INSIGHT

ISSUE 22

A WEALTH OF ADVICE

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WELCOME

Welcome to our latest issue of Insight – A Wealth of Advice

It has been encouraging to see some cautious leaps towards normality over the past three months, with home and work life steadily returning to some semblance of what we previously took for granted. Whilst there is no doubt we will continue to be challenged by coronavirus for some time to come, and its economic fallout, there is much more of a sense of optimism than when looking back to this time last year.

At the time of writing we are waiting to hear what the Chancellor will announce at the Autumn Budget. It has been heavily suggested that tax increases may be on the cards so please look out for our updates to follow.

If there are any topics you would like us to cover in a future edition of Insight please get in touch, meanwhile, in this issue our articles include:

Social Care - The question of how to fund social care is one that has dogged politicians of all parties for decades. On Tuesday 7th September 2021 details of the Government's plan were finally announced.

Are pension lifetime allowance cuts on the horizon in The Chancellor's Autumn Budget? There have been renewed rumours that Chancellor Rishi Sunak will cut the Lifetime Allowance in the next Budget. For pension savers this could materially affect your pension savings goals.

Changes to the Normal Minimum Pension age - HM Treasury published its response to the consultation on the proposed increase of the Normal Minimum Pension Age (NMPA) from 55 to 57. This could have a significant impact for those affected who were born after 6th April 1971.

Protecting your company's financial stability in times of uncertainty - There has been unprecedented support from the Government in the form of Coronavirus Business Interruption Loan Schemes (CIBILS) and Bounce Back Loans whilst many businesses tried to stay afloat during lockdowns. Although these loans are underwritten by the Government, business owners need to protect their COVID finance alongside other debts too.

We hope you enjoy this issue of our magazine. If you would prefer to download a digital copy or subscribe to new issues electronically, please visit www.armstrongwatson.info/Insight

PAUL DICKSON

CHIEF EXECUTIVE AND MANAGING PARTNER ARMSTRONG WATSON

SOCIAL CARE FUNDING REFORM – A BUDGET IN ALL BUT NAME?

The question of how to fund social care is one that has dogged politicians of all parties for decades. Back in July 2019, the Prime Minister said "we will fix the crisis in social care once and for all, and with a clear plan we have prepared…". On Tuesday 7 September 2021, details of that plan were finally, and also very quickly, announced.

The reforms will use the existing framework of the Care Act 2014, based on a set of proposals put forward in the Dilnot report on social care a decade ago now. However, the new reforms will only apply to social care in England, as Wales, Northern Ireland and Scotland have their own care schemes and funding mechanisms.

THE CURRENT ENGLISH SYSTEM REQUIRES ANYONE WITH CAPITAL OF OVER £23,250 TO FUND ALL THEIR CARE COSTS.

The main changes affect those commencing care from October 2023:

Capital means testing

The current English system requires anyone with capital of over £23,250 to fund all their care costs. The value of an individual's home is generally counted towards the capital means test unless occupied by a partner, dependant, or relative aged at least 60. The new rules raise the cap for full fee payment to £100,000.

At the lower end of the capital means test, there is currently no requirement to use any savings to help meet care fees if wealth is below £14,250 (although there may still be an income-based means-tested contribution). This limit will rise to £20,000.

Between the upper and lower capital limits there is currently an 'income tariff' contribution of £1 a week for each £250 (or part thereof) of capital above £14,250, an effective rate of 20.8%. The new regime will continue to have an income tariff between the new limits of £20,000 and £100,000. The government's paper says that this will be levied at "no more than 20 per cent", which points to little if any change. At worst, it implies a contribution of £16,000 a year for someone with capital just below the new £100,000 ceiling.

Total fees cap

Currently there is no direct cap on the total amount that an individual can be required to pay for their care. For those entering care from October 2023, there will be a new fee cap, set at £86,000 initially (against £72,000 envisaged alongside the Care Act 2014). The cap will only apply to the costs of personal care, not accommodation charges (sometimes referred to as 'hotel' costs).

The Care Act 2014 based the personal care cost ceiling on the fees that would be paid by the relevant local authority, which are typically less than self-funders charged by their care providers.

The Government says existing Care Act legislation will be used to "ensure that self-funders are able to ask their local authority to arrange their care for them so that they can find better value care".

