Think Investments

Winter 2023

Welcome

Think Investments helps you keep in touch with and navigate your way around the world of investments.

The start of a new year is always a good time to review where you are in life, set goals and make plans. This year, why not apply that to your financial life?

That's what this issue of Think Investments is all about, taking control of your finances and making sure your money is working hard for you. Our first article explores financial wellbeing, the peace of mind that comes with knowing you have a robust plan in place for the future so you can relax and enjoy life now. We share some simple steps you can follow to get started.

Taking advantage of the tax efficient ways available to fund your financial future is one of the most important things you can do. Our second article looks at how you can do this and the positive impact it could have on your long-term financial goals.

Another positive step towards financial wellbeing is investing for your long-term plans. In our final article, we find out why that is and how cash can play its part too.

As always, we hope you find Think Investments an interesting and helpful read.

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Finding your own financial wellbeing

Financial wellbeing is all about feeling secure and in control of your finances, which helps you to have a positive impact on your wider health and happiness.

Having a solid financial foundation in place can give you peace of mind to enjoy life today and look forward to the future. Everyone will have their own personal goals. Yours might include having the freedom to make choices, the flexibility to spend time as you wish and the financial security to know you can afford the life you want to live.

Taking control of your financial life

There are some simple steps you can take to achieve a healthy and balanced financial life, putting you in control of your money with a clear path to your financial goals. Reducing financial stress and just having a clear view of where your money is and what it's doing can play a crucial role in your overall sense of wellbeing.

- **Step 1: Focus on what matters to you**

  You might have some specific long-term financial goals, like a comfortable retirement or clearing your mortgage. It could be supporting your children through further education, setting up in business for yourself or making sure your loved ones are financially secure after your death.

  By working out a financial plan and then putting it into action, you can be certain that you're progressing towards your goals while still enjoying today.

- **Step 2: Be mindful about money**

  Mindfulness is a popular approach for being more aware of what you're doing in the moment and not acting on your impulse. It can also apply to money. Think about how you're using your money and whether that's the best approach: could it be better used, could it work harder for you, and how does it make you feel?

- **Step 3: Get the most from your money**

  The thought of dealing with your finances can feel like hard work sometimes and it can be tempting to put it off to another day. A key part of financial wellbeing is pushing through this feeling and focusing on the positive end results. Importantly, it doesn't have to be complicated. There are lots of helpful resources available, like the MoneyHelper website moneyhelper.org.uk, and it can be really worthwhile.

  Make the most of the options available to you. If you're saving in cash, why not explore some of the interest rates available? Pensions and ISAs both have tax advantages which can also make a real difference over time.

- **Step 4: Don't compare yourself to others**

  Everyone has their own path to financial wellbeing. You might feel as if others are more organised or have a better plan, but that makes no difference to you or your situation. Social media for example can make it look like other people are in a better situation than you, but the reality can be very different. Focus on your own goals and how you're working to achieve them, try not to worry about other people. Your goals are what really make you happy. Also beware of financial advice on social media given by unregulated influencers. This isn't regulated financial advice and could be a thinly disguised sales pitch, or worse, a scam.

You might find talking to a regulated financial adviser useful as they can help you work through this process, finding the right solution for you.

As life changes, your priorities, concerns and commitments might change too. It's a good idea to review your financial goals and plans on a regular basis to check you're on track and whether you need to make any changes. Once you're confidently in control of your financial situation and plans, you're free to focus on – and enjoy – the rest of your life.

Don't forget to enjoy your money

Planning, saving and investing for the future are important, but financial wellbeing is about finding a balance so you can also enjoy life today. Part of managing your money is setting some aside for enjoyable memories and experience right now. Give yourself permission to spend and enjoy doing it, knowing you've also got plans in place for your future.

What financial wellbeing isn't

There are a few myths and assumptions around financial wellbeing.

1. **Financial wellbeing means having money** – financial stress is not just caused by a lack of money. It can come from uncertainty over your financial future, such as not having a clear plan in place. Having peace of mind about your money is what matters.
2. **Investing is complicated** – there are lots of simple ways to invest. Many providers have a digital advice process to support you. These can help you identify a level of risk you're comfortable with and then suggest a multi-asset fund, offering a diverse range of investments in one place.
3. **It's too soon or too late to plan for the future** – the longer you can invest for, the better, but so long as you're planning to leave your money for a minimum of 5 years.
4. **Being financially aware is enough** – it's a great start but needs putting into action if it's going to benefit your financial future.

