



ASQUITH HART LTD

QUARTERLY NEWSLETTER

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INTRODUCTION

Welcome to our first quarterly newsletter.

The articles have been sourced and written specifically with our clients in mind and we hope that you find them informative.

We would be delighted to hear your feedback on the content and If you have any questions on the subjects or products discussed in this edition of the newsletter then please don't hesitate to get in contact.

We look forward to seeing you at our next meeting.



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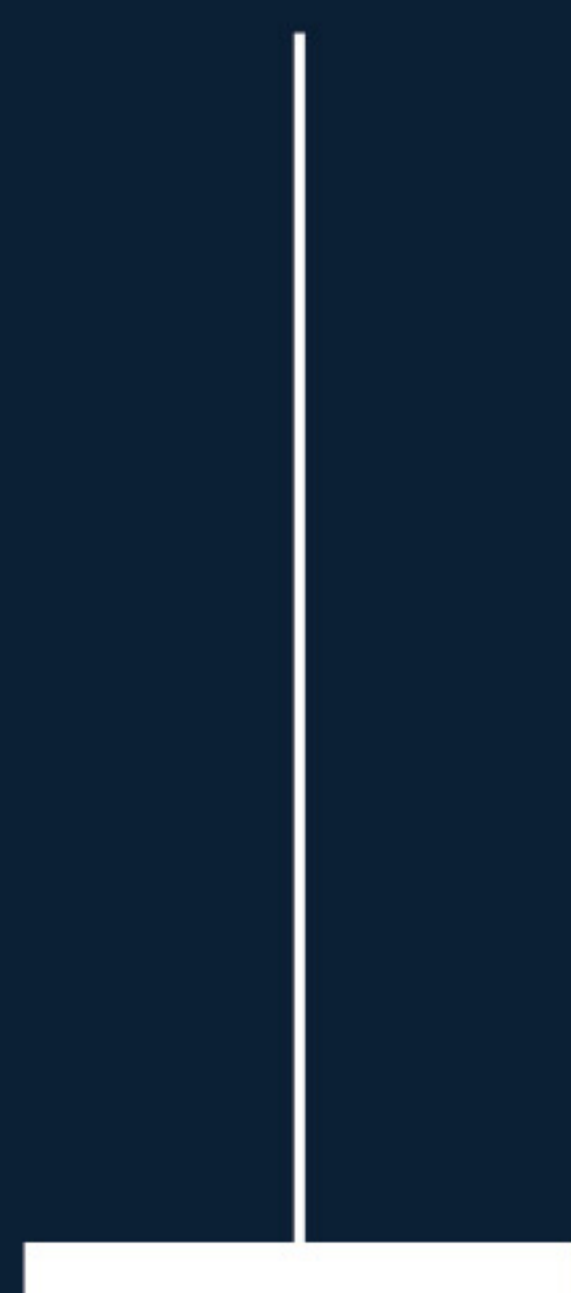
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THE 20'S - ACCENTUATING AN AGE OF FINANCIAL REPRESSION

STACEY ASH - INVESTMENT DIRECTOR

IN THE LAST CENTURY THE 1920'S WERE LABELLED THE 'ROARING' 20'S.

Given what's happened thus far this decade, that word is hardly likely to be repeated when it comes to this century. However, there is a word that begins with R, that we can use in relation to our finances and that's 'repression'.

Now this word does sound quite dark and is usually applied to unpleasant governmental regimes. However, it is certainly applicable in finance, particularly in relation to savers. So why is this?

Firstly, think of people who started to save for their retirement in the 1980's; they would have had a reasonable expectation as to the level of income they would receive from their savings in the future, be it from a pension or interest in the bank. In 1990, a man aged 65 could have obtained an annuity rate from their pension of around 15%.*

However, today that figure is nearer to 5%. So, if they targeted an amount to save into their pension, it would have probably been based on the prevailing rate at the time.

However, today, they need 3 times the amount of pension fund to generate the same level of income. When it came to interest on your savings in the bank, the bank base rate averaged around 11.5% during the 1980's.

Today that figure is 0.25%. So, again, you would have had a reasonable expectation as the level of cash you'd need in the bank at retirement to generate a decent income.

The fact is, that you'd need around 6 times the amount of savings in the bank to generate the same amount of income you'd anticipated when you started saving. Essentially, the diligent long-term saver is being punished.

Perhaps the smart saver should have saved more based on their inflation expectations, but since inflation has been steadily declining since the 80's, that probably would not have compensated them.

This is all very disappointing, but unfortunately, it gets worse.