NHS-funded Nursing Care (FNC)

Currently, an individual's care/nursing home is directly paid £187.60 a week to meet the cost of care from registered nurses. This is not means-tested and it appears that this payment will continue after October 2023. Full care costs are met under the NHS Continuing Healthcare (CHC) provisions, but these set highly restricted circumstances for payment.

Meeting the cost

The Institute for Fiscal Studies (IFS) described the measures to meet the proposed costs of the reform as "a Budget in all but name". The amount raised, which the IFS puts at

£14 billion a year, will be directed mainly at dealing with the NHS's Covid related issues until the new care provisions start to operate in two years with two increases, which many have referred to as a "tax on jobs" due to fund those costs.

The "tax on jobs" reference comes as the bulk of the cost will be met by increasing National Insurance Contributions (NICs).

In 2022/23 a new 1.25% Health and Social Care Levy (HSCL) applies, an increase on Class 1 (employer and employee) and Class 4 main and higher NIC rates. Class 2 (self-employed) flat-rate payments will be unaffected.

In 2023/24 NIC rates will return to 2021/22 levels and the HSCL will reappear as a separate 1.25% charge.

This separation is necessary to allow the HSCL to be charged on the earnings of employees and the self-employed who are over the State Pension Age (SPA) – currently 66. (At present employees and the self-employed past SPA do not pay NICs, although employers generally pay Class 1 NICs regardless of employee age).

The current employer NIC reliefs, e.g. for apprentices under 25, will continue to apply.

Dividends

From 2022/23, all dividend tax rates will also rise by 1.25%. This is designed to discourage private company owners from drawing remuneration as NIC-free dividends. Including dividends perhaps also has the political benefit of raising some additional revenue from the wealthy retired, who pay no NICs.

NICs and dividends were likely chosen to fund the social care reform because, unlike income tax on earnings, they are not devolved taxes. As a result, residents of Wales, Northern Ireland and Scotland will suffer increased tax bills for a reform currently limited to England. However, revenues will also be returned to the devolved nations' health and social care services (not the devolved governments) via the Barnett formula.

JUSTIN ROURKE

SENIOR FINANCIAL PLANNING MANAGER - PENRITH

ARE PENSION LIFETIME ALLOWANCE CUTS ON THE HORIZON IN THE CHANCELLOR'S AUTUMN BUDGET?

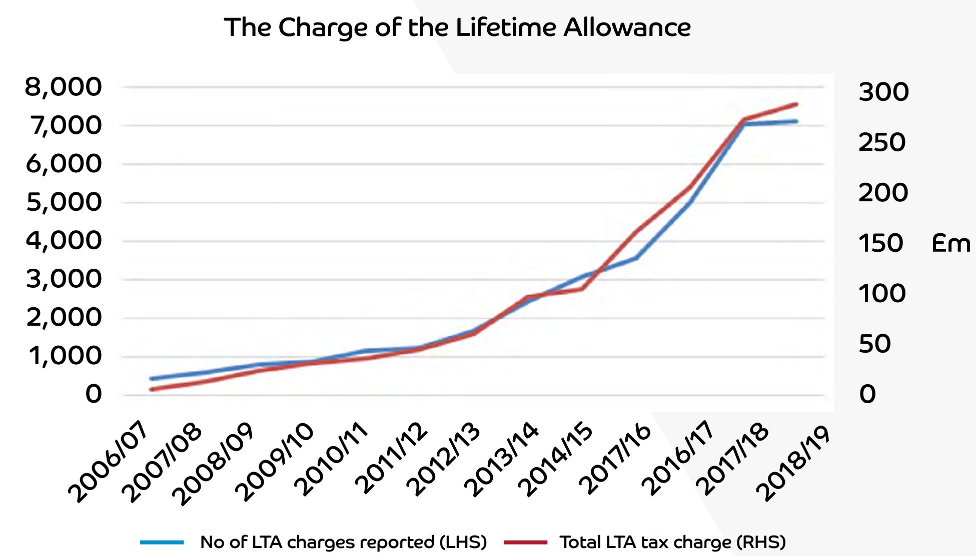
Chancellor Rishi Sunak announced in his March Budget that the lifetime allowance (LTA), which governs how much can be saved in a pension before tax charges apply, would remain at its current level of £1.073m until 2025/26. This was a reversal of policy introduced three years ago where the LTA was due to increase in line with inflation.

