money matters

In This Issue....

Improve your financial health!
Stay on track to achieving specific financial goals.

Invest your way out of inflation
Why now is the time to make sure you protect your wealth.

Time is money!
Five principles of investing everyone should know.

Time to take AIM at Inheritance Tax with your ISA?
The tax benefits of ISAs can extend to inheritance tax.

Getting ready to retire?
Bolstering your retirement lifestyle as you approach retirement.

Higher rate taxpayers: no longer an exclusive club
Bolstering your retirement lifestyle as you approach retirement.

The state of retirement in 2022
An annual survey from major investment manager Abrdn has provided a snapshot of people who have or plan to retire in 2022.

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Improve your financial health!

Stay on track to achieving specific financial goals

All of your financial decisions and activities have an effect on your financial health. To help improve your financial health during this period of rising inflation and interest rates, we look at three areas that could help keep you on track to achieving your specific financial goals.

Beat the National Insurance rise!

The National Insurance rise from April this year went ahead for workers and employers despite pressure to reverse the decision to increase this by 1.25%, which is aimed at raising £39 billion for the Treasury.

From April 2023, it is set to revert back to its previous rate, and a 1.25% health and social care levy will be applied to raise funds for further improvements to care services.

One way to beat the National Insurance increase is by taking advantage of salary sacrifice, which means you and your employer pay less National Insurance contributions.

Some employers may decide to maximise the amount of pension contributions by adding the savings they make in lower employer National Insurance contributions (NICs) to the total pension contribution amount they pay.

This is also a way to make your pension savings more tax-efficient. If you choose to take up a salary sacrifice scheme option, you and your employer

will agree to reduce your salary, and your employer will then pay the difference into your pension, along with their contributions to the scheme. As you're effectively earning a lower salary, both you and your employer pay lower NICs, which could mean your take-home pay will be higher. Better still, your employer might pay part or all of their NICs saving into your pension too (although they don't have to do this).

Review your savings accounts and rates

Money held in savings accounts hasn't grown much in recent years due to historically low interest rates. But with inflation running higher, your savings are now at risk of losing value in 'real' terms as you'll be able to buy less with your money.

In some respects, inflation can be seen as a positive. It's a sign of strong economic recovery post-COVID, increasing salaries and higher consumer spending. But it's bad news for your cash savings. Relying solely or overly on cash might prevent you from achieving your long-term financial goals, which may only be possible if you accept some level of investment risk. In an environment where the cost of living is rising faster than the interest rates received on cash, there is a danger that your savings will slowly become worth less and less, leaving you in a worse position later on.

If you have money in savings, it is important to keep an eye on interest rates and where your money is saved. Rates are low and you will lose money in real terms if inflation is higher than the interest rate offered on your savings account or Cash ISA.

Shift longer term savings into equities.

During times of high inflation, it's important to keep your goals in mind. For example, if your investment goals are short term, you may not need to worry much about how inflation is impacting your money. But if you're investing for the long term, inflation can have a larger impact on your portfolio if it's sustained – although high inflation that only lasts for a short period may end up just being a blip on your investment journey.

If you have large amounts of money sitting in cash accounts one way to beat inflation is to invest some of your money in a long-term asset that will appreciate with time, thus increasing your buying power over time. There are many ways to invest your money, but most strategies revolve around one of two categories: growth investments and income investments.

Historically, equities have offered an effective way to outperform inflation. Cyclical stocks – like financials, energy and resources companies – are especially well-suited to benefit from rising prices. These sectors typically perform better when the economy is doing well, or recovering from a crisis.

Depositing funds into your investment portfolio on a regular basis (such as monthly from salary) can help you invest at different prices, averaging out the overall price at which you get into themarket. Known as pound-cost averaging, this can help you smooth out any fluctuations caused by market volatility over the long term. While volatility will always exist, it can be managed and reduced by taking this approach.

Let us help chart your path through life.

The most effective way to make the most of your money is by receiving professional financial advice. We can help you chart your path through life, ensuring you are financially ready for every stage. To discuss your requirements, please contact us for more information.