The 'repressive' thing now is that, after years of declining, post COVID, inflation is now running at a rapid pace and this has a further negative impact on the saver: not only in terms of their income, but also the value of their capital.

At the time of writing, the UK inflation rate was running at around 3%, with the Bank of England forecasting that it will rise to over 4% over the winter of 2021. Over the next few years, history will tell us if this inflation is indeed 'transitory'.

However, meanwhile if the figure stays stationary, in terms of its buying power, the value of savers' capital is being eroded by this amount each year. This can have a devastating effect over the longer term (multiply the inflation rate by, say, 5 years and you get the idea). In addition, the amount of interest being earned from the banks, looking at current term deposit rates of around 1.3% is not able to keep up with the rate of inflation.

One might argue that this situation suits governments, since high inflation reduces the value of the national debt in real terms, but the Bank of England has committed to raise interest rates to address the issue. However, if this does not affect some of the underlying pressures causing inflation at present (e.g. the tight labour market), then inflation may persist.

We hope not, but there are actions you can discuss with your financial adviser that can help mitigate a period of higher inflation, should it occur.

* <https://www.ii.co.uk/analysis-commentary/fresh-record-low-annuity-rates-strengthens-case-delay-purchasing-ii512608>

INTERGENERATIONAL FINANCIAL PLANNING – KEEPING IT IN THE FAMILY

In any one family, it is now quite typical for four generations to be alive and well. The result is increasing the importance of considering financial planning on an intergenerational rather than individual basis.

Inheritance Tax (IHT) is hefty – 40% of any of amounts over the £325,000 threshold per person - yet research that we have conducted show that over a third of -consumers aged 55 and over who use a financial adviser have not yet considered IHT planning.

ASSESSING HOW MUCH INCOME IS REQUIRED IN RETIREMENT

This is a difficult question but with an idea of inflation expectations, lifestyle and health, some indication can be achieved. Next, is to establish whether they can reach that income target based on an assessment of assets.

Where there are surplus assets, now is the time to assess IHT planning. There are several tax efficient ways to pass assets to descendants, all with their own constraints and considerations.

The easiest route may be gifting to family members; however, larger gifts will typically take seven years to fully fall outside of the

Another option is to set up a trust which is exempt from IHT, however, as with gifting, once the assets are in the trust, the individual loses control.

An alternative tax efficient option is investing in shares that qualify for Business Relief (BR) and holding them for more than two years.

To qualify for BR, the shares must be in either an AIM listed company or a private company that trades rather than invests. BR qualifying shares receive up to a 100% IHT exemption, depending on the stock, and the individual retains control.

The shares can be held directly or form part of an ISA, however these investments are not without risk and are only suitable for high risk investors.

HOME IS WHERE THE HEART IS

The nil rate band remains at £325,000, meaning anyone with an estate exceeding that figure is potentially liable for IHT. Clearly this is an issue given today's escalating house prices. In response, the government introduced the Residence Nil Rate Band (RNRB), which allows homeowners potentially an additional £175,000 before they are subject to IHT. The RNRB can only be used for the main residence and by direct descendants.

SUPER SAVERS

Flexible pensions are normally another tax efficient way of passing on money. If the pension scheme member dies before age 75, their nominated beneficiaries will not have to pay any tax on withdrawals.

If the pension member dies after age 75 pension assets become taxable, but only at the marginal rate of income tax of the recipient.

Meanwhile, ISA holdings still form part of the taxable estate for IHT purposes and a surviving spouse or civil partner can inherit ISA funds from their deceased partner.

It is possible to invest ISA funds in AIM listed companies that can qualify for 100% IHT relief after two years of ownership. These are only suitable for experienced investors and include additional investment risk.

We all know the saying 'you can't take it with you' but the pot still needs to last until the end. Intergenerational planning is about striking a balance between providing for each of the individuals, with the right tax efficient income to cover different needs at various stages of their lives.

The right advice at the optimum time is crucial in ensuring each generation can share in the family's wealth both today and in the future.



WHY IT IS TIME TO INVEST FOR THE FUTURE OF OUR PLANET



IT IS UNLIKELY THAT 2020 WILL BE REMEMBERED BY ANY OF US FONDLY.

The COVID-19 pandemic has shaken up the world. Global economies have been hit and many people have been struggling, whether that is health, job losses, mental wellbeing. However, one of the very few 'up-sides' has been that the standstill of air travel, reduced traffic, generally less human activity caused a fall in CO2 emissions which is a step in the right direction for our planet.

Climate change poses a real and present danger to the well-being of people and the planet. The next decade presents a critical window in which we can still shape the future.

