Harrison Townend Financial Services Ltd

Autumn Newsletter 2023

Timing can matter when you retire

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Inside this issue

How much do you need to retire?
There's never a right answer, but we can give you some idea of how much you'll need depending on what sort of retirement you're looking for.

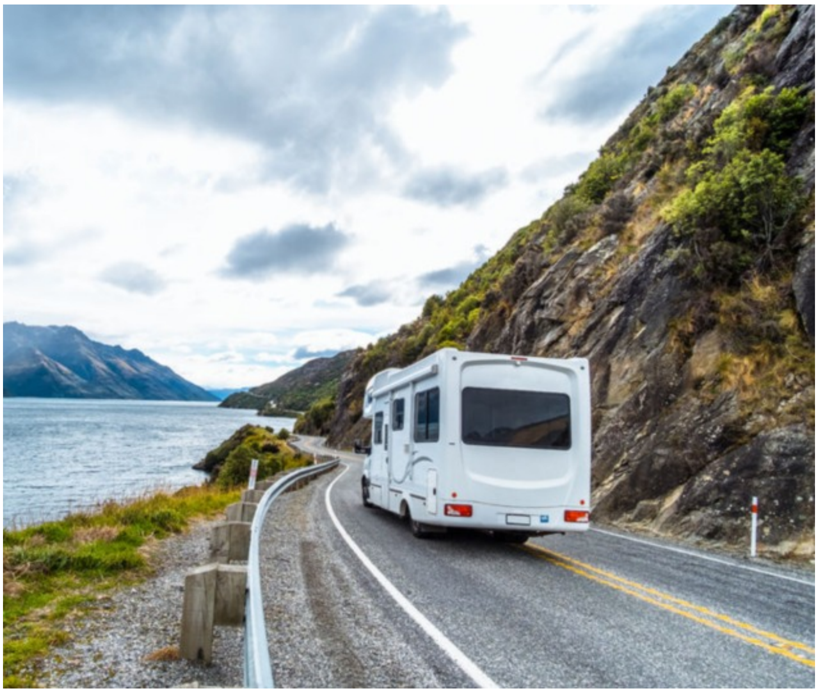
Auto enrolment changes are coming
A new government bill indicates that a change to the automatic enrolment minimum age, and increases to workplace pension contributions, are on the horizon.

When it's time to retire
There can be many factors to consider when you're ready to retire and steps you can take to maximise any financial benefits. It can be a complicated process and often worthwhile getting professional advice.

Making sure your savings are protected
The Financial Services Compensation Scheme (FSCS) was set up to protect customers of financial services firms that have failed and may cover your savings. It's worth being sure.

Inflation and your savings
Money held in savings accounts hasn't grown much in recent years due to low interest rates. But now with relatively high inflation, your savings may be at risk of losing value in 'real' terms, since you'll be able to buy less with your money.

Welcome to the autumn edition of our quarterly client newsletter, which provides topical financial articles.



If you have any questions in relation to the articles contained within this newsletter, please do not hesitate to contact us and we will be happy to provide any guidance required.

Whatever your financial need, we are always pleased to speak with you.

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Any information in this newsletter does not constitute advice and should not be acted upon without taking professional guidance.

The value of investments can fall as well as rise. You may get back less than you invested.

A pension is a long-term investment, the value of your investment and the income from it may go down as well as up.

Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

How much do you need to retire?

	MINIMUM	MODERATE	COMFORTABLE
SINGLE	£12,800 a year	£23,300 a year	£37,300 a year
WHAT STANDARD OF LIVING COULD YOU HAVE?	Covers all your needs, with some left over for fun	More financial security and flexibility	More financial freedom and some luxuries
HOUSE	DIY maintenance and decorating one room a year.	Some help with maintenance and decorating each year.	Replace kitchen and bathroom every 10/15 years.
FOOD	£54 a week on food (including food away from the home).	£74 a week on food (including food away from the home).	£144 a week on food (including food away from the home).
TRANSPORT	No car.	3-year old car replaced every 10 years.	2-year old car replaced every five years.
HOLIDAYS & LEISURE	A week and a long weekend in the UK every year.	2 weeks in Europe and a long weekend in the UK every year.	3 weeks in Europe every year.
CLOTHING & PERSONAL	Up to £580 for clothing and footwear each year.	Up to £791 for clothing and footwear each year.	Up to £1,500 for clothing and footwear each year.
HELPING OTHERS	£20 for each birthday present.	£34 for each birthday present.	£56 for each birthday present.

"How much do you need in retirement" is a question that is often asked and there's never a right answer! It's hard to predict how much you'll need in your pension to enjoy a comfortable retirement, because everyone's circumstances are different and figures are likely to rise with any increase to food and energy costs.

