WREN STERLING

Winter 2023/24

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Welcome to the Winter edition of Money Matters

I hope you've enjoyed the festive period with your loved ones and had the chance to reflect on 2023 and decide where you want your money to take you in 2024.

For this edition, we decided to wait until after Christmas to release the magazine, as there's a helpful piece on tax planning opportunities ahead of us leading into the end of the 2023/24 tax year in April.

2023 was an up and down year for the financial markets but our group discretionary fund management business was pleased overall with progress in 2023. Rory McPherson, MFDM's (or Magnus, as we've recently renamed it to) Chief Investment Officer looks ahead to 2024 and what investors should be looking out for.

2024 appears likely to be an election year in the UK, so expect taxation to be extremely topical. Rest assured, we will be following every move and talking to clients about what it means for them. We're helped in this respect now by KPMG, one of Wren Sterling's strategic partners, who have dug a little deeper into the Autumn Statement for you.

Elsewhere, there's a piece for business owners and company directors on the impact of upcoming auto enrolment changes, and an article from our Head of Later Life Advice, Clive Barwell, on planning as a family.

Finally, if you have yet to register for Wren Sterling's Personal Finance Portal, now is an ideal time. Security is of paramount importance to Wren Sterling and I would strongly encourage you to spare a few minutes to make sure you're signed up and sending and receiving your important documentation in the most secure manner available.

All my very best wishes for 2024 and thank-you for choosing to be a client of Wren Sterling.

James Twining,
Chief Executive Officer
Wren Sterling

Investments in 2024: The X Factor

Rory McPherson, Chief Investment Officer of Magnus, Wren Sterling Group's discretionary fund management business explains why he believes elections give us clues on how monetary policy will affect investments in 2024.

Rory McPherson,
Chief Investment
Officer, Magnus

Don't worry, titling this article 'The X Factor' isn't the start of a campaign to bring back the so-named reality TV show, nor is it a platform for showcasing my (one and only) 2023 Christmas board game triumph!

The "X" symbolises the ballot box entry of the forty countries next year that will be participating in national elections. Our view is that in the race to get elected, politicians will look to turn a blind eye to the burgeoning debt piles accumulated in the last few years. Tackling the debt burden (through higher taxes and decreased spending, or austerity) would not be a vote winner.

In a year of elections, it may well be that inflation turns from "sinner" to "saint"; gently chipping away at the debt pile over time. To us, this makes the case of a vote for investments over cash; which we see struggling should interest rates be cut to support growth and stoke up the economy.

> Our view is that inflation will remain sticky and will remain above the Bank of England's target.

Politics is something of a popularity contest and capturing the most votes is the name of the game. With much of the world still in the midst of a cost-of-living-crisis, it seems unlikely that we'll be putting an "X" in favour of higher taxes and decreased government spending! This makes perfect sense but creates a problem for the politicians who need the tax revenues to chip away at the debt mountains that have been built up over the last few years. The answer, in our view, is to let inflation do the dirty work for them (the politicians) and let the debt piles and deficits be gradually eroded away by inflation. This will put pressure on savers, but should generally be good news for investment markets whose returns can outpace inflation.

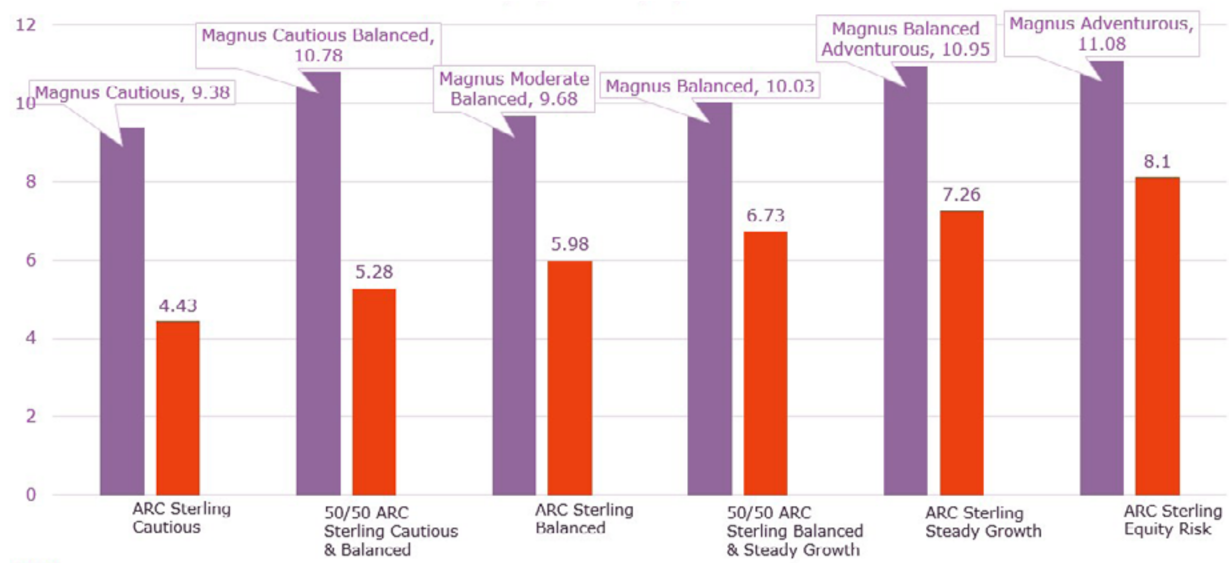
Before we unpack this in greater detail, we should first re-cap on the events of last year. 2023 saw a slew of negative news headlines. From "war in Israel and Gaza" (2023's most Googled term) to fears of a global banking crises and global recession.