Invest your way out of inflation

Why now is the time to make sure you protect your wealth

The word 'inflation' had barely featured in the market's vocabulary in the last three decades until it suddenly started to come back with a vengeance in 2021. As higher inflation looks set to persist in 2022, finding ways to generate a return on investments greater than inflation will be a key investment theme – otherwise your wealth falls in real terms.

Spending Spree

There are two basic reasons why inflation has been increasing: supply and demand. Starting with the latter, consumers have been on a spending spree after having spent a large proportion of time during 2020 and 2021 at home bingeing on Netflix.

The main reason for the current rise is due to the global price of energy. This has meant higher energy and transport bills for businesses, many of whom pass on the extra costs to their customers. Supply problems and higher shipping costs are also continuing to have an impact on businesses.

Healthy Economy

Central banks kept saying that inflation was 'transitory', but this now seems to have been replaced by the word 'persistent'. The result is that inflation will remain high on the economic agenda in 2022.

Inflation is a measure of how much prices have gone up over time. It's the rate at which cash becomes less valuable – £1 this year will get you further than £1 next year. It tends to be a good sign in a healthy economy, but too much of it can be hard to reel in and control.

BOE Forecast

The Bank of England (BoE)[1] expects inflation to reach over 7% by spring 2022 and then start to come down after that. That's because most of the causes of the current high rate of inflation won't last. It's unlikely that the prices of energy and imported goods will continue to rise as rapidly as they have done recently. And this means that inflation will eventually decline.

The BoE forecasts the rate to be much closer to their 2% target in two years' time. But even though the rate of inflation will slow down, the prices of some things may stay at a high level compared with the past.

Purchasing Power

Beating inflation means earning higher returns from an investment than the inflation rate in the economy. If your return on investment is less than the inflation rate, this could basically nullify the returns you have earned. Due to various reasons, the purchasing power of money decreases significantly every year.

Investing with inflation in mind is essential for protecting your current and future wealth and involves choosing assets that naturally keep pace with rising prices. These mostly include either real, tangible assets, or investments that pay a variable rate and appreciate or increase over time.

Looking for a better chance of beating inflation over the longer term?

If you've already got an emergency fund, or have excess cash in the bank, it may be time to consider investing some of it to protect your wealth from inflation.

Investing some of your money may give you a better chance of beating inflation over the long term.

To discuss your options, please contact us.

Time is money!

Five principles of investing everyone should know.

Are your investments working as hard as they could be? With so many options out there, it can be confusing. We can help you navigate your options and provide a personalised recommendation based on your investment goals.

The following five principles will help you get on top of some key issues that affect everyone who invests their money.

1. Set investment goals

Successful investing begins by setting measurable and attainable investment goals and developing a plan for reaching those goals.

Keeping your plan on track also means evaluating the progress on a regular, ongoing basis.

Whatever your personal investment goals may be, it is important to consider your time horizon at the outset, as this will impact the type of investments you should consider to help achieve your goals.

Committing to investment goals will put you on the path to building further wealth. Investors who make the effort to plan for the future are more likely to take the steps necessary to achieve their financial goals.

2. Invest as soon as possible

It's easy to say that it is better to invest early, but why? The benefits of investing early are numerous and should not be overlooked.

However, the benefits that come with starting your investment portfolio as soon as possible will also depend on your attitude towards investment risk and how patient you can be.

It is no secret that the well-known proverb 'time is money' could not ring more true in today's society.

You might be inclined to ask yourself the following questions: 'Why bother investing early?' 'What difference does it make?' And 'Why should I invest now instead of next year or beyond?'

The answer is that time allows you to take more calculated risks.

If you invest early and incur a loss, you have more time to make up for the loss on investment. Whereas an investor who starts investing at a later stage in life will get less time to recover any losses. Thus, with early investments, your investment has the opportunity of more time to grow in value.

Not only is time your best friend when you're investing, but you'll also reap the benefits of something called 'compounding'. To paraphrase Ben Franklin: Your money makes money. And then you make more money on the money your money makes.

The longer your money can benefit from the power of compounding, the bigger your gains will be as time goes on.

3. Invest regular amounts

By investing regularly, you benefit from highs and lows in the market – called 'pound cost averaging' – and this helps cut down the risk of investing when the market is high. Dips in the market, particularly in the early years, could even work to your advantage provided you have committed to investing for a lengthy period.