BRIAN McNICHOL
FINANCIAL PLANNING CONSULTANT – GLASGOW

At Armstrong Watson, our quest is to help our clients achieve prosperity, a secure future and peace of mind. If you think you might need to consider how you may be impacted by the Lifetime Allowance, either based on current benefits or when you retire, you could benefit from personalised financial advice.

We can provide a full review of your pension arrangements, with our compliments in the first instance, to help you to understand, based on your individual circumstances and arrangements, your position with regards to your current pension arrangements and whether this is an area you need to consider.

New HMRC statistics show that the LTA continues to bring in revenues for HM Treasury. However, due to the increasing pressure on The Treasury to raise revenue due to the unprecedented levels of debt the UK has accumulated because of the global pandemic, there are rumoured cuts at the next Budget which could be a cause for concern for those retiring in the future.



> IN PRACTICE, IT MAY NOT BE POSSIBLE TO AVOID AN LTA CHARGE.

The LTA started life at £1.5 million in 2006/07 and peaked at £1.8 million in 2010/11. Since then, it has been cut three times and regularly frozen.

The reason why the LTA has been steadily devalued is to some extent explained by the graph above, which is based on revised and updated data recently issued by HMRC. It shows that in 2018/19 more than 7,000 LTA charges on pension scheme members were reported, with total tax payments of £283 million – an average of almost £40,000 per head.

The LTA benefits the Treasury in another, more subtle way. It presents a stark disincentive to make pension contributions for anyone with retirement funds that could reach – or have already reached – the LTA.

This is especially true if you have any of the various LTA transitional protections that have been introduced over the years. The rules for some types of protection are such that any fresh contribution revokes the protection. For example, if you have Fixed Protection 2012, £1 of pension contribution would mean you lose a protected LTA of £1.8 million, potentially leading to a six-figure tax bill when benefits are drawn. However, the legislative protections, some of which date back to 2006, are now all the more valuable as they provide protection in some cases much greater than the current LTA.

In practice, it may not be possible to avoid an LTA charge. Some employers will not offer a salary alternative to a pension contribution and in those circumstances suffering the maximum 55% LTA charge might be better than foregoing 100%.

Higher than projected investment performance can also see your pension pot grow above the lifetime allowance causing you to pay an LTA charge.

As already discussed there have been renewed rumours that Chancellor Rishi Sunak could cut the LTA in the next Budget, with threshold figures between £800,000 and £900,000 being banded around. The LTA is only one of many tax traps surrounding pensions.

Any changes to pension rules aren't likely to be announced until the Autumn Budget. It's not certain what changes will take place, or if there will be any changes at all. But you can prepare your retirement savings, so you're not faced with any surprises.

COULD PROPOSED CHANGES TO THE NORMAL MINIMUM PENSION AGE AFFECT YOU?

HM Treasury has published its response to the consultation on the proposed increase of the Normal Minimum Pension Age (NMPA) from 55 to 57. Whilst this is a consultation response and is still therefore a proposal at this stage, this could have a significant impact for those affected if it is introduced on April 6th 2028.

> IF YOU WERE BORN AFTER 6TH APRIL 1971 YOU ARE LIKELY TO BE AFFECTED IF THE CHANGE DOES COME IN TO EFFECT.

Under the current law, this is the earliest age a person can access their pension arrangements (without incurring an unauthorised payments tax charge) unless the individual satisfies certain ill-health conditions, or they have a Protected Pension Age (PPA).

This means the increase in the NMPA from age 55 to 57 could impact people that are currently intending to access their pension benefits before age 57, if they are born after certain dates.

Who would be affected?

- If you were born before 6th April 1971 you should be unaffected by the legislation as you will reach 55 by April 2026 and age 57 before April 2028. Therefore you should be able to access your pension savings at the current NMPA of 55.
- If you were born on or after 6th April 1973 (with no existing protected retirement age) you will be unable to access your pension savings before age 57, unless you join a pension scheme that offers a PPA before 6 April 2023
- For those born after 6th April 1971, but before 6th April 1973, it is more complicated again. This is because people in this group will reach the current NMPA on their 55th birthday and will normally still have access to their benefits until 6th April 2028. However, if the pension funds are not then accessed, they would not then have access until their 57th birthday, thereby delaying it further for 2 years.

