November 2024

NUGENIS NEWS

Financial planning for a *brighter* wealth

Investment Commentary

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Market overview

2024 has so far been a good year for equity markets however October proved to be a weaker month with the MSCI World Index falling just under 2% in US dollar terms. Bond yields also rose materially in most key regions (meaning values fell) however some significant strengthening in the US dollar versus sterling over the month mitigated some of the losses in overseas assets for sterling-based investors.

Sentiment in the US was impacted by some slightly higher-than-expected inflation numbers which, together with some strong employment data, moderated expectations around likely interest rate cuts. Uncertainty around the potential impact of the impending US election result also added to the sense of caution. Economic growth indicators continue to look positive in the US, however, suggesting the economy remains resilient.

In Europe, the European Central Bank ('ECB') announced a third 25 basis point rate cut in response to further data pointing to an economic slowdown, notably in Germany, and across manufacturing sectors more widely. This action was not, however, enough to prevent European markets falling around 2% in sterling terms. The UK market also fell, albeit the positive effect of a strengthening US dollar on companies with significant dollar-based earnings provided some support. Having enjoyed an excellent September, buoyed by the announcement of a substantial stimulus package in China, emerging markets retreated over 4% in dollar terms, with the strength in the US dollar weighing heavily on the region.

Japan was the one bright spot, posting a positive return in local currency terms and demonstrating how allocating to the region can provide valuable diversification benefits due to its relatively low correlation with other major markets and the different macroeconomic and corporate backdrop versus other regions.

The moderation in the expected path of interest rate cuts in the US led to Treasury yields rising and this dynamic extended to most other regions, including areas such as the eurozone where weaker economic data and muted inflationary pressures currently suggests that the ECB will push ahead with its expected program of interest rate cuts. UK gilts underperformed, with the budget announcements raising concerns around increased issuance to cover higher borrowing requirements and also leading some to forecast fewer rate cuts if the planned increases in spending prove inflationary. Corporate credit generally outperformed government bonds but still posted losses, with the exception of some small pockets of the market such as European high yield.

Strategy Positioning

Fluctuating rate and growth expectations have caused some market volatility in recent weeks however our base case remains for a 'soft' landing, with inflationary pressures remaining under control and positive global economic growth intact. Further reductions in interest rates are expected across the developed world and the outlook (and forecasts) for corporate earnings looks encouraging moving into 2025. This backdrop should be supportive for equity markets and we retain a positive view given valuations in most sectors and regions do not look overly demanding.

We are also positive on the outlook for fixed income assets, where history suggests that attractive returns typically follow after the first rate cut in a loosening cycle. We are retaining some exposure to some low volatility absolute return funds, which continue to play a valuable role in portfolios during periods of market weakness.

Maximising Your State Pension

The State Pension is an important part of most people's financial planning, and often forms the foundation on which other retirement savings and income streams can be built.

You may already know that the amount you will receive is based on your National Insurance (NI) record, which takes into account the number of qualifying years of contributions made. However, some people may find that they have gaps in their NI contribution record, which can impact their State Pension entitlement.

Career breaks and maternity leave are often the most common reasons for any shortfall (and as a result, a higher proportion of women are likely to have gaps). Self-employed people who didn't always pay contributions because of small profits, and people who've worked abroad for a time, may also be affected.

There's good news, however, because it's possible to make voluntary National Insurance Contributions (NICs), which means gaps can be filled and your State Pension entitlement is bolstered to its full potential.

Do You Need To Do Anything

To receive the full State Pension (currently around £11,500 a year) you generally need 35 years of qualifying NICs.

You should start by checking your State Pension entitlement [1] and National Insurance record [2] on the main UK Government website to find out if you have any gaps, whether you're eligible to pay voluntary NICs and, if so, what the cost might be. If you already have 35 qualifying NI years there's no additional benefit to buying any more, as you cannot increase the State Pension payment above the maximum.

The same applies for the other end of the scale. A minimum of 10 qualifying years is required to receive any State Pension benefits at all, so if your voluntary contributions are not going to bring you up to 10 qualifying years of NIC it might not be worthwhile making additional payments.

But, for others, there is a definite advantage.

In particular, men born after 5 April 1951 and women born after 5 April 1953 should look at whether they could benefit from topping up their contributions. (If you were born earlier than this, you'll be on a previous version of the State Pension, which doesn't apply.)

MoneySavingExpert [3] website recently reported that some people are due to make over £50,000 in boosts to their State Pension by buying contributing additional NICs!

Beware The Deadlines

It is normally possible to replenish amounts missed for the previous six years, but when the 'new' State Pension was introduced an arrangement was put in place to enable gaps to be plugged as far back as 2006.

The original deadline for such contributions was due to end on 5 April 2023, following which an extension was granted to 31 July 2023. However, due to demand, the government has extended the date again to 5 April 2025. It is therefore essential that you check your full NI history

In addition to the extensions the cost of paying voluntary NICs is to remain static until then. After this date, the rates may go up or you may be ineligible to pay, so it's a good idea to keep this deadline in mind.

How Much Does It Cost?

The cost of plugging the gap will depend on the type of NI contribution you pay. To give you a brief overview:

- Class 1 contributions are paid by employers and their employees
- Class 2 contributions are fixed weekly amounts paid by self-employed people
- Class 3 contributions are voluntary NICs paid by people wanting to fill gaps in their contributions record

The rates for the 2023 / 2024 tax year[4] are:

- £3.45 a week for Class 2
- £17.45 a week for Class 3

The current rate is usually payable when making a voluntary contribution. However, if you're a man born after 5 April 1951 or a woman born after 5 April 1953, you'll pay the rates for the 2022 / 2023 tax year:

- £3.15 a week for Class 2
- £15.85 a week for Class 3

What To Consider

Before deciding whether to make voluntary NI contributions it is crucial to assess your personal circumstances and eligibility criteria. The rules surrounding them can be complex, and factors such as age, employment status, recent contributions and your broader financial position should all be taken into account.

Some of the most obvious questions to ask are:

- Are your NI contributions up-to-date?
- Will you make further contributions between now and your State Pension age, and have you factored this into the calculations (see above regarding no benefit to paying too much)?
- How much difference will making additional contributions make to your final pension payments, and is it worth the cost?
- If you are in poor health, will you get the full benefit of how much you 'invest' by making additional payments?
- Are there other avenues to consider that will help offset any gaps in your State Pension, such as increasing your payments into your private pension?

Depending on the level of any shortfall, making up these payments will not make financial sense for everyone, and you may be better to invest elsewhere instead. We can help you in providing clarity and guidance, and your Financial Planner will include State Pension in your retirement planning. Please speak to us first about finding the best options.

[1] https://www.gov.uk/check-state-pension

[2] https://www.gov.uk/check-national-insurance-record

[3] https://www.moneysavingexpert.cpm/savings/voluntary-national-insurance-contributions/

[4] https://www.gov.uk/voluntary-national-insurance-contributions/rates

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