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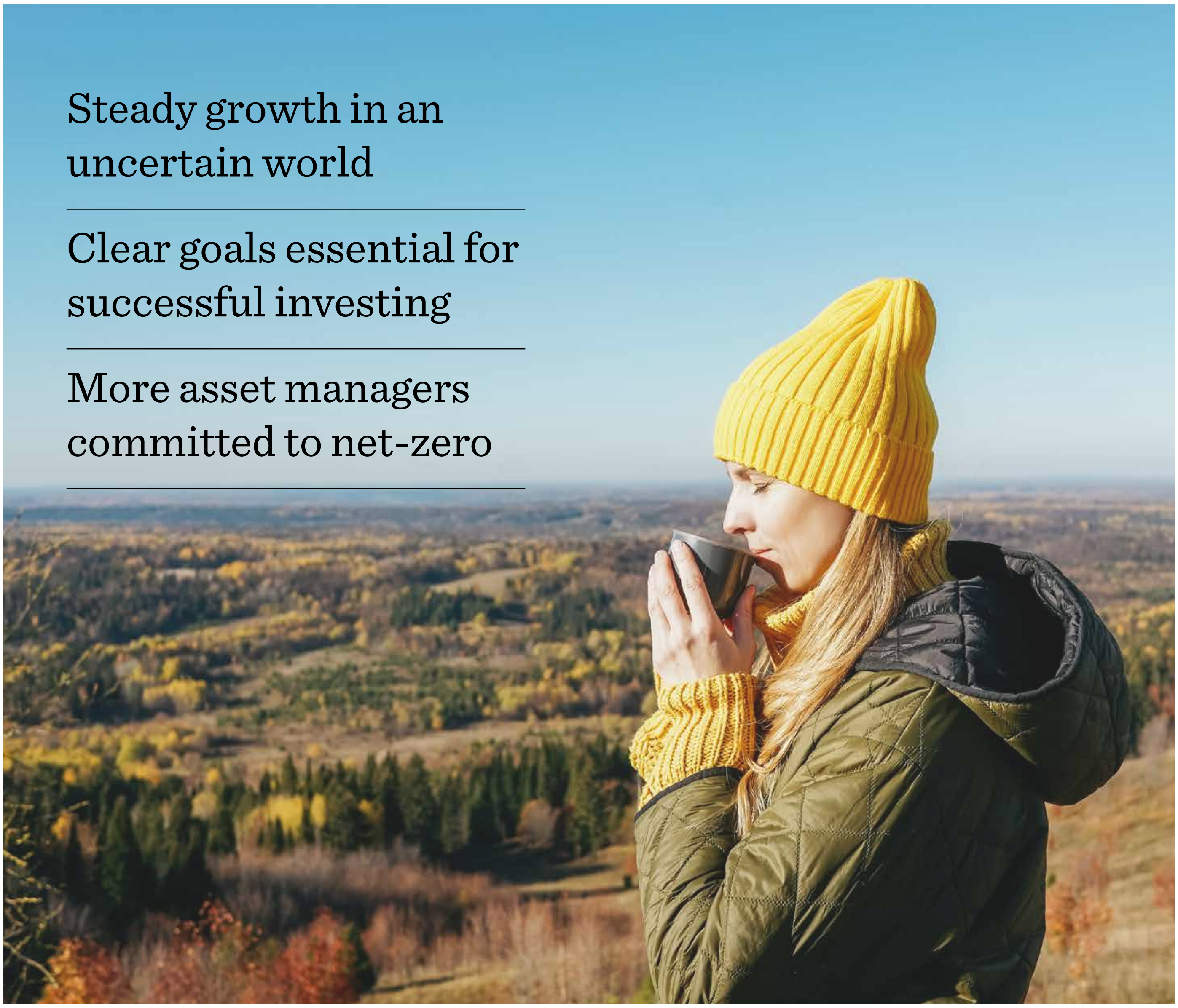
Essentially Wealth



Steady growth in an uncertain world

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Quilter Financial Planning

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Steady growth in an uncertain world

In times of uncertainty, steady economic progress provides resilience. After a turbulent few years, the latest set of projections foresee a period of reliable global growth.

Growth rates beat expectations

Economic growth figures released over the summer generally proved stronger than analysts had expected. Global growth for the whole of 2024 is now likely to be 3.2%, according to figures from the International Monetary Fund (IMF)[1]. In 2025, the predicted rate is 3.3%, a healthy pace of growth after a difficult few years.

Not out of the woods

Despite positive headline growth forecasts, the IMF also highlighted some economic concerns, including large budget deficits and geopolitical tensions, which will create ongoing challenges for the global economy.

