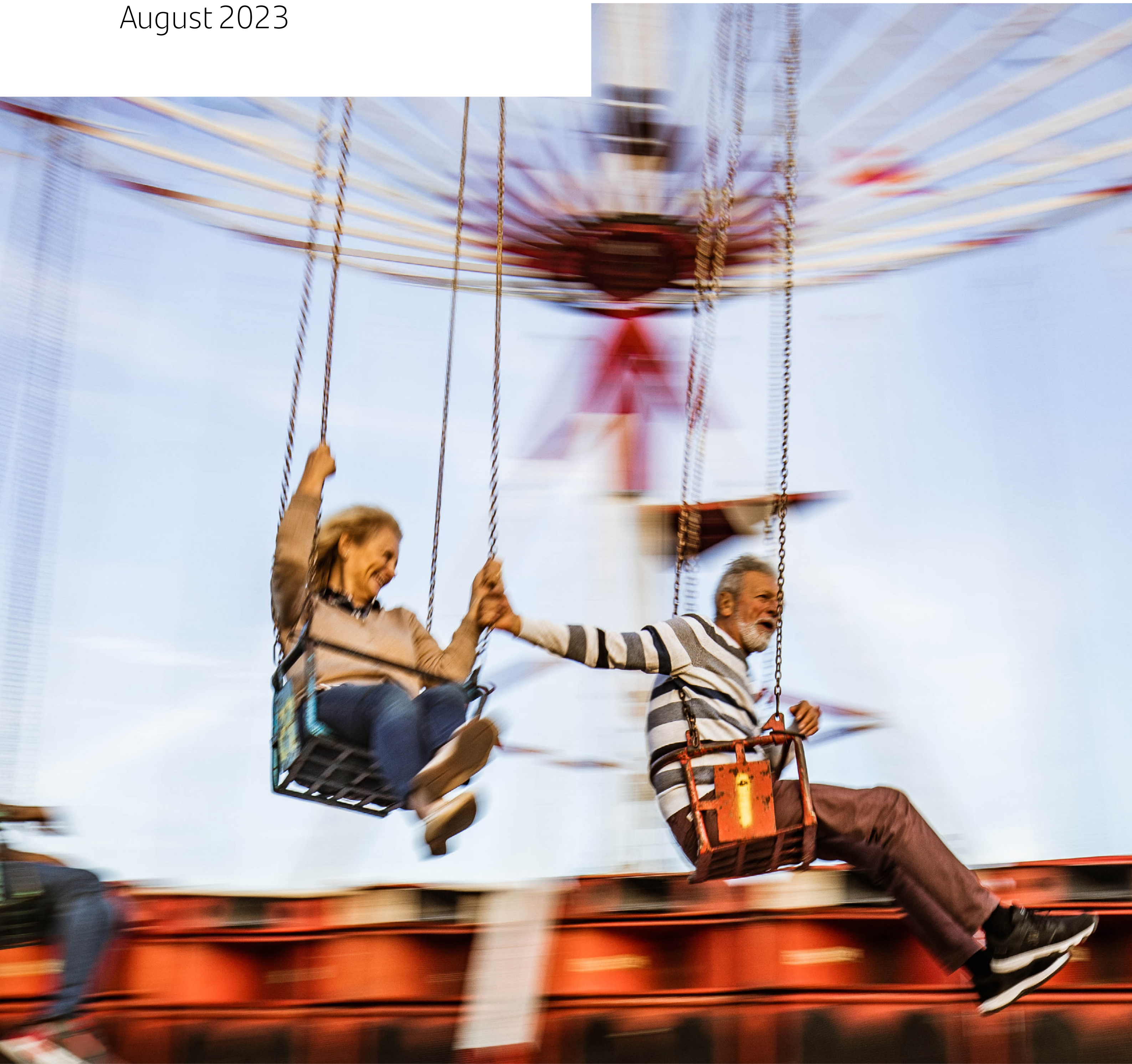
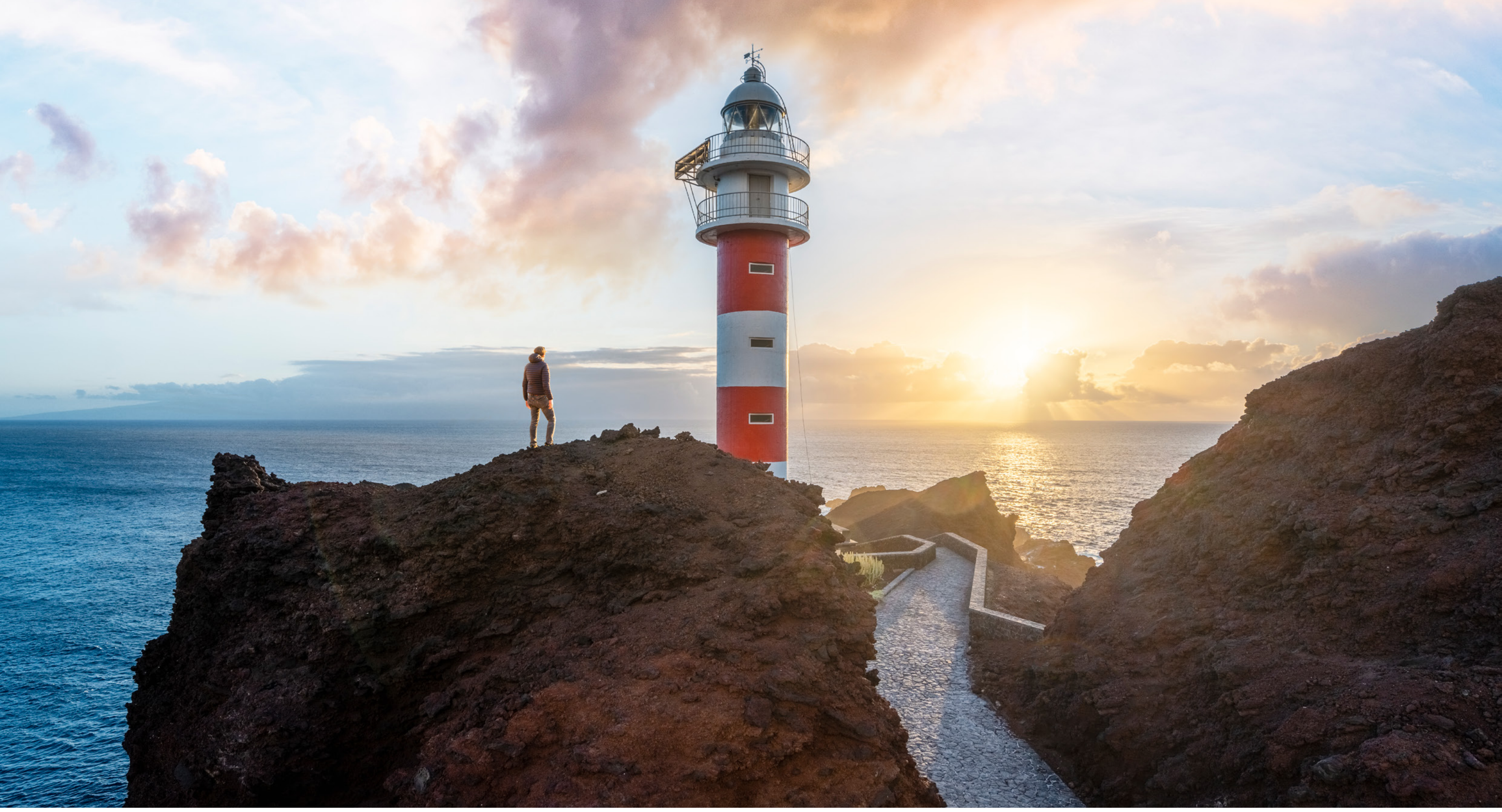
Build a plan for your dream life: Answer the big financial questions

