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YOUR FINANCE *MATTERS*

Issue 19 Q2 Spring 2021

Vaccines put a spring in investors' step

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Vaccines put a spring in investors' step

The arrival of spring is generally a time of great optimism and this year more than ever we are all certainly in need of a fresh bout of positivity. Thankfully for investors, there do seem to be increasingly hopeful signs on the horizon, with a growing belief we are now at least starting on the road to economic recovery.

Reasons to be cheerful
The successful development and rapid rollout of COVID-19 vaccines has provided hope that we will soon be able to live with the virus. As well as protecting vaccinated individuals, there are encouraging signs the immunisation programme will slow transmission in the community. This has raised hopes of a significant, vaccine-powered revival in economic activity later this year.

Global growth rebound
This vaccine-fuelled optimism is reflected in recent economic forecasts with the International Monetary Fund's latest projections suggesting the global economy is set to expand by 5.5% in 2021. This represents an upward revision of 0.3% compared to the organisation's previous forecast made last October.

Vaccine-induced euphoria also saw equity funds enjoy a strong quarterly inflow during the final three months of last year.

Negative rates?
A further boost to equity investments could stem from negative interest rates. Although it remains unclear whether or not such a policy will be introduced, in early February the Bank of England gave banks and building societies six months to prepare for such a possibility. If enacted, sub-zero rates would reduce the incentive to save in cash deposits and thereby potentially increase demand for shares, placing even greater emphasis on investment portfolios.

Time for a spring clean
While the economic outlook remains uncertain there are positive signs for investors and this means ensuring your investment portfolio is working hard for you is more important than ever. It could therefore be the perfect opportunity to review your portfolio and rebalance the allocation of asset classes, if necessary, in order to ensure your investments are well-diversified and performing in line with your long-term requirements and objectives.

The world's happiest retirees

A study[1] suggests Helsinki is the happiest place to live out retirement. The analysis also found that people typically need a pension pot worth around £225,000 to retire comfortably in one of the world's happiest cities.

Retirement heaven
In order to rank cities from across the globe, a *'happiness index'* was calculated, based on findings from the *'World Happiness Report'* combined with cost of living, average salary and life expectancy data from over 50 countries.

The calculations revealed that, along with Helsinki, three more northern European capitals – Copenhagen, Reykjavik and Oslo – also featured in the world's top-five cities with the happiest retirees. The final member of this distinguished quintet was Geneva, with Switzerland's second-most populous city third on the list.

UK retirees also happy
The analysis also produced figures taking account of not only the happiest but also the most affordable places to retire, with Melbourne topping this list of happy retirement destinations. And, reassuringly, Belfast, Edinburgh and London also featured among the world's top 20 happiest retirement cities ranked on this basis.

[1]Audley Villages, 2020

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Planning to retire in 2021?

Whether you had always been planning to retire this year, or COVID-19 has forced your hand, it's never too late to get organised.

We believe that retirement is something to be looked forward to after a lifetime of hard work – so don't let it be overshadowed by financial concerns. We can help you quantify your finances and get straight, ready for an enjoyable retirement.

Even if you're not planning to retire this year, it's important to engage with your finances – don't just sweep them under the carpet and hope that things will work out.

We can help you make those big retirement decisions easier

Don't know where to begin?
Here are some pointers to get started with; we'll be on hand to help with these.

- **Get a State Pension forecast**
  Visit www.gov.uk/check-state-pension to find out how much State Pension you'll be entitled to and when you can receive it

- **Check what's in your pension pot...**
  Calculating the value of your pension pot(s) is essential to start planning your finances in retirement

- **...including any *'lost'* pension pots**
  You may have lost track of a pension over the years, perhaps as you moved between jobs and workplace pension schemes. We can help you track down lost pensions and potentially provide a welcome boost to your retirement income

- **Quantify your savings, investments and debt**
  Calculating the value of your savings and investments, and quantifying any outstanding debt, will help provide a holistic understanding of your overall financial circumstances

- **What will you need in retirement?**
  We can help you calculate your income requirement in retirement, by thinking about the lifestyle you want, your living costs and other potential expenses

- **Watch out for scams**
  Don't risk losing your lifetime savings to scammers. Pension fraud is on the rise – so make sure you know how to spot the signs

- **Take advice**
  In this period of uncertainty, financial advice has never been more important. We can help you make those big retirement decisions easier by guiding you through your available options, taking into account the tax implications and giving you the confidence that you're making the right choices for your future.

