

REALISTIC RETIREMENT

Planning for more than the minimum standard

SOCIAL CARE PLANS

Fees cap for England and UK tax hikes

GIFTS THAT KEEP GIVING

Ease Santa's burden and gift an investment



rosan helmsley
WEALTH MANAGEMENT

WINTER 2021

Quarterly Newsletter

Set the clock for year-end planning

Time to use your reliefs and allowances



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At this time of year many of us feel like staying in out of the cold and spending time with our families and friends, particularly after the difficult festive season last year. For those reaching pension age, and even those who think they don't have to worry about it yet, we consider a new report that puts a price on the cost of retirement in 2021 and highlights the gap between the State pension and the cost of a moderate living standard. This time of year also draws our focus to our finances before the new tax year begins and our feature recommends some strategies to make sure you take advantage of tax reliefs and allowances. But before all that, there is Christmas to prepare for. You may feel moved to avoid all the uncertainty about delivery times and available components for gift giving this year, and opt for an investment instead. For extra planet-friendly credentials, you could choose the first green bond launched by NS&I, although you may wish to shop around for a better rate of return.

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Cop out – or a step in the right direction for Climate Change and the long-term welfare of planet earth?

We have just witnessed the conclusion of the COP26 Global Climate summit in Glasgow and despite the watering down of some of the language in the final hours, we should be pleased about progress and more importantly, the direction of travel in the narrative. Though it is fair to say that Greta Thunberg might consider the 'phasing down' rather than 'phasing out' of coal as more 'blah blah blah', no one who is a realist could have expected India and China, in particular, to entirely abandon coal at this stage.



The good news is that the summit did reach agreement on many contentious issues, including how countries report their emissions and rules on the global carbon markets. It was also the first time that fossil fuels had been included in COP agreements. The agreement committed countries to strengthen their 2030 emissions reduction targets by the end of 2022 and the rich countries will double the amounts they gift to developing countries by 2025 to help them adapt to climate change from 2019 levels.

The likely outcome of this pact is the beginning of the end for coal. That is a process that the world will no doubt press hard to see through over the coming couple of decades in the quest to limit global temperature rises to the targeted 1.5 degrees celcius and protect the long term welfare of the planet. The real key to solving the climate problem is of course continued investment in new technologies to deliver alternate solutions to fossil fuels.

As responsible investors we can all do our bit to help the climate change process by asking harder questions on how fund managers allocate our investment capital to investment ideas. In our Spring newsletter, we wrote about the growing focus on ESG investing (Environmental, Social and Governance), particularly post the covid period. Like most wealth managers over the last few years, at Rosan Helmsley we have seen a growing trend amongst our client base wanting more focus on investment strategies where the principal objective is on positive outcomes for the planet.

Rosan Select, our preferred funds tool online, - <https://www.rosan-ifa.com/rosan-select/> - now offers both a global and a UK based range of funds focussed on delivering positive ESG investment outcomes.

If you would like to speak to us about building ESG themes into your own portfolios, please get in touch with your usual contact.

Rob Sandwith | Chief Executive

November 14th 2021

PENSIONS

The cost of retirement: setting your own standard

New research confirms many people are experiencing the growing gap between what the State pension provides and a comfortable retirement.

In April 2022, all state pensions will increase by 3.1% while the National Living Wage – another government-set base income level – will grow by 6.6%. The manifesto-breaking one-year suspension of the triple lock means that the new state pension will reach about £185 a week, approximately 5% less than would otherwise have been the case.

COSTS OF LIVING

The announcement of the new state pension rates came in the same month that an updated report was published that looked at retirement living standards in 2021. The report calculated the cost of three different baskets of goods and services that equated to three retirement living standards:

- **minimum**, where income covers all needs, with 'some left over for fun';
- **moderate**, providing more financial security and flexibility; and
- **comfortable**, offering greater financial freedom and 'some luxuries'.

For example, at the minimum level, a couple would have no car, while at the comfortable end of the spectrum each would have their own car, replaced every five years. In between, the couple with moderate retirement living standards would replace a three-year old car every ten years. There was less difference in food and drink budgets, which ranged from £67 a week to £94 a week.

