BIRCHWOOD
INVESTMENT
MANAGEMENT LTD
NEWSLETTER

July 2022

It's plain sailing...

# How To Ride out the Cost of Living Crisis without Jeopardising your Retirement Plans

If you dream of the day when you can retire, relax and enjoy all the things you love in life with no financial restrictions, this is where the current cost-of-living crisis is already starting to put a dampener on the retirement plans of many over 50's. According to the Institute for Fiscal Studies - a think tank; during the pandemic some 270,000 people between the ages of 50 and 69 left work and accelerated their retirement plans by tapped into their pensions earlier. However, early retirement dreams could rapidly be coming to an end as rising prices, along with falling stock markets, means those hoping to retire this year will be far worse off than previous generations. So, how can you ride out the financial crisis without jeopardising your retirement plans?

According to research from pensions firm, Canada Life, more than two fifths of over-55's have retired before pension age since March 2020*, but worryingly many of these people now run the risk of exhausting their pension pots early as the money is eaten up on rising living costs. As households try to find ways of saving money and cut back on their day-to-day living expenses, this is now resulting in applications from homeowners of all ages to release equity from their homes to help fund rising inflation costs.

When it comes to homeowners who have already retired, Equity Release is predicted to top £4 billion this year, with one in 20 homeowners currently using it to fund their retirement**. House prices are continuing to rise and the over 65's share of total property wealth has increased from 28% to 37% in the last 12 years; meaning more people are looking to tap into the equity in their homes to fund their retirement. Over the last few years, a new 'Financial Independence, Retire Early' (FIRE) movement has gained popularity on social media and podcasts with its fans typically aiming to retire in their 40's by living simply, maximising their income and aggressive investing. However, this movement is unrealistic for most people, and opinion is divided as to whether it is really just an option for higher earners or those willing to make such big financial sacrifices whilst they are still young.

Whilst this drastic strategy may prove impossible or unpopular with others who want to enjoy life in the present, we can still learn from it. Planning ahead for your retirement and starting to save as early as possible is a good strategy.

By having an age in your head that you would like to retire, you can work towards it and set sensible, achievable goals and then work out your spending/saving balance to help you meet those goals. By starting as early as possible you can hopefully build up enough money to achieve financial independence and hopefully retire comfortably.

Canada Life also found in its research that if you stop contributing to a pension at age 55, your pension will be 59% smaller on average than if you had kept saving until you reached state pension age, which is currently 66. The State pension currently cannot be drawn until 66 and is only £9,300 a year (if you qualify for the full amount) and this is due to rise to 67 between 2026 and 2028 and thereafter, potentially rising to 68 between 2039 and 2039. When it comes to private pensions, the age at which you can withdraw funds is continuing to rise from 55 to 57 in 2028.

When you retire you want to be able to enjoy life and not worry about money, but in the current unpredictable financial climate any investments you have may be declining and everyday essentials are rapidly rising as inflation hits a 40-year high of 9.1%. Therefore, by delaying your retirement and continuing to work for longer until the economy is more settled and we have come through the predicted recession, you can be more financially stable.

This also avoids the worry of tapping into your pension by more than you originally intended to, having to release equity from your home as your pension pot is not enough, and then either having to drastically cut back or potentially return to work. If you have children, it can prove even more challenging to retire early, as they could need financing through university, help to buy their first home, or even assistance with wedding costs; all of which are big expenditures which would be difficult to cover with a pension.

Always speak to a financial advisor before making any rash decisions as they can help you look at all options and steer you to make the most of any investments, ISA accounts and other savings. This will hopefully mean you can avoid tapping into your pension too far ahead, potentially running out of money too soon and having to re-enter the workplace in middle age when it will be so much harder to find work and you will therefore, definitely risk jeopardising your Retirement Plans.

# Changes in Trustee reporting requirements

The HMRC's Trust Registration Service (TRS) was originally founded to ensure the Government complied with the fourth and fifth EU Money Laundering Directives (4MLD & 5MLD) – or for its full name "The Money Laundering and Terrorist Financing (Amendment) Regulations 2019 which was implemented on 10th January 2020. Essentially it's there to safeguard the financial system from being corrupted by terrorist activity.

However, it is also the channel that trustees must use to advice the HMRC where tax is payable on trusts, and recently this has expanded to incorporate trusts that have zero UK tax liability, yet still need to comply with 5MLD. So what does this mean?