Bad news clearly sells best in the media, but, atrocious and tragic though it was on a humanitarian level, much of it was less bad than feared in terms of its impact on investments. Inflation came down faster than expected, growth was better than expected and the global recession never came.

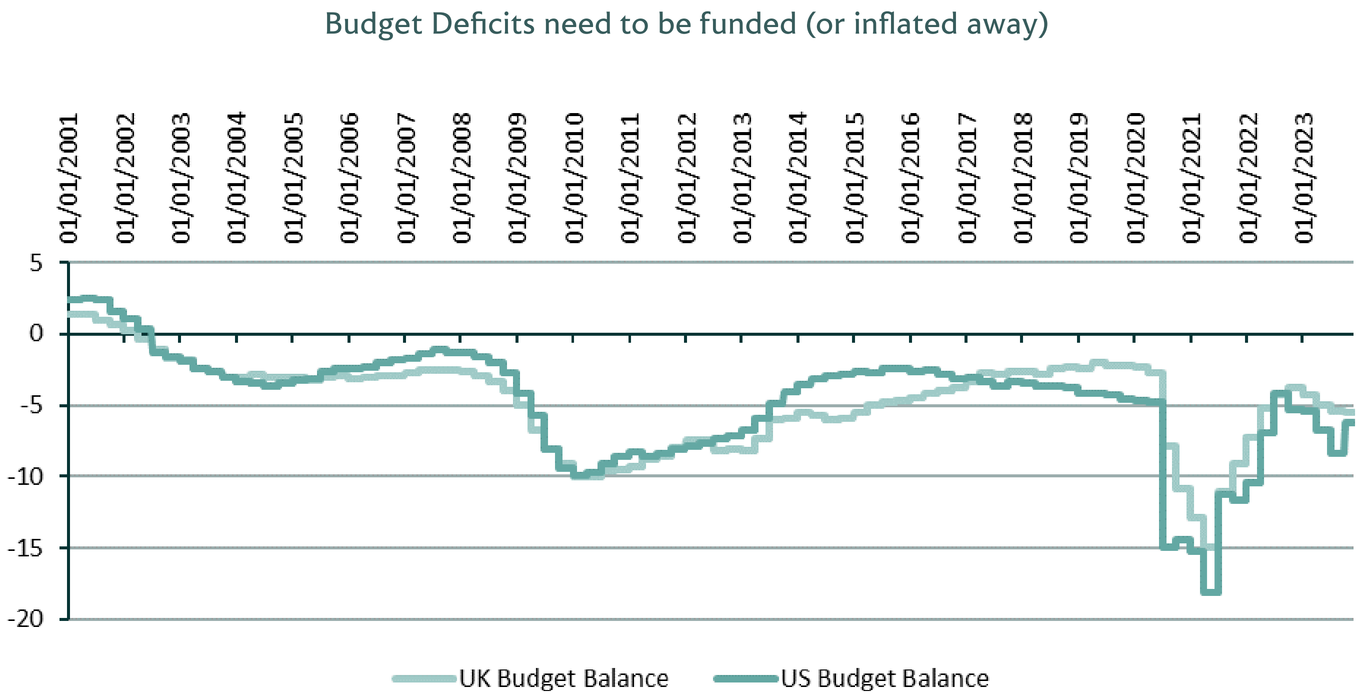
Strong Magnus MPS Performance in 2023 Relative to ARC Comparators

Total Return, %, Net of Weighted Underlying Fund Charges

31/12/2022 - 31/12/2023



Source: FE Analytics/ARC. The Moderate Balanced Portfolio relies on simulated performance data due to the model having recently launched on 27/02/2023. Performance is based on 50% Magnus Cautious Balanced and 50% Magnus Balanced portfolio performance. Data is gross of DFM, platform and adviser charges. Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.



This set the tone for some excellent performance for investment markets and the Magnus portfolios in particular. In fact, returns for the Magnus Portfolios ranged from 9.4% to 11.1%, with all of our portfolios being strongly ahead of their respective peer groups.

Much of our outperformance last year came from not "voting with our feet" and resisting the temptation to jump in and out of different investments and a preference to stick to our long-term plan.

As we look forward to 2024, it's impossible to not talk about those 40 National elections. If we narrow our focus to the UK (our home market) and the US (the world's biggest economy), we observe some common characteristics or "problems" for our Politicians:

Record high debt levels

- US total public debt is running at over $33 trillion
- UK government debt is running at over £2.7 trillion

Big Budget deficits

- Both these countries are running budget deficits: i.e. they are spending more than they are earning (through taxes).

Unfavourable demographics

- Put very simply, people are living too long and not being replaced fast enough. UK life expectancy is 82 and less children are being born each year (1.75 births per woman).. UK life expectancy is 82 and less children are being born each year (1.75 births per woman). This makes for a smaller working population which means less tax-take to fund the deficit (which itself grows cos of the higher pension burden of the larger share of older people in the population).

I should point out, that this is in no way a swipe at older people! It is more an acknowledgement of the situation the politicians face in a year that is set to be particularly political. They also need to balance the reality that older people are more politically active too.

As the chart below shows, budget deficits are a common feature of many developed countries: with the UK and US shown below. This is economics 101: try not to spend more than you're earning! The challenge for the Politicians is that earning more (higher taxes) or spending less (less public services like pensions/ schools etc) are not vote winning strategies.