	MINIMUM		MODERATE		COMFORTABLE	
	Standard	London	Standard	London	Standard	London
Single	£10,900	£13,200	£20,800	£24,500	£33,600	£36,700
Couple	£16,700	£21,100	£30,600	£36,200	£49,700	£51,500

Source: Pensions and Lifetime Savings Association

The research put annual costs to each living standard for couples and singles, with an adjustment of up to £5,600 for the additional expense of living in London (see the table above).

These figures show the net income required and make no allowance for any tax. So, for instance, a couple living in the Midlands who want a comfortable standard of living would each need pension income of about £28,000 before tax.

If they were to rely on just one partner's pension income, that would need to be almost £62,000 because higher rate tax would be payable on the excess over £50,270. Different pre-tax figures would apply in Scotland because of the country's different tax bands.

COVERING THE SHORTFALL

The uprated new state pension from April 2022 will be equivalent to £9,628 a year, leaving a significant gap if your goal is anything other than the minimum retirement living standard (no car, no European holiday).

The shortfall is not a surprise – the UK has traditionally occupied the bottom slot in

international comparisons of state pensions undertaken by the OECD. Given the condition of government finances and an ageing population, the UK is unlikely to advance up the OECD's pension league table.

Bridging the gap between the retirement living standard you want and what the state will provide requires private retirement provision. Determining how much the gap-filling will cost and what form it takes begins with a detailed review of your current retirement plans. The sooner you contact us to start that process, the longer the period over which you can spread the investment required.

✦ *The value of your investment and any income from it 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.*

Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.

The value of tax reliefs depends on your individual circumstances. The Financial Conduct Authority does not regulate tax advice, and tax laws can change.



TAX

Set the clock for year-end planning

There will be no Budget in spring 2022, leaving the path clear for your year-end tax planning.

The two Budgets of 2021 delivered a substantial amount of deferred tax increases, from higher corporation tax through to extra National Insurance contributions (NICs) and dividend tax. Fortunately, the October Budget did not add any more significant tax rises. Tax levels are set to rise to their “highest sustained level in peacetime” according to the Institute of Fiscal Studies. That might explain why the Chancellor included in his speech the statement that “By the end of this Parliament, I want taxes to be going down not up”.

PENSIONS

Your starting point should be to check if you have any unused pension annual allowance (£40,000 before tapering during the years considered here) from 2018/19. You have until the end of the current tax year to mop up this past allowance or lose it completely. However, it can only be used once your 2021/22 annual allowance is exhausted.

Unused relief can also be picked up from the years after 2018/19, again once the current year's allowance is covered. The calculations

involved can be complex, so please contact us as soon as possible if you want to take advantage of this carry forward option.

CAPITAL GAINS TAX

In May 2021 the Office of Tax Simplification (OTS) published the second part of a review of capital gains tax (CGT), originally requested by Mr Sunak. The OTS work produced some radical proposals which, if implemented, would have significantly increased the tax payable by many investors. No mention of the review was made in the Budget. The resultant uncertainty



If you have any unused pension annual allowance from 2018/19 you have until the end of the tax year to use it.

threatened to complicate year-end tax planning, leaving investors facing the difficult question of whether to incur tax now rather than do nothing and risk a higher liability down the line.

Fortunately, at the end of November the Treasury formally rejected any major CGT redesign while accepting a handful of the OTS's minor technical revisions. Consequently, year-end CGT planning is no longer a case of second guessing the Chancellor. If you have capital gains in your portfolio, you should consider realising them up to your available annual exempt amount before the end of the tax year. One option if you wish to retain the investments is to reinvest the proceeds in an ISA or a pension.

INHERITANCE TAX

Inheritance tax was subject to a separate OTS review undertaken before the CGT review. The absence of any mention of the OTS's two IHT reports in the last three Budgets has, like the CGT review, complicated year-end planning. However, again the Treasury removed the uncertainty as an early Christmas present, confirming that it accepted only one (administrative) proposal and rejected all others.

