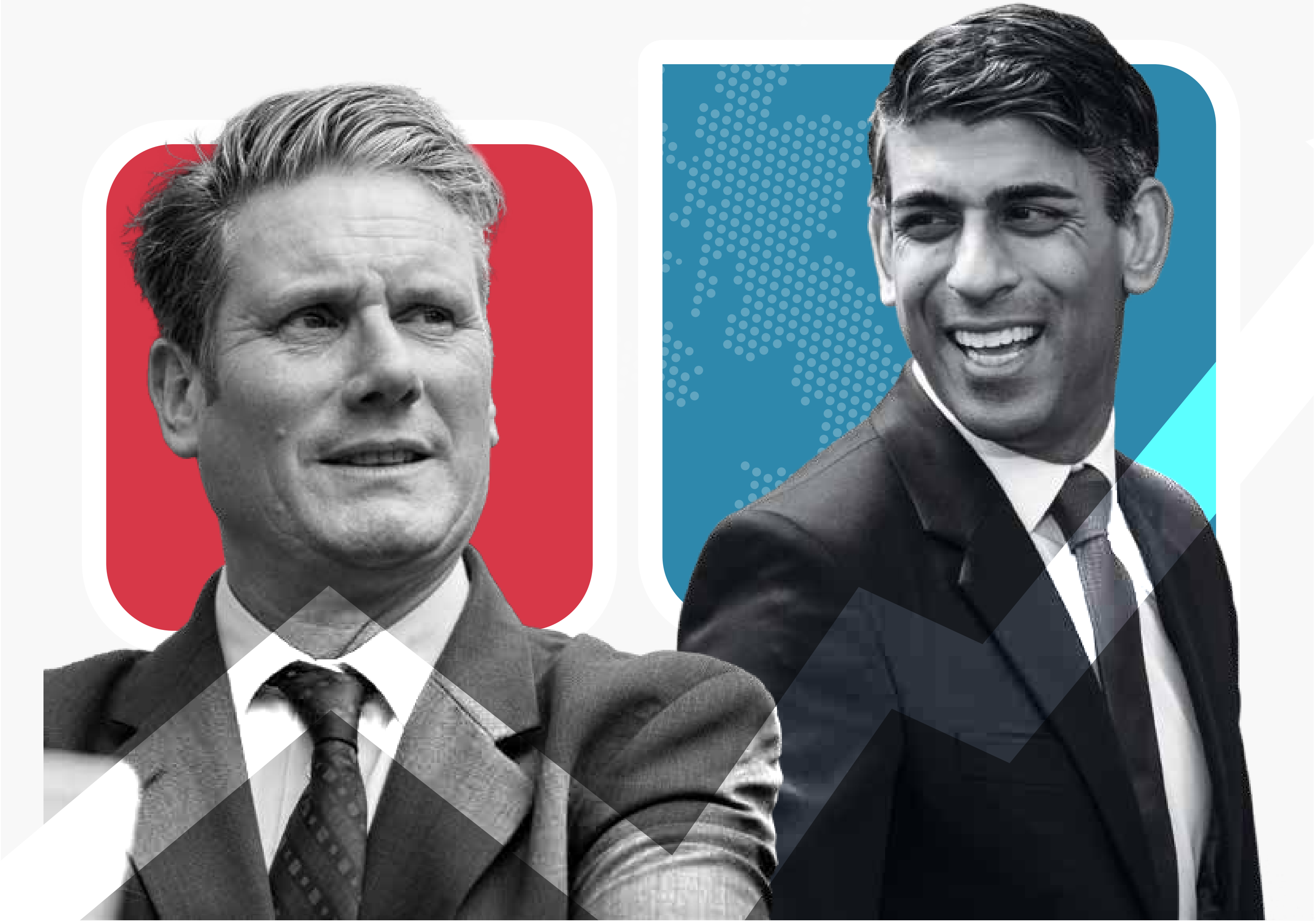
Balance:
Wealth Planning

ELECTION 2024

Why investors need to keep focused on long-term financial goals



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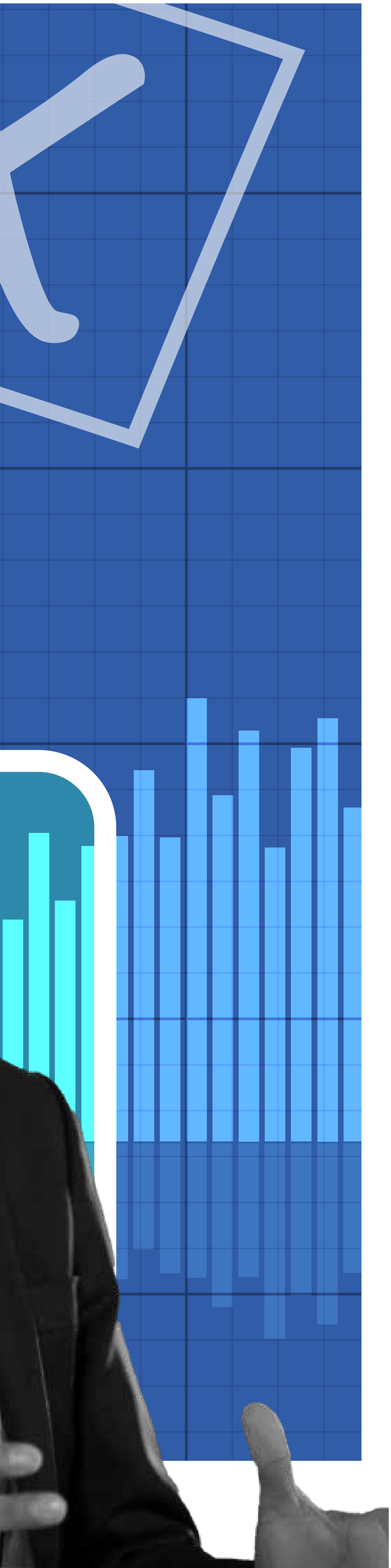


Prime Minister Rishi Sunak announced that the next general election will take place on Thursday, July 4. This announcement ends months of speculation about the election date.

As the rain poured down, D: Ream's "Things Can Only Get Better" played in the background while the Prime Minister rallied the nation to support him over Labour leader Keir Starmer. At the time of writing, the main political parties, Conservative and Labour, had not yet released their full manifestos, which are expected to be unveiled in the coming weeks.

In times of uncertainty, such as during a general election, it is important to review your finances to ensure stability amid potential economic fluctuations. Changes in economic policies, taxation, and public spending could significantly impact the nation's economic landscape and your personal finances.

Shadow chancellor Rachel Reeves has promised that if Labour wins the general election, there will be "no additional tax rises" beyond those she has set out. In her first major election campaign speech, Ms Reeves said that every Labour policy "will be fully funded and fully costed - no ifs, no, no buts".

However, Prime Minister Rishi Sunak claimed that Labour's plans will cost "every working family" £2,000 each.

By reviewing your finances, you can identify areas to cut costs, bolster savings, or adjust investments to mitigate risks. Staying informed and proactive can help safeguard your financial well-being, allowing you to make informed decisions despite political and economic changes.

HOW THE UPCOMING GENERAL ELECTION MIGHT INFLUENCE YOUR FINANCES

PENSION LIFETIME ALLOWANCE REINTRODUCED