The idea of budget deficits is not new. Deficits were being tackled by austerity, which was the "go-to" solution in a world without inflation (UK inflation averaged 1.6% in the 8-year period running up to the COVID-19 pandemic).

The pandemic then saw spending like we'd never seen before. Globally, there was c.$16 trillion of stimulus money created and injected into economies to help "fight the war" on Covid, with the US economy seeing the biggest jump (27% in 1 year) in its money supply ever. These numbers probably sound big but they might get lost under the banner of technical mumbo-jumbo. In perhaps more relatable terms, $16 trillion is equivalent to 4.5 towers of US dollar bills stacked up from the earth to the moon! A massive stack of money!!

This idea of creating money to fight a war chimes with prior periods in history. Often, the answer has been using inflation as a chisel to work away at the debt pile. Inflation at 11% (as it was in October 2022) is politically unacceptable, whereas inflation at 3% is much more palatable. Politicians and Central Bankers talk down inflation when it is high, but our view is their tone will quieten as inflation softens. Targeting a balance where cash rates are lower than inflation (which itself is also lower) will mean that debt servicing costs (for governments) reduce whilst the debt pile is simultaneously being whittled away by inflation. It has worked before and it may well work again!

Our view is that inflation will remain sticky and will remain above the Bank of England's target. Granted it has come down markedly in the last year (from 11.1% in October 2022 to 3.9% today), but our view is that the path down to 2% will be long and lumpy. At the same time, we don't believe we're out of the woods yet on recession; the "piggy banks" built up during Covid have been well and truly spent down and the consumer is now feeling the pinch of higher rates. This paints a gloomy picture, but it doesn't need to be. The key points here are:

1. Interest rates are at levels from which they can quickly be cut.

This sounds an obvious thing to say, but with interest rates being at their highest level in 15 years and having been hiked at the fastest rate in over 30 years, there is now plenty of room to cut them if the economy stalls.

2. Companies have already priced a recession in.

Stock markets are forward looking and are (in many cases) trading at valuations which reflect a mild recession. Furthermore, many of them have prepared for recession by cutting back on staff or ordering less stock. Companies are leaner and meaner.

3. Consumers are generally in good shape.

UK consumers are feeling the pain of high taxation and high mortgage rates. This affects spending and confidence. The good news for us is that the US consumer is in much better shape! The US is the world's largest economy and comprises nearly 70% of the global stock market, with the US consumer making up c70% of US economic growth. The ability to transfer in and out of mortgages (so long as one doesn't move house) means that over 95% of US mortgages have been "locked in" at lower rates, such that the effective rate of interest on US mortgages (at 3.7%) is significantly lower than the 20-year average rate (4.3%).

Lower interest rates are also great news for companies (it's like an oxygen mask dropping from the ceiling) as they can borrow to grow, but bad news for savers; especially when combined with above-target inflation.

The news in 2024 will have some surprises, but one thing for sure is that there will be considerable focus and attention on which box the X is being placed in each of the 40 countries hosting elections.

The pollsters will get very excited about where sentiment is swinging, (cynically we'd say that every winner inherits the same problem and there isn't much scope for differentiation). When it comes to investments, having the X factor will mean owning those assets that can grow over and above inflation and benefit from the lower interest rates we expect to see. These sorts of investments form the backbone of the Magnus portfolios we've chosen on behalf of our clients, so we believe we're well equipped to weather election season in 2024.

MAGNUS
DISCRETIONARY FUND MANAGEMENT

You might have noticed a change...

You may have noticed a change of name here. Rory is still Rory, but we've changed MFDM to Magnus. MFDM was a name inherited from the business we acquired, where MFDM made sense to them and their clients. However, we want to bring it in line with the rest of the Wren Sterling Group, so at the start of 2024 we switched the name over. The Magnus website is now magnusfdm.com

Protecting your confidential information with Wren Sterling's Personal Finance Portal

Linda Payne, Chief Operating Officer, Wren Sterling

According to the Office of National Statistics, people are more likely to fall victim to fraud or cyber offences than any other crime. As your financial adviser, we take our own responsibilities to protect your data extremely seriously. This is why, for example, we provide cyber security training for all our employees every month, to reduce the risk of inadvertently falling victim to a scam or phishing attack.

To further protect our clients, we have now invested in a new Wren Sterling Personal Finance Portal ("PFP"). This has been specifically designed to enable the safe and secure transmission of personal and financial data between us and we are encouraging all our clients to sign up to it.

Helping you stay safe

The PFP enables safe and secure messaging and document sharing between you and your financial planner. Essentially, every time we have an important or sensitive message to send you, we will publish it in your customer account. This will then trigger an email alert, enabling you to log in to the PFP and retrieve the message. Similarly, your financial planner will get an alert when you post a message.

Registration is incredibly easy and takes only a few minutes. You simply need to go to wrensterlingfpltd.mypfp.co.uk and type in your name and your email address and then follow the instructions.

While we are encouraging all our customers to sign up, at this stage registration is optional. However, we will in time be moving to this being the only way in which we're able to share sensitive documents and information with clients. This is in line with best practice across the whole financial industry and is something that most clients are increasingly used to and indeed expect, from responsible companies handling sensitive data.

