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Summer Newsletter 2024

It’s been 25 years of the ISA!

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Inside this issue

25 years of the ISA!

It's been 25 years since the ISA was started. Quite recently many changes have been announced; both in the autumn statement 2023 and the spring budget 2024. The changes can be confusing so we have simplified them for you.

Have you got enough for a rainy day?

The main benefit of a flexible ISA, is that you can access your money in an emergency, should you need to withdraw funds. You can also re-deposit that money during the same financial year back into your account without disrupting the balance or impacting your annual ISA allowance.

Working in later life

There can be many positives to working in later life. It's always good to have the choice and work because you want to rather than need to.

How much has your State Pension increased by?

From April 2024, the full rate of new State Pension is £221.20 a week and £169.50 a week for the full, old basic state pension.

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

These newsletters are intended to bring a few key topical issues to your attention. If you would like to discuss any of them (or any other aspect of your financial planning) in more depth, please contact us.

Please note: We may not necessarily advise on all the topics in each newsletter, but thought they may be of interest to 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 pensions and investments and the income they produce can fall as well as rise and you may not get back the full amount that you originally invested.

The ISA is now 25 years old!

It's 25 years since Individual Savings Accounts (ISAs) were introduced in April 1999.

ISAs were created to encourage us to save and invest money by providing various tax benefits. One of the main benefits is that any interest, dividends, or capital gains earned within the account are typically tax-free.

Each tax year (which runs from April 6th to April 5th of the following year), the government gives us an annual ISA allowance - the allowance for 2024/25 remains at £20,000. As with previous years, the maximum amount you can invest in ISAs in a single tax year is £20,000. This allowance applies regardless of the type and number of ISAs you open. Junior ISAs have a lower annual limit of £9,000 though.

However, your yearly ISA allowance doesn't roll over to the next tax year, so if you don't use it, it's lost.

ISAs are tax-free

The key benefit is that any money you hold within an Individual Savings Account (ISA) is not subject to income or capital gains tax. Your ISAs won't close when the tax year finishes. You'll keep your savings on a tax-free basis for as long as you keep the money in your ISA accounts.

Your ISA allowance

The way you use your ISA allowance is up to you - there's no right or wrong way. You could either put everything into one ISA or split your total allowance between a number of different ISA accounts.

You're allowed to have more than one type of ISA, and it's important to know that you can NOW pay into more than one of each ISA type (apart from a Lifetime ISA) per tax year (as long as you stay within your £20,000 allowance).

There are many different types of ISA:

Cash ISA - you can invest cash in bank and building society accounts.

Stocks and shares ISA - used to invest in stocks and shares (often via collective investments such as unit trusts and OEICs).

Lifetime ISA - £4,000 a year until you're 50 and you must make your first payment into your ISA before you're 40 (which forms part of the overall £20K allowance) into a Lifetime ISA and receive up to a 25% government funded bonus.

April 2024 under 18s

From 6th April 2024 **below 18s will no longer be able to apply for an adult ISA.**

16 and 17 year olds that have a cash ISA already open will be allowed to continue making £20,000 annual contributions in addition to the junior ISA allowance of £9,000 (2024-205 tax year).

The higher minimum age from 16 to 18 for cash ISAs is a transitional change. This means that ISA providers have from 6 April 2024 until 6 April 2026 to comply with the new rules.

The favourable tax treatment of ISAs may be subject to changes in legislation in the future.

The value of investments and the income they produce can go down as well as up and you may not get back the full amount that you originally invested.

The most recent ISA changes

Reforms to ISA - April 2024

Reforms announced in the autumn statement 2023 (took effect 6th April 2024) were to simplify the scheme and widen the scope of investments that can be included in ISAs.

To simplify the scheme the government will:

- allow multiple subscriptions in each year to ISAs of the same type.
- remove the requirement to make a fresh ISA application where an existing ISA account has received no subscription in the previous tax year.
- allow partial transfers of current year ISA subscriptions between providers.
- harmonise the account opening age for any adult ISAs to 18.
- digitise the ISA reporting system to enable the development of digital tools to support investors.

To widen the scope of investments the government will:

- allow Long-Term Asset Funds to be permitted investments in the Innovative Finance ISA.
- allow open-ended property funds with extended notice periods to be permitted investments in the Innovative Finance ISA.
- engage with the finance industry on allowing certain fractional shares contracts to become permitted ISA investments.

Allow multiple subscriptions in each year to ISAs of the same type.

This will make it easier to have ISAs of the same type in different places in the same tax year. It could offer Cash ISA savers the chance to go after more competitive rates more easily, or pick and mix easy access and fixed rates.

Allow partial transfers of current year ISA subscriptions between providers

This will give ISA savers and investors greater flexibility and control. As previously the rules had an all-or-nothing approach to current year ISA transfers. You had to transfer your entire ISA of that type from the current tax year, or nothing at all.

Remove the requirement to make a fresh ISA application where an existing ISA account had received no subscription in the previous tax year.

ISA savers and investors were previously required to reapply for ISAs they already held when there had been a gap of one tax year where no subscriptions were paid.

Harmonise the account opening age for any adult ISAs to 18

The minimum account-opening age for cash ISAs is to be harmonised at 18. It will therefore (since April 2024) no longer be possible for 16 and 17 year olds to open a cash ISA – just a Junior cash ISA where the investment limit is £9,000.

16 and 17 year olds that have a cash ISA already open will be allowed to continue making £20,000 annual contributions in addition to the junior ISA allowance of £9,000 (2024-205 tax year).

