MARKLAND HILL WEALTH

INDEPENDENT FINANCIAL ADVISERS

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Your Window on
Wealth

SPRING 2022

Striking a balance this spring

As well as being a season of hope and renewal, spring is also viewed as the ideal time to declutter and reorganise. The last couple of years have taught us the importance of achieving balance in our lives – this extends to our finances too, making now an opportune time for investors to review and rebalance their portfolios to ensure investments remain aligned to their long-term financial goals.

Concerns surrounding inflation, rising interest rates and immense global political tensions have all combined to create a potentially disconcerting backdrop for investors during the early part of this year, as markets search for a stable footing. The good news is that many investors with long-term retirement goals tend to have time horizons that extend beyond inflationary cycles and any market volatility experienced is a normal investment phenomenon. History shows that investors who are patient and stick to their plans are more likely to achieve their financial objectives. Diversification is one strategy that withstands the test of time.

What now for the global economy? A *'disrupted recovery'*

The current mix of uncertainties has led the International Monetary Fund[1] to downgrade its global growth forecast when its latest economic musings were released in January. While the international soothsayer does expect the global recovery to continue in 2022, it is now predicting a 'disrupted recovery' with growth forecast to moderate from 5.9% in 2021 to 4.4% this year – half a percentage point below the previous forecast made in October.

Macro matters

Last year's gains in growth due to rebounding activity now appear to be behind us. Although the pandemic will continue to impact growth rates, the outlook for macroeconomic policy is likely to become increasingly critical. Indeed, the path of the global economy this year looks set to be largely shaped by central bank policies; specifically, their ability to keep inflation expectations anchored while allowing a supportive environment for growth.

Time to review your portfolio

With the investment landscape undoubtedly changing, now seems an opportune time to spring clean your portfolio to ensure your investments continue to work as hard as possible for you. We can arrange a review to make sure your investment strategy is firmly aligned to your current personal circumstances and that your portfolio is well-balanced, diversified, tax-efficient and inflation-proofed where possible.

[1] IMF, 2022

Tax year 2022/23 – get your ducks in a row

Effective tax planning strategies can help shield you from the chill this spring.

While there's minimal change in the operation and structure of the taxation of UK individuals, the 'no change' element is significant. Excluding the 1.25 percentage point increase to National Insurance and Dividend Tax rates from April 2022, while we await the new Social Care Levy, the big tax freeze is on. Stemming from the Spring 2021 Budget when most major tax rates, bands and allowances were frozen until 2025–26, freezing is often regarded as a stealth tax. Estimates from the Institute for Fiscal Studies suggest by 2025 there could be five million higher rate taxpayers, a 900,000 increase[2]; they summarise, *'Freezing things for a long period makes a big difference.'* By way of example, frozen allowances, growth in assets and accumulation of unspent income could see more people falling into the Inheritance Tax (IHT) net.

[2] IFS, March 2021

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INSIDE THIS ISSUE:

In the news // Taking positive steps to achieve financial freedom // Inheritance Tax reporting – in the know // Fund inflows notch up second-best year on record // Vast number of pensioners holding ISA savings in cash // Net-Zero Asset Owner Alliance boosts efforts on climate change // Pension wealth outweighs property wealth

IN THE NEWS

Cautious optimism over 2022 dividend growth

A recent report[3] has revealed a dramatic rebound in UK dividends in 2021, increasing 46.1% last year to total £94.1bn. This figure was boosted by a record £16.9bn in special dividends, three times the normal level. For 2022, the report expects underlying growth of 5% to bring total payouts to £81bn, with banks and oil companies expected to be the main contributors. Expectations are that special dividends are likely to be much lower this year. Despite headwinds such as inflation and new COVID variants, Managing Director of Corporate Markets EMEA at Link Group Ian Stokes believes, *"The recovery in UK dividends is not complete, but the easiest part of the catch up is now behind us… As the pandemic continues, it would be easy to take a knife to our expectations for dividends for the coming year. We are, however, cautiously optimistic that most sectors can deliver growth."*

Huge numbers risking a double tax hit on their pension

Data from the Financial Conduct Authority[4] shows that the number of pension pots accessed for the first time in 2020–21 totalled 596,080; the number fully withdrawn totalled 341,404. Only 33% of consumers taking money from their pension for the first time took regulated advice. People cashing in pension pots without taking advice could be putting themselves at risk of paying more tax, and those cashing in pots in one go could pay up to 45% Income Tax on part of their withdrawal, while also losing Inheritance Tax protection.