Other features and benefits

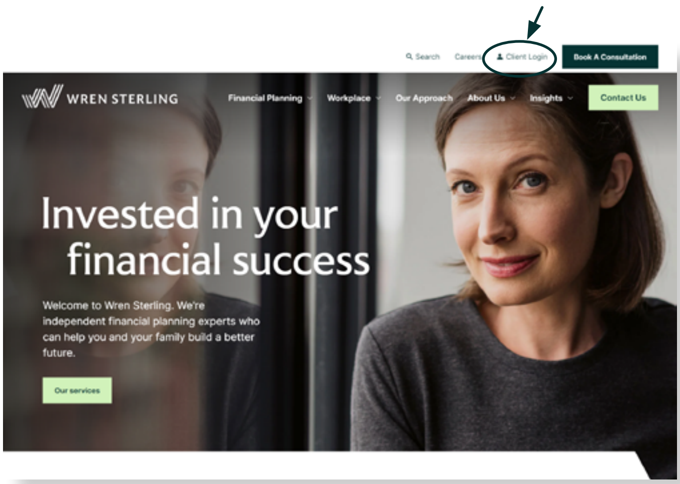
As well as the security benefits of the PFP, it also brings other advantages. For example, once registered, you will have 24/7 access to your plan details, real-time fund information, client documentation and more on any web-connected mobile or web device, giving you instant access and greater control of your own finances.

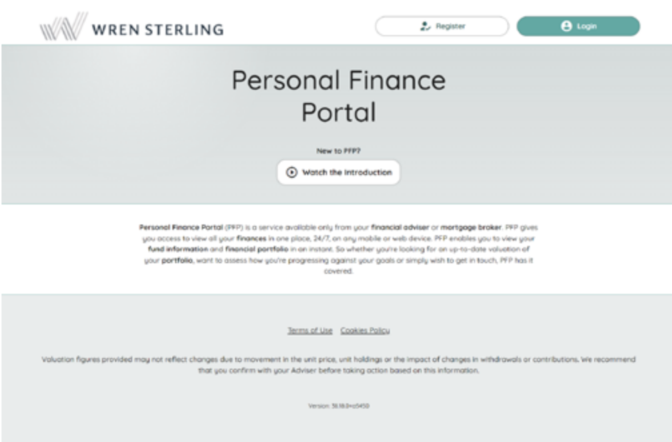
It will also enable you to update any of your own information, whenever it suits you, rather than be restricted to business hours.

Getting started

To register for your PFP account today, please go to wrensterlingfpltd.mypfp.co.uk

Help is at hand if you do encounter any issues, by contacting your financial planner.





Tax planning in 2024

Jamie Richards,
Director, Technology &
Innovation Lead, KPMG

With 2023 behind us, the dust has now settled on the Autumn Statement published by the Chancellor back in November last year, and all eyes look to the future.

But with the tax return deadline of 31 January swiftly approaching, and the new tax year just around the corner on 6th April, we thought it would be useful to recap the key changes announced in the Autumn Statement 2023 and highlight some actions that might warrant some consideration over the coming weeks and months.

Autumn Statement Recap

On 22nd November 2023, Chancellor of the Exchequer Jeremy Hunt delivered the Autumn Statement, outlining the government's economic plans for the United Kingdom. Whilst there were perhaps fewer major announcements than one might have expected based on the advanced press speculation (and with key focuses seemingly being stability and an easing of tax administration), there were nevertheless some important changes from a personal tax perspective:

National Insurance - employees

The most significant announcement for individuals was the reduction of the main rate of National Insurance Contributions (NICs) from 12% to 10% from 6 January 2024 on any earnings between £12,570 and £50,270. This reduction is expected to benefit both employees and employers, as it will increase take-home pay for workers and reduce labour costs for businesses. Practically, this means that any individuals earning in excess of £50,270 per annum will see their take home pay increase by £754 per year (or just shy of £63 per month).

National Insurance – self-employed

National Insurance paid by self-employed individuals, including partners in a partnership, will also be reformed. Class 2 contributions (currently £3.45 per week) will be abolished altogether, and Class 4 contributions will decrease by 1 percent to 8 percent from 6 April 2024.

Extension of Venture Capital Trust and Enterprise Investment Scheme

Whilst not strictly ‘a change’ – the Autumn Statement provided welcome confirmation that the Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) will be extended and will continue to be available until April 5, 2035. These schemes provide tax relief (including income tax relief of up to 30% of the qualifying investment amount) to investors who invest in small and medium-sized businesses. The extension of these schemes is expected to encourage investment in earlier-stage fast-growth businesses, with the aim of stimulating economic growth.

Changes to Individual Savings Account Rules and Pension Reforms

The limits for Individual Savings Accounts (ISAs) will remain the same for the 2023-24 tax year. However, there will be some changes to the rules governing ISAs. These have not been outlined in detail but should provide added flexibility for usage.

Similar reforms will also be implemented for pensions, including making it easier for multiple occupational pensions to be merged into one pension.

The importance of managing your tax return correctly

If last year is anything to go by, then there’s a 50:50 chance that you might still have the submission of your tax return on your new year ‘to do’ list - as almost 50% of taxpayers didn’t file their tax return until January[1] last year, with 800,000 people leaving it right to the last minute and filing on 31 January, and some 600,000 individuals missing the deadline altogether[2].

> But your tax return doesn’t need to be all doom and gloom. In fact, it’s estimated one in six people actually overpay tax to HMRC.

So, if you’re feeling virtuous right now, you can kick-back but, if you’re in the 50% of people with your UK tax return still requiring attention, then read on to ensure you avoid some of the common pitfalls and mistakes.

Getting it in on time

If you’re required to submit a tax return, then failing to get it in by 31 January will see you landed with an initial **£100 late-filing penalty**.

