BULLETIN

YOUR ESSENTIAL FINANCIAL BRIEFING

ISSUE FOUR

Welcome to this series of topical articles to help you navigate your financial world

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SOVEREIGN
WEALTH

The importance of an annual tax review

Taking the time to check your tax situation could reward you financially and bring you peace of mind

Tax is dull, unquestionably so. Most of us would rather clear out the loft or scrub the bathroom than settle down to an afternoon reviewing our tax situation.

It's all too easy to be apathetic, but just as a yearly MOT for your car can save you from an expensive breakdown, so sparing an hour or two to review your tax position can potentially leave you substantially better off – and also give you surprising peace of mind.

Without careful monitoring, it's possible to end up paying too much tax or, in some cases, not paying enough, which could see you landed with a fine.

WHEN MIGHT YOU NEED A TAX HEALTH CHECK?

As much as you might dread reviewing your tax status, it may not be as bad as you anticipate. We can go through everything with you in an hour or so, from reviewing your tax code and checking you're making the most of any Stocks & Shares ISAs to maximising tax relief on your pension contributions.

If you're already drawing on your pension or contemplating dipping into it, we can help guide you through accessing your cash in the most tax-efficient way, taking all your finances into account. The last thing you want to do is risk a big tax bill by taking a lump sum out of your pension when you could have taken it tax free from another pot.

Similarly, if you're concerned about leaving your loved ones with a large Inheritance Tax bill, we can help you work through steps to mitigate it.

Tax breaks and allowances let you save and grow your wealth, and advice can help make sure you use them to your full advantage – whether you want to build a nest egg to support a child or grandchild as they face the financial challenges of adulthood or feather your own nest and grow your retirement savings.

It's impossible to say how much money an annual tax review could save you – that depends on your own financial situation. However, when we talk to clients, the value of a proper tax review goes beyond simple financial gain. It's also about the sense of calm that it can bring, leaving you safe in the knowledge that you won't be hit by a surprise tax bill or be caught on the back foot. It's about feeling in control of your money and not letting it control you.

To stay in charge of your situation, it's important to keep the conversation going with us throughout the year and not store up everything for your annual review. Going back to our

car analogy – you wouldn't wait for your MOT or service if the engine was making a funny noise.

What we've learned from the pandemic and remote working is that it has never been easier to stay in touch, with most of us able to slot in quick 20-minute catch-ups over the phone or on Zoom relatively easily.

This can be crucial if your circumstances have changed in some way or there has been any upheaval in your life. It might be that you've changed jobs, been made redundant or become self-employed. Or you may have had a pay rise. All these things could mean you need to manage your finances slightly differently to make sure everything is running as tax efficiently as possible.

It may even be a minor niggle causing you irritation – for example, a new company car or adding a child to your medical insurance has played with your tax code. Talk to us and you may find a quick and easy resolution.

Even if you don't make any changes to your financial plans, catch-ups and regular communication with us always make sense – the more we understand what is going on in your life, the more we will be able to help.

If you would like help identifying simple but effective tax-saving opportunities, please get in touch about completing a Tax Health Check.

Without careful monitoring, it's possible to end up paying too much tax or, in some cases, not paying enough

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

Many people are increasingly concerned about global warming and other environmental, social and governance (ESG) issues when it comes to choosing where to put their money. The good news is that investor action on these is increasingly effective. What's more, St. James's Place is at the forefront of efforts to tackle key ESG concerns and is ramping up engagement with fund managers and companies to make a positive difference.

The essence of this is that, as a shareholder, you own a part of each business you invest in. And companies must keep their shareholders happy, especially if there is strong collective pressure.

With more than £140 billion under management and 830,000 clients, St. James's Place is able to exert a powerful influence on companies to set environmental targets, such as net-zero carbon emissions, on your behalf. St. James's Place then makes sure the firms meet these targets through engagement activities such as site visits, investor meetings, setting out recommendations and expectations, and voting at annual general meetings.

