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VIEWPOINT

PINK FINANCIAL CONSULTANCY

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Myths about retirement

When it comes to retirement, there are some ideas that can turn out to be quite different when you examine them closely. We explore five of them.

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.

1. You can live off the state pension alone

The current basic state pension is £137.60 per week, or £179.60 for the new state pension if you were born on or after 6 April 1951 (for a man) and on or after 6 April 1953 (for a woman). That works out annually as £7,155 or £9,339 respectively, depending on meeting National Insurance contribution requirements and other eligibility criteria.

This could be enough for those who own their home outright, to cover the very basics for everyday living but is limiting for those who want to enjoy a more comfortable retirement without money worries. As life expectancy rises, so does the amount of time we'll need to fund our lives in retirement, including long-term care when we're older.

2. Matching your workplace pension is enough

With an occupational (workplace) pension, the overall minimum total contribution is 8%, with employees paying in 5% of salary and employer contributing 3%. But this might not be enough to give you the kind of income you're expecting once you've retired.

The good news is you can back your workplace pension up by increasing your contributions if you're able. Better still, some employers also offer to pay more into your pension to help build your retirement benefits faster, by matching any additional contributions you make up to a set level. If you start the ball rolling earlier, the more tax relief you'll receive and the more time your overall pot will have to grow.

3. It's possible to keep working for longer

The reality is, even if you wanted to continue working either full – or part-time after state retirement age, you might not be able to do so. It might be too physically demanding or might not fit in with retirement goals like spending more time with grandchildren, travelling or other pursuits you've been looking forward to.

Getting help from a financial adviser can ensure you have your desired level of income in retirement. You'll then be able to focus on keeping busy through hobbies, part-time work or other areas like volunteering in your community.

4. After a certain point it's too late to save for retirement

As we're living – and working – longer than before, while it's true that the sooner you start the better, life doesn't always go as planned so it's never too late to start saving for retirement. Compound investment growth can make a big difference to the value of your pension over time.

5. You can save for retirement without help from an adviser

Even with the best intentions when it comes to saving and investing, doing it alone is difficult. That's why working with a professional investment adviser can give you confidence about the direction of your investments. An adviser will be able to point out the long-term benefits of your investments and how they can pay off for you.

Speak to your adviser about making the most of your pension investments.

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Investment Update

Inflation and Omicron set the scene for investors

Markets signed off the year amid high inflation rates and renewed concerns over the coronavirus.

The Omicron variant of the coronavirus unsettled markets at the beginning of December, with investors unsure about how renewed restrictions on socialising and travel will affect the global economy. The Organisation for Economic Cooperation and Development (OECD) urged national leaders to accelerate the vaccination rollout in order to slow the spread of the virus and reduce the impact of new strains.

Stock markets in the US and Europe had recovered most of their initial losses by the middle of the month after being encouraged higher by reports that the variant would unlikely be as disruptive as first feared. Persistently high inflation is another theme that has dominated markets throughout 2021 and the readings at the end of the year provided no relief.

The cost of living rises

The UK's inflation rate surged in November to 5.1%, which is its highest rate in more than a decade, and exceeds the Bank of England's expectations. According to the Office for National Statistics, the Consumer Price Index was propelled upwards by soaring energy costs but prices rose across the board.

The euro area's average annual rate of inflation rose to 4.9% in November, the highest it has been since the creation of the single currency more than 20 years ago. In Germany inflation stood at 6%, a level not seen since the aftermath of reunification three decades ago.

Annual consumer price inflation in America rose to 6.8% a 39-year high. Prices jumped by 0.8% from October to November. A range of factors have fuelled inflation lately, including supply chain bottlenecks, labour shortages, fiscal stimulus and ultra-loose monetary policy.

Central banks take action

Policymakers on both sides of the Atlantic decided to act. In the UK, the Bank of England has raised interest rates from 0.1% to 0.25%, its first increase in more than three years, saying that the risks of inflation required it to take pre-emptive action even as the Omicron wave of coronavirus engulfs the UK. The bank's Monetary Policy Committee decided it could not wait any longer before seeking to cool the spending in the economy.

Meanwhile, the US Federal Reserve said it will accelerate its "tapering"—the reduction of monthly bond purchases —in order to wind down economic stimulus and contain runaway inflation. From January the central bank will reduce its asset-buying by $30 billion every month—double its current pace.

10 ways to reduce your tax bill

Being tax smart means knowing the basics about how tax affects your life and money. Here are 10 ways to reduce your tax bill, which could make your money go further for you and your loved ones.

1. Personal savings allowance

You're entitled to receive some interest on your savings tax-free every year, depending on your income tax band. For non-taxpayers or basic rate taxpayers you're allowed up to £1,000 per year; for higher rate taxpayers you get £500. If you have savings with a spouse or partner, you can each use your allowances against your joint savings.

2. 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).

3. ISA allowances

An ISA account allows you to save or invest up to £20,000 tax free annually, whether it's in a cash ISA or stocks and shares ISA – which also comes with the benefit of being exempt from dividend tax and capital gains tax on all growth.

4. Dividend allowance

You are allowed to receive up to £2,000 a year in dividends, tax-free. This allowance can be particularly useful if you own shares or you're a company owner or director.

5. Capital gains allowances

Profits (or 'gains') you make on the sale or disposal of an asset (like a property where it's not the main home, investments and shares not in an ISA or even personal possessions worth more than £6,000 (apart from your car) are exempt from tax up to the annual allowance of £12,300. For married couples or those in civil partnerships who own joint assets, the allowance is doubled – to £24,600.

6. Pension allowance

Your pension allowance annually is £40,000, although it can be lower for higher earners and where pension savings have been flexibly accessed. 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.

7. Pension carry forward

If you don't use up your annual pension allowance, you can 'carry forward' the previous three years' worth of unused allowances providing you are still registered with the pension and have earned in the current tax year the amount you (or your employer) would like to contribute.

8. Charitable donations

You can donate to charity tax free and claim back the tax on your donation through gift aid. If you are a higher or additional income taxpayer, you can also claim back the difference to the basic rate on your gift aid donations. Just remember to keep hold of all records of your donations to claim tax relief when the time comes to submit your tax return.

9. Gift giving exemptions

Gifting comes with the benefit of being exempt from inheritance tax, for an annual gift amount of £3,000. Other tax-exempt gifts include money towards a wedding or grandchild's education. No inheritance tax is due if you live for seven years after making the gift to someone who is not your spouse (for example, gifting your children a property).

10. Knowing your tax code

This one is important because your tax code tells HMRC how much of your salary they will collect. It's a good idea to check your tax code each time you change jobs or at the start of the tax year. Being on the wrong code could mean you've overpaid tax and are due a refund.

These are just some of the ways you can ensure you're making the most of your money and not paying more tax than is necessary. Speak to your adviser to learn more about your money, estate, and taxes. Please not that Openwork advisers are not able to provide specific tax advice.

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

For specific tax advice please speak to an accountant or tax specialist.

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