Essentially a far higher volume of trusts will now need to be registered with the TRS, with two levels of reporting required. Taxable trusts are quite clearly those liable to pay UK tax and Express trusts which are created by written deed. It is also safe to say that some trusts will fall into both camps. For both trust types, everyone involved will need to be evidently identified, and for the taxable trusts full disclosure of all assets held at the time of registration will need to be filed. This is not necessarily as arduous as it may sound as taxable trusts already need to be registered with the TRS such as inheritance tax, capital gains tax and the stamp duty tax so widely talked about in the last 12-18 months.

However the Express Trusts, which tend to involve discounted gift trusts, loan trusts and trust plans focusing on estate and IHT planning, had to be registered with the TRS from 1st September 2021. These inherently have not paid tax due to the primary asset ie an investment bond, enabling tax to be deferred until money is withdrawn, subject to IHT changes each decade and beneficiaries receiving the original bond.

There are a few exceptions where certain Express Trusts do need to be registered. These include protection policies, will trusts, bereaved minors trusts, disabled or personal injury trusts and historic pilot trusts that were already created prior to 6th October 2020. However it is always advisable to seek professional advice first and bear in mind there are set deadlines with which to register.

Reporting a non-taxable express trust must be done by 1st September 2022, however for trusts that will incur a new Capital Gains Tax (CGT) or Income Tax liability in 2020/21 the deadline passed on 5th October 2021. Additional deadlines ran into January 2022 for alternative trusts that trustees must be aware of, and the expectation sits fully on the shoulders of the trustee as an individual to get this right. The penalties for late registrations in monetary terms start from £100 through to £300 or 5% of the total annual tax liability, whichever is the higher (as one would expect).

Navigating your way through the jargon and technical aspects of all the different varieties of trusts is not for the faint hearted, and not for those without sound financial knowledge and qualifications. Please seek advice from your own Accountants, or alternatively please get in touch with us and we can refer you accordingly.

# Protect your Finances and your Wellbeing

Rewind 12 months and our main concern was catching Covid, a reduction in income or worse losing our jobs; but we are now facing a new stress in the form of the cost-of-living crisis and it's having a drastic impact on our already delicate mental health and well-being.

A Research Study by University College London (UCL)* has found that people are now more worried about their finances (38%) than catching COVID-19 (33%) as the financial crisis takes a grip. If this is the case for you or someone you know; just what can you do to protect your finances and maintain your mental well-being?

Over 2 years on from the start of the pandemic; the majority of us were finally starting to see the light at the end of the tunnel, as life started to resemble some kind of normality again and industries including the travel sector finally completely opened up again. However, there is now a new threat as rising inflation and the cost of our bills and living expenses are rocketing up; which is already impacting our well-being and mental health. Financial stress can be a link to many health issues and poor mental health can lead to even greater financial difficulties.

The study which was published in March 2022, shows that the percentage of people concerned about their finances has reached its highest level since the start of the pandemic with fewer people feeling in control of their finances (56%), compared to in October 2021 (63%). It also found that the proportion of adults who feel in control of their mental health fell to a worrying 49%, from 54%. With the majority still recovering from 2 years of reduced income and the stress that brought, they are now facing more financial stress following the Ukraine war, the highest inflation rates in 40 years and volatile stock markets.

Although inflation hits those on lower incomes the most as they may have to choose between food and other bills; everyone is impacted at some level especially those with high outgoings including mortgages and energy bills that are not fixed.

Poor financial well-being can impact across the wealth spectrum and cause us to worry about how we will pay our bills; but even more so, if we have already existing debts from Covid which will now likely increase with the cost-of-living crisis.

So, how can you improve your financial wellbeing and help others who may not have access to financial advice?

You could be struggling with poor financial wellbeing in terms of not feeling in control of your finances; so, the first step is to try to take action to gain back control from simple tasks like creating a household budget through to taking financial advice to help you decide which areas of your finances need the most attention. If you have any kind of negative emotions about your finances it is best to talk to a professional which could be a debt counsellor, financial planner or another kind of adviser.

It can also depend which stage of life you're at as to what area you need to concentrate on, so, those at the start of their financial journey may need to look at how they can reduce their outgoings and debt with the inflation rates we are experiencing. Those with families may need to look at how their savings are working for them especially if they have school or university fees to cover.

Those with an investment portfolio may need to review their options and potentially delay their retirement plans. This will avoid tapping into their pensions too early and running out of funds too soon, due to rising living costs. For those who are already retired they may need to review their income from state and private pensions and check their outgoings if inflation should continue to rise.

Talking to an already existing Financial Advisor or pointing someone you know who is struggling with their financial well-being in the right direction; is beneficial to undertake as early as possible before things get too out of control.