STRENGTHENED APPROACH

St. James's Place also amplifies this pressure through membership of the Climate Action 100+ group of investors, which manages $54 trillion of assets and engages with 167 top companies to move them towards net zero. Some 52% of these have set a net-zero emissions target so far. St. James's Place are also members of the Institutional Investors Group on Climate Change (IIGCC).

But there is more to be done. According to ShareAction, other asset managers handling $36 trillion are still neglecting the social and ecological harms of their investments.[1]

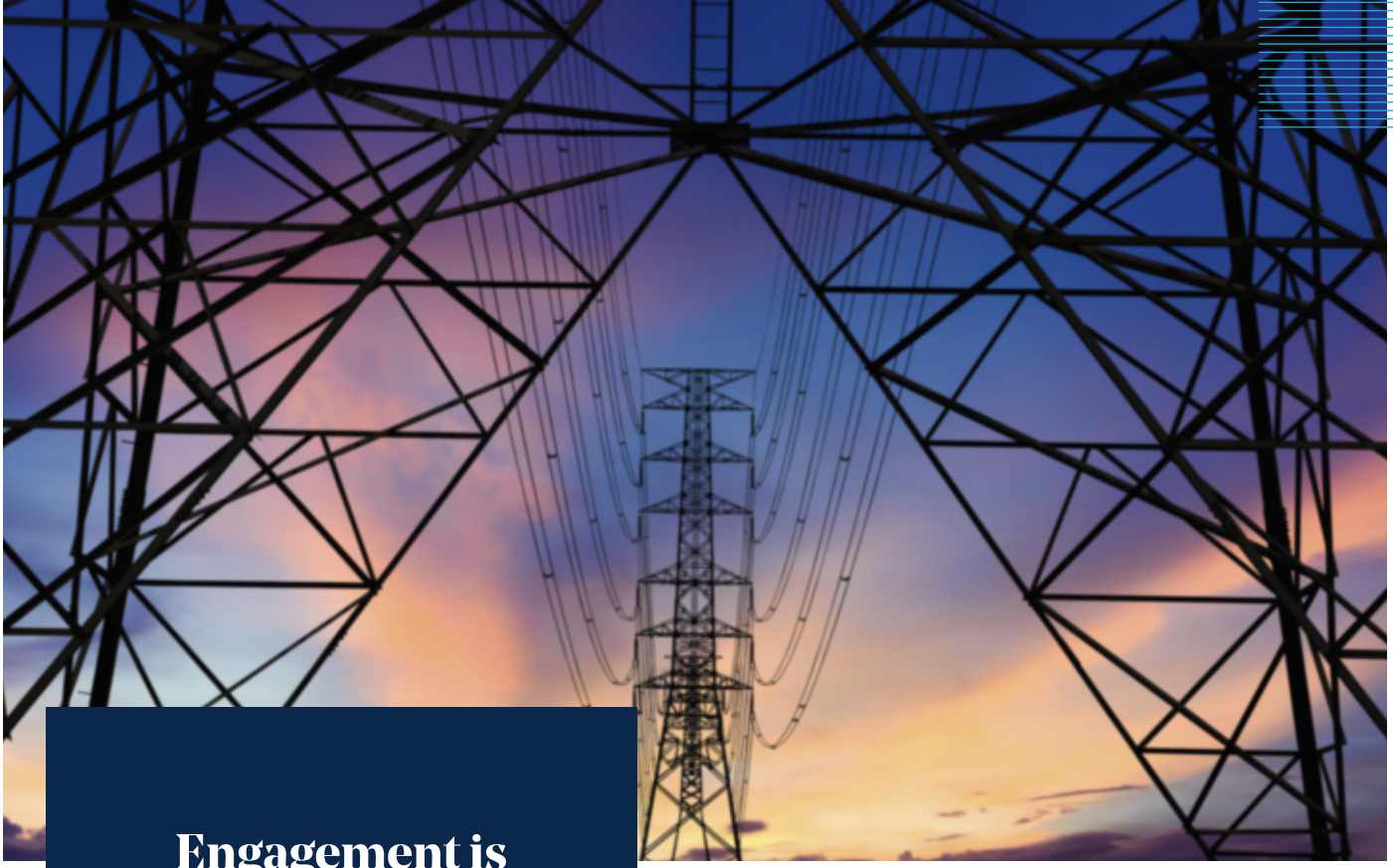
To further strengthen its approach, St. James's Place has joined forces with Robeco to engage directly on ESG issues with companies, which will complement fund managers' existing activities in this area.

