ISSUE 36 ■ SPRING 2022

INFORMED

Working with professional partners

by Clayden FINANCIAL
INDEPENDENT FINANCIAL ADVISERS

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COULD EQUITY RELEASE FUND YOUR FUTURE?

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Why the marginal rate should not be confused with the effective tax rate

Clayden Financial, 1 Constable Court, The Street, Belstead, Ipswich IP8 3LY
Tel: (01473) 730090 **Email:** advice@claydens.com
www.claydens.com

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WELCOME TO OUR SPRING ISSUE

Spring is well on its way again and the longer days will be welcome!

The New Year will see staff changes and last month, Shirley Le Grice's retirement was celebrated with a Clayden's trip to Norwich for a matinee performance of Cluedo and an evening meal. Shirley joined the company in 2000 and has been an outstanding member of the team having previously been Office Supervisor, and now working part-time as a Senior Administrator. She leaves at the end of March and we will all miss her very much. We wish her a long, happy and healthy retirement.

We are actively looking for new staff to join the ever-expanding team at Clayden Financial and recently we employed a part-time accounts and reconciliation administrator called Jane Kenyon. With modern technology and the advent of working from home, Jane will be operating from her home in Hampshire. She brings with her years of experience in the IFA sector having previously worked in London.

Nick Wilson has just completed his first year with us as a Financial Adviser. He has a major personal event coming up in May when he will be marrying Francesca. This is particularly lovely news as I have known Francesca since she was a little girl, and it is so good to have something to look forward to and celebrate during these challenging times for us all.

Leigh Clayden

NEW YEAR'S RESOLUTIONS

Just for a bit of fun, our advisers were asked about New Year's Resolutions. A couple took the opportunity to impart some advice…a real mixed bag!

"To begin "practising what we preach" and make a 2022 budget for twelve months - rather than my traditional one month and breaking it!"

Ashley Clayden

"I resolved to exercise more and lose some weight by taking more regular walks and using my indoor cycle."

Leigh Clayden

"Not a resolution as such but…"Do you love the taxman more than your family? Effective planning can ensure no inheritance tax would be payable in the event of your death."

Martin Cornell

"To turn off as many lights as possible!"

Adrian Firth

"Don't watch the news and stay off the bathroom scales!"

Karen Last

"It's never too early to plan for the future; compound growth is your friend."

Nick Wilson

CHRIS MCGLONE'S NEW GRANDDAUGHTER


Chris's son Lee with Ola

Chris has had a very busy start to 2022; a new granddaughter Ola, was born at the beginning of the year and she also has the upheaval of downsizing to a new bungalow near Pin Mill in Suffolk.

Costly start too! Especially now that she has 6 grandchildren, 3 boys and 3 girls all under the age of 8!

The good news is that she therefore can't afford to retire just yet…so you will still be able to hear her dulcet tones if you call the office. We aren't sure if that's a good or a bad thing!

KRYSTYNA'S CHRISTMAS VISIT TO THE STATES


Krystyna, Alex, Shannon & Maddy

What a strange year 2021 was for us all! Most of us felt cautious – often wanting to spread our wings and enjoy ourselves - but never sure whether we should because of the possible negative impact on ourselves and others. I certainly never felt 100% convinced that I would be making the long-planned trip to the States with my daughter Maddy to see my son Alex and his wife for Christmas – even on the very day of the flight!

I needed to take a PCR test two days prior to travel and the nearest place to my home in Felixstowe to get this done was Sudbury! I arrived at Heathrow around four hours before my afternoon flight and spent the next two hours nervously peering at my phone to see whether my result had come through. I burst into tears when I received the negative result!

The atmosphere was very strange at the airport. Far fewer people were travelling than one would expect just prior to Christmas - even in these strange times – and there was a sense of panic in the air as so many were uncertain about how to use VeriFLY (the app that British Airways encourages travellers to use to show vaccination records, negative Covid-19 results and government documents). However, the BA staff were doing their best to assist everyone, and we did eventually get through check-in. Light relief came though on seeing my daughter's very old and worn woollen monkey being frisked with a wand by a very serious security official!

Our flight was delayed for Covid-related reasons; our gate opening an hour late because of staffing issues, a further delay was encountered because a baggage cage had been mistakenly left behind the airplane. After that though, everything went smoothly. We were met at Baltimore by Alex and Shannon – it was so wonderful to see them - and we began to relax at last.