This scenario is best explained by way of an example:

Someone born on the 1st April 1973, can access their personal pension arrangements at age 55 (without incurring an unauthorised payments tax charge) if they wish ie. from 1st April 2028. However, if they choose not to do so (which may of course be the right thing to do) once the 6th April 2028 passes they would then have to wait until their 57th birthday, 6th April 2030, to have the option to access their benefits again.

However, as part of the implementation, the Government has issued draft legislation for a new Protected Pension Age (PPA) rules that will allow members of schemes that have an (unqualified) right to access earlier than 57 to retain their PPA.

What could this mean?

The Government has outlined a protection regime for the increase to the NMPA in 2028 for any type of registered pension scheme if certain conditions are met. PPA is specific to an individual member of a particular scheme, so it would not apply to memberships of other schemes where there was no right to a PPA. Pension scheme members that will qualify for PPA are all members of the armed forces, police and fire public service pension schemes.

In addition, if your pension scheme is an HMRC registered pension scheme as of 5th April 2023, whose rules on 11 February 2021 conferred an unqualified right to access pension benefits earlier than age 57, then access to the benefits would still be available without incurring an unauthorised tax charge. This, therefore, provides individuals without a PPA, the opportunity to join a scheme that offers access at age 55 before 5th April 2023.

You will need to check with your pension scheme provider if it clearly states what access you are provided with and when. For example, where the rules expressly state that your benefits can be drawn from age 55, the Government considers that this would amount to an unqualified right.

Conversely, where the rules refer to the NMPA or its underlying legislation, it is suggested that this would not give an unqualifying right to access benefits before age 57. Careful planning and consideration is therefore required.

In summary, for those born before 6th April 1971 there should be no impact. For those born after that date, the changes mean you may need to look more closely at your existing pension arrangements to help you plan your retirement effectively. Of course for much younger clients, whilst a protected retirement age of 55 may only provide a difference up to two years now, with the Government needing to continue to look at ways to continue to finance the state pension the NMPA could be even higher than 57 by the time this age is reached, however, time will tell as to whether that's the case or otherwise.

At Armstrong Watson, we have Chartered Independent Financial Advisers. Our retirement planning expertise supports our quest to help our clients achieve prosperity, a secure future and peace of mind. This latest change to pension legislation shows the continued complexity around this crucial area of financial planning which means that independent financial advice is ever more important to get the right support to help make the right retirement decisions for you and your family.

MATT SLESSOR
CHARTERED FINANCIAL PLANNER – CARLISLE

DIVIDENDS – TIME TO REVIEW

Prior to the pandemic, it would often have been fair to characterise dividend investing as 'slow and steady'. Yet, with the onset of Covid, all this changed as companies slashed dividend payments and reliant investors suddenly faced a new challenge. As the world now finds its new normal and as portfolios are assessed, the role of dividends should be considered.

A Bumpy Ride

As lockdowns were imposed and their economic pain became apparent, stock markets, in general, fell heavily. Meanwhile, companies looked to conserve cash and so many chose, and some were forced, to cut their dividends, leading to further losses in these companies. A dark period for equity investors. With huge support from central banks and governments, many areas of the equity market recovered quickly, but given continued dividend uncertainty, income investors felt more protracted pain. Nonetheless, as 2021 progressed and a strong economic recovery emerged, confidence in corporate boardrooms has improved and the dividend market is now well on the way to recovery.

Worth the Bother?

While now largely over, such an experience may cause some to question the merits of dividend investing, yet to do so would be to ignore the benefits of regular income payments.

Don't Forget Income

The return an investor receives consists of two factors: the change in price of the asset and any income paid upon it. With investments in bonds, income may be the main consideration, yet in equities, it is often an afterthought.

Beyond the Headlines

Dividends are an important part of total returns and UK equities provide a good example. On 31st August 2016 the UK's main stock market index, the FTSE 100, ended at a level a little below 7,000. On 31st August 2021, the FTSE 100 ended a little above 7,000. Over five years a price return (excluding dividends) of just 5% was achieved (source: Morningstar Direct).