Robeco has a successful track record in responsible investing, with over 20 years' experience in engagement. For example, in 2020, it engaged with 222 companies and conducted 941 engagement activities.

"We already talk with fund managers about their approach to investing responsibly a lot," says Petra Lee, Responsible

Why engagement works on tackling climate change

St. James's Place is committed to ensuring investments are used as a force for good. Engagement is a powerful way to maximise our influence over companies and push for change



Engagement is the best way to help our clients invest in a world worth living in

Investment Consultant at St. James's Place. "By working with Robeco we can double down our engagement efforts, encouraging companies to do more and act faster. Robeco will help us use our size and scale to make money a force for good."

THE EVIDENCE FOR ENGAGEMENT

Engagement is one of the most powerful ways investors can tackle ESG issues – and identify related risks and opportunities to support long-term investment performance. They have seen the success of this approach in changing corporate behaviour over the past decade, and are increasingly raising concerns both publicly and in private meetings.

For example, in May 2021, ShareAction reported that HSBC was committing to phasing out finance for the coal industry by 2030 in the OECD, and 2040 worldwide.[2] This came after pressure from a $2.4 trillion group of shareholders. In the same month, Tesco committed to increasing sales of healthier food and drink products after months of engagement with shareholders on the issue.

Engagement has also been effective in encouraging oil companies such as BP and Shell to commit to final and interim net-zero targets.

WHY ST. JAMES'S PLACE CHOOSES ENGAGEMENT

"Fossil-fuel companies have such a bad reputation that many investors who are concerned about climate change previously avoided them completely", says Lee. However, she adds, "We chose a different approach."

"We feel it's more effective for oil and gas companies to transition their businesses to renewable energy sources than for a start-up to provide all our future energy needs. Start-up companies do not have the necessary access to the capital, experience and infrastructure, that the larger energy producers already possess." she says. "We want to move forward more collaboratively. We want to encourage and invest in change, rather than just turn away from it, in this way we can be part of the solution."

St. James's Place therefore supports a greener world through its rigour in selecting and interviewing fund managers and through its work with Robeco.

One key goal is for all of St. James's Place's portfolios to be net-zero by 2050 or sooner, with interim targets.

"Environmental and social change is coming," Lee says. "And we want to be at the forefront. You either embrace it and benefit from the opportunities it creates, or deny it and suffer the consequences. Engagement is the best way to help our clients invest in a world worth living in."

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Sources:

[1] ShareAction, Point of No Returns, March 2020

[2] ShareAction, HSBC coal phase-out passes but the battle is not won yet, May 2021

Should I wait to access my pension?

For people who can afford not to dip into their retirement savings, keeping your pension invested for longer could be a wise move

There's a whole range of options when it comes to mapping out your finances for retirement, but one question looms large over everything else. None of us can say how long we are going to live for. So while you can know which savings, assets and sources of income you have to rely on, it's impossible to gauge whether those life savings will need to last twenty years, thirty-five years or even much longer.

We do know, however, that life expectancy has been trending upwards. A man aged 55 today can expect to reach 84 years old, while having a 25% chance of living to 92 years old and a one-in-ten chance of reaching 97, according to the Office for National Statistics (ONS.)[1]

The same ONS data reveals that women tend to have longer lifespans than men, with the average female aged 55 today projected to live to 87. A quarter of those her age will live to be 94 years old, one-in-ten will reach the age of 98 and six per cent will see their 100th birthday. That's nearly double the figure for men.[2]

THE START OF RETIREMENT

As experts in retirement planning, we also know that people aren't retiring in the same way that previous generations did. More people are choosing to work on past the age of 55 – the point at which savers with defined contribution pensions become eligible to start withdrawing their savings. Semi-retirement is becoming more common, where people step back into part-time work or maybe take a couple of years off before returning to their profession or retraining.