If the return is more than 3 months late, then additional daily penalties kick in, and you’ll be charged £10 per day for a maximum of 90 days. If this extends to six months, then an additional ‘tax-geared’ penalty will arise (which will be the higher of £300 or 5% of the tax due), a further £300 or 5% of the tax due (whichever is higher) will be applied if the return is more than 12 months late.

Paying your liability on time

If you file a tax return, then you’ll also have to pay your tax liability by 31 January (and may also be required to make

1 gov.uk/government/news/almost-57-million-customers-still-to-file-their-tax-return
2 icaew.com/insights/tax-news/2023/feb-2023/record-numbers-file-self-assessment-tax-returns-on-time

'payments on account' of your tax liability by 31 July). And like failing to file your return on time, failing to pay your tax liability by the relevant due date will also carry penalties... so maybe set yourself a calendar reminder now!

Late payment penalties for income tax are as follows:

After payment is 30 days late	5% of tax outstanding
5 months after above charge (6 months late)	A further 5% of tax outstanding
6 months after above charge (12 months late)	A further 5% of tax outstanding

Making sure you return is accurate and complete

It's important to make sure your return is accurate and complete, and that you have reported all your income and gains to HMRC – whether that's your earnings from employment, investment income from a buy-to-let portfolio, bank interest, or capital gains and dividends on an investment portfolio, it's important that your tax return is complete to avoid the risk of penalties for errors.

And, for most UK tax-resident individuals (the exception being non-UK domiciled individuals claiming the remittance basis), tax is payable on overseas income and gains – and so it's important any foreign income is reported to HMRC too.

Claiming all the reliefs your entitled to

But your tax return doesn't need to be all doom and gloom. In fact, it's estimated one in six people actually overpay tax to HMRC[3] – and so claiming all your allowable expenses and the reliefs to which you are entitled should be a key part of your tax return.

One of the most overlooked areas is where individuals top up their pension and fail to claim the tax relief to which they are entitled. Indeed, PensionBee estimate that some 4.5m taxpayers are failing to claim the relief to which they are entitled on their pension top-ups[4], which is estimated to be worth over £750m per annum. This equates to approximately 80% of higher-rate and 54% of additional rate taxpayers who are eligible to claim relief through their self-assessment tax returns but have failed to do so.

Another common area that is left forgotten is tax relief on charitable donations. According to research published by HMRC in 2018, 25% of donations eligible for Gift Aid were not claimed, equating to up to £560m of potential missed tax relief[5].

The challenges of record-keeping

And that last section brings us to one of the biggest challenges individuals face with self-assessment – and that is one of record-keeping. A third of people report looking for their receipts and records as the most onerous and time-consuming aspect of completing their tax returns.

But as we've seen, failing to do so, could leave people failing to claim the reliefs to which they are entitled and paying more tax than they owe... so perhaps a new year resolution for some could be to maintain better tax records, to make next year's tax return, just that little bit easier!

Tax year-end consideration

Whilst we're still only in January, the end of the tax year (5 April) will soon be upon us. And with this in mind, it's important to take some time to consider actions that should be taken before the year is out. By taking advantage of certain allowances, reliefs, and exemptions, you can potentially reduce your tax liability and maximize your savings. Here are some key considerations to keep in mind as you plan for the end of the tax year.

3 One in six overpay HMRC due to tax return errors - Which? News
4 Higher & additional rate taxpayers missing out on tax relief (pensionbee.com)
5 Charitable giving and Gift Aid research - GOV.UK (www.gov.uk)

Income tax – utilising allowances and lower rate tax bands

One key consideration should be making the best possible use of the allowance and lower rate tax bands available to you. A key point to consider is whether your personal allowance may be 'abated' (reduced) if your income is over £100,000. This can result in an effective rate of tax of 60%, or in some cases considerably higher still in extreme circumstances[6] for those claiming tax-free childcare or 30 free hours of childcare, but can potentially be managed through pension contributions and charitable donations in some cases.

Couples who are married or in a civil partnership might also want to consider transferring investment assets between themselves to ensure they're held by the individual who pays the lower rates of tax.

It's also a good time to think about making any charitable donations which you've been considering.

Capital Gains Tax

The annual exempt amount for Capital Gains Tax (CGT) is currently £6,000, but is set to reduce to £3,000 from 6 April 2024. So making use of this allowance whilst it's available should be a key consideration at this time of year.

Depending on their personal circumstances, individuals could consider realising gains to utilise the annual exempt amount or delay disposals until the next tax year.

Couples may want to consider transferring assets to their spouse/civil partner to utilise their annual exempt amount or lower tax bands.

Finally, whilst there are complex rules which prevent you selling shares and immediately buying them back for tax reasons, but in right circumstances, individuals may want to consider selling shares and reacquiring them via a SIPP or ISA to utilise their annual exempt amount but still retain the shares.

Making use of investment allowances

The countdown to the 5 April is the perfect time to ensure you're making best use of your investment allowances. Actions to consider could include maximising the use of your pension annual allowance (generally £60,000 but this is an area with lots of complex rules) and ISA investment limits (£20,000 for adults).

Gifting

Parents and grandparents may want to consider making provisions for children or grandchildren. As an alternative to cash gifting, contributions can be made on behalf of minor children to Junior ISAs of up to £9,000 per annum or cash contributions to a junior pension of £2,880 (which is 'grossed up' to £3,600 by the pension provider, by claiming basic rate tax relief back from the government).

Aside from these exemptions, there are various inheritance tax gift exemptions to consider including the £3,000 annual exemption (which applies in total to all gifts made) and the small gifts exemption of £250 (which applies on a 'per recipient' basis). Individuals looking to make longer-term provision for family members, may also want to take the opportunity to consider establishing a habit of making 'regular gifts out of income.

