Spring Newsletter 2022

T: 01274 900420 E: info@atriumfinancial.co.uk
3 Eldon Place, Bradford, West Yorkshire, BD1 3AZ

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Generation X - inadequate pension savings
Generation X is the name given to the generation of people born between the mid-1960's and the early 1980's. They seem to be missing out when it comes to savings and pensions.

It may be time to start investing
Don't fall victim to low interest rates and rising inflation. Putting some of your cash into investments might make your money go further.

Giving to Charities is more important now than ever
The COVID-19 pandemic had a profound impact on many charities. With some charities being hit by increased demand and struggling to fund their services as restrictions were imposed.

Underpayment of the State Pension
In August 2020, it was revealed that up to 130,000 married or widowed people who had reached the State Pension age before 6th April 2016 had been underpaid. What could it mean to you?

Don't let your retirement plans fall by the wayside
During the pandemic with many job and income losses, it's important you didn't dip into your pension savings without any thought to your future.

Welcome to the Spring edition of our quarterly client newsletter, which provides topical financial articles.

If you have any questions in relation to the articles contained within this newsletter, please do not hesitate to contact us and we will be happy to provide any guidance required.

Whatever your financial need, we are always pleased to speak with you.

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Any information in this newsletter does not constitute advice and should not be acted upon without taking professional guidance.

The value of investments can fall as well as rise. You may get back less than you invested.

Gen Xers - inadequate pension savings?

Generation X (sometimes shortened to Gen X), is the name given to the generation of people born between the mid-1960's and the early-1980's. Gen X follows the baby boom generation and precedes the millennial generation.

According to the Financial Conduct Authority's paper on the accumulation of wealth in the UK (May 2019), half of all 20-29 year olds have no retirement savings and those aged 30 to 39 have saved less than £30,000.

The Financial Conduct Authority also found that almost 40 per cent of working age individuals have no private pension wealth at all.

A good proportion of "Generation X" may be looking at financial hardship in retirement due to having inadequate pension savings, and run the risk of only achieving a minimum or lower than minimum standard of living in retirement as a result.

Gen X missed two pension boats

Many entered the job market too late to take full advantage of final salary pensions, yet too early to enjoy the full benefits of initiatives like auto-enrolment, meaning their retirement income will be stretched as a result. Yet another reminder that we should all be trying harder to save for old age?

Solutions for people struggling with pension saving

Generation X is far from being the only group facing a pensions shortfall, and the prudent approach should be that if you want something done, you must do it yourself.

Although pension saving might not be easy, it may be easier than you think. There's often time to support your retirement prospects and alter their current trajectory. By paying attention on not under-saving and tapping into opportunities when you have a little more money.

Perhaps looking at saving more once debts have been paid off and increasing pension contributions when you receive a pay rise or a decrease in mortgage payments. Even a small increase in contributions can make a significant difference to eventual retirement income. When it may be hard to make ends meet, it is tempting to think of pensions as non-essential spending – something that can be put off till later. Saving into a pension comes with the advantage of tax-relief and compound interest, it can be a smart move for your future.

Perhaps there are other assets that could help fund retirement?

When you're saving for retirement, it's often a pension that's at the forefront. However, there are many other assets that can support your retirement plans. If you've found that your pension will leave a shortfall in the income you need, other assets such as savings held in an ISA (Individual Savings Account), property or an investment portfolio can help plug the gap.

It can be difficult to decide what assets you should access to create an income and how to substantially withdraw money from them. This is where a financial plan is essential. It can help bring together all your assets to build a retirement plan that matches your aspirations and the resources you've built up, in the most tax-efficient way.

The value of pensions and investments and the income they produce can fall as well as rise.

Tax treatment varies according to individual circumstances and is subject to change.

It may be time to start investing

If your savings goal is for more than a few years, putting some of your cash into investments might make your money go further and help you keep up with inflation.

What are investments?