Approaching the age of 55 is becoming more like the 'start' of retirement and people are increasingly turning to us and asking 'should I leave my pension where it is?'

Here are the key points to think through:

If you plan to keep working or have other income streams – such as property, for example – leaving your pension invested gives it an opportunity to potentially grow. This means that when you decide to take the tax-free lump sum that savers are entitled to (currently 25% of your total pension savings), it could be a larger amount.
Be aware that any investment can fall in value.

In addition, one strategy in retirement is to live off the dividend income and interest from investments, rather than withdrawing the capital saved. The larger your pension, the more potential income it may generate.

This needs to be tempered with ensuring that the

investment strategy for your pension has been adapted appropriately. This is because the best way of investing when accumulating savings is very different to the optimal way of investing for later life, when there needs to be a careful balance between preserving your savings while also using them.

You can keep contributing to a pension and receive tax relief until the age of 75, boosting your savings to help provide a comfortable 'full' retirement when you get there. (Tax relief is the government top-up to your savings that's based on your income tax band).

However, people can get caught out by a little-known clause called the 'money purchase annual allowance' (MPAA). The rules around this are quite complex and it's vital to get expert advice, especially if you haven't properly 'retired' yet and plan to carry on working and paying into your pension.

The MPAA is a restriction on the amount that an individual can keep saving into their pension and still receive tax relief, which is £4,000 for the 2021/22 tax year. It is often triggered by withdrawing more than the permitted tax-free lump sum, and can clearly have major detrimental effects on your retirement plans.

There needs to be a careful balance between preserving your savings while also using them

It can be difficult to figure out what you need to save for retirement and the targets you might want to reach to be comfortable financially on your own. We can help with this by using sophisticated cashflow planning software to factor in what might happen to your retirement if there were slumps in investment markets and what the financial implications of gradual retirement may be. Please contact us for more information.