August 2023



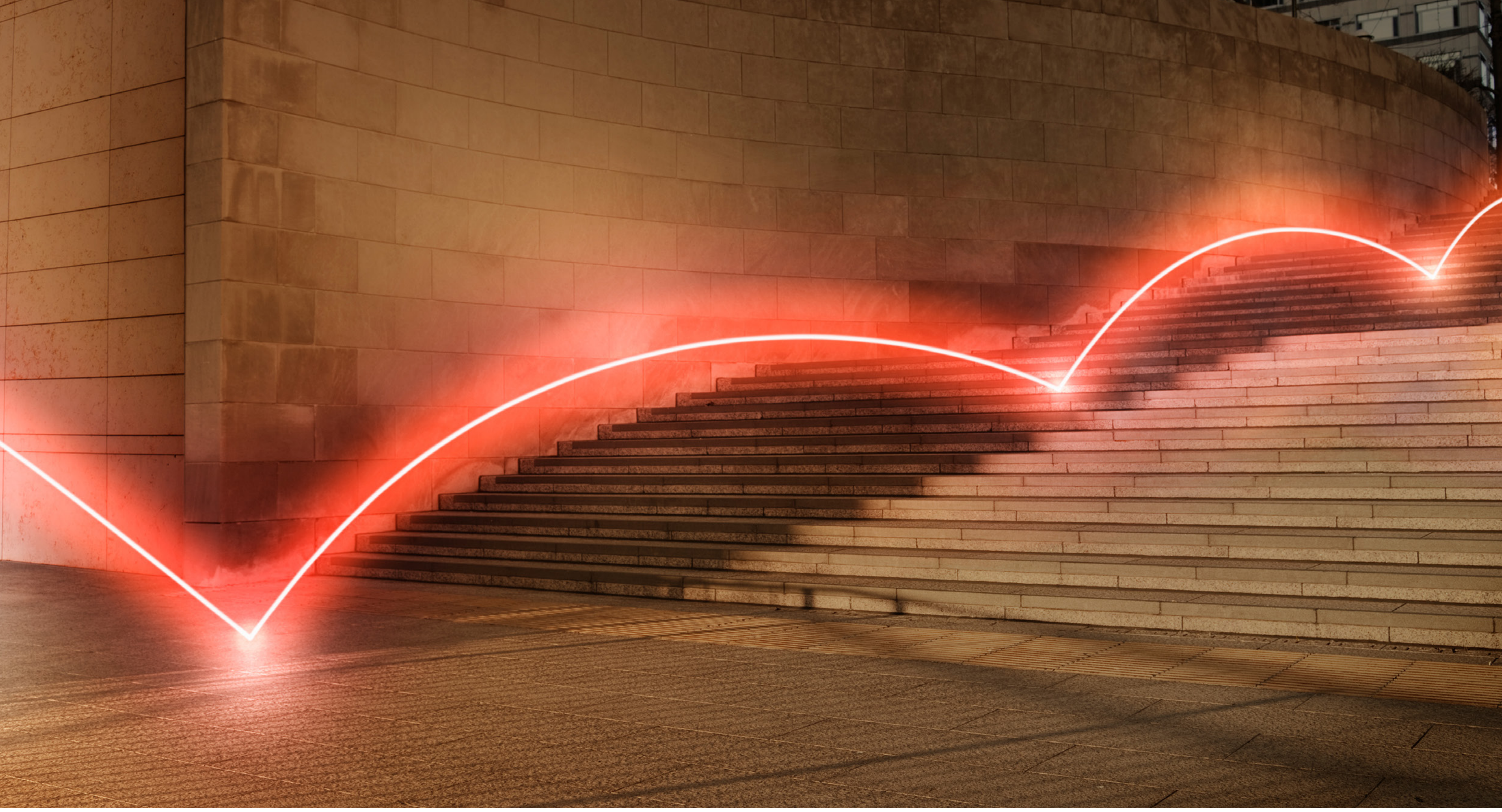


What would your dream life look like? If you didn't have to work or have retired, how do you really want to spend your time?

These can feel like big questions which you might not have asked yourself before. Yet by taking time to picture what you want out of life, you can start to work backwards on how best to achieve it.