New UK ISA (announced in the Spring Budget 2024)

A new "UK ISA", in addition to the existing ISA allowance was announced (start date tbc), giving investors a £5,000 extra tax-free allowance to "encourage more people to invest in UK assets".

The favourable tax treatment of ISAs may be subject to changes in legislation in the future.

The value of investments and the income they produce can go down as well as up and you may not get back the full amount that you originally invested.

Do you have enough for a rainy day?

The idea of "saving for a rainy day", is a reminder to "put something" aside for a future time of need or setting aside some funds to cater for needs. Your account balance may not be sufficient at a later date. It may be worth considering if you have enough for a rainy day.

Life is full of surprises – and sometimes those surprises can be expensive. Having some money tucked away can help you feel more secure and in control.

Your rainy day fund could cover expenses like:

- Car repairs
- House repairs
- Unexpected dental treatment
- Paying for basics if you lose your job
- Paying your bills if you are unable to work for health reasons

With fluctuating interest rates and cost of living constraints; many people may find that savings aren't just nice to have – they can be essential.

It's nearly always sensible to consider the importance of savings.

How much should you save?

Three months of your usual wages or income can be a good amount to aim for. Putting enough aside to pay all your most important bills for several months, if you or your partner lose your job.

The exact amount you need will always depend on your circumstances.

Savings tips

- Aim to build up a savings pot of emergency cash equivalent to three months' income
- Always take a close look at charges and fees on financial products to check how much you're paying
- You could use a rule called '50/30/20' – spend 50% of what you earn on necessities, 30% on savings, and 20% on luxuries
- Try to save something – no matter how small – into a pension as soon as you can
- Make use of your annual ISA allowance, but never invest in an account or fund you don't understand
- Don't buy an item on credit if you wouldn't pay cash for it

Pay off your debts instead

The interest you pay on your loan, credit card or mortgage is likely to be much higher than the interest you can get on a savings account.

This means paying off your debts could save you more money than a savings account could make you in interest. But make sure raiding your savings doesn't leave you short of money in an emergency.

The favourable tax treatment of ISAs may be subject to changes in legislation in the future.

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Working in later life

You don't have to retire when you reach State Pension age; you might find advantages to working in later life. As well as topping up your income, working may also help to keep you mentally, physically and socially active.

Look at other options

For many people, money is a major reason for working past State Pension age, but it's not the only motivation. If you're still fit, enjoy your role and want to keep working, there may be other benefits for your wellbeing.

You don't need to retire at 65

In the UK, 65 years of age (approximately) has traditionally been taken as the marker for the start of older age, most likely because it was the official retirement age for men and the age at which they could draw their State Pension.

The State Pension Age rising to 67 in 2028

The State Pension Age (SPA) will rise to 67 by the end of 2028. Under current legislation the move to a SPA of 68 begins in April 2044, but that timing could change. As of the 2023 review; the government had remained committed to the principle of 10 years notice of changes to State Pension age and will ensure that any legislation can be brought forward in a timely manner.

In terms of working patterns, age 65 years as the start of older age is out of date. There is no longer an official retirement age, State Pension age is rising, and increasing numbers of people work past the age of 65 years.

January to March 2022 saw a record level in the number of people aged 65 years and over in employment. In April to June 2022, the number of people aged 65 years and over in employment increased by a record 173,000 (mainly self-employed) on the quarter to 1.468 million which is also a record level.

https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/peopleaged65yearsandoverinemploymentuk/januarytomarch2022toapriltojune2022/

People are living longer

It's a fact; people are also living longer, healthier lives.

Whether you work after your SPA can depend on your circumstances; you may not be able to afford to retire or you may enjoy some degree of work. It may be wiser to plan for retirement than continued employment; if you have the choice.

We can help you plan your retirement

If you would like advice on planning for your retirement; please feel free to get in touch.

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State Pension - 2024/25 State Pension increase

How much has the 2024/25 State Pension increased by?

If you are a UK resident planning for your retirement, it's important to be aware of the State Pension changes that took effect in the new tax year. From April, the amount you can now receive as part of the UK State Pension has risen, which may be welcome news to those who have retired or are nearing retirement age.

Your State Pension

The State Pension is a four-weekly payment made by the government to people who have reached the qualifying age and have paid enough National Insurance contributions.

In November last year, the government confirmed that the State Pension would increase by 8.5% – in line with the increase in average weekly earnings from May-July 2023 compared to May-July 2022.

The amount you receive could be different depending on:

- if you were contracted out before 2016
- the number of National Insurance qualifying years you have
- if you paid into the Additional State Pension before 2016

This means that the full annual rate of the basic state pension has been over £8,800 from April 2024 and the full rate of the new state pension rose to over £11,500.

From April 2024, the full rate of new State Pension is £221.20 a week and £169.50 a week for the full, old basic state pension.

Annual increases

In line with the "triple lock" commitment - the new State Pension increases each year by whichever is the highest.

- earnings – the average percentage growth in wages (in Great Britain)
- prices – the percentage growth in prices in the UK measured by the Consumer Prices Index (CPI)
- 2.5%

If you have a protected payment, it increases each year in line with the CPI. This year's increase is the second highest on record (the highest being a year earlier in April 2023).

The key to successful retirement planning is to start early and keep informed. By staying up to date with State Pension changes and exploring your options for retirement savings, you may be able to ensure you have a comfortable retirement. To get your retirement plans in place; come and talk to us.

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