If your chosen investments have become cheaper to accumulate it means your investment buys more shares or units to keep for the long term.

By investing regular monthly amounts, rather than a larger lump sum in one go, you end up buying more shares or units when prices become cheaper and fewer when they become more expensive.

Although it might sound quite technical, it essentially means adding money on a regular basis into your investment. This is an effective way to invest because if you keep buying when the market falls you could, over time, turn volatility to your advantage.

4. Diversify your portfolio

Diversification is spreading investment risk, the goal being to increase your odds of investment success. Your investment portfolio risk tolerance should be split across different types of investment, so your money is less likely to be affected by any single event or economic development.

A simple example might be splitting £10,000 between shares in FTSE100 companies and shares in small companies, government bonds and corporate bonds.

Diversification is important in investing because markets can be volatile and unpredictable. While individual asset classes can suffer declines, it's very rare that any two or three assets with very different sources of risk and return, like government bonds, gold and equities, would experience declines of this magnitude at the same time.

Where possible, always make investment decisions and portfolio allocations based on your personal circumstances and goals.

Accordingly, asset allocations in a portfolio should not only be guided by your risk tolerance and its ability to guard against market volatility, but also by the stage of life you are at.

5: Resist the urge to panic sell

What this means is that your ability to cope with short-term volatility in your investments is just as important as the choices you make at the outset of your investment journey.

But if, say, there is a stock market correction, resist the urge to sell up immediately; instead sit tight and ride out any downward movement before looking for opportunities to exploit if they arise later.

The fear of incurring major losses could make it extremely tempting to sell your investments. Yet while this may temporarily alleviate your nerves, doing so could put a significant dent in your long-term gains. Investment trends show that leaving your money invested increases the chances of it growing and building your wealth pot.

If you invest for the long term, any short-term volatility shouldn't affect your ability to reach your investment goals over time.

Keep calm and carry on building up your investments. History has shown that over long enough time periods, no matter what challenges the global economy has faced, markets recover from significant downturns.

Valuable advice, tailored to you.

We believe in helping you plan for the life you want rather than letting the future take you by surprise. We want to give you access to our financial and investment expertise, to help give you the chance to choose what your financial future looks like. To find out more, please contact us.

Time to take AIM at Inheritance Tax with your ISA?

The tax benefits of ISAs can extend to inheritance tax.

Individual Savings Accounts (ISAs) have three major tax advantages:

1. No UK income tax liability on UK dividends and interest.

With frozen tax bands and allowances plus an increase in dividend tax rates for this tax year, that tax freedom is more valuable than ever.

2. No UK tax on capital gains.

Relatively few people pay capital gains tax (CGT) – fewer than 300,000 in 2019/20 – but for those who do, the ISA CGT exemption not only saves tax, but also what can be complex calculations and record keeping.

3. There is nothing to report on your tax return.

One tax disadvantage sometimes attributed to ISAs is that they cannot be placed into trust or given away in lifetime, meaning at death, they potentially attract inheritance tax (IHT).

At up to 40% of the entire ISA value, IHT can more than wipe out the income tax and CGT savings.

While it is true that your ISA will be part of your estate, it is possible to sidestep any IHT liability on its value. To achieve this, your ISA needs to have been invested for at least two years in shares which qualify for IHT business relief, which effectively removes them from any IHT charge. In practice, that means your ISA needs to be directly invested in shares in 'qualifying' companies listed on the AIM market.

The 'qualifying' is important: not all AIM-listed companies will meet the requirements for business relief. For example, property investment companies will not qualify, but property development companies usually will. Companies listed on foreign stock exchanges as well as AIM may also not be eligible for relief.

The need to select AIM companies and monitor their continued eligibility has encouraged investment managers to develop specific IHT AIM portfolios for ISAs (and direct investment). The market has grown as IHT liability has increased and there is now a good choice of managers, many with track records.

If you want this tax year's ISA to save income tax, capital gains tax and inheritance tax, why not consider an AIM ISA?

Getting ready to retire?

