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BLACKSTONE
FINANCIAL MANAGEMENT LIMITED

PENSIONS

Are you holding too much cash?

When inflation rises, cash needs careful management.

A recent strategy paper published by the Financial Conduct Authority (FCA) stated, "Many consumers who might gain from investing currently hold their savings in cash." Those words may sound as if they originated from a trade lobby for investment managers, but unusually, it's the FCA that is concerned. Research carried out on its behalf revealed that over a third of adults with more than £10,000 of investible assets held all those assets in cash.

Make no mistake: we all need some readily available money – a rainy day reserve – to help us cope with the unexpected, be it a car repair or broken boiler. Ideally, such money should be in an instant access account, so that it is immediately available, although at present these accounts pay minimal interest.

> *Over the last five years annual CPI inflation averaged 2.1%, making £100 in September 2016 worth £89.95 half a decade later.*

When interest rates are below the rate of inflation, the longer you hold cash, the more buying power it loses. For example, over the last five years to September 2021 annual CPI inflation averaged 2.1%, making £100 in September 2016 worth £89.95 half a decade later. During that period the Bank of England base rate was never above the inflation rate.

Interest rates are now expected to rise, but only gently, given the headwinds faced by the UK economy. Meanwhile, inflation is projected to be above 4% by January 2022. If you want to preserve the long-term value of your money, whether it is personal capital or invested in a pension plan, now is the time to consider alternatives to deposits. To discuss the non-cash options that best suit your circumstances, please contact us.

✢ *Investments do not offer the same level of capital security as deposit accounts. The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.*

Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.

PLANNING

Keeping up with powers of attorney

The number of people registering a lasting power of attorney (LPA) dropped by 30% during the first year of the Covid-19 pandemic.

An LPA is a legal document citing who will be responsible for your financial welfare or personal care if you are no longer able to make these decisions. As Covid hit it became more difficult to complete these forms which require the signatures of the person setting up the LPA, the certificate provider and the individual (or individuals) appointed as attorney. Donor and attorney signatures also needed to be independently witnessed.

Covid protocols

However, guidance introduced to combat these difficulties now enables people, particularly those who might be shielding for health reasons, to complete these processes in a more Covid-secure way.

Tailor the LPA to you

You don't need to be old or in ill-health, however, to set up an LPA. It can be set up so that your attorneys can start making decisions on your behalf straight away, or not until such time as you are deemed to have lost mental capacity.

In England and Wales LPA forms needs to be registered with the Office of the Public Guardian (OPG). This process can take up to 20 weeks and costs £82.

Scotland and Northern Ireland

In Scotland residents need to apply for a Power of Attorney (PoA), which is registered with the OPG Scotland. In Northern Ireland an Enduring Power of Attorney can be registered through the Office of Care and Protection.


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PENSIONS

The cost of retirement: setting your own standard

New research confirms the growing gap between what the State pension provides and a comfortable retirement.

In April 2022, all state pensions will increase by 3.1%. The new state pension will reach about £185 a week, approximately 5% less than if the triple lock basis for increases remained in place for 2022.

The new state pension rates came out shortly after an updated report was published looking at retirement living standards. The report calculated the cost of three different baskets of goods and services that equate to three retirement living standards:

- *minimum*, where income covers all needs, with 'some left over for fun';
- *moderate*, providing more financial security and flexibility; and
- *comfortable*, offering greater financial freedom and 'some luxuries'.

The research put annual after-tax costs to each living standard for couples and singles, with an adjustment for higher London expenses:

	MINIMUM		MODERATE		COMFORTABLE	
	Standard	London	Standard	London	Standard	London
Single	£10,900	£13,200	£20,800	£24,500	£33,600	£36,700
Couple	£16,700	£21,100	£30,600	£36,200	£49,700	£51,500

Source: Pensions and Lifetime Savings Association

Adjust for tax and, for example, a couple living in the Midlands who want a comfortable standard of living would each need pension income of about £28,000. The new state pension from April 2022 will be £9,628 a year, leaving a significant gap if your goal is anything other than a minimum retirement living standard (no car, no European holiday).

Bridging the gap between the retirement living standard you want and what the state will provide requires private retirement provision. Determining how much the gap-filling will cost and what form it takes begins with a detailed review of your current retirement plans. The sooner you contact us to start that process, the longer the period over which you can spread the investment required.

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The value of tax reliefs depends on your individual circumstances. The Financial Conduct Authority does not regulate tax advice, and tax laws can change.

LATER LIFE

Social care plans for England: not all they seem

The long-awaited details of funding new social care plans for England have been released – with associated UK-wide tax rises.

The basis of the new English social care regime was announced by the Prime Minister in September this year, with an update in November. Its key features are:

- **Start date** The new regime will only apply in England from October 2023. Any care costs incurred before then are ignored.
- **Fee cap** A cap of £86,000 (index-linked) on the total care costs you must to pay from your own resources will be introduced. This will cover only your personal care costs not the so-called 'hotel costs' of care, which will be set at a flat £200 a week.
- **Capital limits** The upper capital limit above which you must meet all your care costs (until the fee cap is reached) will rise from the current £23,250 to £100,000. The lower capital limit, below which you are not required to use your savings, increases from £14,250 to £20,000.
- **Income tariff** If you have capital between £20,000 and £100,000 you will be required to make an 'income tariff' contribution from that capital, which will be £1 a week for each £250 of capital over £20,000.

The corresponding tax rises begin from next tax year and will operate throughout the UK.

- All the main and higher rates of National Insurance Contributions (NICs) for employers, employees and the self-employed will effectively rise by 1.25 percentage points.
- From 2022/23 the tax rates on dividends will also increase by 1.25 percentage points.

Despite the large tax rises, the changes could still leave you having to meet all your social care costs, something that you should consider building into your retirement planning.

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INVESTMENT

Going green on bonds and gilts

National Savings & Investments have launched their first green bonds, paying a rate of 0.65% to investors. The money raised via these three-year fixed-rate savings plans will be used to fund the government's environmental projects. These could include zero-emissions buses, offshore wind farms and flood defences.

Savers will need a minimum of £100 to invest in these bonds, which went on sale in October 2021. The maximum investment is £100,000. But savers should be aware there are more competitive savings rates available. Zopa and Atom Bank, for example, were paying 1.6% and 1.45% on three-year bonds as these NS&I products launched. Meanwhile Cynergy Bank is paying 0.66% on an easy access account.

The government also launched its first green gilt in September 2021. This was open to institutional investors, including pension funds, and raised £10bn which the government will invest in green projects. Further green gilts will be offered later this year.

✢ *The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.*