We stayed in Jefferson, Maryland – very close to a beautiful old town called Frederick. We visited Washington on a beautiful cold and bright day, and the white buildings, perfect green lawns and blue sky were stunning. Another day took us to Baltimore's amazing aquarium where we were most impressed by the jellyfish! Who would have thought that moon jellyfish would feel like satin to the touch? Apparently the number of these amazing creatures is on the rise due to overfishing of the predator fish that keep jellyfish numbers down.

The trip back home to the UK was completely straightforward and just before we left, the government ceased the requirement for us to have a test before travel (shame I had already paid £76 for it!). We had a wonderful Christmas and New Year – it was well worth all the effort.

Krystyna Smithers has been Clayden Financial's Marketing Consultant for several years and this newsletter has been an important part of her role since it was first published in Summer 2013.

Tax trap

Why the marginal rate should not be confused with the effective tax rate

In an ideal 'progressive' tax regime, a taxpayer's marginal rate of tax would increase as their earnings grow, so lower earners pay a lower proportion of their income in taxes.

In the UK, when you look at income tax bands, it appears that way. For example, lower earners pay no tax, then the rate starts at 20%, growing to 40% for higher rate taxpayers. For each pound that you earn over £150,000, the marginal rate becomes 45%, so higher earners pay more tax.

However, this is not the full story. That marginal rate should not be confused with the effective tax rate or the total amount of tax. The effective rate of tax takes into account that a taxpayer's earnings will also be effectively taxed due to other allowances that are removed as earnings increase.

TAX BANDS AND REDUCTIONS

Some income will not be taxed at all, because of the personal allowance.

" Tax rules state that for every two pounds a taxpayer earns over £100,000, their tax-free personal allowance is reduced by one pound."

Other income will be taxed at 20%, 40%, some possibly as high as 65.5%, when Child Benefit is withdrawn, and then 45% as earnings increase above £150,000. So, the effective rate of tax is defined as the rate at which income is taxed, taking into account all of these tax bands and reductions in allowances.

The total amount of tax is, as its name suggests, the full amount of tax – expressed as a sum and not a percentage. There are some circumstances where the marginal rate can reach 60%, and, counter-intuitively that happens when an individual is not earning very high sums.

TAX-FREE PERSONAL ALLOWANCE

Two of the classic marginal rate tax traps most likely to impact on you are because of the withdrawal of Child Benefit and when the personal allowance is withdrawn for those earning over £100,000.

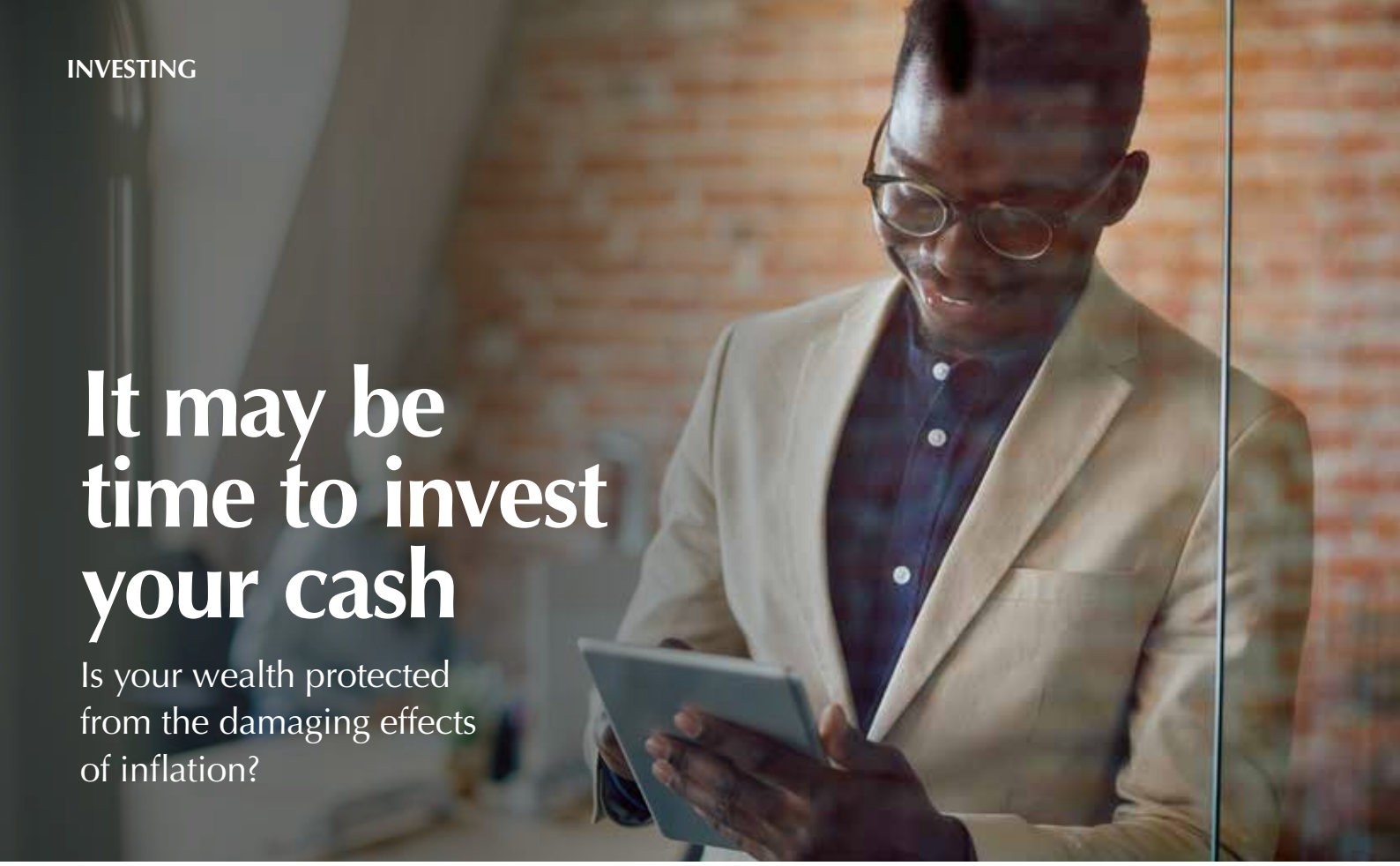
Tax rules state that for every two pounds a taxpayer earns over £100,000, their tax-free personal allowance is reduced by one pound. What this means in practice is that your income between £100,000 and £125,140 is actually taxed at a marginal rate of 60%.

