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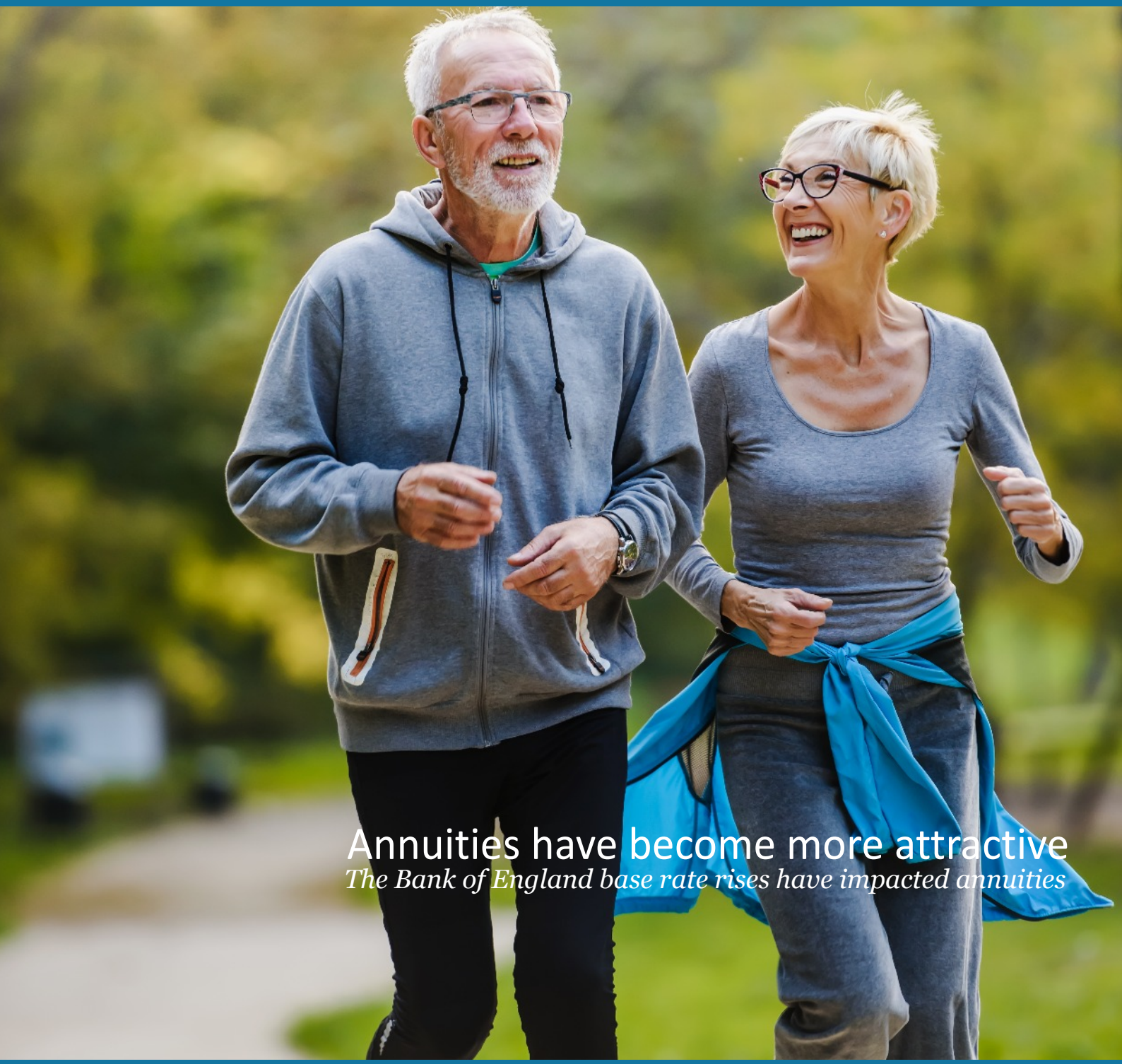
Winter Newsletter 2022/2023



Annuities have become more attractive

The Bank of England base rate rises have impacted annuities

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Inside this issue

Annuities have become attractive

The Bank of England base rate rising sharply over the last year have impacted on annuity rates and according to Canada Life, annuity rates have hit a 14 year high making annuities much more popular.

Annuity options

If you decide to take out an annuity, there are many different types of annuity and options to choose from. One important decision you will need to make is to decide whether you want the annuity to pay out to someone after you die.

Changes to your State Pension

Your State pension might be lower if you have ever been contracted out of the additional State Pension. You need to check your contributions. From April this year the rules about voluntary contributions are changing.

Tips to help keep the heat in

We haven't got to the end of winter and concerns over the rising cost of energy and keeping warm are high. With people aged between 55 and 74 more likely to reduce their gas and electric use we have put together a few tips.

Autumn Statement Highlights

Jeremy Hunt says the government will deliver a plan to tackle the cost of living crisis and rebuild the UK economy. The chancellor says his priorities are stability, growth and public services, and is providing "fair solutions" despite taking "difficult decisions".