Labour has announced plans to reintroduce the pension lifetime allowance, which limits the amount you can save into a pension without facing tax penalties. Previously, the allowance imposed a tax charge of up to 55% on total pension savings beyond £1,073,100 million. Although the government abolished the allowance in 2023, Labour leader Sir Keir Starmer said he is "absolutely committed" to reversing this decision.

If reinstated, savers with large pension pots could again face tax charges if their savings exceed the £1,073,100 million threshold. The Conservatives have not clearly stated their plans regarding the lifetime allowance, but having abolished the cap only last year, there's no indication they intend to reverse their decision.

The abolition aimed to encourage high-earning older workers to remain in the workforce amid concerns over the number of over-50s leaving. Commentators have suggested that reversing the decision now would be unwise. While attractive politically, reinstating the lifetime allowance poses significant practical challenges and risks. It could lead to early retirements among those with large defined benefit pensions, especially in the public sector, or prompt early withdrawals from large defined contribution pensions.

Labour is reportedly exploring ways to reintroduce the pension lifetime allowance without deterring senior public sector workers from continuing in their roles.

TRIPLE-LOCK PENSIONS COMMITMENT

Another key issue regarding pensions is the triple-lock system. The triple-lock ensures that the state pension rises yearly in line with inflation, average earnings growth, or 2.5%—whichever is highest.

The Conservatives have outlined plans to increase the tax-free allowance for pensioners in line with the existing “triple lock” to ensure it rises yearly. It would mean the state pension and retirees’ tax-free allowance – currently £12,570 – would increase in line with inflation, average earnings, or 2.5%, whichever is highest.

