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Preparing for the longevity megatrend in an uncertain world

As a new year dawns and we ponder what the next 12 months may hold for us as individuals and investors, one thing is for certain – some familiar challenges lie ahead.

The International Monetary Fund (IMF)[1] unveiled its latest economic assessment the week prior to the US election, proclaiming a period of *'stable but underwhelming'* global growth for the year ahead. The update also predicted a return to a more neutral monetary policy stance as inflation in most economies steadily falls towards target in 2025.

The report acknowledged *'exceptional'* levels of uncertainty, which Donald Trump's subsequent return to the White House has done little to ease. Quantifying the impact of the Republican's victory is difficult at this stage, but a return to US protectionism and the prospect of trade wars certainly pose a threat to the global economy.

A global phenomenon

The IMF forecast also highlighted some structural challenges that are expected to temper global growth, with an ageing population amongst the most prominent. As well as impacting the economy and presenting an investment theme to capitalise on, the unfolding longevity megatrend is a global phenomenon, which presents a financial challenge at a personal level too as we live longer.

Life goals

Research[2] suggests most of us are vague when it comes to financing increased longevity – less than a third of 55 to 64-year-olds, for example, currently prioritise funding retirement. Preparation and setting life goals typically makes us feel more in control of, and optimistic about, our futures and is undoubtedly key to confronting the realities and practicalities of living longer. Such targets, though, do need to be focused beyond current life stages.

Talk, support, plan, live

Encouragingly, the research also found that people who use an adviser tend to be better prepared for later-life eventualities, whether that be financing retirement or providing support for loved ones. Considerations extend to emotional and practical, as well as financial. Another element of longevity is successful communication. Advice helps clients successfully navigate the financial landscape as well as encouraging them to engage family in financial conversations; we can support you on all counts – it's all in the planning!

[1]IMF, [2]Canada Life, 2024

Taking steps to avoid a retirement overspend

A fifth of respondents to a survey[3] have consistently spent more than they expected to during their retirement so far. Moreover, 11% of the over-55s surveyed also said their overspending had occurred early on in their retirement.

So, what were the biggest reasons behind the overspend? Cost of living (28%), housing costs, including mortgage payments and maintenance costs (21%), travel (14%), supporting family (7%) and leisure (6%).

Having worked hard all your life, the feeling of emotional and financial freedom that often accompanies retirement is enough to lead some retirees to spend more than they should. With reserves to draw upon and plenty of free time, it can prove a challenging financial situation for those who are less strategic with their money.

Plan for future expenses

To avoid a retirement overspend, we can work with you to understand what your spending needs might be and develop a plan that supports your desired lifestyle.

[3]PensionBee, 2024

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17 out of 21 sectors raised dividend payments in Q3

On a headline basis, total UK dividends in Q3 2024 fell to £25.6bn, an 8.1% decline, led by cuts in the mining sector (£2.6bn reduction in payouts)[4]. Stronger sterling, the impact of share buybacks and lower one-off special dividends also contributed to the reduction. Mining sector dividend declines masked better growth from most other sectors, with 17 out of 21 sectors raising payouts in the period and three quarters of companies increasing or maintaining their dividends. Excluding the mining sector, Q3 underlying growth came in at 2.6%, with pharmaceutical companies making the most positive contribution, followed by industrials. For 2024 as a whole, headline dividends are expected to come in at £92.3bn, a 2% uptick year-on-year.

Numbers withdrawing from their pension before seeking advice increasing

The latest retirement market data from the Financial Conduct Authority (FCA)[5] has shown an increase in the number of people withdrawing from their pension before taking advice – a worrying trend. Of the 885,445 pensions accessed for the first time in 2023-24, 60% of people took no regulated advice or guidance before doing so. This is a risky approach, as unadvised pension withdrawals can result in some poor choices, leaving individuals exposed by drawing too much, taking too much risk, incurring tax charges, falling victim to scammers, and the list goes on. Accessing your pension for the first time? It's important to carefully consider the long-term sustainability of your withdrawals and potential tax implications.

[4]Computershare UK Dividend Monitor,
[5]FCA, 2024

Family tensions over money talks – time to break the taboo

Many wealthy individuals hesitate to discuss financial planning due to fears of family disagreements, with 10% avoiding the topic altogether and 27% finding it uncomfortable[6].