Some things you might want to think about:

- Would you like to change jobs or retrain?
- Do you want to stop work altogether? If so, can you afford to retire now?
- If you are already retired, what would enhance your lifestyle?
- What passions do you wish you had more time to pursue? It might be travelling, a dream home or simply having more time to enjoy with friends and family.



As you build towards your dream life, here are some common questions about how to set yourself up for success.

Should I overpay on my mortgage or invest in the stock market?

You're probably aware mortgage rates are higher as the Bank of England has increased interest rates over the last year. If you have a mortgage either for your family home or a holiday home, you might be thinking you should be overpaying on your mortgage to reduce the debt and shorten the term.

This could be the right thing to do if you're currently on a variable rate mortgage. But if you have a fixed rate mortgage your interest rate isn't increasing and so not affecting your mortgage payments.

If you're on a fixed rate, most lenders allow you to overpay a percentage of your mortgage balance each year without penalty. You might want to start preparing for when the fixed term comes to an end by investing now to be in a position to pay off a larger chunk when you can.

If you're mortgage free, you may be wondering whether to put any spare money into the stock market or invest in bricks and mortar. Yet while Buy to Let has been seen as a way to invest in property, landlords now face higher costs and tighter restrictions. This along with higher mortgage rates means directly investing in property may not look as attractive now. Some investment funds allocate some money into property giving the opportunity for customers to invest in this type of asset without the direct costs or paperwork.

Capital gains tax explained

When you come to sell a Buy to Let property, you may have to pay capital gains tax (CGT). This is a tax on any profit made at the time of sale.

From 6 April 2023, the CGT exempt limit has been reduced from £12,300 to £6,000 a year. It will be cut again to £3,000 a year from 6 April 2024.

Find out more about the tax changes here

What's the alternative?

If you're planning for longer term goals, you could consider investing in the stock market or look to invest more.

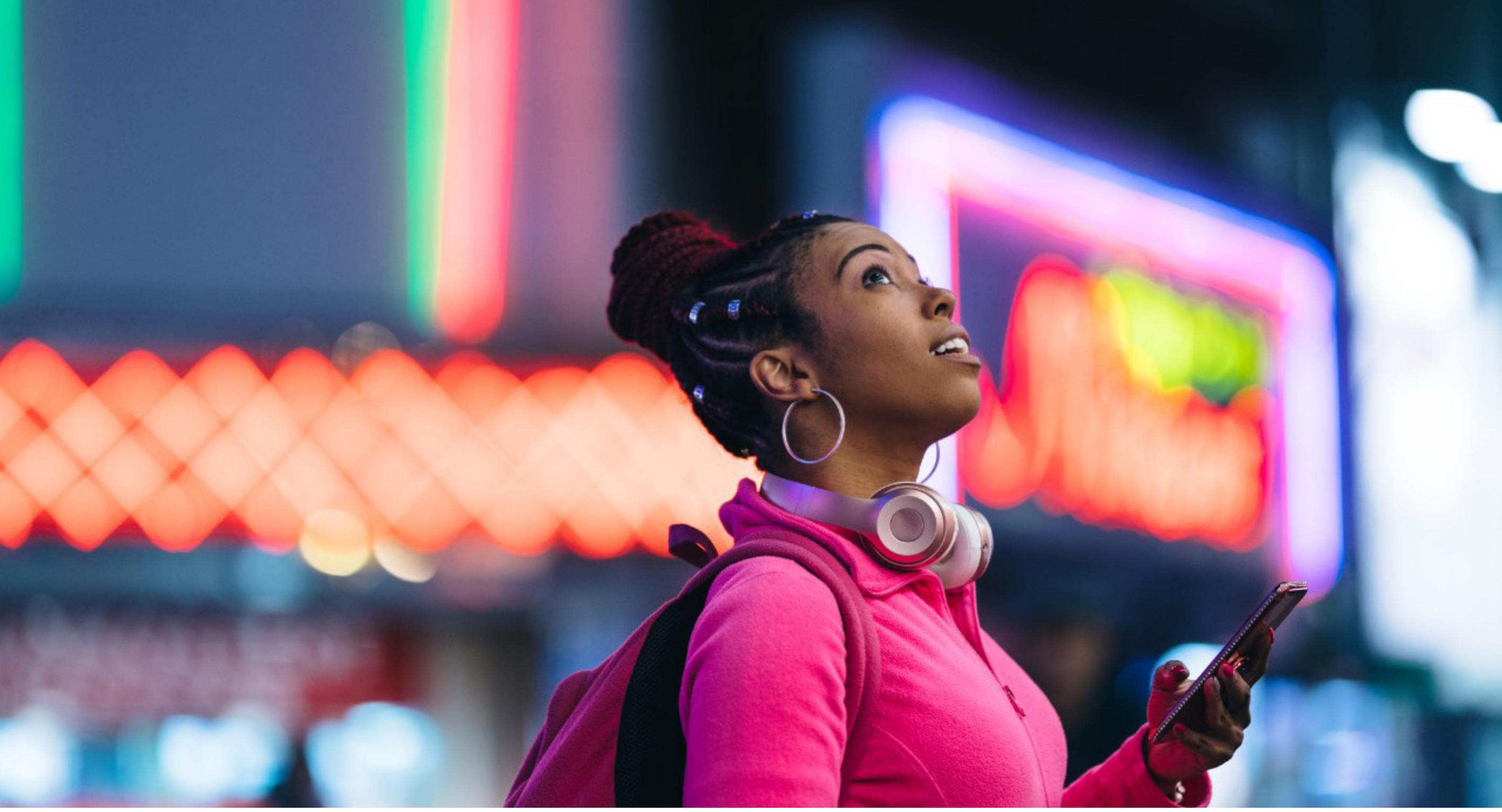
With investing there's always a risk you might not get back as much as you put in. However, as long as you remain invested for at least five years – and ideally longer – there's usually time to ride out the short-term highs and lows.