One rule is broadly true: the earlier you start saving, the more likely you'll be able to afford a comfortable lifestyle.

In January 2023, the Pensions & Lifetime Savings Association (PLSA) released an update to their Retirement Living Standards, which may help you picture what kind of lifestyle you can expect at retirement at three different income levels; minimum, moderate and comfortable. The chart (above) shows what single retirees living outside London would have needed, for 2022.

Minimum: Covers all your needs, with some left over for fun.
Moderate: More financial security and flexibility.
Comfortable: More financial freedom and some luxuries.

According to the PLSA **(https://www.retirementlivingstandards.org.uk)** the minimum required to survive as a single pensioner jumped by 18% from £10,900 to £12,800 a year in 2022.

A single person according to the PLSA would need:
£12,800 a year for a minimum lifestyle
£23,300 a year for a moderate lifestyle
£37,300 a year for a comfortable lifestyle.

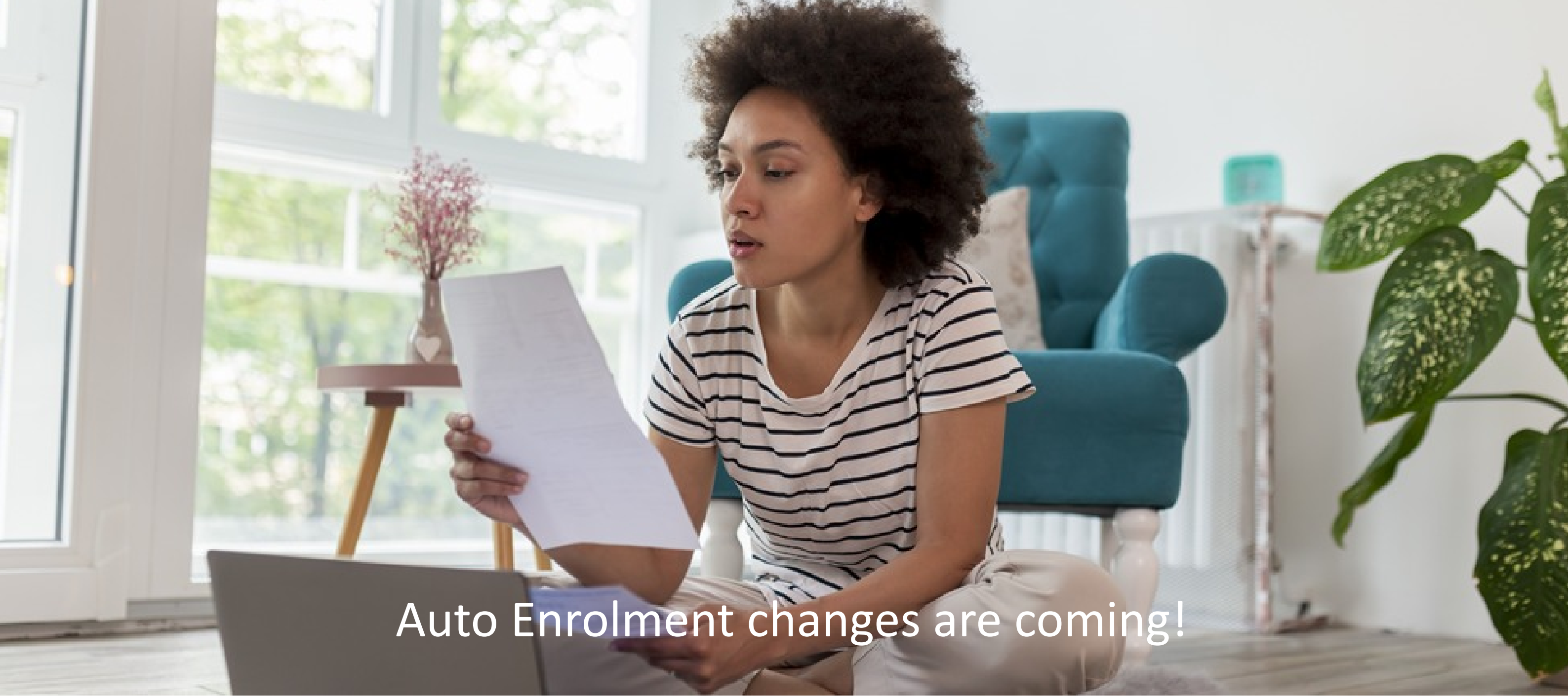
And those in a couple would need:
£19,900 a year for a minimum lifestyle
£34,000 a year for a moderate lifestyle
£54,500 a year for a comfortable lifestyle.