Year-end IHT planning therefore has a familiar starting point: make sure you consider using the three main yearly IHT exemptions (£3,000 annual, £250 small gifts and 'normal expenditure out of income').

ISAs

The value in tax-free ISAs is growing due to the frozen personal allowance and higher rate threshold, dividend tax increases and rising inflation. There is no carry forward of your ISA allowance, so make sure you review your 2021/22 ISA contributions before 6 April.

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PLANNING

Keeping up with powers of attorney

The number of people registering a lasting power of attorney (LPA) dropped by 30% during the first year of the Covid-19 pandemic.

An LPA is a legal document citing who will be responsible for your financial welfare or personal care if you are no longer able to make these decisions.

As Covid hit it became more difficult to complete these forms which require the signatures of the person setting up the LPA, the certificate provider and the individual (or individuals) appointed as attorney. Donor and attorney signatures also needed to be independently witnessed.

COVID PROTOCOLS

However, guidance introduced to combat these difficulties now enables people, particularly those who might be shielding for health reasons, to complete these processes in a more Covid-secure way.

TAILOR THE LPA TO YOU

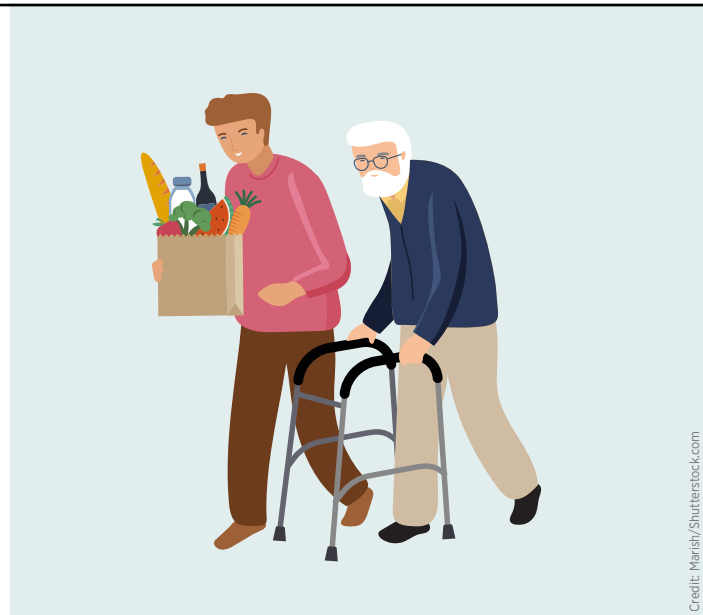
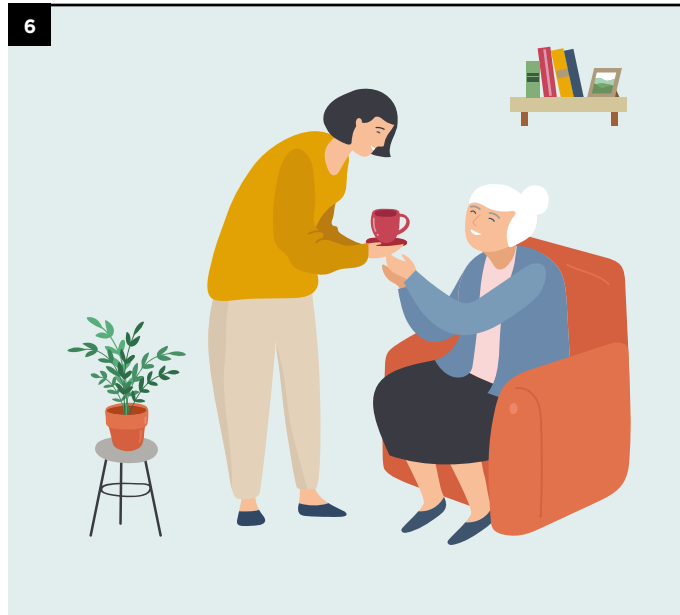
You don't need to be old or in ill-health, however, to set up an LPA. It can be set up so that your attorneys can start making decisions on your behalf straight away, or not until such time as you are deemed to have lost mental capacity.