However, this reluctance to have a discussion could lead to future misunderstandings, as family members may have unrealistic expectations about their inheritance. Only 12% of wealthy individuals said they regularly discuss financial plans with their family and 23% want to but struggle to start the conversation.

Generational differences add to the tension

Nearly half of those under 35 said they expect to receive an inheritance, while 10% of those over 50 worry their family will be disappointed by their actual plans. Older generations are also more hesitant to talk about money, with 27% of those over 50 believing younger generations are more comfortable discussing financial matters.

Regional variations in financial pressures

It's not just inheritance that causes people to stress about money. Another survey[7] found the three main causes of financial pressure were: maintaining a certain lifestyle later in life, the value of investments and how much tax might be payable. Wealthy Londoners were found to be under the most financial pressure, with 88% experiencing financial stress. Of these, 20% worry about their finances constantly and nearly another 20% report worrying most of the time. The East of England followed a close second with 85% admitting persistent fear about the health of their finances.

Open and honest discussions

Whatever your level of wealth, having open and honest discussions about money and inheritance could ease your financial stress, helping your family to avoid future disappointment and ensuring everyone understands the reasoning behind the financial decisions you make. While these conversations may be uncomfortable, they could help to reduce your financial stress in the long run as well as being essential for preventing shocks for your family.

Break the taboo and have open conversations with your loved ones about your financial circumstances and inheritance plans, allowing you and your family to take control and make necessary financial arrangements now that will help to ensure that you're in good stead for the future. We can help.

[6]Rathbones, [7]Arbuthnot Latham, 2024

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Dive into ’25 on top of key tax changes

A couple of months have passed since the Autumn Budget, a significant milestone for the Labour government. A comprehensive set of measures impacting individuals and businesses were announced, featuring £40bn in tax increases. Key announcements involved Inheritance Tax, Capital Gains Tax, domicile status, VAT on private school fees, Stamp Duty and Income Tax thresholds.

Inheritance Tax (IHT)

Following weeks of speculation, changes to IHT were widely expected. The freeze on IHT thresholds at £325,000 has been extended to 2030 and, from April 2027, pension pots will be considered part of taxable estates. This significant shift is likely to mean that more estates will be subject to IHT from the 2027-28 fiscal year, impacting those who have relied on pensions as a tool for inheritance planning. Reviewing your retirement and estate planning now, ahead of this change, is advisable.

Business Property Relief (BPR) and Agricultural Property Relief (APR) are also seeing changes. From April 2026, the first £1m of combined business and agricultural assets will not be subject to IHT; for assets over £1m IHT will apply with 50% relief at an effective rate of 20%. This reduction could impact succession planning, particularly for small business owners and family farmers.

Capital Gains Tax (CGT)

CGT increases were announced, with the basic rate moving from 10% to 18% and the higher rate from 20% to 24%. These changes were effective from 30 October 2024. Additionally, the CGT rates on carried interest will rise to 32% from April 2025, with further reforms scheduled from April 2026.

The rate for Business Asset Disposal Relief and Investors’ Relief will increase to 14% from 6 April 2025 and then to 18% from 6 April 2026. The lifetime limit for Investors’ Relief was reduced to £1m for all qualifying disposals made on or after 30 October 2024, matching the lifetime limit for Business Asset Disposal Relief.

Non-domiciled (non-dom) status

The familiar non-dom tax regime will be phased out from April 2025, to be replaced by a residence-based scheme. This includes ending the use of offshore trusts to shelter assets from IHT and scrapping the planned 50% tax reduction for foreign income in the first year of the new regime. Individuals who opt in to the regime will not pay UK tax on foreign income and gains (FIG) for the first four years of tax residence. To incentivise investment, the Temporary Repatriation Relief will be extended to three years, offering reduced rates on gains and income for wealthy investors considering bringing assets into the UK.

VAT on private school fees

As indicated in the Party’s election manifesto, the Chancellor confirmed plans to introduce VAT on private school fees (except for children below compulsory school age) from January 2025 and to remove private schools’ business rates relief from April 2025.

Stamp Duty

The Stamp Duty surcharge on second homes and investment properties will increase from 3% to 5% above standard residential rates, effective immediately. This change is expected to temper demand in second homes and the buy-to-let market, particularly in high-value areas like London.