Bolstering your retirement lifestyle as you approach retirement

Have you ever wondered what you need to consider as you approach retirement? Whatever your concept of what is a good pension pot, one certainty is that relying on the State Pension alone will not give you a good enough pension to live on comfortably through your retirement.

'Will I be able to retire when I want to?' 'Will I run out of money?' 'How can I guarantee the kind of retirement I want?' These are hard questions to answer unless you obtain professional financial advice and why you need to start by reviewing your finances sooner rather than later to ensure your future income will allow you to enjoy the lifestyle you want.

After decades of working and saving, you can finally see retirement on the horizon. If you plan to retire within the next five years or so, consider taking these steps today to help ensure that you have what you need to enjoy a comfortable retirement lifestyle.

Taking these actions now could help bolster your retirement lifestyle as you approach your planned retirement date.

8 THINGS TO CONSIDER AS YOUR RETIREMENT APPROACHES

1. Track down your pensions

It's important to track down all the different pension schemes you've previously paid into, so you can be sure you're claiming everything you're entitled to in retirement.

If you're unsure where to start, the UK government offers a pension tracking service to help you find lost pensions.

2. When can you access your pensions?

Since April 2015, pension freedoms have given savers in defined contribution (DC) schemes greater access to their cash, allowing flexible withdrawals from the age of 55.

3. What is your pension's value?

The easiest way to find out how much your pension is worth is to check your pension statements.

Whatever type of pensions you have, you'll receive an annual pension statement from your provider. In it they'll tell you how much your pension is currently worth and what it's expected to pay out at your retirement date.

4. Get a State Pension forecast

You can call the Future Pension Centre and ask for a State Pension statement.

Your statement will tell you how much State Pension you have built up so far based on the National Insurance contributions and credits that are on your National Insurance record at the time your statement is produced.

Contact the Future Pension Centre for questions about the State Pension or to ask for a statement. Telephone: 0800 731 0175, or from outside the UK: +44 (0)191 218 3600. Or obtain a forecast online at https://www.gov.uk/check-state-pension.

5. Getting pensions advice.

If you are close to, or at retirement, you may want to reevaluate your plans. If you have access to other savings and investments, you might want to consider using these before accessing your pension.

If you have other investments or savings, such as Individual Savings Accounts, stocks and shares, bonds, funds, property, etc, it's worth checking their value as you approach retirement age as they can support you in addition to your pension.

6. How will you access your pension?

When it comes to deciding how to use your pension pot, there's no one 'right answer'. There are more pension options than ever thanks to the pension freedoms that allow savers access to every penny of their retirement savings.

Your options may include taking a regular income or lump sums and keep investing the remainder in the stock market, or cashing in the entire amount. You can also choose to swap the money for a guaranteed income via an annuity.

7. How is your pension invested?

Pensions may be for the long term, but it's important regularly to review where your money is being invested. You need to keep a close eye on which funds your retirement savings are in so that you can check you're comfortable with the risks involved.

You should also keep a close eye on how much you're being charged, as fees can have a big impact on the amount you end up with at retirement.

8. The benefits of advice

Pension advice is important because pension products can be complicated, and life can be unpredictable. Professional financial advice will help you make the right decisions about your money and your future.

Retirement planning is important because it can help you avoid running out of money in retirement. You need to know how much you've got, how to access it and when you can afford to retire comfortably.

Thinking of retiring soon? We are here to help!

The good news is that whatever your situation, and however you want to enjoy retirement, we can help set up bespoke arrangements that are right for your needs. To discuss your plans or for further information, please contact us.

Higher rate taxpayers: no longer an exclusive club

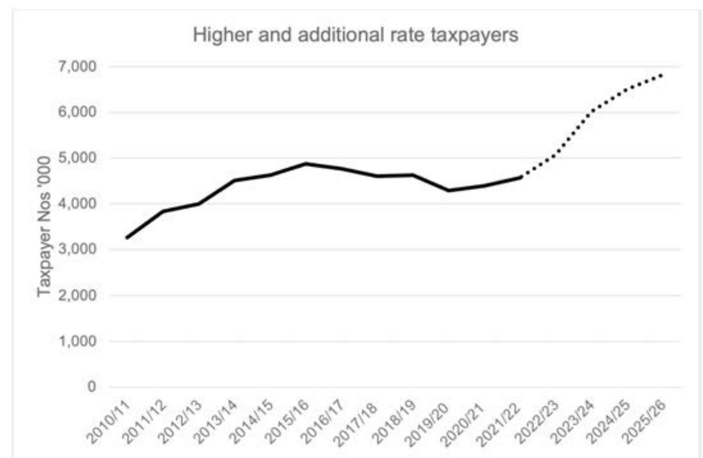
Bolstering your retirement lifestyle as you approach retirement