With the market background of protracted Brexit negotiations, a US/China trade war and a pandemic for context, such a low return could perhaps be accepted, but to leave the argument at that point would be doing UK equities a disservice. If, however, the dividends are included, the total return of the index has actually been 28%. The value of dividends therefore equates to approximately 4% a year over this time, even with the Covid disruption described above.

A Useful Tool

While it would be wrong to assume that dividends will always be the saviour of otherwise tepid returns – after all not all regions pay as high dividends as the UK, and a 4% yield from the UK is in no way guaranteed – it would also be wrong to write them off on the basis of a difficult 18 months. In an era of low interest rates dividends can be vital for income investors, even if they can be volatile, while for those investors indifferent to income, they can still prove an important part of total returns. The value of the dividend, then. Not to be dismissed.

Please note that the contents are based on the author's opinion and are not intended as investment advice. Any research is for information only, does not constitute financial advice or necessarily reflect the views of the author and is subject to change.

Past performance is not a reliable indicator of future performance. The value of investments and the income derived from them can fall as well as rise and investors may get back less than they invested.

RICHARD COLE
FUND MANAGER – FUTURE MONEY LTD

> "IN AN ERA OF LOW INTEREST RATES DIVIDENDS CAN BE VITAL FOR INCOME INVESTORS."

HOSPITALITY SECTOR FOCUS

CASE STUDY

ENGLISH MARQUEE COMPANY CREATES FOUNDATIONS FOR ITS FUTURE DURING PANDEMIC

The English Marquee Company has quickly established itself as a classically stylish brand and fixture in the UK Event scene over the past four years.

SAM AND TOR PETERS

FOUNDERS OF THE ENGLISH MARQUEE COMPANY

The family-owned and operated events company, based in Harrogate, was founded by brother and sister duo Sam and Tor Peters in 2017 as a division of parent company BHP Associates Ltd, which liaises with tour operators throughout the UK and Europe to promote Canadian holidays.

Managing Director Sam and Events Director Tor, along with their dedicated teams, cater for weddings, parties and corporate events, delivering specialist solutions tailored for each of their clients.

Sustainability is an important part of their business and so the marquees and structures are multi-use products in a wide variety of sizes, making it possible to deliver exactly what their clients want. They've also carefully sourced tables, chairs, lighting and flooring to complement their hand-crafted traditional pole marquees and glass orangeries, which are a recent addition to their portfolio.

Like so many others in the wedding and events industries, they were hit hard by the pandemic with lockdowns and tight restrictions severely limiting what events they were able to deliver for more than a year. They sought advice from Armstrong Watson on how best they could manage a problem over which they had no control and no idea how long it would last and quickly diversified to cater for a new audience.

> **WE FEEL VERY FORTUNATE THAT WE ARE FIRST-GENERATION ENTREPRENEURS AS WELL AS PART OF A SECOND-GENERATION COMPANY WITH SUCH A CONSTANT ADVISER.**

Sam and Tor diversified into marquee consultancy for the many venues looking for semi-permanent structures on long-term hire in order to provide outdoor seating in line with Government restrictions. They also made the move into glass orangeries, alongside their popular pole marquees, and proudly supported a local primary school by lending a marquee to allow all year groups to return before the end of term last year.

"Where they have been smart is that they have identified the fact that what they were doing was proving difficult with Covid and they've reacted. They've been very nimble to react quickly to what the market wanted not what they were selling," said David Richmond, Accounting Partner.

"They looked at what the market was requiring - pubs, restaurants and anyone who was in need of some form of outdoor covering – and catered for them.

"They had to react quite quickly because their target audience temporarily disappeared. They identified a different customer base that required the same product."

Now that restrictions around social gatherings have eased, the English Marquee Company has returned to catering for weddings and specialist events with strong pent-up demand for their services alongside an on-going demand for semi-permanent structures.

Sam said: *"Armstrong Watson have been fantastic. Their focused advice, webinars and technical support helped us to emerge from the pandemic in a strong position to reembark on our business strategy. The last 18 months have both caused us to pause and then to accelerate some of our plans as we have diversified into a number of product lines alongside our traditional pole marquees. We have had a great reaction from our clients now that we are fully operational again and bookings are very strong for 2022."*

Tor added: *"Alongside our drive for perfection in the events business, our parent company BHP Associates Ltd has been delivering excellence in hospitality and leisure since it was founded in 1995 and is a long-standing client of Armstrong Watson. In addition to ongoing accountancy advice, Armstrong Watson has always been there for the directors on all matters including strategic advice and pension planning.*

"We have acted for the family their companies for over 20 years assisting with VAT issues re overseas entities , remuneration planning, and financial services through pensions and personal & business protection. We have been the "trusted advisor" too bounce off ideas over the years."

DAVID RICHMOND

ACCOUNTING PARTNER - SKIPTON

DAVID PORTER

CHARTERED FINANCIAL PLANNER - SKIPTON & LEEDS

PROTECT YOUR COMPANY'S FINANCIAL STABILITY IN TIMES OF UNCERTAINTY

In "normal times" many businesses take out loans to start up a company or to expand their operation. However, during the pandemic there has been unprecedented support from The Government in the form of Coronavirus Business Interruption Loan Schemes (CIBILS) and Bounce Back Loans whilst many businesses tried to stay afloat during lockdowns. Although these loans are underwritten by the Government, in the event of a business failure resulting from the demise of a director, the debt will be repaid from business assets. It is only if these assets are exhausted that the Government backing takes effect and so business owners need to protect their COVID finance alongside other debts too.

Traditional or COVID-19 support are not the only forms of loans taken out. There are many small businesses that have a Directors' Loan, where the directors have put in their own money as a loan, usually at the start-up of a business. You can ring-fence this investment, so that when the business becomes profitable the funds can be extracted tax efficiently. However, many business owners are unaware that these loans must be repaid on demand in the event of the director's death, potentially putting a business under financial pressure.

Usually, if you take out a mortgage on your house you will typically have a life insurance policy to repay the debt should the unexpected happen, thus protecting your family. However, with business finance the perception can be entirely different. In their 6th study of businesses in the UK, Legal & General found that many business owners agree that the loss of a key person can have dire consequences for their business. Yet more than 50% didn't have any cover in place, and furthermore, 52% said they would cease trading within one year if this was to affect their business!

Although awareness of the importance of protecting debt is improving, a large proportion of businesses don't have any or sufficient cover in place to repay debt. Of those who didn't have cover, 70% didn't see the need or hadn't considered it.

There's an expectation when borrowing funds that the amount will be repaid by a given date in the future. However, what if something should occur to halt the repayments before that date, or there are no funds to call upon to make the repayments? What if a personal guarantee had been given on the loan? If so, how will this impact on your family? This could leave many companies with a black hole in their accounts, and thereby put severe financial strain on the business at an already difficult time.

Insurance policies are a simple and effective way of covering the liability should death (or serious illness) occur. They can be taken out for the same timeframe as the loan and in the event of a claim the policy proceeds can be called upon to repay the outstanding debt without creating financial hardship for the remaining family members or business partners.

The repayments of the loan will still need to be maintained in accordance with the terms of the arrangement but having an insurance policy provide the funds should the worst happen secures a critical financial cushion when cash may be difficult to source, together with the certainty your family receives with the necessary financial support to ease the pressure that losing a loved one and a breadwinner can create.

It can often be easy to overlook the importance of financial protection, especially when you are running a business, but our independent financial advisers can help you review both your business and personal needs and help prioritise what's important to you, your business, and your family.

At Armstrong Watson we are Chartered Accountants and Chartered Independent Financial Advisers. We can discuss and advise on all aspects of your protection requirements based on your individual circumstances. As all our expertise is "under one roof" we work alongside our Accountants and Tax advisers to ensure the right support is in place for the businesses and business owners we support.

Armstrong Watson Financial Planning Ltd is authorised by the Financial Conduct Authority. Armstrong Watson LLP, our Accountancy practice, is regulated by the Institute of Chartered Accountants in England and Wales (ICAEW). Our business and personal protection advice service is provided by the Financial Planning team.

> IT CAN OFTEN BE EASY TO OVERLOOK THE IMPORTANCE OF FINANCIAL PROTECTION, ESPECIALLY WHEN YOU ARE RUNNING A BUSINESS.