Should I pay into an ISA or a pension?

A pension plan is a good way to save for retirement. One benefit of pension saving is the tax relief available. This is because you may have already paid tax on this money when you received it as income. The government then tops up what you pay in as if you paid it from your gross income.

Most people can claim tax relief based on the highest rate of income tax they pay. Higher-rate taxpayers get 40% tax relief on your pension contributions, and additional-rate taxpayers get 45%.

With a workplace pension, you also get regular contributions from your employer.



Tax updates to pensions

- You can save up to £60,000 or a maximum of your earnings, whichever is lower, into a pension each year while still qualifying for tax relief.
- It has been proposed that from 6 April 2024 there will be no limit on the amount you can build up across your pension pots over your lifetime while still getting full tax benefits.

Don't forget though, with a pension you usually can't withdraw your money until you reach 55 (going up to 57 from 2028).

So how does this compare with investing in an ISA?

- For the 2023/24 tax year, the maximum amount you can contribute into permitted ISAs tax-free is £20,000.
- With a stocks and shares ISA, you can hold shares and funds without paying tax on your returns.

An ISA could work for you if you think you might need to access your money sooner than when you retire.

Should I start long-term savings for my children?

As you plan for the future, your thoughts may turn to putting money away for the children in your life.

It's good to make sure though that your own finances are in a good place before thinking about how to help others.

For this tax year, parents can save up to £9,000 a year for each child in a Junior ISA.

Helpful resources

The right choices for you will depend on a range of factors, including the specific goals you're working towards.

You can find out more information about ISAs on the government's website. Organisations such as Money Helper also offer free online resources to help you manage your money.

If you'd like support with investing, you can get online help through our Digital Investment Adviser tool, or specialist advice from our qualified Financial Planning Managers. Find out more about how we can help.

By making good financial decisions now, it can help build the kind of life you want in the future. Visit santander.co.uk to learn more about investing.

Tax rules, rates and allowances can change at any time and could affect how much you get back. The value of any tax relief depends on your individual circumstances.

The content in this article doesn't constitute financial or tax advice, if in any doubt, please speak to an adviser or tax specialist.

As with all investments your capital is at risk and you may get back less than you invest. Investments should be held for the medium to long term (5+ years), unless there is a fixed term that applies.

Your home may be repossessed if you do not keep up repayments on your mortgage.

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