Although there's no limit to the number of years you can claim a State Pension. In April the full new state pension rose from £9,627 a year to £10,600. At £10,600 a year (for those who reached state pension age after April 2016). You may need to top this up with a personal pension or other means to cover more than essential costs.

How long will you need your pension?

When you're thinking about the kind of retirement lifestyle you'd like to lead, it would be sensible to make sure your pension pot is large enough to carry you through to your twilight years. The average 65-year old can expect to live for another 20 years, according to the latest government data. However, many people live much longer.

The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.



A new government bill is on its way for change to auto-enrolment

A new government bill indicates that a change to the automatic enrolment minimum age, and increases to workplace pension contributions, could be on the horizon. The purpose of the bill is to ensure that even more workers have easy access to a workplace pension scheme, enabling them to save towards their retirement and enjoy an income over and above their state pension.

Details of the bill

The Pensions (Extension of Automatic Enrolment No 2.) Bill has passed the second reading and is now at the committee stage.

The bill is to make provision about the extension of pensions automatic enrolment to jobholders under the age of 22; to make provision about the lower qualifying earnings threshold for automatic enrolment; and for connected purposes.

Lowering the age at which eligible workers must be automatically enrolled into a pension scheme by their employers from 22 to 18 will make saving the norm for young adults and enable them to begin to save from the start of their working lives.

In addition, the bill provides for the removal of the Lower Earnings Limit, supporting those with low earnings and multiple jobs by ensuring they are saving from the first pound earned.

Following the success of the Automatic Enrolment, the government intends to continue its work with thousands of employers and pension providers to further boost the amount of people in a workplace pension and the amount they save for retirement.

Addressing inequality with women's pensions

Women have historically lagged behind men when it comes to pensions and those not paying into a private pension. Finding themselves under prepared for their retirement.

In the past, many workers missed out on valuable pension benefits, because their employer didn't offer them a pension or they didn't apply to join their company's pension scheme. Automatic enrolment did help by making it compulsory for employers to automatically enrol their eligible workers into a pension scheme. The employer must also pay money into the scheme. This included those (who ordinarily work in the UK) aged between 22 and State Pension age who earn at least £10,000 per year. But it hasn't reached far enough and this bill is an exciting step forward.

Women have been less likely than men to have a private pension, despite the earlier auto enrolment rules. Perhaps missing out on workplace pension contributions when they are caring for children or elderly relatives, or not earning enough to qualify because they have one or more low paid job and often work part time.

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Advice on auto-enrolment pensions is not regulated by The Financial Conduct Authority.

When's the best time to retire?

There are many factors to consider when deciding the best time of year to retire and what you can do to boost your pension - it's often worth getting professional advice

There may even be financial considerations to bear in mind, if you are able to choose the time of year you retire and not just when. Depending on your circumstances, there could be tax advantages to retiring before the financial year ends. It could be important not to overlook any work benefits such as accrued holiday pay or bonuses.

A good time to retire may depend on your salary and the tax you already pay. If you are a higher rate taxpayer while still working, it could be beneficial to engineer your income to become a basic rate payer in the tax year you retire, either by the time of year you retire or additional pension contributions you may be able to make. Don't forget your pension will be classed as income.

Maximising pension contributions

Even if retirement isn't far away, there may be ways to increase your retirement income. If you have a private pension, it could make sense to maximise your pension contributions before you retire. You have an annual allowance of £60,000 as well as any unused allowance from the previous three tax years which can be 'rolled over' into the current year.

Annual inflation increase

If you have a defined benefit pension, did you know that the 2023 pension increase in April (for public sector workers) was 10.1 % (the highest rise we have seen in 10 years) and is likely to reach 8% for 2024. The pension increase is applied in line with the Consumer Price Index (CPI) for September to September prior to the following April. And yet public sector wages only rose by an average by 5.3% for April 2022-April 2023 which is almost half of the pension rise.

Annual Pension rise for public sectors workers and how it is calculated

Pensions in payment are reviewed every April in line with Treasury Orders. This review is called 'the annual Pensions Increase (PI)' and takes effect on the first Monday on or after 6 April every year. This year, the PI took effect from Monday 10 April.

Please note: Any pension which has been in payment for less than a year will be increased by a proportionate amount depending on the number of months it has been in payment.

Retirement

There are often many things to consider as you approach retirement. Whatever sector you work in, public or private; one of the important factors in retirement is that you have enough money to live how you want.

A good starting point is to review your finances to ensure your future income will allow you to enjoy the lifestyle you want. Don't forget about all the things you're looking forward to doing too.