Income Tax

The Income Tax Personal Allowance and higher rate threshold remain at £12,570 and £50,270 respectively until April 2028. From April 2028, these personal tax thresholds will be uprated in line with inflation.

Investments

- The annual subscription limits will remain at £20,000 for ISAs, £4,000 for Lifetime ISAs and £9,000 for Junior ISAs and Child Trust Funds until 5 April 2030. The government has confirmed it will not proceed with the British ISA due to mixed responses to the consultation launched in March 2024
- The starting rate for savings will be retained at £5,000 for 2025/26
- The Enterprise Investment Scheme and Venture Capital Trust schemes have now been extended to 2035.

Bottom line

If you have any questions, please get in touch. We’re here to help you understand the impact these changes could have on your specific circumstances and to help you adapt your financial strategies to ensure you stay on track towards your goals. With the 2024/25 tax year end ticking round, we can talk it through.

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The changing face of retirement – as the traditional 'hard-stop' is consigned to history

Catalysed by the 2011 abolition of the Default Retirement Age, a combination of economic and socio-demographic trends are changing people's outlook to retirement; and this, in turn, is heightening the need to adopt a more fluid approach to retirement planning.

Research[8] suggests the traditional 'hard stop' retirement is increasingly being consigned to history, with 69% of UK adults now believing retiring in your sixties will become a thing of the past. Another study[9] found that 41% of adults expect people never retiring to become the norm over the next 10-25 years,

Mind the tax

There are undoubtedly good reasons why people continue working beyond retirement age, not least the financial benefits. Some enjoy the sense of purpose or structure a job provides, while others see it as a way of keeping active and sociable. This trend to a more gradual transition from the world of work, however, does increase the need to carefully consider any tax implications associated with earning an income while potentially taking, or delaying, pension benefits, particularly in relation to tax brackets.

Whenever and however you want to stop working, proactive preparation is the key to a happy and comfortable retirement.

[8]Canada Life, [9]Phoenix Insights, 2024

Pension pulse – a reminder for '25

Aside from the change announced about bringing unused pension pots into IHT from April 2027, other announcements relating to pensions were thin on the ground during the Budget speech.

The Chancellor confirmed that the State Pension will increase in line with average earnings, rising by 4.1% in April 2025. The new flat rate State Pension is expected to rise to £230.25 a week, the old basic State Pension is anticipated to rise to £176.45 each week.

A reminder about current pension allowances and thresholds:

- The Annual Allowance (AA) threshold is £60,000
- The Money Purchase Annual Allowance (MPAA) and the minimum Tapered Annual Allowance (TAA) are £10,000
- The adjusted income threshold for the TAA is £260,000
- The Lifetime Allowance and charge have been abolished
- The maximum Pension Commencement Lump Sum (PCLS) is £268,275.

A significant shift

The end of the IHT exemption for pension pots will prompt some rethinking of retirees' decumulation strategies as people focus on using their pension for retirement income rather than estate planning purposes. The Chancellor expects 8% of estates will be impacted annually. It really is a significant shift worth planning for.

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End of tax year IHT recap – gen up on gifting allowances

Recent HMRC data shows that IHT receipts rose to £4.3bn during the period from April to September 2024, a £400m increase on the same period the previous year.

With 27% of 18 to 34-year olds (1.1 million people) holding out for an inheritance before going ahead with major life events and 12% of UK adults regifting to their children, grandchildren, or other family members, here's a reminder of the vital gifting numbers to gen up on before the end of the tax year:

You can make gifts worth up to £3,000 in each tax year. These gifts will be exempt from IHT on your death, even if you die within the seven-year period that otherwise applies to lifetime gifts. You can carry forward any unused part of the **£3,000** exemption to the following year but if you don't use it in that year, the exemption will expire.

Certain gifts don't eat into this annual exemption and don't give rise to IHT, e.g. wedding gifts of up to **£5,000** for a child, **£2,500** for a grandchild (or great grandchild) and **£1,000** for anyone else. Individual gifts worth up to **£250 per year per recipient** are also IHT free.

While these are relatively small sums, you should use these up where possible without compromising your own financial security, to gradually reduce your overall estate. A settled pattern of gifts from surplus income can also be made. Conditions apply, and advice would be needed to ensure that the gifts are made and evidenced in the right way.

IF YOU WOULD LIKE ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH