assets? Here are some steps that could be useful.

***Seek tailored financial advice***

While general advice can be useful, tailored advice will take into account your circumstances, goals, and concerns to create a bespoke plan.

The PPI has set out five principles for "good" decumulation to help DC pension savers manage their assets. Among them is ensuring savers are supported when making key decisions about their pension, including when decumulating.

Booking a meeting with a financial planner could help you manage the decumulation phase of retirement planning and give you peace of mind. Please contact us if you'd like to speak to one of our team.

***Understand how long your pension and other assets need to last***

One of the reasons you might worry when depleting your pension or other assets is the risk of running out in your later years. So, understanding how long your pension needs to provide an income is often essential.

It's not uncommon for retirees today to spend several decades in retirement. Indeed, according to the Office for National Statistics, a 65-year-old man has a 1 in 4 chance of celebrating their 92nd birthday. For women of the same age, they have a 1 in 4 chance of reaching 94.

As a result, you may need to plan to decumulate your assets over a long period.

***Manage your investment risk***

When you're accumulating wealth, investing might be a good way to help the value of your assets grow over the long term.

However, as you start decumulating your wealth, your risk profile could be very different. As you might not be earning an income, taking the same amount of investment risk may no longer be appropriate, as you may not have the opportunity to recover from potential losses.

The money held in your pension is typically invested and you might have other assets that are exposed to risk too. So, a complete financial review to assess your risk profile and whether your current assets align with this could help you strike a balance that suits you.

***Carry out regular financial reviews***

Even if you've set out a long-term financial plan you're confident about, reviews throughout retirement can be valuable.

During your retirement, your wishes and circumstances might change. For instance, you might decide you want to travel for an extended period and will fund it by taking a lump sum out of your pension. Or perhaps you plan to downsize, which could release equity, and might mean you don't need to withdraw as much from other assets.

Regular reviews could help ensure that the way you're using assets continues to reflect your goals and financial situation.

In addition, factors outside your control might affect how and when you want to deplete assets.

High levels of inflation in 2023 is a good example of how external factors might change how you decumulate assets. To maintain your standard of living, you might have needed to increase the amount you were withdrawing from your pension as prices increased. A financial review could help you understand if that would be sustainable, as well as the potential long-term effects.

### Contact us if you have questions about using assets to fund your retirement

If you've already retired or are nearing the milestone and have questions about how to use your assets to create financial security, please contact us.

We can work with you to create a plan that focuses on decumulating sustainably, as well as incorporating other important factors, from managing your tax liability to what assets you'd like to pass on to 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.

# Overpaying your mortgage: should you do it?

## Hardly a day goes by without the cost of living hitting the headlines.

For many homeowners the increasing costs of owning and running a home is having a huge impact on household budgets. Even if you are near the top end of your monthly budget or are expecting a ‘payment shock’ when you come to remortgage next, you may be wondering whether it’s worthwhile paying more than the minimum repayment each month, with the aim to save money in the long run.

So, what are the benefits of making mortgage overpayments?

- **Mortgage-free sooner**
  Overpayments can either be a one-off lump sum or a regular overpayment made throughout the year. Overpaying on your mortgage means you can potentially clear your mortgage balance quicker.
- **Reduce the amount of interest you pay**
  It could also make sense to overpay on your mortgage rather than keep your money in a savings account, because you may earn more in interest savings on your mortgage than you could earn in a typical savings account.
- **Access to better rates in the future**
  Lenders will offer you better rates if you have a lower loan to value. The more you can pay to reduce your mortgage, the potentially lower interest rates you’ll have when you come to remortgage to a new deal.

### Are there any downsides to overpaying your mortgage?

Overpaying on your mortgage might not be right for everyone. Using savings to overpay on your mortgage could leave you with less cash to fall back on in an emergency.

Not all lenders have the same rules for overpaying and there may be a penalty fee called an Early Repayment Charge (EPC) if you overpay too much.

You should only make overpayments if you’re sure you can afford them. It’s a good idea to make overpayments if you already have an emergency fund, and you don’t have any other, more pressing debts that need to be repaid.

It’s always a good idea to discuss your options with an adviser, we can help guide you through all your mortgage options including advice on making overpayments.

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

OPW_0035_A347_Mar24 | OW 5080 Expires 07/02/25

# Weathering the Storm:
## Understanding Home Insurance Coverage for Adverse Weather

**Extreme weather events and powerful storms are becoming more frequent and intense in the UK. Homeowners may be increasingly concerned about the potential damage their properties may face.**

Fortunately, many home insurance policies include coverage for adverse weather as a standard feature. However, it's crucial for homeowners to review their policies regularly to ensure they have the right cover for their needs.

### Understanding Standard Cover

While home insurance policies generally cover a broad range of weather-related perils, it's essential for homeowners to review the specifics of their coverage. Standard features often include protection for structural damage, damage to personal belongings, and additional living expenses if the home becomes uninhabitable due to adverse weather.

### Additional Considerations

Despite the inclusion of weather-related coverage in many home insurance policies, it's crucial to consider the limitations and exclusions that may apply. For instance, escape of water cover may only cover the damage caused by a pipe that has burst due to freezing and may not cover the repair of the pipe itself. It's important to be aware of any limitations and take steps to fill potential gaps in coverage.

If you are a renter, you will need contents insurance to cover damage to your belongings like clothes and electronics if there is a flood from heavy rain fall for example.

### Steps for Homeowners:

1. Regular Policy Review: Schedule regular reviews of your home insurance policy to ensure that it adequately covers the risks associated with adverse weather events.
2. Understanding Exclusions: Pay close attention to policy exclusions and limitations related to weather-related damage. Consider purchasing additional coverage if needed.
3. Mitigation Measures: Implement preventive measures to minimize the risk of weather-related damage to your property. This may include reinforcing roofs, installing storm shutters, and ensuring proper drainage around your home.
4. Communication with Insurer: Stay in communication with your insurance provider. If you live in an area prone to specific weather risks, discuss your concerns with your insurer to ensure that you have sufficient coverage.

As extreme weather events become more commonplace, having adequate insurance coverage is crucial. While many home insurance policies now include standard coverage for adverse weather, it's essential to stay vigilant, regularly review policy terms, and take proactive measures to protect your property. By staying informed and prepared, you can weather the storm with confidene and peace of mind.

OPW_0022_A347_Feb24