Labour has committed to retaining this scheme for the next parliament but has declined to match the latest Conservative pledge. Labour’s shadow Paymaster General Jonathan Ashworth said the announcement was “just another desperate move from a chaotic Tory party torching any remaining facade of its claims to economic credibility”.

The full new state pension is worth £221.20 per week or £11,542 per year. Tax thresholds are currently frozen until 2028, which means that if the full new state pension keeps rising from its current level, many pensioners who rely on it as their only income could end up being above the threshold and having to pay income tax.

However, the next government may consider increasing the state pension age sooner than planned. The age is already set to rise from 66 to 67 by 2028 and to 68 by 2046, but this timeline could be accelerated.

The state pension remains a crucial income source for retirees but is increasingly costly to maintain. With an ageing population, the number of pensioners is expected to grow by 25% by 2050. The cost of the state pension has risen from 2% of national income in 1948 to around 5% today and is projected to reach 6.4% by 2050.

VAT ON SCHOOL FEES

In its 2019 manifesto, Labour pledged to end the VAT exemption for private schools if they came to power. Sir Keir Starmer has upheld this commitment, stating that VAT on fees would be introduced starting the first academic year after the general election. This could potentially increase the cost of private school fees by 20% if schools do not absorb the tax increase.

Conservative MPs have opposed Labour’s stance, warning that removing the VAT exemption would make private schools more exclusive. Rishi Sunak criticised the policy, suggesting it shows Labour’s disconnect with families who work hard to afford private education.

According to the Independent Schools Council, the average cost of private schools is £5,552 per term for day schools and £13,002 per term for boarding schools. Some schools have indicated they might absorb some of the VAT costs, but if fees were to rise by 15%, parents could see an increase of over £800 per term for day schools and nearly £2,000 per term for boarding schools, excluding inflation adjustments.

INVESTMENT IMPACT

Markets often exhibit volatility around general elections, especially if results are unexpected. However, from a stock market perspective, the outcome of this general election is unlikely to have a significant impact, as many financial organisations have already accounted for a potential Labour win.

While the stock market may fluctuate briefly before and after the election, history suggests that markets typically stabilise in the following months. For instance, after the 2010 general election, which resulted in a hung parliament, the FTSE All-Share index fell by 3% but quickly recovered once a coalition government was announced. Six months later, the index was up nearly 10%.

Individual Savings Accounts (ISAs) could become increasingly important for investors if further tax rises occur.

Labour has previously advocated for simplifying ISAs, while the Conservative government is currently consulting on the “British ISA.” A change in government might lead to the end of this initiative.

The annuity market has been strong recently, driven by high interest rates. However, with a general election now on the horizon, the likelihood of a rate cut this summer diminishes, suggesting that annuity rates may remain elevated for longer.

SCRAPPING THE NON-DOM REGIME

Labour has long championed the policy of scrapping the non-dom system entirely if it gains power. Interestingly, the Conservatives announced in the Spring Budget 2024 that they would end the non-dom tax status for wealthy foreigners living in the UK starting from

"WHILE THE STOCK MARKET MAY FLUCTUATE BRIEFLY BEFORE AND AFTER THE ELECTION, HISTORY SUGGESTS THAT MARKETS TYPICALLY STABILISE IN THE FOLLOWING MONTHS."

April 2025. This change mandates that such individuals must now pay tax on income and capital gains after four years of residency.

Labour has expressed broad support for these changes but intends to go further if elected. Rachel Reeves, Labour's shadow chancellor, stated that the party would immediately close an Inheritance Tax loophole. The loophole currently allows non-doms to transfer overseas assets to an "excluded property trust" to avoid the 40% Inheritance Tax.

"With Labour, things will change. We will take on the tax dodgers because if you make your home and do your business in Britain, then you should pay your taxes here, too," said Ms Reeves.

TAKING A LONG-TERM OUTLOOK

Investors should prioritise their long-term strategy and goals rather than reacting to short-term political events. A buy-and-hold approach focusing on funds and shares with strong underlying businesses can help avoid missing out on long-term gains.

Diversification across various asset classes and currencies is crucial. By spreading investments across different assets with varying levels of risk, investors can mitigate the impact of a downturn in any particular market or sector.

Additionally, maintaining a cash reserve during times of uncertainty can provide the flexibility needed to respond to new information as it becomes available. Volatility often presents opportunities, so investors need to avoid making knee-jerk decisions.