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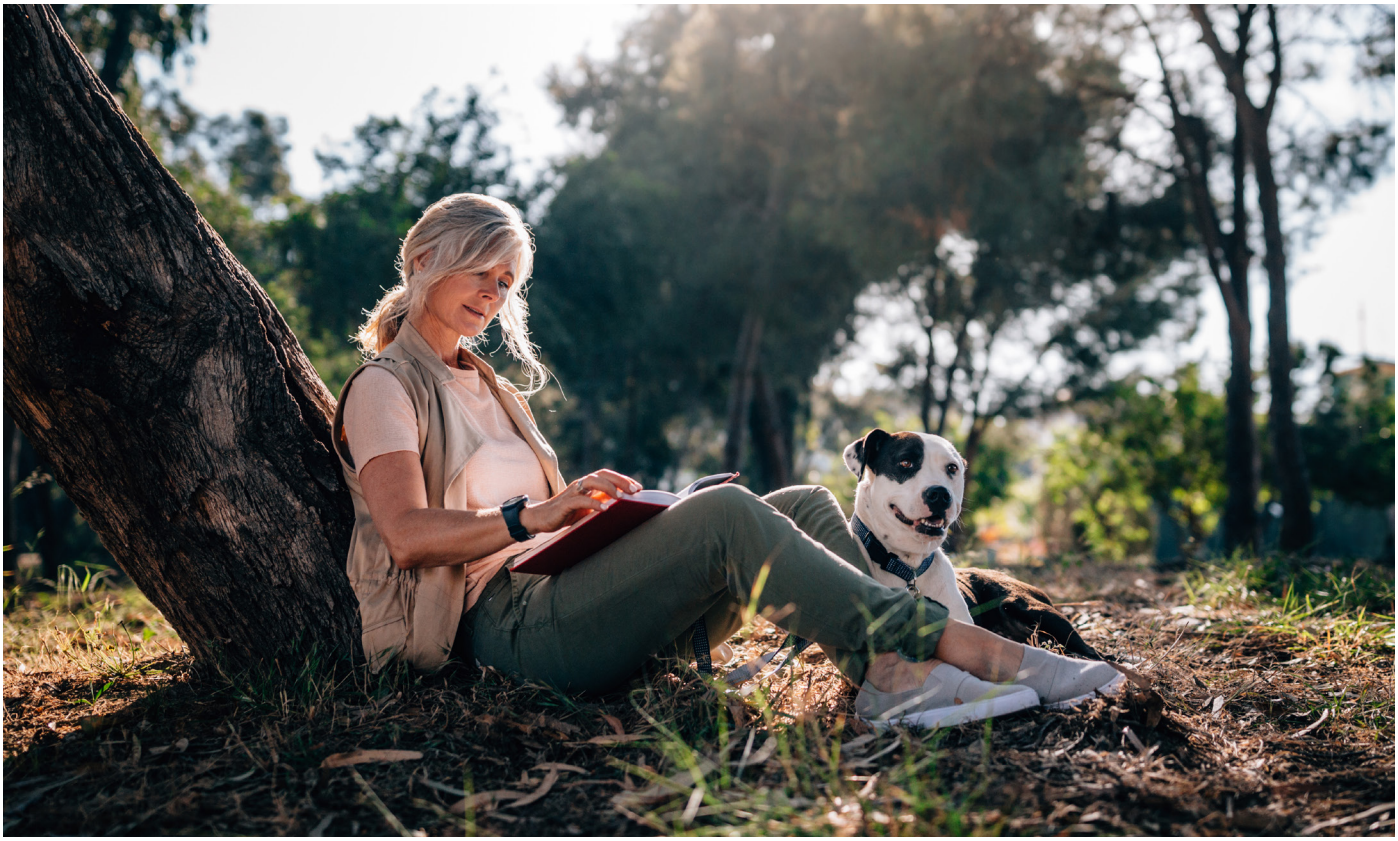
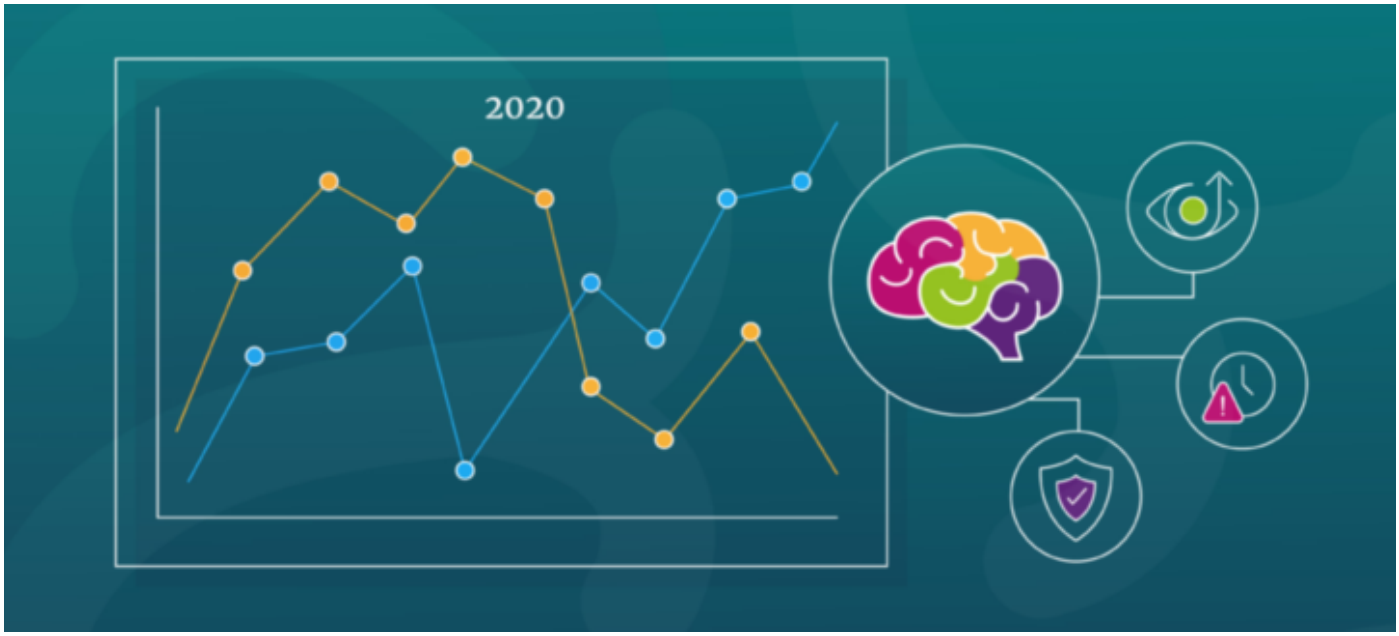
The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief is generally dependent on individual circumstances.