Closing thoughts

Whilst it might not be top of your 'to do' list, the start of the new year is a perfect time to be thinking about tax. And with a general election on the slate for 2024 and the uncertain political future (and uncertain tax environment) that brings, making sure your being proactive in managing your personal tax affairs, and putting yourself on the best possible footing for the future is of key importance.

To access KPMG's services at Wren Sterling's preferential rates, please contact your financial planner.

KPMG is one of Wren Sterling's strategic partners. KPMG's tax return service is available to clients on Wren Sterling's Complete service promise and a 20% discount is available to all clients who receive ongoing advice from Wren Sterling.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

6 taxpolicy.org.uk/2022/10/04/marginal/

Retirement planning investment opportunities in the current tax year

Warren Bentham,
Chartered Financial
Planner

Warren Bentham, a Chartered Financial Planner in our Wilmslow office, expands on the opportunity for people saving for retirement to maximise their levels of saving in the current tax year.

Making the most of your allowances is the cornerstone of financial planning. Typically, once they're gone, they're gone, so it's important to check you're not missing out.

Personal Allowance & Income Tax Planning Using Pension Contributions

For anyone paying higher or additional rates of tax, an effective pension contribution strategy could help you to maximise available tax reliefs on payments made, as well as potentially lowering your effective marginal rate of income tax and even regaining any lost personal allowance as a result of your level of earnings.

This example shows the effect of an individual with expected gross earnings of £120,000 making a one-off £20,000 gross lump sum pension contribution:

	No pension contribution	£20,000 gross payment
Personal allowance	£2,570	£12,570
Income tax payable	£39,432	£31,432
Net pension contribution made	£0	£16,000
Net income available (ignoring National Insurance payments)	**£80,568**	**£72,568**

This person could make a gross payment into their pension of £20,000, with a reduction in their net take-home pay, after the net pension payment, of only £8,000. This is through basic rate tax relief received at source of £4,000 and the further reduction in their personal tax liability of £8,000 as a result of the higher rate tax relief due and the regaining of £10,000 of their personal allowance. This results in an immediate effective return of £12,000 (equal to 150%) within their pension, even before any investment growth is considered.

The Annual Allowance

The maximum amount you are able to contribute into your pension and receive tax relief is dependent on your available Annual Allowance.

The standard Annual Allowance limit was increased from £40,000 to £60,000 per annum for most individuals at the start of the current tax year. However, this is tapered down to £10,000 for very high earners and limited to £10,000 for those who have flexibly withdrawn taxable benefits from their pension schemes. If you have not fully utilised your Annual Allowance limits in the previous three tax years, you may be able to carry forward any unused allowance to permit a total contribution of up to £180,000 in the current tax year.

Please note that in order to make the maximum calculated contribution level on a personal basis, you would need to have "relevant earnings" of at least this amount in order to be able to claim tax relief on the gross contribution made. This restriction does not, however, apply for contributions made by your employer.

It is important to review your existing pension planning strategy in line with any changes in your level of ongoing income and in light of the above restrictions, as you may need to adjust your level of retirement contributions to make better use of all of your available allowances and to ensure that you do not incur any unnecessary tax penalties.

Pension Lifetime Allowance Limits

Following the removal of the Lifetime Allowance (LTA) Tax Charge from April 2023, there is no longer a limit on how much you can accrue tax-efficiently within your retirement portfolio. However, unless you hold certain LTA protections, the level of tax-free cash you can withdraw from your pension pots is still limited to a total of £268,275, and any balances withdrawn above this amount would be subject to income tax at your applicable marginal rate of tax.

Despite the limitations in the level of tax-free cash you can withdraw, there are several reasons for accruing further funds within your pensions:

1. Tax relief is received on contributions made into your pensions. If you expect to pay tax at a lower rate in retirement, you could benefit from making additional contributions prior to retirement, even if these payments are subsequently withdrawn within a short period of time.
2. As with ISA holdings, the growth achieved within your pension funds is accrued free of both income tax and capital gains tax, with tax only potentially becoming due at the point at which your funds are withdrawn from the pension wrapper.
3. In the event of your death prior to age 75, any benefits paid to your beneficiaries would normally be available to them tax-free. After age 75, these benefits can still be paid to your beneficiaries, however, they would incur income tax on the withdrawals at their marginal rate of income tax.
4. The value of your pension assets would not normally form part of your estate for IHT purposes in the event of your death. As such, any additional contributions made to your pension plans could potentially reduce the value of your taxable estate for IHT purposes.

Remember

The goal of effective tax planning is to arrange your financial affairs to legitimately minimise the amount that you, or your family, will pay in taxes, both now and in the future, ensuring that you are best placed to meet your financial objectives.

Volatile stock market activity should not put you off making the most of the tax breaks that come from utilising your various ISA and pension allowances. It is important to remember that investing is for the long term and, while not guaranteed, it is possible that larger than average gains could be made during the markets' more turbulent periods.

How to introduce younger generations to financial planning

Financial planners grow their business through referrals, so we're always delighted to talk to a prospect about what we can do for them. However, a referral is all too often a "distress purchase" – that point in someone's life when the penny drops that they may need some professional help with a problem – which may then be too late to do much about it.

Clive Barwell,
Head of Later Life Advice
Wren Sterling

When we think about younger generations, we want to fill them with our financial wisdom, gleaned from years of finding out the hard way, but that doesn't always work, of course!