With many major world economies now cutting rates, it's sending a global message that the worst of the three-year inflationary shock is now behind us.

Slower but still positive growth, lower inflation and interest rate reductions are a positive combination for investors.

Long-term thinking

Whatever uncertainties do lie ahead, the basics never change: a long-term approach to finances and investments is advisable. Please get in touch with any questions or concerns you may have.

[1]IMF, 2024

Clear goals essential for successful investing

Investing can seem complex. Start by thinking about your financial goals. It could be saving for retirement, buying a home, funding education or simply growing your wealth.

Balancing current needs with future goals is crucial. This might involve paying off debt and maintaining an emergency fund. Make sure your goals are realistic and achievable.

If you have several goals, it can be hard to prioritise and compromises might be needed. Consider how much time you have, how much risk you can handle and how much you can invest.

Considering time frames

While stock market movements are beyond your control, you can decide how much you want to invest. Over shorter time frames, contributions matter more, whereas for longer horizons, investment returns become more significant.

For example, in a two-year plan, 94% of progress comes from how much you're investing, but with a 30-year plan, your contributions and investment returns contribute equally[2]. We can help you to understand this balance, so you stay on track for your goals.

[2]Vanguard, 2024

Make sure your goals are realistic and achievable

More asset managers committed to net-zero

More than 325 asset managers have made individual commitments to net-zero alignment by 2050, according to the Net Zero Asset Managers' latest Target Disclosures Report[4].

In good news for the asset management industry's climate commitments, more managers are taking seriously their environmental responsibilities and making strong pledges to reach net zero faster. Collectively, those with 2050 commitments represent more than $57.5tn in assets under management. Moreover, some 264 signatories have set and disclosed targets to guide their individual net-zero investment practices, as of 31 January 2024, a significant rise since the first release in 2020.

Since the last disclosures announcement, more than 30 asset managers have newly joined the initiative. Another 90 have disclosed targets, while some 53% of signatories with target disclosures have set alignment targets.

[4]Net Zero Asset Managers Initiative, 2024

Aligning philanthropy and impact investing

Impact investing, where you purposefully select investments that are aimed at achieving certain social and environmental benefits, provide an opportunity to have a positive impact while potentially benefiting from financial returns.

ESG and impact investing

The concept of ethical investing has become more popular in recent decades. In 2004, the term ESG was coined, which refers to investments that prioritise environmental, social and governance factors. In practice, ESG investing often means avoiding companies or sectors that are linked to unethical activity. Impact investing is more of a proactive approach to change – it specifically focuses on organisations that are committed to having a measurable social or environmental impact.

The current focus of wealthy investors

A report[3] found that 68% of ultra-high-net-worth private investors with an average $730m in assets felt that philanthropy should be combined with impact investing to generate impact. For example, you could donate to a charity project in its infancy, which you could then invest in further down the line.

A fulfilling investment option

With some effective planning, blending philanthropy with impact investing can be highly rewarding. You can have peace of mind that your money is being ethically invested.