IAIN LIGHTFOOT

**MANAGING DIRECTOR
ARMSTRONG WATSON
FINANCIAL PLANNING LTD**

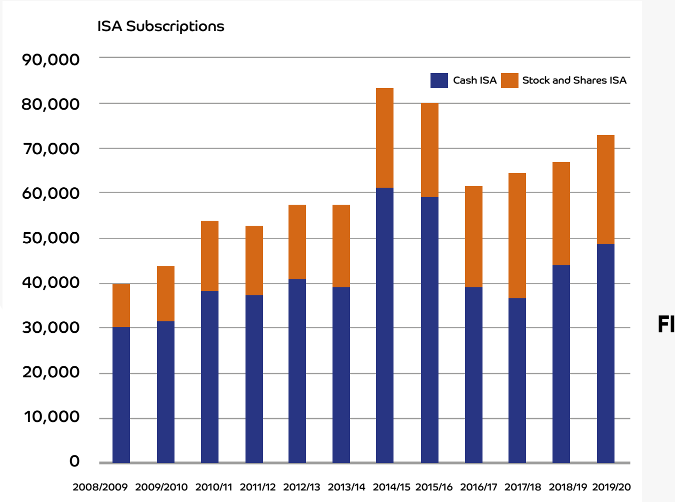
ARE YOU INVESTED IN THE WRONG TYPE OF ISA?

One of the many knock-on effects of the pandemic has been that HMRC's annual updating of statistics has suffered delays. As a result, details of ISA subscriptions and holdings for 2019/20 have only just emerged.

New statistics from HMRC show over £300bn invested in cash ISAs.

Armstrong Watson Financial Planning & Wealth Management, as well as providing Independent Financial Advice and personalised investment planning also offer a bespoke `cash management` service aimed at maximising interest rates by identifying the most competitive cash accounts, whilst also ensuring clients`savings are afforded full FSCS protection.

The value of investments and the income from them can fall as well as rise. You may get back less than you originally invested. Past performance is not a reliable indicator of future results.



PAUL MOODY
FINANCIAL PLANNING CONSULTANT - PENRITH

Among many interesting facts, the data shows:

- Despite ultra-low interest rates, the amount of money invested in cash ISAs has continued to grow. In 2019/20, £48.75 billion of subscriptions were received, more than twice as much as was invested in stocks and shares ISAs.
- The increase in the maximum overall ISA contribution to £20,000 in 2017/18 (from £15,240) has still not driven total annual subscriptions above their 2014/15 peak.
- Lifetime ISAs (LISAs), launched in 2017/18 to no great fanfare, have since grown in popularity, with 2019/20 subscriptions more than double those of the previous year. This jump may have been helped by the closure to new investors of the Help to Buy ISA in December 2019.
- For the first time, over one million subscriptions were made to Junior ISAs (JISAs) in 2019/20, with total investment of £974 million.
- The total amount invested in ISAs (excluding JISAs) in April 2020 was just over £620 billion, of which just over half was held in cash ISAs. The cash proportion would likely be substantially smaller today, as the value of stocks and shares ISAs were depressed in April 2020 when the first lockdowns got underway.

The continued dominance of cash ISAs is, at least in part, a reflection of "doing it yourself" by many ISA investors. The personal savings allowance, introduced in 2016/17, means that basic rate taxpayers (calculated using UK-wide rates) pay no tax on their first £1,000 of interest earned, using the example of a deposit account, and, similarly, £500 of interest is tax free for higher rate taxpayers.

At current interest rates, it takes a considerable amount of capital to exceed even the lower threshold so taking out a cash ISA could be of questionable value compared with an ordinary deposit, which might pay a higher interest rate. However, the ISA framework could be useful to you in other ways. Speaking with an independent financial adviser can help you make the right decision on where to put your savings.

In addition to The Financial Services Compensation Scheme (FSCS) offering individual account holders protection up to £85,000 (£170,000 for joint holdings), inflation remains the real risk to investors. In the current rising inflation environment, it obviously represents a real challenge to savers, who must at the very least aim to beat inflation to prevent their money from losing value in real terms. The challenge is made trickier by the fact that current savings rates represent poor value and there are now very few accounts that can even beat inflation.

So how can cash savers hope to bridge the gap? The answer may be to invest into `real assets` such as shares, fixed interest and property. But is this a good time to invest? It`s all too easy to get caught up with the bad news we hear about in financial markets.