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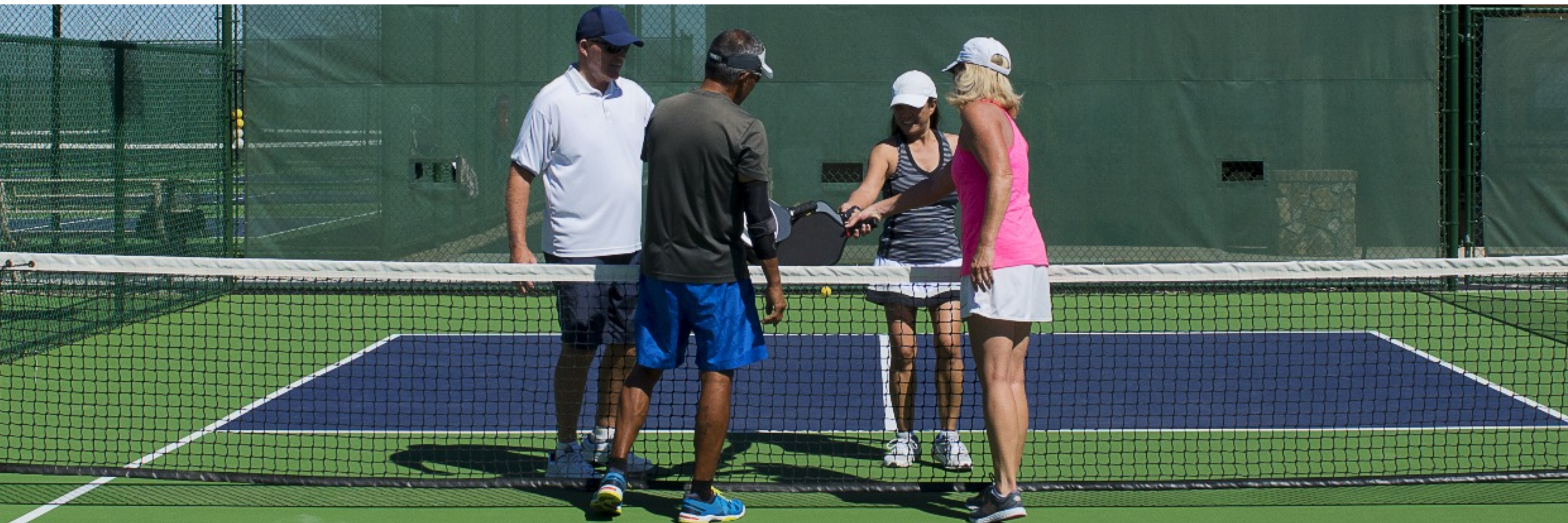
Tax treatment varies according to individual circumstances and is subject to change.



Making sure your savings are protected

In 2008 we saw banks collapse, although times have moved on, uncertain times may mean you worry more about your money. Knowing your money is safe is important and can give you confidence, even when times are tough.

The Financial Services Compensation Scheme (FSCS) was set up to protect customers of financial services firms that have failed. For example it would cover people's savings in the event that a bank were to go bust (like in 2008).

The main categories of protected savings are:
Current accounts, savings accounts, cash ISAs, small business accounts, some guaranteed equity bonds, some ‘deposit accounts’, cash saved within a SIPP (self-invested personal pension).

The FSCS protects 100% of the first £85,000 (or up to £170,000 for joint accounts) you have saved, per UK-regulated financial institution and not per account. It can get a little complex if your bank is part of a larger group, as sometimes the protection is split between each brand. The £85,000 was raised from £50,000 per person in 2019 but hasn’t risen since.

You can see if and how much of your money is protected by using FSCS bank & savings protection checker.
https://www.fscs.org.uk/check/check-your-money-is-protected/

Banks and building societies protection

If you hold money with a UK-authorised bank, building society or credit union that fails, the financial services compensation scheme (FSCS) will automatically compensate you.

-up to £85,000 per eligible person, per bank, building society or credit union.

-up to £170,000 for joint accounts.

FSCS will protect certain qualifying temporary high balances up to £1 million for 6 months from when the amount was first deposited. You don’t need to do anything – FSCS will compensate you automatically (if you qualify).

Temporary high balances

FSCS protects temporary high balances in your bank account, building society account or credit union account of up to £1million for 6 months. The protection begins from the date the temporary high balance is credited to an individual depositor's account, or to a client's account on an individual's behalf.