In England and Wales LPA forms need to be registered with the Office of the Public Guardian (OPG). This process can take up to 20 weeks and costs £82.

SCOTLAND AND NORTHERN IRELAND

In Scotland residents need to apply for a Power of Attorney (PoA), which is registered with the OPG Scotland. In Northern Ireland an Enduring Power of Attorney can be registered through the Office of Care and Protection.





Credit: Marish/Shutterstock.com

LATER LIFE

Social care plans for England: not all they seem

The long-awaited details of funding new social care plans for England have been released – with associated UK-wide tax rises.

The funding of social care has been a subject with which governments of every hue have struggled. A Royal Commission on Long Term Care reported back in 1999 and since then there have been many other reports, papers and reviews. In the interim social care has become a devolved responsibility, with each constituent part of the UK running its own slightly different scheme.

In 2014, legislation was passed establishing a framework for care in England but, after an election, the government decided it would not be implemented. Seven years later, in September 2021, that abandoned structure now forms the basis for the new English social care regime recently announced by the Prime Minister. Further details emerged in mid-November, clarifying the original statement. The scheme's key features are:

- **Start date** The new regime will only apply in England from October 2023. Any care costs incurred before then are ignored.
- **Fee cap** A cap of £86,000 (index-linked) on the total care costs you must pay from your own resources will be introduced. This will cover only your personal care costs, not the so-called 'hotel costs' of care, which are set at a flat £200 a week. One government



The upper capital limit for all care costs will rise from £23,250 to £100,000; the lower limit increases from £14,250 to £20,000.

example demonstrating the cap's operation suggested it would be triggered after 40 months in care – longer than the average stay in a care home.

- **Capital limits** The upper capital limit above which you must meet all your care costs (until the fee cap is reached) will rise from the current £23,250 to £100,000. However, the corresponding lower capital limit, below which you are not required to use savings or the value of your home to meet care costs, sees a much smaller uplift, from £14,250 to £20,000.
- **Income tariff** If you have capital between £20,000 and £100,000 you will be required to make an 'income tariff' contribution from that capital, which will be £1 a week for each £250 of capital over £20,000. For example, if you have capital of £80,000, you could have to contribute £12,000 in the first year (20% of [£80,000 - £20,000]).

Although the changes are a couple of years away and apply in England only, the tax rises will begin from next tax year and operate throughout the UK.

- All the main and higher rates of National Insurance Contributions (NICs) for employers, employees and the self-employed will rise by 1.25 percentage points.
- In 2023/24 the NIC increases will be replaced by a new Health and Social Care Levy at a 1.25% rate. This will also be payable by the employed and the self-employed above state pension age; currently they do not pay NICs.
- From 2022/23 the tax rates on dividends will also increase by 1.25 percentage points, making the highest rate of dividend tax 39.35%.

Despite the large tax rises, the changes to the social care regime could still leave you having to meet all your social care costs, something that you should consider building into your retirement planning.

✚ *The value of tax reliefs depends on your individual circumstances. The Financial Conduct Authority does not regulate tax advice and tax laws can change.*

Christmas gifts that keep on giving

An investment could be a wise present to children this Christmas.

What are you going to buy your children or grandchildren this festive season?

Supply chain issues, from lack of computer chips to clogged-up container ports, widely reported in the media, are likely to limit the choice of presents available in 2021. It may already be too late to acquire that new L.O.L. playset or Lego model. As an alternative yuletide approach instead of toys, why not make a longer-term gift of an investment?

There are several obvious advantages:

- There is no risk of stock shortages.
- No batteries are required.
- Avoid tricky gift wrapping.
- It cannot be broken or discarded by Boxing Day.

Most importantly, an investment is something set aside for a child's future, potentially offering an early piece of financial education. Such an initial grounding matters because even in the 15-18 age range, over a third of children have no in-school access to financial education according to recent research. The same research also found that over half of those questioned would like to have started learning about money between the ages of 11 and 14.