Article provided by Santander Asset Management UK for Santander investment customers.

Making the most of tax-efficient investing

Maximising the tax efficiency of your investments can help them grow faster and see you realise your financial goals sooner.

Using annual allowances can work in your favour. While your choice of investment matters, investing tax-efficiently may have a greater impact in the long-term. Are you making the most of the options available to you?

The basics of tax-efficient investing

The two main tax-efficient options to set money aside for the future are ISAs and pensions. Both allow growth to accumulate in a tax-efficient way, and pensions have the added bonus of tax relief on your contributions.

	Stocks and Shares ISA	Pension
What's the contribution limit for the 2023/2024 tax year?	£20,000	There's no limit, but most people can only get tax relief on up to £60,000 or your UK net relevant earnings, whichever is lower.
When can I access my savings?	Instant	When you reach 55 years old (57 years old from 2028) or later.
What are the tax advantages?	Tax efficiency on income or capital gains.	Tax efficiency on income or capital gains.

Compounding for long-term growth

For most people, a pension is a smart way to invest. It means you get more value for the money you put in, and importantly, the value compounds over time. For example, if you put £800 in a pension and the government adds another £200, you have £1,000 growing at, for example, 5% a year rather than just £800. This makes a real difference over time. Over 20 years, it's the difference between that £800 investment growing to £2,170 and it rising to £2,710.[1] The longer you're invested, the higher the potential for your investment to grow.

ISAs: simple and accessible

With ISAs, you can save or invest up to £20,000 for the 2023/24 tax year. You do not pay tax on interest on cash in an ISA or income or capital gains from investments in an ISA. As such, ISAs are a great way to ensure you don't pay any tax on your income or capital gains. That means there's more in your fund to benefit from compound growth over time. You can withdraw your money when you need it and there's no tax to pay when you do. ISAs are a straightforward option to boost the tax efficiency of your investments.

Pensions: tax relief

Pensions go one step further, giving you tax relief until you reach age 75 on any contributions you make. In practice, what this means is that each time you make a contribution to a personal pension, your pension provider can claim tax relief of 20% from the government and add it to your pension. A £1,000 contribution can result in receiving £250 in tax relief. With workplace pensions, there are two types of arrangements: net pay and relief at source. With net pay the employer takes the contribution from pay before it's taxed. With relief at source, the employer takes the pension contribution after taking tax and NI from pay.

The annual allowance is currently £60,000 for most people. However, this could be less if you've already taken benefits from another pension scheme. If you haven't taken benefits, you can only receive tax relief up to 100% of your annual UK earnings. So if your annual earnings are lower than £60,000 you'll be entitled to tax relief only up to the amount you earn. If you earn less than £3,600, you can pay in up to £2,880 and still get tax relief. If you're a higher earner you'll also have reduced annual allowances for both threshold income and adjusted income limits each tax year. This is known as the tapered annual allowance.

Lifetime allowance changes

Until recently, you would have paid a lifetime allowance charge on any pensions savings over the lifetime allowance. This charge was removed for those who took their pension on or after 6 April 2023. However, any excess will be taxed at your marginal rate of income tax. The current lifetime allowance for most people is £1,073,100. It is expected to be removed from 6 April 2024. There's still a possibility that it could be introduced again at another time, but for now, it adds extra flexibility for people who invest in pensions.

Pensions can also be efficient for inheritance tax planning because they usually sit outside a person's estate.

Pensions and ISAs can work together for your future

While pensions are undoubtedly the gold standard for tax-efficient savings, ISAs can play a key role too. ISAs allow money to be withdrawn at any time, unlike pensions where investors can't take the benefits until they are at certain age. They also provide an important option for investors who may be limited in their pension contributions by their higher salary.

Most people find that both ISAs and pensions serve a purpose in long-term savings for a fully rounded financial plan. A financial adviser will be able to help you decide on the best approach based on your own personal circumstances.

