WALLIS WEALTH

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WALLIS WEALTH LIMITED

Thanks for reading our newsletter. If you want to discuss any of the articles in more detail, please get in touch.

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Decumulation

Why a plan is crucial when you start to spend your wealth

Making your retirement savings last a lifetime

To help ensure a sustainable income, you first need to understand how much you'll need to live on.

— **On the go** – during the early stages of retirement, there's a strong likelihood that you'll spend more on travel, hobbies, or home improvements

— **Slowing down** – while you may be slightly less active, you're still busy with hobbies, but you may be less inclined to long-haul travel

— **Coming to a stop** – in later life, your mobility may be more limited, and you may require care.

Structuring a sustainable income

The most efficient retirement income strategy should be planned well in advance and ensure that:

— Allowances and exemptions are used to their full capacity

— Married couples plan together so income and assets are allocated effectively.

Regarding capital withdrawals, you may want to consider decumulating using cash first, followed by taxable investments, ISAs, and finally pensions.

Tax efficiency is key

While tax-efficient accumulation helps enhance your wealth for the retirement you desire, tax-efficient decumulation helps preserve your capital and increases the chance of having money to leave to your loved ones.

So, maximise all your tax allowances including:

— Income Tax allowances

— The Dividend allowance

— 5% return of capital allowance from investment bonds

— Personal savings allowance

— ISA allowance

— Capital Gains Tax allowance

By planning together, couples can use these allowances to maximise the amount of tax-free income available.

Consider spending excess cash first

Ideally, you should hold an emergency fund to cover around six months of regular expenditure. If you have more cash available, consider using this before withdrawing from pensions investments. Using excess cash allows you to leave funds invested, which may provide enough time for funds to recover any lost value.

Get in touch

If you'd like help to create a financial plan to structure a tax-efficient income in retirement, we can help. Please get in touch to arrange a time to chat.

Think twice before drawing on your pension

While you may consider your pension as the foundation of your retirement plan, if you have other income that uses your tax allowances, it may be prudent to defer drawing on your pension.

Since pension funds benefit from tax-free growth, interest, and dividends, leaving your pension invested is especially useful for maintaining capital value. Plus, pension funds are usually not subject to IHT. So, leaving your pension fund intact while drawing on other investments may help to reduce your IHT liability.

Enjoy flexibility from ISA savings

ISAs are considerably more flexible than pensions. Growth, interest, and dividends are all free of tax and you can withdraw money tax-free without restriction. As for IHT, ISAs can be passed between spouses on death, which preserves the tax-efficient treatment.

Useful in reducing tax in retirement, you can use your ISA to:

— Fund large, one-off purchases

— Top up your income – especially useful if your pension exceeds your tax-free allowance

— Make your portfolio more efficient over time, by gradually moving taxable funds across.

Take a savvy approach to investment accounts

A basic and flexible wrapper, investment accounts can hold funds, shares and investment trusts. Interest and dividends are taxable at your marginal rate and selling assets can incur Capital Gains Tax (CGT) if your profit exceeds your annual exemption *(£12,300 for 2021/2022 or, for a couple, £24,600. In the 2023/24 tax year, the CGT exempt amount will fall to just £6,000, or £12,000 for a couple).*

The following strategies can help reduce tax:

— Phase your taxable investment accounts into ISAs

— Use your annual CGT exemption to avoid large gains rolling up

— Structure your investments depending on the type of income they generate

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.

Past performance is not a guide to future performance and should not be relied upon. An ISA is a medium- to long-term investment, which aims to increase the value of the money you invest for growth or income or both.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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Regular investing: 5 ways saving little and often could help you grow your wealth

When it comes to investing your money, making small regular investments can provide more benefits than investing a lump sum.

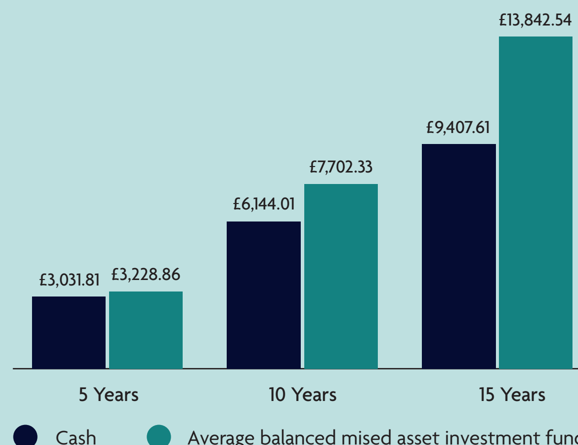
Through regular investing, you can invest a small amount into the markets every month. Investing little and often is a great habit to develop and instil in younger family members, too.

Instead of saving up a chunk of money to invest in one lump sum, investing this way can make a significant difference to your overall levels of wealth over the longer term.

One big benefit of investing a small regular sum is that, instead of saving your cash until you have a lump sum, you're putting your money to work straightaway. Even with rising interest rates, leaving money sitting in a bank account can be less profitable than investing it in the market.

The chart below illustrates the benefits of adopting a regular savings approach, comparing the historic outcomes of investment in the stock market compared to a cash deposit account.

The value of £50 per month invested in an average balance mixed asset investment v cash over 5, 10, and 15 years.



Read on for five more reasons why it can pay to drip-feed your money into the markets.

1. Form a healthy and potentially profitable habit

Investing regularly helps you to build good habits and keep you committed to a long-term investment strategy. No matter how little you put away, over time, your steady and regular investment should build up.

A good way to start is to invest a fixed portion of your income every month. Then, as your income fluctuates over your working life, simply adjust the amount you're saving in line with the amount of money you are making.

2. Limit your exposure to one-off events and benefit from pound cost averaging

Global stock markets can be unpredictable and volatile. They move up and down frequently, sometimes sharply. This is why, when investing in stocks and shares, it's important to take a long-term view – usually at least five years.

Saving regularly means you can benefit from "pound cost averaging" and this helps smooth out the market's peaks and troughs. Although there's no guarantee of this, the theory is that when markets are low, you acquire more shares or fund units for your money, and when markets are high, you acquire less.

So, by drip-feeding your money into an investment over a period of time, you will inevitably end up investing across a range of prices. In effect, you should pay the average price over a fixed period, which can help to reduce your risk and, potentially, provide smoother returns.

3. Reap the rewards of compound growth

Compound growth is one of the most powerful and underrated benefits of long-term investment.

Investing small amounts of money each month could mean you start investing sooner. And the sooner you start investing, the longer your money will be exposed to the growth potential of both being in the markets and from compounding.

The powerful effects of compound growth mean that even small sums add up and can help make a big difference later down the line.

As you might imagine, compounding has its largest impact during the latter stages of your investment journey; 5% growth on £100 is only £5, but 5% growth on £1,000 is £50.

So, if you want to reap the rewards of compound growth, start early, and establish (and maintain) a good savings habit.

4. Instils good investing discipline

Some people hesitate over when to invest money and attempt to time the best moment to buy in to the market. This approach is incredibly difficult and even seasoned fund managers don't try to time the market.

In fact, professional investors and fund managers with large sums to invest will often drip-feed their funds into the market over time.

If it's good enough for the experts, it a great approach for novice investors!

5. Pick up potential bargains

When stock market prices start to fall, many people panic. They will often sell their investments and, when spooked by market changes, many investors may refuse to re-enter the market until things settle down.

Because fear can sometimes drive prices artificially low, this is often the best time to buy into the market. So, adding to your investment at these times may mean that you enjoy larger returns when the markets rally.

If you find it difficult to remove emotion from investing and struggle to benefit from market downturns, regular investing can help by removing the emotional element of buying into the stock market.

GET IN TOUCH

If you're interested in finding out more about how you could invest your money wisely and potential profit from long-term growth through regular investing, we're here to help.

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Past Performance is not a guide to future performance and should not be relied upon.

Approved by The Openwork Partnership on 18.05.2023

Is drawdown right for you?

2 important questions to consider

If you have a defined contribution pension, you can access your retirement savings in a variety of ways. One of those options is drawdown – a flexible approach for dipping into your savings when you need to. Read on to learn more about it.

What is drawdown?

Drawdown is the process of withdrawing a lump sum or a regular income directly from your pension fund, leaving the rest invested in your portfolio. There are some important tax implications to consider with drawdown.

You can access up to 25% of your total pension fund tax-free.

If you wish to withdraw more of your fund, you will pay Income Tax on anything above the 25% threshold. This means that taking large sums of money from your pension could push you into a higher tax bracket.

Pensions will usually fall outside of your estate for Inheritance Tax (IHT), provided they have not been moved out of your pension or drawdown fund. If you die after the age of 75, any income your beneficiaries receive from your pension may be taxed at their usual rate.

An annuity might be more appropriate for you

If drawdown isn't right for you, buying an annuity might be a suitable alternative. An annuity is a guaranteed annual income for life that you can buy using a lump sum from your pension. Some annuities pay a fixed amount while others rise with inflation.

Annuity rates rose by 44% between October 2021 and October 2022, making them an attractive proposition for those looking for financial security in retirement.

1. How much income are you likely to need throughout your retirement?

Your specific circumstances will influence how much income you need through retirement and the method you use to access your pension savings.

Cashflow modelling can help you to see if your savings are sufficient to support you throughout your life. Your financial planner can input data such as your current assets and savings, key event dates such as your expected retirement date, and any financial commitments you have now or in the future.

To forecast your future income, the software makes assumptions about the expected returns on investments, and how inflation might change things.

By regularly reviewing your cashflow model, you will understand how much income you are likely to need. We can help you to decide the best options for accessing your pension.

If your income needs are likely to vary throughout your retirement, drawdown might be an appropriate choice.

It's also important to be realistic about any later-life care costs you might require, so that you can plan effectively.

2. How long will your pension need to last?

For people living in the UK today:

— A man aged 55 has an average life expectancy of 84 years, and a 1 in 10 chance of living to age 97.

— A woman aged 55 has an average life expectancy of 87, with a 1 in 10 chance of living to age 99.

So, if you decided to access your pension at age 55, it may need to last you for more than 40 years.

One theory for ensuring your pension fund lasts long enough using drawdown is "the 4% rule". As a rule of thumb, you take 4% of your total pension fund in year one – the gross figure should include the cost of fees and taxes – then take the same amount of money each year thereafter, adjusting for inflation[7].

Since 4% may not be appropriate for your personal circumstances[8], it's important to consult your planner on the withdrawal rate that is right for you.

When you take a lump sum through drawdown, the remainder of your pension will need to be invested, so a further consideration is the fund that you will invest in. The value of this investment could go down as well as up, so you may also wish to set aside some money in cash or buy an annuity to provide a safety buffer in the event of market volatility. Life events might change the level of risk you wish to take with your investments, so you should review your portfolio with us on an annual basis.

Get in touch

If you'd like to learn more about whether drawdown is right for you, we can help. Please get in touch to arrange a time to chat.

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