More often than not we are heading in the right direction; but sometimes it can help to make a few changes and just be reassured that you are doing the right thing. By getting control over your finances, it helps with being prepared for some of the shocks that life might throw at us from Covid to the cost-of-living crisis, and therefore, makes us feel more confident and improve our overall wellbeing.

# Market Report

July 2022

## Global Review

Global equity markets have continued to trend lower as central banks have been forced to accelerate the pace of interest rate hikes in the face of rampant inflation. With the outbreak of war in Ukraine, policymakers were slow to tighten conditions with economic growth already faltering and are now running behind the curve. The pivot away from ultra loose policy in support of the economy post covid to explicitly combatting inflation has softened the outlook for growth.

The conflict in Ukraine and retaliatory sanctions against Russia have amplified the growing inflationary pressures that have been building with the surge in demand post covid.

Driven by higher food and energy costs, prices have been rising at the fastest rate in decades with evidence of second round effects now emerging, in particular wage demands. Without strong intervention central banks fear this inflationary loop will further destabilise the economy.

## UK

Inflation in the UK jumped to 9.0% year-on-year according to the print in April, driven by fuel costs after the UK regulator again lifted the energy price cap at the beginning of the month.

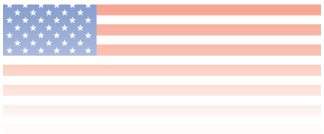
This was yet another 40 year high and amongst the highest rates in the developed world.

The Bank of England expects inflation to hit double digits before the end of the year with prices driven by external shocks beyond it's control, most recently the conflict in Ukraine.

In an attempt to balance inflationary pressures and economic growth the Bank has continued with a series of quarter point interest rate hikes.

Three members of the Bank's Monetary Policy Committee have voted for 0.5% hikes at consecutive meetings but the squeeze on household incomes has left the economy on a fragile footing. GDP contracted in April before rebounding in May leaving the door open for stronger action should inflation continue to climb.

## US



The Federal Reserve delayed hiking interest rates in the US until March, with the initial 0.25% move coinciding with the spike in inflation triggered by the Ukraine conflict.

The Bank's concerns over the economy were confirmed by falling GDP in the first quarter but contrasted with strength in both the labour market and domestic demand.

This strength and persistently high inflation persuaded the Fed to take increasingly stronger action at subsequent meetings with hikes of 0.5% and 0.75% in May and June respectively.

The acceleration in the interest rate cycle moved the Federal Reserve closer to market expectations with the cost of borrowing expected to peak at 3.5% by year end assuming the world's largest economy remains robust.

A further 0.75% rise in interest rates is expected in July as the Fed actively seeks to cool the economy but it is unclear what appetite there is for further economic disappointment.

## Europe

The European Central Bank have yet to shift from their ultra accommodative stance with economic activity in the EU threatened by the region's reliance on energy supplies from Russia. However, the Bank does expect to act in July by raising interest rates in a moderate first step.

The European Commission has warned that GDP could shrink by as much as 1.5% should energy supplies be constrained and outlined recommendations to ration fuel use allowing inventories to be rebuilt over the summer.

An interest rate hike in July would be the first in over a decade and the ECB have signalled further moves from September should the current inflation outlook not improve. The Bank also held an emergency meeting in June as the cost of government borrowing across the EU began to widen with particular concern over the yield now demanded by financial markets for Italian sovereign debt.

## Japan

The Bank of Japan, in contrast to its global counterparts, has maintained its commitment to support the domestic economy by keeping interest rates at near zero.

The Bank is under little pressure from inflation with the headline rate running only marginally above the 2% target.

However, the yen continues to fall driven by the divergence in interest rate policy and has hit levels of weakness versus the US dollar not seen in over two decades. Currency weakness could start to work against the Bank's aims with rising import costs a threat to consumption. Food and energy prices are already being forced higher by global supply chain issues and the impact of the recent lockdowns in China.

The government are already preparing a supplementary budget worth $77bn to help households with rising prices and is likely to be approved with the ruling Liberal Democratic Party expected to comfortably maintain their majority in upcoming elections.

## Asia

China has started to relax its zero covid policy measures after new cases of coronavirus dropped to zero in both Beijing and Shanghai.