The choice of investments and how ownership should be structured depends upon a variety of factors, not least of which is tax. Children are

nearly always non-taxpayers – they have the same £12,570 personal allowance and £12,300 capital gains exempt amount as adults. However, if an investment is given to a minor unmarried child by their parent, in some circumstances any income generated can end up being taxed as if it were the parent's own. No such rule applies to gifts from others, such as grandparents. All gifts are potentially within the ambit of inheritance tax, although many may be covered, at least in part, by available exemptions.

It may be sensible to use a trust to hold the investment, as this can give the person making the gift more control over when and how it is ultimately used. For more information on this and other aspects of investment gifts, please talk to us, not Santa.

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Going green on bonds and gilts



National Savings & Investments (NS&I) have launched their first green bonds, paying a rate of 0.65% to investors. The money raised via these three-year fixed-rate savings plans will be used to fund the government's environmental projects. These could include zero-emissions buses, offshore wind farms and flood defences.

Savers will need a minimum of £100 to invest in these bonds, which went on sale in October 2021. The maximum investment is £100,000. But savers should be aware there are more competitive savings rates available. Zopa and Atom Bank, for example, were paying 1.6% and 1.45% on three-year bonds as these NS&I products launched. Meanwhile Cynergy Bank is paying 0.66% on an easy access account.

The government also launched its first green gilt in September 2021. This was open to institutional investors, including pension funds, and raised £10bn which the government will invest in green projects. Further green gilts will be offered later this year.

✦ *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.*

Making Tax Digital delay on income tax

Plans to shift the self-assessment and income tax system onto an entirely digital basis have been delayed again. This gives welcome additional time for businesses to adapt but creates further uncertainty about implementation dates. This latest postponement means the launch date is now six years later than the original proposal of 2018, pushing the programme back to April 2024.

Company cars perk on the wane

The number of people driving company cars continues to decline, according to the latest figures from HMRC. Provisional figures from the 2019/20 tax year suggest only 800,000 people claimed this benefit on their tax returns, down from 870,000 and 900,000 in the preceding two tax years.

Changes to the way this benefit-in-kind is taxed now benefit those driving lower emission cars, which has reduced the number of company cars using diesel fuel.

Tax deadline looms

The clock is ticking for 12 million people who need to file their self-assessment tax return by 31 January 2022. This will relate to earnings from April 2020 to April 2021, and outstanding tax owed is also due on this date. Those filing late face a £100 penalty.

HMRC advises those new to self-assessment to register for the service at least 20 days in advance of the deadline.

PENSIONS

Taking your pension lump sum?

Taking the tax-free lump sum from your pension at an early age could put your financial security in retirement at risk.

Some savers can currently access pension savings from the age of 55, and in most cases can withdraw a quarter of this fund as a tax-free lump sum. Any withdrawals above this level will be subject to income tax.

New research by Legal & General found a third of women (33%) and more than a fifth of men (22%) are withdrawing the full 25% tax free lump sum at the age of 55. This money is often used to fund home improvements and holidays, according to the research, with surplus money often squirrelled away in bank accounts and cash ISAs.

But at the age of 55 most people are still at least ten years away from retirement. Spending this money can seriously reduce the size of retirement savings, while switching to cash means losing out on any future investment growth.

POTENTIAL PITFALLS

Accessing your pension early can create other problems. Withdrawals of more than 25% may be subject to income tax at the marginal rate. Significant sums can potentially push you into

a higher tax bracket. Those taking more than 25% also face restrictions on future pension savings, with the annual allowance falling from 40,000 to £4,000 a year.

The L&G research found a significant number of those taking their tax-free lump sum had other savings they could use to cover short-term spending needs. Keeping money in your pension should maximise its long-term growth and may be more tax-efficient.

Remember this 'tax-free' option does not disappear after age 55. You can withdraw the lump sum at a later date, where it may be 25% of a larger fund.

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