[3]Link Group, 2022, [4]FCA, Dec 2021

Taking positive steps to achieve financial freedom

When are you thinking of retiring? With many pre-retirees reassessing their lives and priorities in the wake of the pandemic, there really is a seismic shift for many people towards achieving life balance. People need a plan to flex with their changing aspirations - it's become more about living life rather than going through the motions of the daily grind.

With earlier retirement a serious consideration for many seeking balance, a quarter of Brits who aspire to retire early feel that age 60 is the optimum time to do so[5].

Embracing a new lifestyle

What really makes you happy? If you're planning to celebrate your 60th birthday by saying 'goodbye' to working life, it's good to know that 68% of people report an increase in overall happiness as a result of retiring early, with 44% of early retirees reporting their family relationships improved and 34% citing improvements in their friendships. From a health perspective, 57% of early retiree respondents report a boost to their mental wellbeing, with 50% believing their physical wellbeing has improved.

Driving force

Nearly a third (32%) of people who retired early or plan to do so are driven by the desire 'to enjoy more freedom while still being physically fit and well enough to enjoy it.'

Other factors driving people to pursue early retirement include financial security (26%), reassessing priorities and what's important to them in life (23%), wishing to spend more time with family (20%), finding they are either 'tired or bored' of working (19%). Stress is also a contributing factor that 19% of respondents are keen to irradicate.

Pause for thought

With a sizable 24% of people returning to work after retiring because they experience financial issues, careful planning is essential. Interestingly, 47% of retirees found that their finances worsened and only 22% felt they benefited financially from their decision to retire early.

Positive steps to financial freedom

People cite steps toward making early retirement achievable like paying off a mortgage (30%), saving little and often (29%), saving extra when they receive a pay rise or bonus (19%) and receiving an inheritance (14%).

We're here to reassure you that happiness doesn't need to come at a cost when retiring early. Although it's very important to be realistic, with meticulous planning and careful consideration, we can assess and develop a robust plan to align and flex with your changing requirements and priorities.

[5]Aviva, Dec 2021

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Inheritance Tax reporting – in the know

Keeping up to date with tax changes can be challenging and you may have missed this one in relation to the reporting of Inheritance Tax (IHT), especially as it's not something most of us will deal with very often.

Excepted estates
The changes came in at the start of the year and apply to the estate of anyone who dies on or after 1 January 2022. Now, before you make a report to HM Revenue and Customs (HMRC) you need to check whether the estate is an 'excepted estate' to make sure you complete the right forms.

There are several reasons why an estate may now be classified as 'excepted':

- The estate has a value below the current IHT threshold (£325,000 for one person)
- Any unused threshold is being transferred from a spouse or civil partner who died first, and the estate is worth £650,000 or less
- The estate is worth less than £3m and the deceased left everything in their estate to their surviving spouse or civil partner who lives in the UK, or to a qualifying registered UK charity
- The estate has UK assets worth less than £150,000 and the deceased had permanently been living outside of the UK when they died.

A step-by-step guide
Further details on how to value an estate for IHT and report its value can be found here www.gov.uk/valuing-estate-of-someone-who-died/check-type-of-estate

Thinking of your own IHT planning
More people are having to pay IHT; HMRC figures show IHT receipts for the period April 2021 to January 2022 to be £5bn, which is a £700m increase on the same period one-year earlier[6]. IHT planning is a complicated subject, but sensible financial planning can help to reduce the amount of IHT payable and safeguard your wealth for the future.

[6]HMRC, 2022

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Fund inflows notch up second-best year on record

Despite the pandemic, new stats from The Investment Association (IA)[7] show investors added over £43bn to funds last year, the second highest recorded. The IA details a key finding *'inflows to responsible investment funds totalled a record £16bn, up £4.3bn on 2020.'*

In December, net retail sales reached £2.3bn. Equity funds were the most popular asset class with £1bn of inflows, with 'global' remaining the best-selling sector for the seventh consecutive month.