The same situation applies to Child Benefit if there are one or more earners with one or more children in the household. Child benefit is gradually withdrawn for earnings between £50,000 and £60,000.

Because of the formula used to withdraw Child Benefit from higher earners, a person earning over £50,000 will see their marginal rate increase from 40%, with their marginal rate dependent on their personal circumstances, such as the number of children they have.

MAKING MORE OF YOUR WEALTH WITH CLAYDEN FINANCIAL THROUGH EFFICIENT TAX PLANNING

Our experienced financial advisers help personal and corporate clients to organise their affairs in a tax-efficient manner. Our approach is to look at the whole picture to assess the impact of the main UK taxes, and recommend different structures to minimise the impact of income tax, capital gains tax and inheritance tax. **Speak to us to find out how we can help you.**



It may be time to invest your cash

Is your wealth protected from the damaging effects of inflation?

Many people underestimate the damaging effect of low interest and high inflation on their cash savings. A continued period of low interest rates on cash savings and rising inflation could pose a real risk to savers in 2022, even if the Bank of England (BoE) moves to increase interest rates further in the coming months.

Savers with large amounts of money sitting in cash should not be lulled into a false sense of security if interest rates creep up, because of the threat of higher inflation throughout 2022. The damaging effects of high and rising inflation will more than likely wipe out any uplift a higher interest rate will give to the value of cash savings. Currently, 8.6 million consumers each hold over £10,000 of investable assets in cash[1].

INTEREST 'BASE RATE' INCREASE

Inflation is expected to average over 4% this year, peaking at close to 5% in the spring[2]. The BoE may look to dampen the effects of soaring prices by further increasing the interest 'base rate'. While this may offer some relief if passed on to savers, the average easy access savings account is currently sitting at just 0.19%[3] and any upward change is expected to be small.

As the economy continues to recover from the COVID-19 pandemic, we are experiencing a sharp rise in the cost of living. During a period of high inflation, people will notice a dramatic decrease in their purchasing power, particularly if their wages don't keep pace or if they have savings in cash.

DAMAGING HIGH INFLATION

The threat of inflation this year and beyond could far outweigh any small changes in interest rates for those with large amounts of money in cash savings. Following many years of low inflation, people may have forgotten how damaging high inflation can be. But in the coming months and years, savers should think carefully about where they put any additional cash that is not needed in the short term.