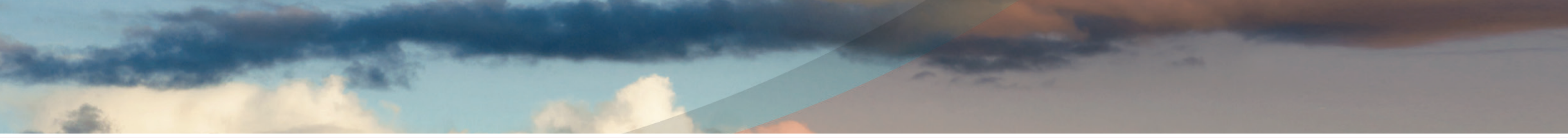
However, some travel restrictions and shorter quarantine periods will remain in place due to the relatively low vaccination rates in the country.

The government has announced a raft of stimulus measures to boost spending and cut taxes in an attempt to stabilise the economy with ongoing restrictions expected to see economic growth fall significantly short of expectations.

The government in India is looking to accelerate capital spending plans to insulate the economy from higher inflation and rising interest rates.

Recorded cases of coronavirus are also accelerating and stronger containment measures may be required to keep cases at a controllable level.

With half a million deaths officially attributed to Covid-19 since the pandemic began the government have stepped up vaccination efforts to limit any possible economic impact.



# Why it's important to Maximise your investments...

With the cost-of living crisis continuing to stretch families to the limit and a recession looming, it means more people than ever are trying to identify ways to reduce their spending and cut back. Mortgage rates along with energy prices, food and our everyday essentials are shooting up and, as inflation continues to rise, swiftly followed by tax and National Insurance increases, households are looking at where they can save money. However, if you are lucky enough to be in a healthier financial position, now is the time to maximise your investments to ensure you are making the most of every financial opportunity when it comes to saving for your future retirement.

In the current situation, equity release is increasing in all age groups and not just the over 50's, as households dip into the value of their homes to help pay their increasing expenses. If, however, you are in a more comfortable financial situation and are practically mortgage free, consider overpaying your mortgage (if there are little or no penalties) as it's surprising how much you can save in interest by paying off even an extra £100 a month.

It is likely your current bank account is paying very low interest rates, so look at where you could achieve higher rates and review your overall financial assets, as we often forget how much we have sitting in different accounts. If you have cash languishing in an account that is benefitting from little interest, why not take the plunge and either move it to a higher rate fixed savings account or move some of it to the stock market to see if you can make more on your money? You may also have a lockdown savings pot that you haven't needed to dip into; so look at ways you can invest it to give you a better return whilst rates are gradually increasing.

Look at your tax-free savings allowance and if you already have an ISA, make sure you are maximising your return for 2022/23. If you don't have an ISA, consider opening one now to reap the benefits, as there are many options out there from cash ISA's to stocks and shares ISA's. This is where all capital gains and dividends are tax-free meaning more of your profits can grow, instead of being eaten up by tax. You can deposit up to £20,000 per year, tax free, into a single stocks & shares ISA, every tax year from April 6 to April 5; but any money you pay into another type of ISA, such as a Cash ISA, is deducted from your total allowance.

The majority of us have changed jobs several times over the years and therefore, may have a number of different pension pots. If your individual schemes allow, it can sometimes be worth consolidating all of your smaller pensions into one bigger pension pot to make it easier to keep track of and check you are getting the best return on your investments. It is always advisable to speak to a financial advisor first though, rather than just pulling your money out of a scheme.

However, with inflation currently at a 40-year high of 9.1%, this means that every £100 saved is only worth £90.90 due to how the rising cost of living erodes the spending power of our money. Therefore, if you have too much saved in cash; it could mean you are potentially missing out on the possibility of better returns from investing. By investing in company shares this can offer protection from inflation. Companies can potentially put up the prices of their products during periods of rising inflation which grows their profits, makes share prices rise and they then return money to shareholders in the form of dividends.

During the last financial crisis of 2008 and the recession that followed, many people panicked as portfolios lost 30% or more in value, and reacted too quickly by pulling their investments out before they could drop lower which made the situation worse. Investing during a crisis can be risky but whilst prices could fall in the short-term, there are also many opportunities to grab assets while they are on sale which may then rise considerably in the near future.

When it comes to investing, there are so many areas currently on the up including food, energy and consumables, but make sure you take financial advice to see if you can benefit by investing in these areas and decide what level of risk you want to take. Investing in funds rather than individual shares reduces your risk, because if one company performs badly it only affects a small portion of your overall investment, so it helps to build up a diverse portfolio of investments to spread your risk.

Whichever option you would like to consider; you need to weigh up savings rates against investment rates and the predicted return. It is always advisable to speak to a financial advisor who is a specialist in this area and by investing some of your savings; it can make them go further and help achieve your long-term goals. Remember though that the experts do advise that investing should be done over a period of at least five years, and your capital is at risk as the value of your investments can go down as well as up.



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