At the start of the pandemic markets fell sharply but have generally recovered well to this point as a result of economies reopening. However, the key factor is not about when to invest but rather the amount of time you invest for.

Many people believe that knowing when to buy and when to sell is the secret of successful investing. The truth is that no one knows with any certainty when investment markets will rise or fall. Trying to time the investment markets is not only stressful, it is very seldom successful. Leaving funds invested for the medium to longer term usually produces the best returns but there is no guarantee.

When markets are volatile there can be a temptation to put all your investments in the relative security of cash. It may seem like a safe haven, however as they say, a ship is safe in harbour, but that is not what ships are made for. We have produced "Our Guide To Investing" to help you understand, whatever your knowledge and experience, the principles of investing to allow you to make informed savings and investment decisions.

Your ability and willingness to accept risk will determine the most suitable range of assets for your investment. If you are not comfortable with, or do not understand the risk you're taking, you should not invest.

GENDER GAP IN RETIREMENT SAVINGS

Recent research suggests the pandemic has further increased the gender pensions gap.

RESEARCH FROM THE CENTRE FOR ECONOMICS AND BUSINESS RESEARCH (CEBR) SHOWS THE GENDER PENSION GAP HAS WIDENED TO MORE THAN £180,000 AMONG PEOPLE OVER 55.

Research from the Centre for Economics and Business Research (Cebr) shows the gender pension gap has widened to more than £180,000 among people over 55. Some 30% of women, aged 55 and over, polled for the study said their financial situation had worsened since the start of the pandemic with more women furloughed than men according to HMRC, which has impeded their capacity to save money for their pension pot. A quarter of men said the public health crisis has impacted their pension savings. The disparity could be attributed to women being more likely to work in sectors particularly hit by the pandemic.

Men are anticipating an annual retirement income of £20,712, whereas women expect their income will be £14,964 in later life. Considering life expectancy, the gender pensions gap could be as much as £183,936. This is despite the fact that women contribute more into their pension pots in percentage terms than men. In addition to this, the research found that women have lower incomes in retirement across all lengths of their working life, as men who have worked full-time for 30-34 years receive the highest average annual retirement income of £22,776, while their female counterparts receive £17,004.

Women put 9.4% of their income into their pension pot. In comparison, men only use 8.3% of their income for their pension pot. This is due to the difference in average earnings of each gender in 2020. Men are able contribute £3,184 to their pension pot, whereas women can only afford £2,340.

The result of all this, according to the research, leaves the average woman needing to work an additional 14½ years to catch up.

So how much is enough in retirement?

The Retirement Living Standards, based on independent research by Loughborough University, have been developed to help us to picture what kind of lifestyle we could have in retirement. It shows what retirement may look like at three different levels – Minimum, Moderate and Comfortable - and what goods and services would cost for each level. This can be found at https://www.retirementlivingstandards.org.uk/

This research is eye-opening! A single person will need about £10,200 a year to achieve the minimum living standard, £20,200 a year for moderate, and £33,000 a year for a comfortable lifestyle. For couples, it is £15,700, £29,100 and £47,500 respectively.

The minimum lifestyle covers all your basic needs with occasional activities and one basic holiday a year. The moderate lifestyle fairs better providing better financial security and more choice on spending your money, whereas the comfortable living standard allows you to be more spontaneous with your finances and affords the flexibility to go on more holidays, eating out regularly etc. The question is which one do you want enjoy?

The current full basic state pension is £9,339 per year. As the State Pension is less than the minimum lifestyle highlighted earlier then saving for the retirement you want is crucial and the earlier you start the more chances you have of achieving the lifestyle you want. The State pension, though for many will form the very basic backbone of most people's retirement plan, it is also inflation proofed income that's guaranteed to be paid for the rest of your life no matter what. To put this into context if you were looking at age 65 to purchase on open market annuity this would cost around £370,000 after taking tax free cash . So it's really important that you maximise your state pension wherever possible in addition to your personal pension savings.

At Armstrong Watson Financial Planning & Wealth Management we work with you to build your retirement plans and work alongside you to regularly review these so you know if you will remain on track. We can use cashflow forecasting to allow you to visualise your planning more easily and help you make informed decisions.

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