Investments are something you buy or put your money into, in order to achieve a favourable return.

Most people choose from four main types of investment, known as 'asset classes':

- shares - you buy a stake in a company
- cash – the savings you put in a bank or building society account
- property – you invest in a physical building, whether commercial or residential
- fixed interest securities (also called bonds) - IOUs given in return for loaning money to a company or government.

The various assets owned by an investor are commonly called a portfolio. As a general rule, spreading your money between the different types of asset classes (diverse spread of investment) can often lower the risk of your overall portfolio.

Investment Risks

Sadly, there's no such thing as a 'zero risk' investment. Even money you place in secure deposits such as savings accounts can risk losing value in real terms over time if it is outpaced by inflation.

It's usually a good idea to spread your risk by putting your money into a number of different products and asset classes. So, if one investment doesn't work out as you hope, you've still got others to fall back on.

When to start investing?

If you have a reasonable amount of money in your cash savings account (enough to cover you for at least three to six months) and you want to see your money grow over the longer term, then you should perhaps consider looking at your investment options.

The right savings or investments for you will depend on a range of different factors, such as your financial situation, life circumstances, risk appetite and your future goals. That's something we can help you with.

Getting started

There are lots of things to think about if you're planning to save. Is it better to save or invest and what type of account should you choose?

Whether you're new to saving or simply want to make sure you're making the most of extra cash by getting to grips with how interest rates and inflation affect your money, get in touch. We would be more than happy to talk you through your investment options.

The value of investments and income from them may go down. You may not get back the original amount invested.

Giving to Charities is more important now than ever

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The COVID-19 pandemic had a profound impact on many charities. With some charities being hit by increased demand and struggling to fund their services as restrictions were imposed.

Giving to Charities became more attractive
From April 2019, the upper limit for trading that charities can carry out without incurring a tax liability rose. This measure increased the small trading tax exemption limits for charities that apply to trading that does not relate to a charity's primary purpose.

Annual charity income	Maximum non-primary purpose trading
Under £32,000	£8000
£32,000-£320,000	25% of income
Over £320,000	£80000

Since April 2019, charity shops using the Retail Gift Aid Scheme can send letters to donors every three years when their goods raise less than £20 a year, rather than every tax year.

The individual donation limit under the Gift Aid Small Donations Scheme also increased from £20 to £30. This applies to small collections where it is impractical to obtain a Gift Aid declaration.

Making the most of charity donations
People can be concerned that their donations to charity may be reduced by tax or administrative costs, preventing the full amount from reaching the people or causes they really want to help. Fortunately there are ways to make the most of every donation to charity.

There are a number of ways to give to charity tax-effectively too, such as by donating straight from your salary before tax is deducted through a payroll giving scheme, donating shares to charity or leaving a charitable legacy in your Will. These methods of giving help to ensure your chosen charities benefit as much as possible from your support.

Donating to the causes you care about not only benefits the charities themselves, it can be rewarding for you too. People give to charity on a regular basis to support causes they believe in, as well as for the positive effect it has on their own lives.

Donating using Gift Aid
If you're a UK taxpayer, you can boost the amount of every charity donation you make by giving through Gift Aid, an Income Tax relief created to help charities get the most out of the funds they receive. Gift Aid enables the charity to recover the basic rate of tax on your donation, the scheme adds 25p to each £1 you give at no extra cost to you.

Donating from your wages or pension
If your employer, company or personal pension provider runs a Payroll Giving scheme, you can donate straight from your wages or pension. This happens before tax is deducted from your income. The tax relief you get depends on the rate of tax you pay.

Reducing Inheritance Tax
If you're worried about the Inheritance Tax that might have to be paid when you die, giving away some of your money to charity – either now or in your will can assist in reducing your Inheritance Tax liability.

Tax and estate planning is not regulated by the Financial Conduct Authority.