Welcome to the winter 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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Annuities have become more attractive

What you do with your personal pension is an important decision and not one you want to take lightly. Once you're eligible - you can take up to 25% of the money built up in your pension as a tax-free lump sum.

The options you have for taking the rest of your pension pot include: taking all or some of it as cash, buying a product that gives you a guaranteed income (sometimes known as an **'annuity'**) for life or investing it to get a regular, adjustable income (sometimes known as 'flexi-access drawdown').

An annuity pays a guaranteed income and although it offers security it can lack flexibility. You can use some or all of your defined contribution pension towards an annuity as part of your retirement strategy.

The Bank of England base rate rising sharply over the last year have impacted on annuity rates and according to Canada Life, annuity rates have hit a 14 year high making annuities much more popular.

https://moneyfacts.co.uk/news/retirement/average-annuity-rates-reach-14-year-high/

Pros of buying an annuity

Guaranteed income

The money you get from an annuity doesn't run out: the provider guarantees to pay you a certain amount at regular intervals. A lifetime annuity will continue for as long as you live (and longer if death benefits are included), whereas a fixed term annuity continues for the specified term.

Protection against inflation

Some annuities – known as index-linked annuities or increasing annuities – pay a higher amount every year in order to counter the effects of inflation. But this feature comes at a cost, and income in the early years will be lower than with a level annuity.

Income for your spouse, partner or chosen beneficiary

A joint-life annuity provides you with an income for life, but then transfers to your spouse, partner or any other chosen beneficiary when you die and pays them a regular income for the rest of their lives.

Cons of buying an annuity

Annuities are irreversible

Once you have entered into an annuity contract, you may only have a short period when you can still change your mind (in most cases 30 days). After that you can't change the decision.

Rates can be low

Annuity rates fluctuate therefore if you buy when the rate is low, your income is fixed at this rate.

No further benefit from investment growth

If you left your money invested in the stock market, you could make considerable gains if the value of your assets rise – this could help provide a more comfortable retirement.

(Of course, the opposite is also true, and you could lose money and see your income and savings diminish.)

Inflation can eat away at your income

If you opt for a level annuity, your income can lose much of its spending power over time as a result of inflation.

The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.

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

Annuities - a guaranteed income for life

Type	How it works
Single life	A single life pension is only paid for your lifetime and will stop when you die.
Joint life	Payments continue to your spouse, civil partner or other dependant after you die.
Fixed / Level	This means you'll get the same pension payments each year for the rest of your life.
Increasing	The amount increases each year to reduce the effect of inflation.
Guaranteed Period	Pays out for at least a guaranteed minimum term even if you die within that term.
Enhanced or Impaired	You may be paid more or you may receive a higher annuity than a standard annuity if you smoke or have a medical condition, e.g. diabetes or high blood pressure.
Value Protection	This is another form of protection that can provide a lump sum to your beneficiary if you die before you've had back, as income, the full amount used to buy your annuity.

You can't change your mind

An annuity is an insurance product that allows you to exchange some (or all) of your pension savings for a guaranteed regular income that will last for the rest of your life.

Once you take out an annuity you can't change your mind – and it's just one of several options you have for providing a retirement income. So, it's important to be sure that it's the right choice for you.

How much you get is determined by the rate the annuity provider offers.

People who have serious health problems may be offered a higher rate than someone who's likely to live for many years. The insurer is essentially taking a bet that it won't end up paying out more than the total pot.

As you near your retirement age, your pension provider should send you information about the value of your pension pot and the options that are available to you to take money from your pension.

An annuity could be an option you choose. It's a long-term investment that is issued by an insurance company and is designed to help protect you from the risk of outliving your income.

There are many different types of annuity and options to choose from, one important decision you will need to make is to decide whether you want the annuity to pay out to someone after you die.

The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.

Rules on Voluntary National Insurance contributions are changing

For men born after 5 April 1951 and women born after 5 April 1953, there is still a narrow timeframe to potentially boost your State Pension entitlement by way of voluntary National Insurance (NI) contributions. The current extended window, which allows eligible people to go back up to 16 years, is coming to an end on 5 April 2023. After this date voluntary NI payments can only be made for the past 6 years.

Your 'flat-rate' State Pension (for those who reached pension age on or after 2016)

A 'flat-rate' state pension was brought in on 6th April 2016. While the overhaul was designed to make the system easier to understand, it's still far from simple.

The flat-rate state pension ONLY applies to those reaching state pension age on or after 6 April 2016. This means millions of older people have simply carried on receiving their state pension under the previous system.

The full new State Pension is currently £185.15 per week. What you'll receive is based on your National Insurance record.

You'll usually need at least 10 qualifying years on your National Insurance record to get any State Pension and 35 qualifying years to get the full new State Pension.
You will get a proportion of the new State Pension if you have between 10 and 35 qualifying years.