Bringing your pensions together could make life simpler

You might have times in your life when you're employed, unemployed, self-employed or running your own business. This means that you can end up with many pension pots, managed by different providers in different ways. Combining your pensions into one or two can help you manage them more effectively and could even reduce how much you pay in charges. It can ease the administrative burden and allow you to keep track of how your pension is performing.

1 Thecalculatorsite.com – Compound interest calculator

Article provided by Santander Asset Management UK for Santander investment customers.

Capturing the power of long-term investing

Cash is ideal for easy access and short-term plans, but if you're looking at long-term goals, then it's time to think about investing.

With interest rates at their highest point for more than 15 years, cash savings options may look more appealing. However, there's no way of knowing how long higher interest rates will last.

Along with higher interest rates, we're also in a period of higher inflation. Looking back to 2002, UK interest rates averaged 4% and inflation averaged 1.67%, resulting in real growth in cash. However, in 2022, the amount of interest required to keep pace with inflation was much higher and well above current levels. In fact, the gap between savings rates and rising prices has increased sharply since the start of 2021.[2]

Getting back to basics with long-term investing

History shows us that over the longer term, investing normally provides the greater chance of exceeding inflation when compared to just keeping your money in a savings account. While past performance is not a guide to the future and returns are never guaranteed, historical returns show that UK shares outperformed UK cash over a 10-year period in the last 123 years 91% of the time.[3]

2 FE Findinfo – Building Societies Association, 28/2/23 (Taken from the SAM Power of long-term investing pack)
3 2023 Equity Gilt Study, Barclays Research, Schroders, as at May 2023. (Taken from the SAM Power of long-term investing pack)

Here are some simple investing rules which can help you on your way.

1 Focus on long-term goals

Investments can fall as well rise. Past performance is not an indication of future performance. Investing is a long-term project, and you should be looking to invest for at least 5 years and ideally longer. This allows time for the ups and downs to balance out and for you to benefit from the potential growth.

2 The power of compounding

Compounding can accelerate how fast your money can grow. Here is how compounding works, if you invest £1,000 and it earns 5% in interest per year, then after the first year, you would have £1,050 (your original £1,000 plus 5% or £50). In the second year, you would have £1,102.50. That's because the next interest payment equals 5% of £1,050, or £52.50.

With investments, they benefit from two types of return, interest received from owning bonds or dividends received from owning shares. In addition to the interest or dividends received the bonds or shares may go up in value. Therefore the total return of growing in value and recurring income can really make a difference. For example, a £5,000 initial investment could grow in value to say £17,000 over 36 years. However, reinvesting all the income from that initial investment could see it reach a final value of £56,500 over the same period.[4]

The sooner you start investing, the more time you have to benefit from compounding. For example, investing £5,000 each year for 30 years with 5% annual growth and compounding could result in a fund of £354,000. However, starting 10 years sooner means that figure could increase to £639,000.

3 Diversification

From year to year, it can be difficult to predict which investments will be the best performers. That's why diversifying your portfolio across a range of different asset classes, sectors and geographical regions can help to balance out the ups and downs over time. Investing in a range of investments which respond to market conditions in different ways means that if one part of your investment portfolio is falling in value, others may be doing better.

Cash has its place

It's always a good idea to have a cash fund set aside for unexpected costs or in case you're unable to work for a while. Experts agree on around three to six months of outgoings as a target.

You might also want to save money in cash for short-term goals like a holiday, a new car or home improvements. Anything where you're likely to use the money in the near future, and less than five years.

There are good interest rates available, which you can benefit from until you need your cash. But the point of a cash fund is accessibility and knowing it's there as and when you need it, not growth.

4 Time in the market matters most

One important lesson about investing is that time in the market matters more than trying to pick the best time to invest. It can be almost impossible to get this right without the benefit of hindsight. In fact, delaying the decision to invest could reduce returns considerably and staying in cash could be even worse in the long-term.

Once you're invested try to ignore the short-term noise and focus on your long-term goals. Selling when markets are low can also have a negative effect, making losses 'real'. It can then be difficult to get back to where you were. Missing just a few of the days when the markets are performing best can have a significant impact on investment outcomes.

Look at the bigger picture

When it comes to investing, it's important to stay calm and keep your long-term perspective. Start as soon as you can, diversify, reinvest your dividends and remain invested to give you a better chance of achieving your goals.

4 Thecalculatorsite.com – Compound interest calculator

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