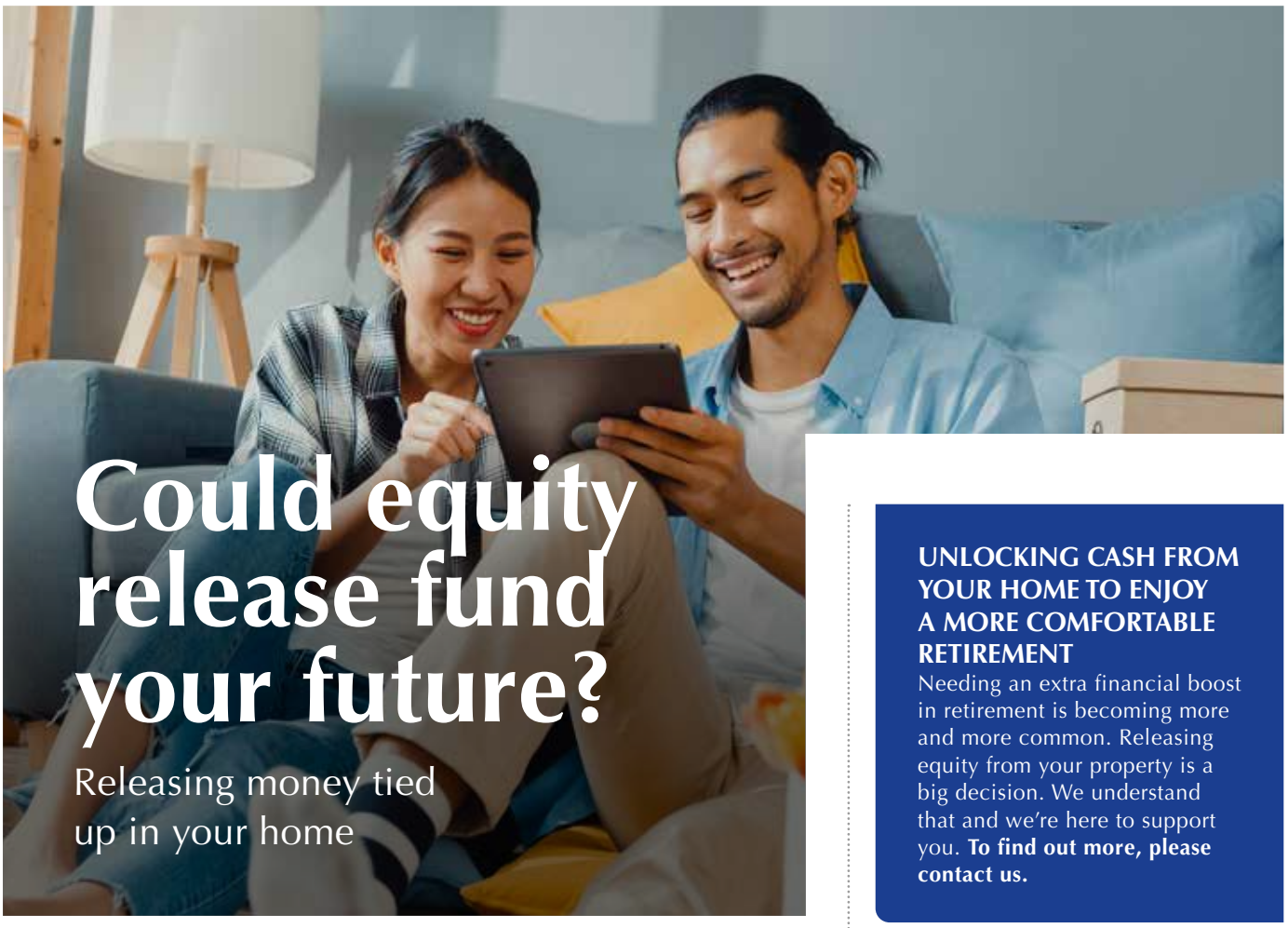
For money beyond your emergency fund, you may want to consider investing, which offers the potential for inflation-beating returns. If inflation continues to eat away at the value of your cash savings accounts and if appropriate to your particular situation, you should be prepared to take some risk to preserve the value of your money. We are well placed to recommend investment options based on your attitude to risk.

CONCERNED ABOUT HOW INFLATION IMPACTS ON YOUR SAVINGS?

After years of staying relatively low, it looks like inflation is on the up. So what does that mean for your money? To discuss how to mitigate the impact of inflation on your financial plans, **please contact us.**

Source data:

[1] https://www.fca.org.uk/publications/corporate-documents/consumer-investments-strategy
[2] https://obr.uk/overview-of-the-october-2021-economic-and-fiscal-outlook/
[3] https://moneyfacts.co.uk/news/savings/savings-rates-continue-to-rise/



Could equity release fund your future?