This article touches on some of those lessons, so if they only listen to a couple of things, hopefully these are those things.

Setting goals

Our lives are a financial journey and financial planning is the route-finder and navigation system for that journey. Often, when I meet a new client, I am reminded of the famous exchange between Alice and the Cheshire Cat, as visualised by Lewis Carroll:

> **Alice**: "Would you tell me, please, which way I ought to go from here?"
> **The Cheshire Cat**: "That depends a good deal on where you want to get to."
> **Alice**: "I don't much care where."
> **The Cheshire Cat**: "Then it doesn't much matter which way you go."
> **Alice**: "So long as I get somewhere."
> **The Cheshire Cat**: "Oh, you're sure to do that, if only you walk long enough."

This has been particularly pertinent when I have been introduced to someone who is about to retire. I have no doubt there would have been a significantly better outcome if that referral had been earlier in that particular financial journey!

Bank on the efficiency of markets

When we consider younger generations, if they start early enough and pay in a sensible amount, they may find the investment markets take care of the rest, avoiding a cliff-edge moment in later life or working when they could be enjoying other aspects of life. Again, this comes from the perspective of having reached an age when I've seen the value of that, but there are other ways to illustrate it other than personal experience.

Let's look at the State Pension to see how much more might need to have been saved to have a reasonable retirement. What is that for someone aged 66 today, qualifying for the full State Pension of £203.85 per week but needing a net income of £2,000 per month to maintain their desired lifestyle?

Using Legal & General's annuity calculator, a fund of £253,268 would be needed to provide the necessary, guaranteed income for life. Even then, whilst the State Pension will increase, the annuity won't, so the real value of the income will decline over the years. For context, £253,268 is over 3½ times more than the average pension pot of £69,481 at retirement, according to research undertaken by Finders.

Many of our children and grandchildren of working age will be saving through a Direct Contribution, often Auto enrolment, Pension and a report from the Pension Regulator, based on 2021-22 statistics stated:

> "Almost all people saving in a workplace pension scheme are invested in the default fund of their pension scheme and have not personally chosen how their pension is managed or invested. For most pension savers, engagement with pension products and financial literacy is very low."

Understanding more and making personalised decisions

One such area of engagement that could really benefit younger generations is the funds their pension invests in. Tweaks at a younger age can make a huge difference at the time they come to draw their pension. The "default fund" is, by definition, a one-size-fits-all approach. The chart on the following page shows the difference in the longer-term outcome of a lower risk (IA 0-35 Share Index) and a higher risk (IA 40-85 Share Index) and, consequently, the pension pot at retirement.

With our help, being in the right fund at the right time is more likely to be the outcome. This causes us to have a conversation about "risk" – perhaps the most misunderstood term in financial planning. The bigger risk, as this chart shows, is often in doing nothing.

Clarity through visualisation

Identifying the right level of risk and therefore whether moving away from a default fund is helpful for clients but financial planning can feel dry or irrelevant if it's not truly personal, so that's where Cashflow Forecasting comes in.

We take a snapshot of your current financial situation, add a specific financial goal, and then demonstrate what steps need to be taken to successfully achieve that goal. That initial analysis assumes that everything goes according to plan but what happens if something unexpected occurs to derail the journey? By adding "what-if?" to the forecast, we can see what the impact may be and then consider what further action is needed to avoid that potential disruption.

Taking quick and easy steps to financial protection

It's unusual to meet a new client of working age who doesn't have life assurance; even those with no financial dependants. However, it is rare for that same client to have Income Protection or Critical Illness cover, which statistically, are more likely to benefit them.

For fit, healthy, non-smokers, life assurance is cheap, but it's cheap for a reason – the insurance company doesn't expect to pay out! Royal London, the largest mutual life assurer in the UK, suggests the following for a single male aged 30 retiring at age 68.

- 5% chance of dying
- 21% chance of critical illness
- 29% chance of being off work for more than 2-months

Of course, for clients with financial dependants, we would recommend adequate life assurance, in case the unthinkable happens, but Income Protection and, possibly, Critical Illness Cover may be of more relevance to prevent the derailment of the financial plan.

Making the financial argument for advice compelling

Of course, we would always say the peace of mind that comes with financial planning makes it worthwhile, but we also understand the pressures of paying for a mortgage, schooling, pension and everything else that comes with being younger. The good news is that time is on their side.

That's one of the reasons that we have recently reduced our minimum fees, to make our services more accessible, and introduced family linking, so that family members benefit from the same services you enjoy. Of course, the initial consultation is at our expense and without obligation, so there's every reason to start bringing other family members into the fold.

Lower risk vs higher risk portfolios over time

08/08/2003 - 10/08/2023 Data from FE fundinfo2024

Using Registered Lasting Powers of Attorney to speed up decision making

Rob Hudson, Chartered Financial Planner

If a client loses capacity and we are working with an Attorney under a Lasting Power of Attorney (LPA) for Property & Financial Affairs, one of the biggest cause of delays is registering the LPA with various financial institutions.

The certifying of a copy of an LPA is an exacting task, for which a solicitor will charge, so it is commonplace for there to only be one certified copy, which then must be circulated, one-by-one, to all the banks, building societies, investment houses, etc.

It's fair to say that these types of institutions take their time at the best of times and in the instance of a client losing capacity, often there are important decisions to take quickly to help them access the support they need and to pay for it.

However, there is a simple process to overcome this problem for most recent LPAs.