There was once a time when paying tax at more than the basic rate made you a member of a somewhat exclusive club. In 2010/11, the first year in which additional rate tax was introduced, the proportion of taxpayers who were taxed at more than the basic rate was 10.4%.

Five years later, a dose of austerity pushed the figure close to 16%. Then it began to drop as higher rate thresholds were raised, so that by 2019/20 it was down to 13.6%. From that low, the upward path was resumed.

Alongside the Chancellor's Spring Statement in March, the Office for Budget Responsibility (OBR) issued estimates that the freeze in the personal allowance and, outside Scotland, basic rate bands through to 2025/26 will mean by that year almost 19% of taxpayers will be liable for higher rate tax.

The number of taxpayers will also be increasing too because of the personal allowance remaining at £12,570. The rising taxpayer numbers explain why the Chancellor could announce a 1p cut in basic rate tax for 2024/25 at the same time as the OBR calculated that income tax revenue for the year would increase by £12 billion. Scotland already has a starter rate of 19%.



Source: ONS data, OBR projections.

- If your head is spinning from all the numbers, there is a simple message: you are likely to pass more of your income to HMRC in the coming years. To limit just how much extra the Exchequer gains and you lose, there are a few actions to consider wherever you are in the UK:
- If you are married or in a civil partnership, make sure you are maximising the benefits of independent tax and, if you are eligible, claiming the transferable marriage allowance.
- Check your PAYE code – it could be wrong.
- Ensure you are claiming full tax relief on the pension contributions you make. Do not assume this will be given automatically, especially if you pay higher rate tax.
- Consider an ISA first for any investment as it is free from UK income tax and capital gains tax.
- Choose any employee perks with care. Some are highly tax efficient, while others carry a heavy tax burden.

Remember that if you are or likely to become a member of the ever-expanding higher rate taxpayer club, the value of financial advice rises with your tax rate.

The state of retirement in 2022

An annual survey from major investment manager Abrdn has provided a snapshot of people who have or plan to retire in 2022.

When do you plan to stop working? Whatever answer you give, the recent survey of 2,000 people who were either due to retire in the next 12 months or have retired in the past 12 month suggests the odds are that your plans may not reach fruition. No fewer than 55% of respondents said they had or would be retiring earlier than planned, a jump from 37% in the previous survey. Another 20% said their retirement was deferred, with one in five retirees saying the reason being that they had not saved enough.

That leaves only 25% who retired as planned, a reminder that building flexibility into your planning is not optional.

Only 25% of the retirees surveyed felt 'very confident' that they had enough funds to finance their retirement, down from 30% in 2021. The fall is related to the rising cost of living, which was flagged as a concern by many. It may also explain why two thirds of the retirees said they would carry on with some form of work, including starting their own business.

Continuation of work may be an optimistic assumption: the latest data from the Office of National Statistics shows that only 10.6% of those aged 65 and over are in employment. Of the 2021 retirees who were still doing some work, a third said they have or will take ad-hoc jobs in the gig economy. Surprisingly, less than one in seven of the 2021 retirees had mapped out how much they could afford to spend each year, so the number looking for gig employment may well be going up.

A little over half of the 2022 retirees hoped to pass on wealth to their children or grandchildren, but fewer than one in four felt very confident about how to do so. The 2021 retirees could give them a clue. Of the 40% of 2021 retirees who said they were spending more than anticipated, the most common reason was supporting family members in financial difficulty – it seems the Bank of Mum and Dad never retires...

If any of the survey's results sound uncomfortably familiar to you, take the time to do what only 18% of the 2022 retirees did and seek professional advice about your retirement plans.