10 FUNDAMENTALS FOR SUCCESSFUL INVESTING DURING THE TIME OF A GENERAL ELECTION

SET AND PRIORITISE YOUR FINANCIAL OBJECTIVES

Your investment journey requires a clear plan, which includes understanding your unique goals and the strategies to achieve them. Are you investing for a specific purpose? Do you aim for investment growth, income, or both? Having a well-defined plan prevents deviation and ensures your decisions align with your investment goals.

Remember, there's no universal approach to achieving financial objectives. Your goals should reflect your individual circumstances, preferences and ambitions. By identifying and prioritising your financial objectives, you can concentrate on what's most important in a sequence that suits you. This step also guides you in making necessary compromises.

ENSURE SMOOTH PORTFOLIO PERFORMANCE

Investing doesn't necessitate a large initial sum. Drip-feeding an affordable amount each month – or gradually depleting a lump sum – can be advantageous in times of geopolitical, stock market and economic uncertainty. Known as pound cost averaging, this can offer a safeguard against value depreciation in markets that inherently have the propensity to decline and ascend.

Rather than committing a substantial amount of money at a single market point, which a price drop could potentially follow, regular investments would purchase units as the prices of the underlying assets decrease. This could lead to obtaining more units for your capital, resulting in a higher return if the market situation becomes favourable and prices start rising.

UTILISE TAX-EFFICIENT ALLOWANCES

Since 6 April, savers and investors have had a more flexible approach to using their Individual Savings account (ISA) allowance. For the first time, individuals can now open multiple accounts of the same type of ISA within a single tax year, from 6 April one year to 5 April the next, provided they do not exceed the annual ISA allowance limit. This marks a departure from previous rules, which annually restricted savers to one account per ISA type.

Your ISA allowance resets annually on 6 April. For the current 2024/25 tax year, this limit is £20,000 for each adult. Investments within an ISA grow tax-efficiently, allowing more of your money to contribute towards your future goals.

"SINCE 6 APRIL, SAVERS AND INVESTORS HAVE HAD A MORE FLEXIBLE APPROACH TO USING THEIR INDIVIDUAL SAVINGS ACCOUNT (ISA) ALLOWANCE."

Cash ISAs are a cornerstone for risk-averse savers, providing a straightforward, tax-efficient haven for cash savings. Cash ISA products can be easy-access accounts that allow immediate withdrawals or fixed-rate accounts that reward savers for committing their funds for a predefined period. Although these accounts can offer both higher and lower interest rates, they typically offer lower interest rates than standard savings accounts. Therefore, they present a valuable tax shield, especially for those who have maximised their savings allowance or anticipate doing so.

Stocks & Shares ISAs, sometimes referred to as 'investment ISAs', present an opportunity for individuals to diversify their investment portfolio across a broad spectrum, including collective investment funds, Exchange Traded Funds (ETFs), investment trusts, gilts, bonds, and stocks and shares. This form of investment carries an inherent risk since the value can fluctuate significantly; however, historically, the stock market has offered returns that surpass those of traditional savings accounts over extended periods.

Lifetime ISAs present a unique opportunity for individuals aged between 18 and 40, potentially benefiting your children or grandchildren. For each pound deposited into the account, the government offers an additional 25p, tax-free. With an annual contribution limit of £4,000, savers can receive a maximum bonus of £1,000 annually. This fund can be used to purchase a first home worth up to £450,000 or for retirement savings, functioning similarly to a pension scheme. It is important to note that funds can be freely accessed after the age of 60 to supplement retirement income. However, early withdrawals for other purposes incur a 25% penalty.

Junior ISAs are designed for individuals under the age of 18. This financial year allows for an investment of up to £9,000 in either cash or stocks and shares. Fund access is restricted until the beneficiary turns 18, at this point, full control over the account is granted. From the age of 16, they can manage the account, making it an ideal option for those looking to foster financial independence in their youth. From the start of this 2024/25 tax year, the minimum age to open a Cash ISA increased to 18.

“MONITORING YOUR INVESTMENT PORTFOLIO ENSURES IT ALIGNS WITH YOUR FINANCIAL OBJECTIVES AND YOU’RE NOT EXCESSIVELY EXPOSED TO RISKS.”