For all LPAs registered on or after 01 January 2016 the Donor or the Attorney(s) can obtain an "Access Code" which can then be passed to the financial institution to enable them to view a summary of the LPA online. The link for this is gov.uk/use-lasting-power-of-attorney and, if you have an LPA for Property & Financial Affairs to which this service applies, I recommend you apply for the Access Code now.

Remember

If you would like support establishing an LPA for Property & Financial Affairs (and/or Health & Welfare) or advice on one that is in place for a family member, your financial planner can help you.

Changes to Auto Enrolment could spark broader review into workplace benefits and wellbeing strategies

Roger Dickenson,
Corporate Consultant

In September 2023, a Private Members Bill ushered in a significant change to the way auto enrolment is administered and who needs to be enrolled.

The proposal is to reduce the minimum age for employees to be automatically enrolled into their workplace scheme from 22 to age 18. In addition to this, the lower earnings limit (£6,240 per annum in tax year 2023/24) is to be abolished. The roll out of changes is anticipated to happen in April 2025, although that's yet to be confirmed.

As someone who spends my days advising businesses on their company pension plans among other things, this felt like big news.

My clients however, have many more urgent priorities to deal with today, tomorrow or next week so it is understandable that, whilst this change will have a direct impact on many employers and employees across the country, there has been a muted response to the announcement so far. Part of my role is to draw attention to changes that require medium to long term planning and action well ahead of time to avoid unwelcome surprises.

Why should employers care now?

The degree to which a business should be worried about this will depend on the pension scheme contribution structure that is already in place, and also on the employee demographic profile with the biggest impact likely on those with younger workforces, in sectors such as hospitality or retail. For most employers starting the thought process of how to deal with the change and budget for the additional costs should begin as soon as possible.

How can employers mitigate increased Auto Enrolment cost?

An area of advice where we have been particularly busy lately is helping employers to communicate and implement salary exchange (aka salary sacrifice) to their pension scheme. Employers who do not currently utilise salary exchange could find that this will have the effect of offsetting the increase in costs that the new auto enrolment rules will produce.

A client that I am currently working with (who I've kept anonymous) illustrates this point perfectly.

> Company X operates in the tech industry with 175 employees and an average salary of £60,000 per year.
>
> The definition of pensionable pay adopted by Company X means that they will be impacted by the new auto enrolment rules which will result in an increase in employer pension contributions of approximately £32,750 per year.
>
> Company X does not currently use salary exchange but if it did this could produce a saving of up to £61,650.00 per year in employer National Insurance Contributions. Almost double the additional pension cost.

Part of my role is to draw attention to changes that require medium to long term planning and action well ahead of time to avoid unwelcome surprises.

Resetting the employee proposition

At a strategic level, this is an opportunity to reconsider the whole approach businesses take toward employee benefits and how they can assist with recruitment and retention of staff. In the post-pandemic world with a lot of employee movement dubbed "The Great Resignation", business now seems to be returning to a more stable pattern with factors like the cost-of-living crisis and the battle to get employees back to the office reducing staff turnover.

Employers are not just looking at salary and a flexible working location to enhance their employee proposition. Increasingly, they're turning towards making their employees' benefit package as compelling as possible.

If pensions are not going to shift the dial for younger and lower paid workers, what would? How can they help them make better financial decisions and supplement services that add value to them?

They are the types of questions that the Workplace team at Wren Sterling helps our clients to answer every day.

Focus on education

Returning to auto enrolment, education is more important than ever.

What does a newly enrolled eighteen-year-old know about pensions? In my experience, very little. However, a new item will soon appear on their payslips showing money being deducted to be invested into something which they can't access for forty years.

Ensuring that young people understand why this is happening, and engage with and understand, their pension scheme is essential at this point. Without clear communication, employers are likely to see newly enrolled employees opt out of the scheme, which will make retirement harder in future. There's a lot of time for growth for an eighteen year old making their first pension contributions, which could lighten the load later in life.

As well as pension education, the forthcoming legislation provides an opportunity to relaunch financial education on all sorts of other topics including; budgeting, personal insurance and applying for a mortgage, all of which might be beneficial for younger workers in particular.

Does your business need a helping hand?

If your business would like support on any of the topics touched on here, please get in touch with your financial planner, or send us an enquiry at **wrensterling.com/contact-us-workplace**

Wren Sterling in the community

The last few months have been busy for Wren Sterling's community efforts. Over the Christmas period we collected donations across our office network for local foodbanks delivering a vital service to those most in need and our other regional offices donated food directly.

Our London office, where a lot of colleagues work from home, raised £585 for their chosen charity, the Kensington & Chelsea foodbank. This was matched by Wren Sterling.

Elsewhere, our Leamington Spa office took part in a shoebox appeal for Helping Hands, a local charity that provides compassionate and practical support to those struggling with the causes and effects of homelessness and trauma. The team's efforts resulted in the delivery of a remarkable 138 shoeboxes filled with essential items and heartfelt gifts!

Earlier in 2023 we raised over £500 for MacMillan Cancer Care through a Wren Sterling Bake Off across our office network.

Stephen Williams, Wren Sterling's Director of Human Resources added:

> "We're proud of the community work we do as a business and the individual volunteering that our employees do in their private lives. We've got some amazing stories and Wren Sterling is proud to support their work by matching donations and maximising the value of their efforts.
>
> "Wren Sterling has a dedicated local charity partner for each office and I would encourage our clients to contact their financial planner if they work for a charity near one of our offices, as we regularly rotate the charities we work with."

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Need some advice?

Please contact your financial planner or arrange an appointment via our website **wrensterling.com/contact-us**

wrensterling.com