Underpayment of State Pension

The Department for Work & Pensions (DWP) estimates it has underpaid 134,000 pensioners, mostly women, over £1 billion of their State Pension entitlement, with some of the errors dating as far back as 1985.

In January 2021, DWP started an official exercise to correct the errors. The first of many.

There are three groups of State Pension claimants who may be affected:

- people who are married or in a civil partnership who reached State Pension age before 6 April 2016 and who may be entitled to a Category B uplift based on their partner's National Insurance contributions
- people who have been widowed and their State Pension was not uplifted to include amounts they are entitled to inherit from their late husband, wife or civil partner
- people who have not been paid Category D State Pension (the non-contributory element of State Pension) uplift as they should have been from age 80.

Correction exercise

The DWP started a formal correction exercise on 11 January 2021 and plans to recruit additional staff members with the aim of completing the correction exercise by the end of 2023. The current estimate is that arrears will total £2.7 billion and increased ongoing weekly entitlement will amount to an extra £90 million per year.

The DWP say claimants in the affected groups do not need to contact the DWP as they are 'in the process of issuing letters to all those found to be underpaid in accordance with the law, explaining how much they will be receiving in arrears and the reasons for the change to their State Pension rate.'

Failure to make a claim

A separate issue has also come to light where married women whose husbands reached State Pension age after them were required to make a separate claim to apply for an increase to their own State Pension before 17 March 2008. Those that didn't at the time but make a claim now for example, will only be able to backdate their entitlement by 12 months.

People who may be affected by either of the above issues who do not currently claim a State Pension, or had no entitlement on a previous claim should make a new claim so the DWP are aware of them.

The value of pensions and investments and the income they produce can fall as well as rise.

Don’t let your retirement plans fall by the wayside

Sadly the recent pandemic saw many job and income losses. It’s important for those eligible, that you don’t fall into the trap of accessing your pension savings early with no thought for the future. Saving into a pension can be vital if you want to enjoy a comfortable retirement - but watch out for any pension pitfalls that could catch you out!

1. Misunderstanding the cost of living in retirement

It’s important when saving for retirement not to underestimate how much you need to set aside, otherwise you could be left with a significant shortfall once you stop working.

Everyone’s circumstances, needs and desires in retirement are different and it may be that you need more money than you think.

2. Underestimating the length of your retirement

The pension freedoms have given people the opportunity to take money from pension pots early, often before planned retirement ages. This could potentially be storing up trouble for the future, especially if people are underestimating how long these pensions need to last.

3. Relying on your home as your pension

Property can be a reasonable long-term investment, but you shouldn’t put all your money into your home at the expense of your pension. Pensions can have many advantages over property, including tax relief and employer contributions (in the case of most workplace pensions).

4. Not reviewing your pensions

Many people think that just having a pension means they will be financially prepared for retirement, but they don’t always understand that it’s necessary to review these plans on a regular basis in order to get the most of of your returns.

If you find you have a shortfall, you may still be able to take steps to increase the chances that your pension pot will be able to achieve the income you want when you retire.

A pension review with a financial adviser could be a wise move, it may give you the chance to go over everything to see if you are heading where you want to.

5. Not assessing all your retirement options

It’s important that you spend time assessing all your options and get good advice, it could be a wise move to seek professional financial advice.

To better understand the choices for using your pension pot, a useful start is Pension Wise – the free and impartial service backed by the government.

6. Thinking you have to stop work completely

Phased retirement can offer many advantages and not just financial. Winding down into retirement can give you time to build up new hobbies helping to enable a smooth transition into full retirement.

7. Falling victim to a scam

For most people in the UK, their pension savings can be one of their largest financial assets, saving towards their retirement over the course of their working lives.

Unfortunately, because of the size of individual pension pots, pension savings can be an attractive target for criminals.

It’s always best to check who you are dealing with and be on your guard if you’re approached about your pension.

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Atrium Financial

3 Eldon Place,
Bradford,
West Yorkshire,
BD1 3AZ

Tel: 01274 900420

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