LET'S NOT JUST 'GET BACK TO NORMAL'

We have all craved a return to normality after months and months of lockdowns; being separated from family and unable to go anywhere.

Thankfully after amazing breakthroughs in vaccines, we are increasingly seeing increasing freedoms and a path back to some sort of normality.

But instead of just going back to how things were in every aspect of our lives, now is the time to try and change things for the better and the future.

Despite the slight fall in CO2 emissions, it is still not enough to prevent potentially irreversible damage a rise above 1.5 degrees would create*. With the pressing need for action to combat climate change, we cannot afford the environment to pay the price for increased human activity.

MAKING A DIFFERENCE

Many people are now looking to invest their money not only for potential returns but also to create positive outcomes for people and the planet. And help tackle some of the biggest challenges facing this world, of which climate change is one. And because there is a growing demand to invest in this way, it drives more and more companies to help find solutions to some of these issues.

By investing in these companies you can not only play a part in re-building a post pandemic economy but also help make a difference for the future.

*Source: The Paris Agreement
Your capital is at risk. The value of your investment (and any income from them) can go down as well as up and you may not get back the full amount you invested. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

THREE FINANCIAL PROBLEM AREAS ALL WOMEN NEED TO FOCUS ON

FundsNetwork[™]

WHEN IT COMES TO FINANCES AND OUR MONEY, THERE ARE THREE VERY SPECIFIC PROBLEM AREAS THAT WE, AS WOMEN, NEED TO PAY VERY SPECIAL ATTENTION TO.

WE NEED TO TALK ABOUT PENSION PLANNING

First up, our retirement savings. As women, we tend to live longer, which is good news. But sadly, we also still tend to earn less than our male counterparts and so therefore unfortunately save less.

Combined, these two things mean it is all too easy for us to come-a-cropper decades down the line when we realise that it's far too late to do anything about it.

In Fidelity's 'Financial Power of Women' survey, 25% of the women we spoke to have never really calculated how much they will probably need in retirement. 21% of women said they have not considered life expectancy as a factor when thinking about how much they need in retirement either. Yet these are two essentials to consider when it comes to retirement planning.

The fact is that as women we face a substantial 'gender pension gap'. And it is only by planning and saving early that we can set enough aside to retire comfortably.

Whether you are saving for retirement or other financial goals, investing your money early, even if it's just a small amount, will give you the best chance of having a substantial pot of money when you need it.

THE CAREER BREAK TRAP

Secondly, we need to consider the impact of career breaks. Potentially when you have children, for example, time off work is inevitable. Taking time out to care for kids and/or elderly relatives is also something that tends, more often than not, to predominantly fall into a woman's lap.

Caring for others can take away the ability to earn (or certainly earn as much as you otherwise could) for that period of your life. Whether having a baby means a period off work on maternity leave, or a growing family necessitates a switch to school-friendly working hours or caring for others forces you to work part-time or give up paid employment altogether, it can have a real and very negative impact on your finances.

Further research from our ['Financial Power of Women'](#) report identified maternity leave as a key moment where the gender pension gap begins to widen which means that time not saving into a pension means less money in retirement.

The good news is there are steps you can take to help ensure that you don't suffer from any gaps in saving during periods out of paid work. Partners who are in full time work, for example, or with extra savings to spare, can make contributions to your pension on your behalf.

Even if you're not earning a penny, you can still pay in up to £2,880 a year, which with tax relief could bump up the total to £3,600. Fidelity's research has also shown that for every two years off work, you should save £4.90 a day extra into your pension when you're back at work in order to close the pension gap.

DON'T FORGET THERE'S A 'YOU' IN 'US'

Thirdly, there are the financial issues that arise when it comes to divorce. Of course, no one gets married thinking that one day they could end up divorced. However, unfortunately, as many as 42% of marriages in England and Wales end in divorce for one reason or another.

Financially, it pays to face up to the fact that marriages don't come with any guarantees. If we don't maintain some financial independence, it is all too easy to get caught out. Putting savings in place that will see you financially looked after, whether or not your chosen one turns out to be Mr (or Mrs) Right, is a smart move. One of the key reasons why people stay in unhappy marriages or get stuck co-habiting is because they simply do not have the financial means to support themselves.

Of course, financial independence isn't just important for married women. The fact is it's essential whether you are single or married, have children or not.

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IT PAYS TO SEEK ADVICE

I fully appreciate putting a personal financial plan in place can seem daunting. It can also be difficult to know whether you're doing the right thing or not.

This is where your financial adviser can help – they can recommend the best course of action for your particular circumstances and can help ensure that the consequences of the potential issues I've highlighted above have been factored into your long-term financial plan.

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