Sources:
[1,2] Office for National Statistics, Life expectancy calculator, dataset released on 2 December 2019



What can investors learn from the past 18 months?

Market ups and downs over the course of the pandemic offer important lessons about how investors can psychologically prepare themselves for unexpected events



Investing is usually about looking towards the future, but with vaccination programmes proving effective, there is now an opportunity to reflect on the past 18 months.

There are many lessons for societies to learn about how to respond to the next pandemic. Similarly, investors should take stock of what it has felt like to be living through such a significant time.

How did the events of the past year affect investors' emotions, and what might they teach us about how to act in the future?

A RECAP OF THE LAST YEAR

In early 2020, it became apparent that the COVID-19 was fast becoming a once-in-a-generation shock. Stock markets around the world reacted, with major indices experiencing

drops that were even more severe than those of the Global Financial Crisis of 2007/8.

However, governments and central banks reacted quickly. The support that they injected into the world economy helped stock markets rebound. Between the end of March and the start of June in 2020, the S&P 500 Index of large US companies experienced the greatest 50-day rally in its history[1].

In fact, the picture was slightly more nuanced. The share prices of many so-called "cyclical" businesses recovered much more slowly than others. The companies whose value rebounded fastest were large technology businesses whose revenues weren't badly hurt by the pandemic (or who benefited from the rapid changes). Many of these businesses saw their revenues grow as people shopped online, worked from home, or entertained themselves digitally while confined to their homes by lockdowns.

Then, as vaccines were announced in November 2020, markets entered another phase. As investors grew hopeful that the end was in sight, many of them 'rotated' from the businesses that were beneficiaries of the pandemic into those that stood to gain the most from economies re-opening once more. As a result, stocks in sectors such as air travel, tourism and hospitality saw a resurgence.

Fast forward to today, and the picture is more mixed. Global stocks are close to their record highs, but increasing evidence of rising inflation and the eventual withdrawal of economic support packages mean that there are once again questions about the future.

WHAT WAS THE EMOTIONAL IMPACT?

Research shows that investors became pessimistic about the future during the early months of the pandemic[2]. This led many of them to step back from markets due to the uncertainty, as their perception of the long-term risks changed.

Then, as markets recovered in the spring and summer of 2020, another phenomenon emerged. The mood became more positive as people saw the market recovery taking place and felt the urge not to miss out.

The optimism even led new investors to enter the market, often through user-friendly apps that allow people to buy and sell stocks cheaply and simply. Research shows that this became a self-fulfilling cycle, as the media coverage of this new trend led more amateur investors to get involved[3].

Tempting as it can be to react to short-term events, investors need to recognise that their first impulse can be misleading

SO HOW SHOULD INVESTORS RESPOND IN THE FUTURE?

Tempting as it can be to react to short-term events, investors need to recognise that their first impulse can be misleading. There's plenty of evidence to suggest that trying to time the market (by selling when things look frightening, or buying when things look more positive) can be costly[4].