Releasing money tied up in your home

In the future, for some people using their home to fund their retirement is likely to become more commonplace, whether that's by downsizing to free up funds or releasing money tied up in their home through products like lifetime mortgages.

Homeowners could release some of the equity from their property to top up their retirement savings, through a process known as 'equity release', facilitated using a lifetime mortgage. Using equity release for retirement income isn't an equal replacement for pension savings, but if you've got a shortfall, then releasing money from your home may help you reach your retirement goals.

HOME VALUE

Analysis has highlighted that homeowners in 53% of areas in England & Wales could access more from the value of their home than is saved in the average pension pot (£61,930)[1] by using equity release, according to analysis and based on median local house price data from the Office for National Statistics (ONS)[2].

Homeowners in England and Wales could release on average £72,988 worth of equity from their homes, an average increase of £14,000 due to a 24% increase in median house price values over the last 5 years.

PRICE GROWTH

Ongoing house price growth has led many homeowners to consider the role their property might play in their long-term financial planning. 16% of pre-retired over 50s plan to use their property wealth to boost their finances via products like lifetime mortgages, or via downsizing. However, an additional 13% said a significant increase in the value of their property could also persuade them to do so.

In recent years, we have seen house prices increase to the extent that they will have become the most significant asset available to many UK homeowners. The average UK property price has hit a new record high of £272,992, with growth now at a 15-year high[3].

UNLOCKING CASH FROM YOUR HOME TO ENJOY A MORE COMFORTABLE RETIREMENT

Needing an extra financial boost in retirement is becoming more and more common. Releasing equity from your property is a big decision. We understand that and we're here to support you. **To find out more, please contact us.**

Source data:

[1] Refers to an average pension pot of a pre-retired person over 50. Opinium survey of 2,160 UK over-50s in the UK who have not retired between the 9 and 13 August 2021

[2] Office for National Statistics, House price statistics for small areas in England and Wales: year ending March 2021, Nov 2021

[3] The Halifax House Price Index (IHS Markit), November 2021

Hot Topic

Mind the pension gender gap

Women are being urged to think about their long-term savings

Imagine reaching retirement age and discovering that, despite years of saving, you don't have enough money to get by. Worse still, suppose you're unable to pay for the right kind of care in your old age.

And what if you and your partner separate or your spouse dies unexpectedly – will you have sufficient funds to see you through retirement? Now, all of these might sound like worst-case scenarios but, unfortunately, for women right across the UK one or more of them could become a reality.

EARNING TRENDS

Women are still behind men when it comes to retirement savings. The 'Women and Retirement' report[1] has found that if current work and earning trends continue, young women today will need to save an average of £185,000 more during their working life to enjoy the same retirement income as men.

The colossal gender pension gap is made up of a savings shortfall, plus the need to fund a longer retirement because women on average live longer than men. This also leads to higher care costs. Many women will take time off to start a family – resulting in gaps in their work history.

And even if women remain in the workplace, on average they still tend to earn less than men.

VULNERABLE SITUATION

21% of women surveyed said they plan to rely at least partly on their partner's income in retirement. However, this can leave women in a particularly vulnerable situation should they separate from their partner.

Right now, it's rare for divorce settlements to account for pension assets, which means that women could end up in particularly unstable financial situations following divorce.

FUNDING RETIREMENT

Also, women tend to live longer than men – two to three years, on average. Indeed, this continued rise in longevity means that a 25-year-old man today can expect to live to 86, while a woman can live to 89.

And while rising longevity is of course a good thing, it does raise specific challenges – especially when it comes to funding retirement and old age.

LIVING LONGER

Together with living longer, women are also more likely to need care when they're older. In fact, of the 6 million people in the UK over the age of 60 currently living with a disability, 3.5 million are women.

And those women who do need care spend on average a year longer in care homes than men. Right now, the average cost of care is £679 per week, which means women would need an extra £35,000 during retirement for residential care costs.

CONCERNED ABOUT THE PENSION GAP?

As a women, your pension is a key part of your retirement planning. How much you put away now, how you invest for the future and how you choose to access your pension once you've stopped working, are all key considerations for anyone hoping to enjoy a long and happy retirement. **If you have concerns or questions, please contact us**

Source data:

[1] Scottish Widows 2021 'Women and Retirement' report – research carried out online by YouGov Plc across a total of 5,059 adults aged 18+. Data weighted to be representative of the GB population. Fieldwork was carried out between 23 March and 3 April 2021 through an online survey. 5,059 interviews were carried out. The sampling criteria were based on four key metrics: age, gender, region and social grade.

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Web: www.claydens.com **Email:** advice@claydens.com

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