PRACTISE THE ART OF PATIENCE

Long-term investment goals require ample patience. While prices fluctuate daily, adopting a buy-and-hold strategy is crucial. Avoid attempting to time the market or base decisions on short-term fluctuations. Market timing – predicting changes in stock prices or index values – often leads to poor decision-making.

Instead, focus on your overall investment goals and adhere to your plan. As many investors say, ‘There are only two types of people when it comes to market timing: those who can’t do it, and those who haven’t realised they can’t.’ If you’re patient enough to ignore the noise, the market will eventually recognise an asset’s underlying value.

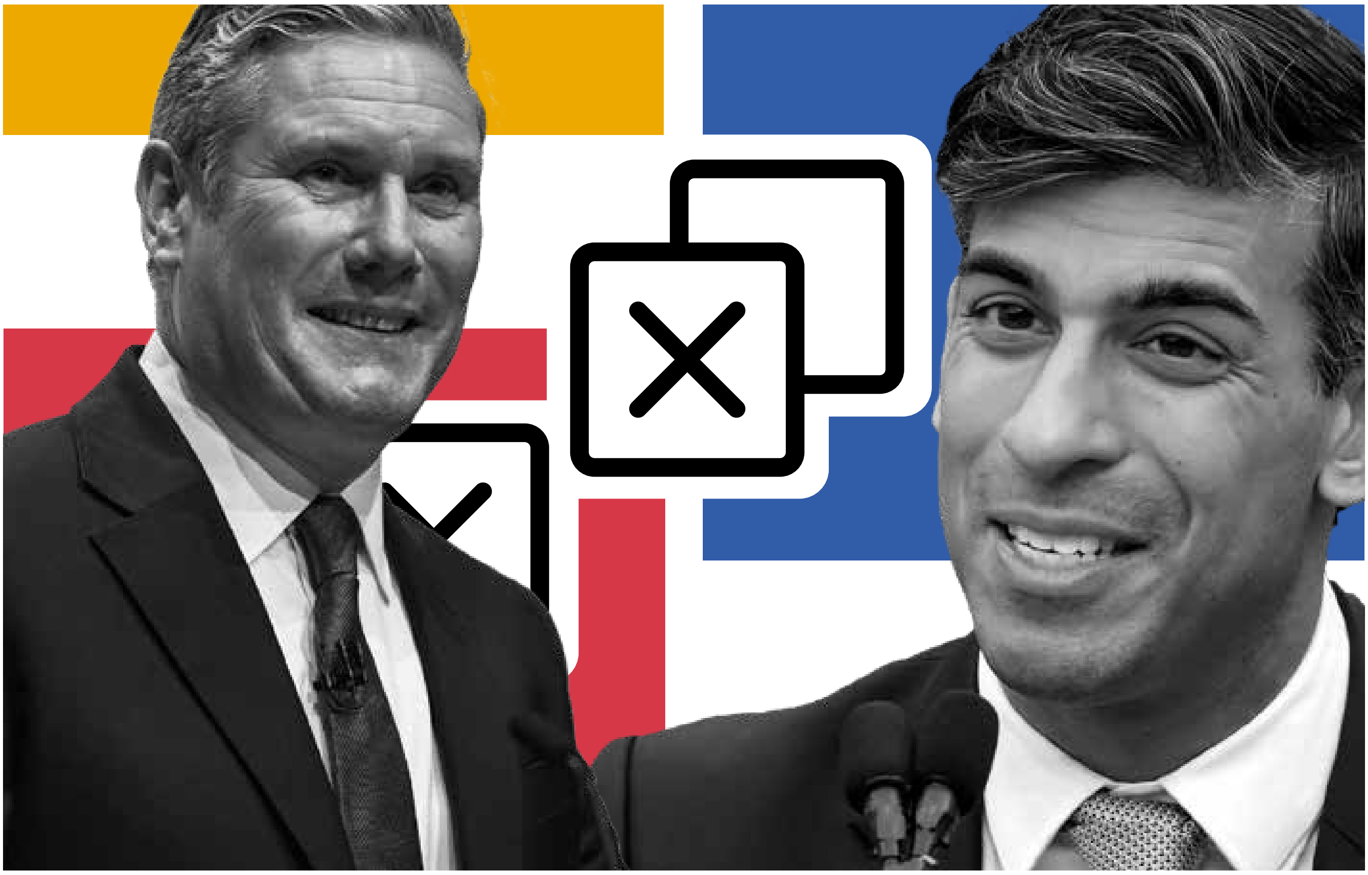
DIVERSIFY YOUR PORTFOLIO

‘Don’t put all your eggs in one basket’ is sage advice when investing. Diversification spreads risk across various investments and sectors, helping you navigate market volatility. Asset allocation and diversification allow you to create an investment mix with potential for growth and a level of risk that suits your comfort zone.