[3]Barclays, 2023

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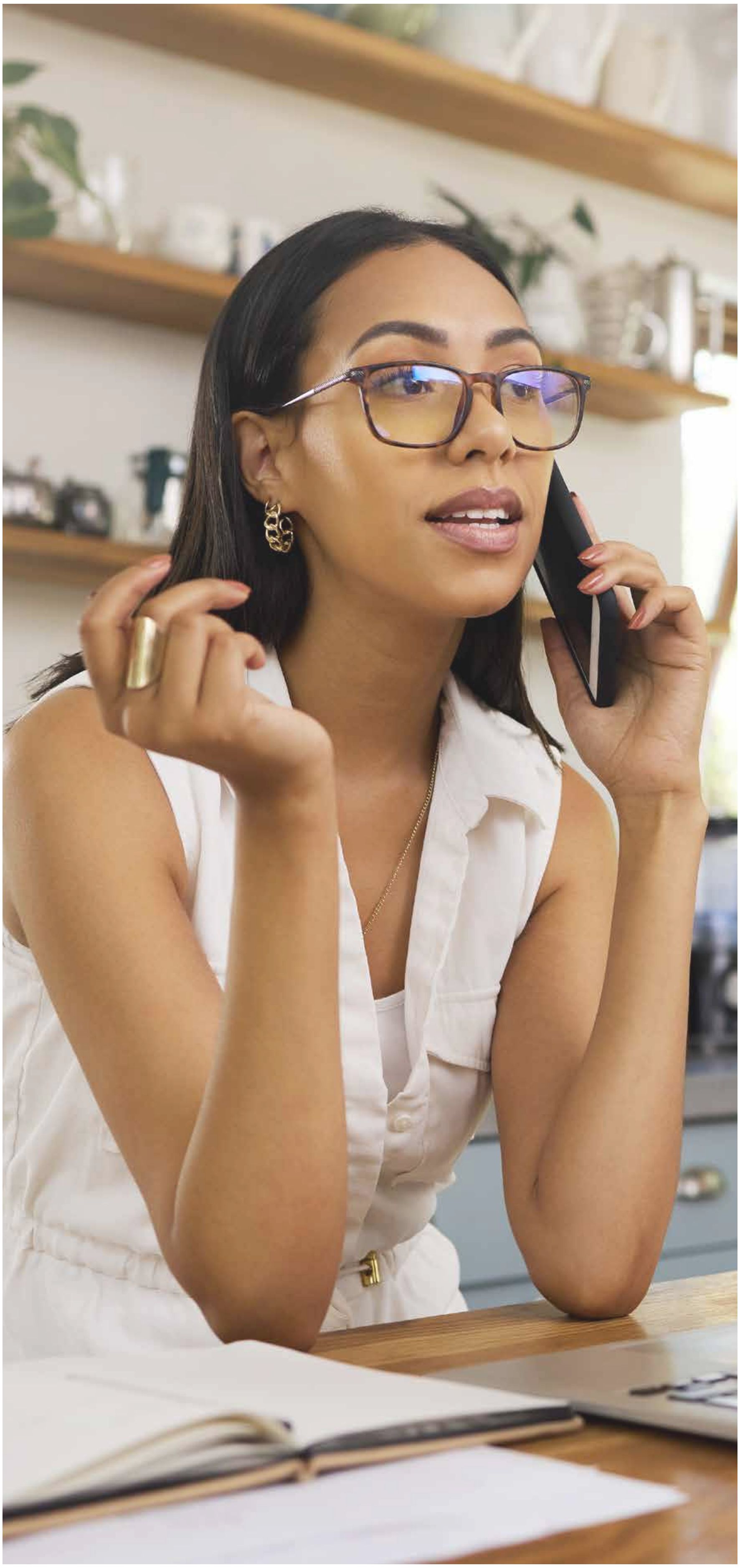

Accepting and preparing for market turbulence

If you're invested in the stock market, let's be honest, it doesn't always go hand in hand with feelings of calm! And that's ok because markets fluctuate, it's how those fluctuations are handled and prepared for that make all the difference.

Stock market investing is a well-regarded prudent long-term strategy for many investors. Throughout your investing life you'll no doubt experience many market dips. Only by maintaining a long-term focus and staying invested will you benefit from the recoveries that typically follow. We've all heard about 'time in the market' (versus 'timing the market') as an approach to long-term investing, which highlights the importance of the length of time spent in the market rather than trying to predict the best times to buy or sell. This strategy is based on the belief that, over time, the stock market will provide a positive return despite periods of volatility.

Don't risk selling your investments and sitting in cash during stock market downturns, you will typically underperform those who remain invested.

So, focus on keeping calm and retain your composure, block out any 'noise' because it's a known known that markets are reactive and fluctuate, it's normal. Set realistic expectations and goals, and build a diversified portfolio across a broad spread of investments and global markets, so you can benefit from investments that may perform well when others are falling, it's all in the planning.

Always in control

If you're mentally prepared, realistic, have a strategy and are supported by professional advice, you'll navigate the choppy waters feeling settled and in control.

Beware a drawdown disaster / Managing your pension

Before 2015, retirees had to buy an annuity, guaranteeing income for life. This changed with 'pensions freedom' which allowed people to access their pension pot from age 55. The idea was welcomed at the time, but many now face challenges managing their pension.

Pension pots are often too small to last 25 years or longer, especially with rising living costs. Unexpected expenses, like home repairs or car bills, can quickly drain savings.

The situation has worsened with the cost-of-living crisis. New data from the Financial Conduct Authority (FCA) [5] shows a significant increase in pension access and withdrawals, with the total number of pension plans accessed for the first time in 2023/24 surging by 19.7%, to 885,455 compared to 739,652 in 2022/23. Jon Greer, Head of Retirement policy at Quilter commented on the data, *"This substantial increase indicates that more individuals are turning to their pensions to manage their financial needs, likely influenced by the cost-of-living crisis forcing people to dip into their pension pots to supplement other forms of income."*

It can be difficult for retirees to estimate how long they'll live and many overspend because daily expenses like food and housing are higher than expected. As a result, more people are at risk of running out of money in retirement. In fact, FCA data shows the most common rate of withdrawal was 8% a year or more, which is double the recommended 4% rate.