Chief Executive of the IA Chris Cummings commented on the findings, *"Investors put their lockdown savings to work in 2021, with near record inflows to retail funds in 2021 helping investors take part in the global COVID-19 market bounce. This was particularly so in the first half of the year, when monthly inflows into funds peaked at £6.2bn at the end of the 2021 ISA season in April. While new variants of COVID-19 appeared throughout the year, every month of 2021 saw net inflows - against a backdrop of rising prices eroding the value of saving in cash."*

He continued, *"The return of significant inflation in the second half of 2021 indeed left its mark, with falling flows into bond funds, but overall investor confidence remained resilient. Growing focus on climate change in the year Glasgow hosted COP26 also helped take flows into responsible investment funds to new heights."*

[7]The Investment Association, 2022

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Net-Zero Asset Owner Alliance boosts efforts on climate change

With a pledge to reduce environmentally damaging emissions from portfolios by half by 2030 and to accelerate sustainable finance, the influential investor group Net-Zero Asset Owner Alliance has ramped up its commitment to tackle climate change.

The prominent investor group, comprising 70 large institutions, has pledged that member firms will aim to reduce emissions linked to their portfolios of investments by between 49 and 65% in the next eight years (to 2030), after including a broader range of carbon-intensive sectors within its target framework.

This new commitment expands previous plans targeting a reduction in portfolio emissions by between 16 and 29% across listed equities, publicly traded corporate bonds and real estate assets by 2025. The newly expanded framework now includes sectors where carbon emission reductions are more challenging to achieve due to production methods, including agriculture, chemicals, water, concrete and aluminium, along with new asset class – infrastructure equity and debt.

Vast number of pensioners holding ISA savings in cash

An alarming set of data has come to light. Over three million pensioners are holding all of their ISA savings in cash![8]

The analysis highlighted that during the most recent year for which figures were available (2018–19), there were 5.8 million over-65s holding ISAs, valued at just over £305bn in total, the average amount held was £52,500. However, 3.4 million of these were holding an average of £25,383 exclusively in cash ISAs, with a total amount of £87bn sat in these vehicles.

With very few of these 3.4m pensioners likely to be earning interest of more than 1%, and many considerably less, former Pensions Minister Steve Webb commented, *"Whilst holding small amounts of cash in an easy access account can be convenient, these figures show that huge amounts of money are sitting rotting in cash ISAs. Inflation is like a tax on savers. With inflation soaring, the spending power of cash savings is being savagely reduced. Many instant access cash ISAs pay little or no interest and runaway inflation will take a huge chunk out of the value of these savings."*

He continued, *"Older savers need to consider urgently whether keeping their money in these cash accounts is the best way to protect their hard-earned savings, especially when the real value of their State Pension is also being squeezed."*

[8]LCP, Freedom of Information, 2022

Pension wealth outweighs property wealth

New data from the Office for National Statistics (ONS) Wealth and Assets Survey[9] has revealed that the largest single component of household wealth is private pension holdings.

In the latest recorded period (April 2018 to March 2020) pensions represented 42% of aggregate wealth, up from 34% (2006-08), an increase in pension wealth of nearly £70k on average for UK households. This growth can be attributed to various factors including more households having private pensions due to auto-enrolment and rising longevity meaning pension savings have increased proportionally. Meanwhile, property wealth (minus mortgage debt) made up 36% of household wealth; financial wealth, or savings or investments, made up 13%; and physical wealth, such as cars and house contents, totalled 9%.

Underlying wealth per household for the latest recorded period was £302,500 at the median or midpoint level, which is up from £286,600 in the previous two years, and up by a fifth over the past 14 years, when adjusted for inflation.

Age inequalities

The data also shows median wealth was highest for households where a member was aged between 55 years and State Pension age; the figure of £553,400 being 25 times higher than for those aged 16-24 years of age. The wealthiest 10% of households held 43% of all the wealth, whereas the bottom 50% held only 9%.

[9]ONS, 2022

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