Schroders Personal Wealth: How to improve your financial wellbeing in 2023

21 December 2022

2022 has been a challenging year for many of us. The Russian invasion of Ukraine has driven up the cost of living and driven the markets down. And we're now facing a higher tax burden.

We've asked some of our Personal Wealth Advisers for their views on how best to respond to these challenges and how consumers could aim to improve their financial wellbeing in 2023.

Makala Green, Personal Wealth Adviser

"Give your finances a good spring clean. Review your incomings and outgoings during 2022 and put a financial plan in place for 2023 that includes a budget for how much you want to spend in certain areas. Assess what changes need to be made to your spending habits and what (possibly expensive) ones to get rid of. These could be your new year's resolutions.

Reassess all bills by contacting providers to see if there are cheaper deals for energy, car insurance, home insurance and pet insurance. Make sure you're getting the best deals.

If you want to check your financial standing, then getting an update on your credit report might help. You can then work out what debts to consider focusing on paying off in order to potentially improve your credit score. ClearScore and Credit Karma are free credit-scoring services. Experian offers a more thorough service, but there is a monthly charge following a free initial period.

Finally, think about preparing or updating your will to ensure you have a plan in place to leave assets to loved ones."

Rhydian Griffiths, Personal Wealth Adviser

"Use the New Year to take control of your finances. You need to know how much you will, might and don't need in cash. Many people keep lots of money in cash unnecessarily. The money you don't need could form part of your financial planning and be set aside for the future.

Even so, you might want to create a plan of action for a rainy day fund: some people don't have one in place. See how much you can comfortably put away each month to cover three to six months of expenditure in case the unexpected happens.

Try to get your ducks in a row before events such as retirement are upon you and don't leave things to the last minute. Have a structured plan in place to know where you're going and what you need to do to get there. Outline the goals you'd like to achieve. These can form the foundation of your financial plan. Review your existing goals to ensure they resonate with what you want to achieve in the future. If you intend to retire in a year or two, then you need to put plans in place in readiness. You have to understand what assets you've got, what you require and what the difference is between the two. This can be vital for people in their late working lives, who may have lots of financial planning needs."

Chris Caddick, Personal Wealth Adviser

"Review existing investments to ensure they are appropriate for current circumstances. Make sure you're suitably diversified with a balance of assets that matches your requirements. Some people have become unstuck in the past 12 months, as they've held investments in limited areas.

Now could potentially be a good time to invest. Markets have had a challenging year and may reflect an overly pessimistic investor mindset. There's some cautious optimism that inflation rates may be peaking sooner than expected and that interest rate rises to control these won't go as high as people were expecting.

Lots of people have gone into cash. But if the bank base rate comes down, then savings rates could fall.

There's always volatility and bad news: avoid noise and look at long-term horizons. It's better to be in the market at the bottom to potentially get the full recovery (although it is impossible to know when this could be). You may get some further declines but you could reap the upturn if and when it comes and, if you're out of the markets at the point of recovery, then you could lose out."

Paul Stratton, Personal Wealth Adviser

"The tax-free personal allowance and higher rate tax thresholds were frozen in the 17 November Autumn statement (1), which means basic rate taxpayers could become higher rate taxpayers. If you're in this situation, then you could reduce your overall tax liability so you don't move into the higher rate by putting more into a pension or donating more to charity in the coming year.

The same goes for people approaching an annual salary of £100,000 who, in effect, get hit by a 60 per cent income tax rate on some of their income. This is because they lose £1 of their £12,570 personal allowance (2) for every £2 their salary rises above £100,000 up to £125,140. And they then have to pay the 45 per cent additional rate for income above £125,140 (1).

The annual tax-free capital gains tax (CGT) allowance currently stands at £12,300 (3), but it will be reduced to £6,000 in 2023-24 and £3,000 thereafter (4). So you might want to consider selling some of your investments, if that suits your individual circumstances, before the end of the current tax year, to aim to make the most of the larger CGT allowance.

The freezing of tax bands and reduction in tax allowances can increase the attractiveness of onshore and offshore bonds, which could be useful vehicles for future gifting. You may want to consider these options.

HMRC legislation means all family trusts needed to be registered, whether or not they have tax liabilities. This should have been done in September, but it hasn't been widely publicised. So clients who have created such trusts and who haven't registered already, should register with the trust registration service as soon as possible.

Don't forget to make full use of your Isa allowance, if appropriate, and complete your tax return by 31 January to avoid any penalties."

Sources

(1) www.gov.uk, 'The Autumn Statement 2022 speech', 17 November 2022.

(2) www.gov.uk, 'Income tax rates and personal allowances', 1 December 2022.

(3) www.gov.uk, 'Capital gains tax: what you pay it on, rates and allowances', 1 December 2022.

(4) www.gov.uk, 'Capital gains tax: annual exempt amount', 21 November 2022.

The value of investments and the income from them can fall as well as rise.

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Notes to Editors

Schroders Personal Wealth is a joint venture between Lloyds Banking Group and Schroders –two of the UK's largest names in banking and asset management.

We were created to help more people across the UK benefit from financial advice. We have the advantage of solid foundations and a strong heritage. But we take a fresh, transparent and personal approach to financial planning.

We aim to provide clients with clarity and transparency in everything we do. This includes using technology to explain how long-term financial planning can add value to peoples' lives; to give people access to information about their financial wellbeing, and to communicate with their adviser when it's convenient for the client. Our heritage may be 400 years old, but our approach is built for the future.

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