Don't act in haste

If you need any help with your pension arrangements, please get in touch, we can help you manage a sustainable withdrawal strategy in retirement.

[5]FCA, 2024

This substantial increase indicates that more individuals are turning to their pensions to manage their financial needs, likely influenced by the cost-of-living crisis forcing people to dip into their pension pots to supplement other forms of income

Avoiding the unretirement 'tax trap'

Many over-55s are returning to work or planning to 'unretire'. Having additional income in retirement is a great idea, but it's essential to consider the tax implications of this decision to avoid falling into a tax trap.

Research[6] shows that over a quarter of people aged 55 and above plan to work after retiring. Some want extra income for luxuries, while others seek mental stimulation or a sense of purpose.

The problem is, nearly two-thirds of those planning to unretire haven't checked how this could affect their tax bill. Additionally, 60% have no plans to seek financial advice about the matter.

Working in retirement may increase your tax liability, especially if your income pushes you over the personal tax threshold or into a higher tax bracket. To avoid this, it's essential to understand your tax situation and make use of any available reliefs or allowances.

If you're currently working in retirement or thinking about doing so, getting financial advice can help you manage your income and avoid falling into the unretirement tax trap. A tax-efficient plan can keep your finances steady while maximising your earnings.

[6]Wesleyan, 2024

Take a flexible approach to retirement

Since 2015, those over the age of 55 have had more flexibility about how they access some of their pension savings. You can now decide how much income you need and can easily change the amount. So, more people are considering a phased retirement, where they move into part-time work.

Retirement priorities

In a survey[7] of adults aged 50 to 70, 30% of respondents wanted the certainty of a guaranteed income in retirement. Meanwhile 28% wanted to keep their pension invested so it could potentially grow and 33% wanted a mix of the two.

Stay flexible

It is now possible to mix and match. For example, if you retire gradually, you could start off by taking a smaller regular income from your pension, to top up your part-time earnings.

The rest of your pot will stay invested and have the potential to keep growing. As the article 'Avoiding the unretirement tax trap' shows, you need to be mindful of the tax implications.

[7]Vanguard, 2024

30% of respondents wanted the certainty of a guaranteed income in retirement

Self-employed? Start saving for retirement!

Receiving a bonus at work is a rewarding experience, but it's important to remember that bonuses are subject to Income Tax and National Insurance Contributions, which can significantly reduce the amount you take home. A substantial bonus may even push you into a higher tax bracket, further diminishing your net gain.

The self-employed sector is growing, with over one million people becoming self-employed since 2020[8]. A concerning proportion (45%) of the UK's self-employed population are not saving for retirement[9]. So, there is a risk that many people will reach retirement age and realise they can't fund the life they had been dreaming of.

No time like the present

It's a legal requirement for employed people to be automatically enrolled into a pension scheme by their workplace. If you are freelance, you need to sort this yourself. The earlier you start making pension contributions, the more you can grow your investment. Putting it off will just mean that you need to save more in a shorter amount of time if you want to achieve your retirement goals.

Make regular contributions

We know there is already a lot to consider if you're self-employed, as you have to put aside money for your tax bill but try to work out a minimum monthly pension contribution that feels manageable. You can then put a bit extra into the pot if you're earning more.

If you're not sure where to start, let's talk it through.

[8]IPSE, 2024, [9]IPSE, 2023

What is 'loud budgeting'?

Loud budgeting is a newfound tendency for people to be more open about their finances with friends and family.

By announcing what they do and don't want to spend money on, loud budgeting is allowing people to set boundaries with loved ones and be more in control of their finances.

Research[10] has shown that Gen Z (aged between 18 and 27) are most comfortable loud budgeting, with most happy to have these conversations with friends (61%) and family (71%). In contrast, only half of those aged 35 to 54 and 55+ feel at ease loud budgeting with friends, while 61% and 69% respectively are comfortable doing so with family.

[10]Standard Life, 2024

A savings habit can help with feeling positive about the future and financially protected against unexpected events

Savers increase life satisfaction

We all know how a savings habit can help get our money into better shape. But a report from UK Savings Week has revealed that regular saving can improve personal wellbeing too.

Look after the pennies

The research revealed that keeping up a savings habit can increase life satisfaction. Savers on the lowest incomes were found to benefit most from regularly putting money aside, with 53% of this group reporting that they are satisfied with their life, compared with 40% of low-income non-savers[11].

Savings habit

Interestingly, low-income savers had similar satisfaction levels to those on much higher incomes who were not regularly saving. This highlights that, no matter how much money you are saving, it is the act itself that may be boosting wellbeing. A savings habit can help with feeling positive about the future and financially protected against unexpected events.

[11]UK Savings Week, 2024