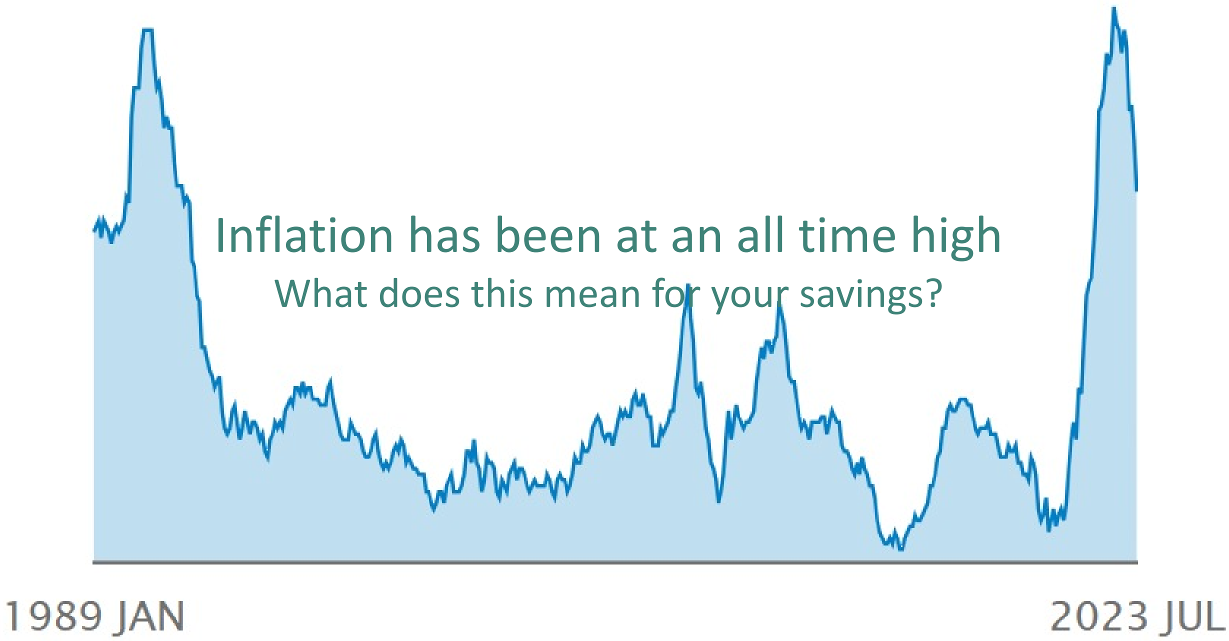
FSCS cannot confirm the eligibility of a particular temporary high balance unless/until a bank or building society actually fails. This is because they need to review all of the available evidence to check that there was a sufficient connection between the relevant life event and the sums in the depositor’s account.

Making the most of your money

Saving can be a good way to prepare for the future. There aren’t many risks and with an instant-access account, you can withdraw money if you need it.

The only problem with saving is that interest rates have been at an all-time low. And when your rate of interest is lower than the rate of inflation, your money will buy you less and less over time.

Inflation and your savings



Money held in savings accounts typically haven't grown much in recent years due to low interest rates. With high inflation we are now seeing an increase in interest rates (and mortgage rates) - in the Spring Budget of March 2023 the Government pledged to halve inflation.

Although savers welcome higher interest rates, higher inflation does mean your savings may be at risk of losing value in 'real' terms, since you'll be able to buy less with your money.

Why do interest rates rise?

Interest rates are set by the Bank of England (BoE) to help steady the economy. In normal circumstances, it considers raising interest rates to help put the brakes on rising inflation.

Higher interest rates make borrowing more expensive and it encourages saving which reduces how much people spend overall. This helps to push inflation down.
Britain has struggled with the surging cost of food, a shortage of workers to fill jobs and its heavy reliance on natural gas to generate power and domestic heating, all of which adds to inflation pressure.

How to protect your money?

Understanding the effects of inflation is crucial to knowing how much money you have in real terms. While it is essential to keep some cash in the bank for an emergency fund, savers might want to consider other options to make their money work harder, and protect their savings from inflation.

Consider investing over the longer term

Investing your money over the medium to long term may give you a better chance of beating inflation. That's because investments, such as funds, shares, bonds and other assets could give your money greater potential to increase in value over time.

Starting to invest may be easier than you think. Funds, can be an effective way to spread your risk. Funds are a ready-made basket of investments that save you having to choose individual investments, such as shares in specific companies. You can choose the level of financial risk you're comfortable with, and set the amount you would like to invest each month, then the fund will be managed for you.

It's important to note that any investment can fall in value, as well as rise, and you may get back less than you invest.

You need to be prepared for the value of your investments to fluctuate. But the longer your funds stay invested, the more potential your money has to grow - and recover from any setbacks along the way.

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