Instead, it's important to have a long-term plan, and to invest in a diversified mix of investments that is designed to weather the inevitable ups and downs in markets.

"Every decision requires not just knowing what the right answer is – we also have to be emotionally comfortable with that answer. And we have to stay emotionally comfortable as things are changing around us," says Greg Davies, Head of Behavioural Science at Oxford Risk.

He adds that humans are hard-wired towards activity in times of stress. Even if the best thing to do is just wait, we all tend to want to do something in response – a phenomenon that psychologists call the 'action bias'.

He adds: "You may be in the perfect portfolio, but as markets go up and down, you're getting constant signals into your emotional brain that lead you towards nagging doubts. Those nagging doubts make you want to do something, because we're all much more comfortable doing something in times of stress than ignoring it."

Instead, please get in contact with us. We can help you to understand the risks and design a plan that is tailored to you and your personal goals. By talking with you about any worries or concerns that you may have about the future, we can help you feel more settled about your financial wellbeing.

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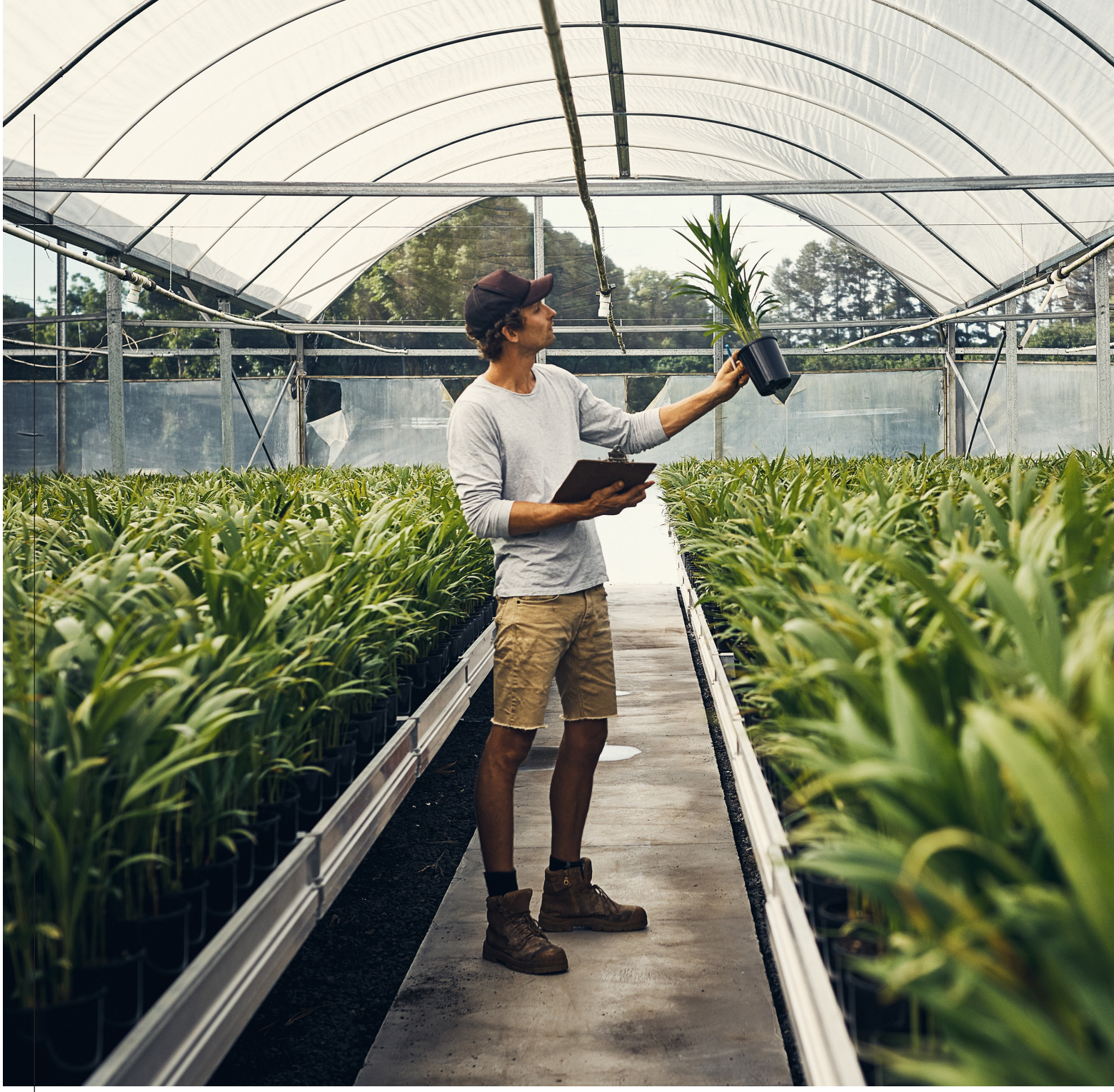
Sources:

[1] *LPL Financial Research, June 2020*

[2] *Frontiers | The Investor Psychology and Stock Market Behaviour During the Initial Era of COVID-19: A Study of China, Japan, and the United States | Psychology (frontiersin.org), February 2021*

[3] *Flattening the Illiquidity Curve: Retail Trading During the COVID-19 Lockdown by Gideon Ozik, Ronnie Sadka, Siyi Shen, SSRN, May 2021*



Is your business your pension?

Taking out an actual pension can diversify your risk and is a tax-efficient way to take money from your company

Entrepreneurs often assume that their business will make enough money for a comfortable retirement – but what if things don't go to plan? If you are relying entirely on your company and it fails or doesn't perform as well as you'd hoped, you could be left with very little in later life.

With uncertain trading conditions over the next few years, a pension is a useful way to spread your risk away from your business and is an extremely tax-efficient method of extracting capital from it. That's because of the very generous tax relief that companies enjoy on pension contributions.

Corporation tax is currently 19%, so for every £100 your company earns as profit, you'll pay corporation tax of £19, reducing the amount you can take as a dividend to just £81. But when the company pays £100 into your pension, it effectively only costs £81 because of a reduction in corporation tax.

REDUCING INCOME TAX

In addition, a pension allows you to take a comparatively large sum without being liable for higher-rate income tax.

You could, for example, pay yourself salary and dividends of £50,270 and the company could pay up to the annual tax-free allowance of £40,000 (or 100% of earnings if less) into your pension. In fact, you can carry forward any unused annual allowance from the previous three years, meaning that the company could potentially pay you a pension contribution of up to £160,000 in a single year, with a corresponding reduction in corporation tax.

For the contributions to be an allowable expense, they would need to meet the 'wholly and exclusively' test. Essentially, this means the contribution must be commensurate for the work undertaken by the individual receiving the pension payment.

Simon Martin, Technical Connection Consultant at St. James's Place, explains: "A typical company founder might say, 'My business is my pension.' That's fine as long as it continues to be successful. But if, for various reasons, the business struggles, not only may your lifestyle be affected, but your retirement will be impacted as well. If you have a pension, even if your company fails at some point in the future, the pension funds can still be held for your retirement. It's a way of protecting yourself and your future."

TAX-EFFICIENT EXTRACTION

Pensions are not the only way to draw money from your company tax efficiently. It is important to ensure your remuneration structure is tax efficient as this will impact the net income received from your business. Consideration should be given to all of the available allowances and exemptions, such as the personal allowance and dividend allowance.

A pension is a useful way to spread your risk away from your business and is an extremely tax-efficient method of extracting capital from it

The personal allowance is currently £12,570 and the dividend allowance is £2,000. Income within these bands can be taken from your company without a charge to income tax. Dividend income within the basic-rate band is taxed at 7.5% with no employer's or employee's National Insurance; often using dividends is a tax-efficient means of drawing profits from your company.

Speak to your accountant for advice on creating a tax-efficient remuneration structure for your business, and get in contact with us for advice on planning for your retirement.

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