What's happening in April?

You have until 5 April 2023 to pay voluntary contributions to make up for gaps between tax years April 2006 and April 2016. After April 5th 2023 (those that qualify) can only make voluntary contributions for the last 6 years.

Boosting your pension

If you're aged between 45 and 70, you may find that buying extra national insurance (NI) years is the best way to boost your state pension. If you're eligible, the returns can potentially be worthwhile. One year of National Insurance eligibility costs £800 and it adds around £275 a year to your state pension. So, the break-even point is only three years.

If you're a man born after 5 April 1951 or a woman born after 5 April 1953, you have until 5 April 2023 to pay voluntary contributions to make up for gaps between April 2006 and April 2016.

Contact us for advice

If you have any questions about whether you should pay National Insurance Contributions to boost your State Pension , please contact us.

The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.

Some simple tips to help keep the heat in

We haven't got to the end of winter and concerns over the rising cost of energy and keeping warm are high. People aged between 55 and 74 have been reported to be more likely to reduce their gas and electric use due to the cost-of-living crisis. As the temperature remains cold, here's some simple tips that may help with reducing your heating bills to help to keep you warm.

1. Wrap up warm

Bundle up and dress in layers. Wear warm socks and slippers and make use of blankets and hot water bottles . One of the most budget-friendly heating solutions in winter is to fill a hot water bottle with hot water and tuck it in next to you, whether you are sitting down or lying in bed. It might look silly but you could even consider wearing a hat indoors to keep your head warm; it's where we lose heat.

2. Keep drafts out and the warm air in

The best way to keep your home warm without turning up the heating is to stop heat from escaping. Close doors and windows and think about draft excluders. If you don't have a draught excluder, you can easily make your own by stuffing tights with old socks. If you have furniture blocking the radiators then you're blocking heat from getting into the room, so move that couch away from the radiator. Thick curtains and rugs can help in insulating a room.

3. Heat a person not a home

Close off the rooms you don't use and switch off the radiators. Think about investing in an electric throw. Electric blankets and throws are actually surprisingly economical.

4. Have warm food and drinks and keep active

When it's cold inside and out, the easiest way to warm yourself up is to eat a hot meal or sip on a hot drink. Have regular hot drinks and food, porridge, soups or stews. Get your body moving, to boost circulation, you can soon get cold when sitting still for extended periods.

5. Pile it on

Heat up your bed. Add extra blankets to your bed and consider an electric one. If you aren't using an electric blanket use a hot water bottle too, but be careful to use hot not boiling water to avoid scalding.

6. See what support you can get

Depending on your circumstances you may be eligible for winter fuel: gov.uk/winter-fuel-payment or call 0800 731 0160 to see if you're eligible.

Autumn Statement Highlights

In November Jeremy Hunt, the new Chancellor, announced his Autumn Statement which U-turned on much of September's previous mini-budget.

Jeremy Hunt said "We deliver a plan to tackle the cost-of-living crisis and rebuild our economy. Our priorities are stability, growth, and public services."

Corporation Tax

The planned increase in the Corporation Tax rate to 25% for companies with over £250,000 in profits will go ahead.

Income Tax

The personal allowance will remain frozen at £12,570 and maintained the basic rate of 20%. The threshold at which individuals become liable for the higher rate of 40% will remain at £50,270, in both cases until April 2028.

Additional rate of income tax (ART) threshold will be lowered from £150,000 to £125,140 from 6th April 2023.

National Insurance

In July, the threshold at which workers start paying National Insurance Contributions (NICs) was raised from £9,880 to £12,570.

Stamp Duty (mini-budget in September)

September's mini-budget saw an increase in the threshold up to which Stamp Duty is not paid (nil rate threshold) from £125,000 to £250,000 as well as an increase in the maximum amount first-time buyers can buy a house for and still be eligible for relief, from £500,000 to £625,000. Mr Hunt has kept these changes in place, but announced the changes are to be temporary and would remain in place until 31 March 2025.

Businesses

The Autumn Statement maintains the National Insurance Contributions Secondary Threshold for employers at £9,100 until April 2028 and the VAT registration threshold at £85,000 for two years from April 2024.

£13.6 billion of support for businesses over the next 5 years was announced. Which includes increasing relief for retail, hospitality and leisure.

Social Care Levy

The Government announced it was delaying the rollout of social care charging reform from October 2023 to October 2025. The social care levy had been proposed to increase national insurance contributions to support the NHS.

Energy

The Government is extending the Energy Profits Levy to the end of March 2028, and increasing its rate by 10% to 35% from 1st January 2023. The government will also introduce a new, temporary 45% Electricity Generator Levy from 1 January 2023.

From April 2023, the government will adjust the Energy Price Guarantee, which places a limit on the price households pay per unit of gas and electricity. This means that a typical household in Great Britain will pay £3,000 per annum from April 2023 to April 2024.

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