In a diversified portfolio, the less correlated the assets, the better. The concept is straightforward: if you invest everything in one sector – like technology – and it plummets due to regulatory changes, your investment suffers too.

REGULARLY REVIEW YOUR PORTFOLIO

Monitoring your investment portfolio ensures it aligns with your financial objectives and you’re not excessively exposed to risks. Rebalancing is an essential practice in this process. It involves adjusting the allocations of different assets within your portfolio to maintain the ‘weight’ or proportion



that best matches your initial investment goal.

Market performance can cause the value of each holding in your portfolio to rise or fall over time, altering its proportion within the overall portfolio. As these proportions deviate from their original weightings, the risk profile of your portfolio changes accordingly. High-return assets typically carry higher risk, meaning these high-risk investments may increasingly dominate your portfolio over extended periods, elevating your risk level beyond your initial plan.

EMBRACE DISCIPLINE OVER EMOTION

Investing can stir emotions, making discipline paramount. Don't allow fear to dictate your investment decisions. Instead, keep your eyes on your goals and adhere to your plan. The potential power of compounded returns over decades is immense if you consistently save and invest in financial markets. You may start small, but the key is to start.

In the world of investing, cashing in your investments is known as 'being out of the market'. When you're out of the market, you can potentially miss out on the best days for investment gains and performance.

ESTABLISH A TIME HORIZON

A crucial component of investment strategy is setting a defined time horizon for your investments. For example, if your goal is to build a retirement nest egg, your investment period will likely be more extended than that of someone investing in their child's higher education. Although it's generally possible to liquidate your investments whenever you want, maintaining a presence in the market often enhances your prospects for greater returns.

It also allows for compound growth when you reinvest dividends or interest. Investments should last at least five years, but ten years or longer is preferable. The determination of this period will hinge on how much you can afford to invest on a monthly or yearly basis to meet your financial objectives. Also, evaluating whether there's sufficient time for your investment to mature and withstand potential market volatility is important.

"INVESTING CAN STIR EMOTIONS, MAKING DISCIPLINE PARAMOUNT. DON'T ALLOW FEAR TO DICTATE YOUR INVESTMENT DECISIONS."

BRACE FOR POTENTIAL HURDLES

The journey of investment is seldom a smooth ride. As evidenced in recent years and with the general election looming, there will be instances when markets may take a downturn or your investments don't perform as expected. Foreseeing these obstacles and having a contingency plan to manage them effectively is crucial. Even if you're a novice investor, you're likely aware of the market's volatility. Where there's a chance for profit, there's also a risk of loss.

High-risk investments may yield higher returns, but if you're susceptible to worry or feel inclined to pull out your investment following a loss, a lower-risk investment might suit you better. Investment strategies aren't one-size-fits-all, so don't be discouraged if your method differs from others. Always tailor your goals and investment amounts to what makes you feel at ease.

OBTAIN PROFESSIONAL GUIDANCE

Professional financial advice is essential to construct a diversified portfolio. We are dedicated to assisting you in creating, managing and growing your investment portfolio while maintaining an acceptable level of investment risk.

We take a holistic approach, considering every facet of your life. This includes your personal goals and dreams, as well as the aspirations of your extended family. We also think about the legacy you wish to leave behind. Our comprehensive approach ensures that your portfolio is not just about numbers but reflects your life's journey and future ambitions.

Date guide written 28 May 2024.

HOW COULD THE GENERAL ELECTION IMPACT YOUR FINANCES AND INVESTMENTS?

The upcoming general election could bring significant changes to your financial planning and investment strategies. Don't get caught off guard—equip yourself with the knowledge you need to navigate these potential shifts. Please get in touch with us if you have any questions or want to reassess your situation.

"WE TAKE A HOLISTIC APPROACH, CONSIDERING EVERY FACET OF YOUR LIFE. THIS INCLUDES YOUR PERSONAL GOALS AND DREAMS, AS WELL AS THE ASPIRATIONS OF YOUR EXTENDED FAMILY."

READY TO DISCUSS YOUR FINANCIAL PLANS?

Secure your financial future and achieve your personal financial goals. Please get in touch with us to find out more or to discuss your financial situation.