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The financial basics you wish you'd learnt at school

A survey of British employees reveals that a significant proportion of working adults wish they'd been taught more about basic financial topics at school.

According to research[2], the number one topic UK adults wish they'd learnt more about at school is pensions: 40% of respondents to a survey said that learning about pensions at school would have encouraged them to take their own pension more seriously as a young adult.

Would these skills have helped you?
Other popular financial topics British workers wish they'd learnt about at school include:

- Basic money management (e.g. budgeting) – 28%
- Saving methods – 28%
- General investment knowledge – 27%
- Understanding interest rates – 23%
- Mortgages and how to apply for them – 21%

The vast majority of the respondents (68%) felt they would have benefited from this type of general, everyday financial know-how at a younger age.

You're not alone
If you feel a little at sea with the financial basics, you're certainly not alone – and yet many people are needlessly ashamed of their lack of financial understanding. A more recent study[3] revealed that 55% of adults struggle to open up about money, with nearly one in five (18%) citing shame or embarrassment as the primary reason. We're here to tell you that nobody is expected to know everything about their finances.

Financial advice is key
If you're concerned about your finances or need help with basic financial topics, we aren't here to judge. We're on hand with simple, jargon-free advice that will provide you with the confidence and understanding you need to take control of your finances once and for all.

[2]Portafina, 2019,
[3]Money and Pensions Service, 2020

Millions keeping ill health a secret

According to a recent survey[4], seven million people (13% of the population) are keeping mental health issues secret from their loved ones, while just under four million (7%) are hiding a physical health problem.

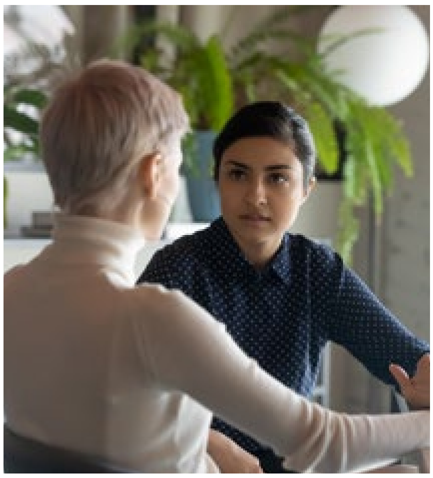
As well as causing symptoms such as anxiety (34%), guilt (29%) and difficulties sleeping (25%), keeping secrets from our families can also have serious long-term implications.

Protecting against the unexpected
Keeping family members in the dark about important health issues could be painful and shocking if you died or became seriously ill. What's more, they could find themselves facing financial hardship at an extremely difficult time.

Even if you are insured, for example via a life insurance or critical illness policy, your claim may be rejected if, like with your family, you also hide your condition from your insurer.

A listening ear
In these difficult times, a problem shared is a problem halved. Don't keep things to yourself – talk to us, we can help you put sufficient protection in place to safeguard you and your family against unexpected life events.

[4]Life Search, 2020



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ESG: A megatrend here to stay

New research suggests environmental, social and governance (ESG) investing is set to continue gaining prominence, with ESG issues increasingly converging into mainstream investment strategies.

A growing trend
The last few years have seen a substantial rise in ESG investing around the globe, driven by an increasing desire for investors to know both where their money is going and that it is having a positive impact. According to a survey conducted by CoreData, three-quarters of UK professional fund buyers now expect all investment funds to incorporate ESG factors within their strategies during the next five years.

Pandemic has raised awareness
Another finding suggests the pandemic has accelerated this momentum, with eight out of ten UK fund investors saying they increased their focus on ESG in the wake of COVID-19.

Commenting on the survey, founder and principal of CoreData, Andrew Inwood, said, *"The pandemic has helped reset humanity's moral compass and encouraged people to favour investments aligned with their beliefs and values."*

COP26 to generate interest
Research[5] has shown that environmental issues top the list of ESG concerns, particularly pollution and waste, and climate change. The trend towards ESG investing is therefore expected to receive a further boost in the run-up to the 26th UN Climate Change Conference of the Parties (COP26) which the UK is hosting in Glasgow this November.

The election of President Biden and his commitment to an ambitious new climate regime can also be expected to raise the profile of both COP26 and climate change issues in general. And this, in turn, will bring ESG investing into even sharper focus during 2021.

[5]BlackRock, 2020

Dividends down 44% year-on-year

UK dividends fell 44% in 2020 to £61.9bn, the lowest annual total since 2011, according to Link Group's latest Dividend Monitor[6]. However, a better-than-expected Q4 was boosted by suspended payouts being restored.

The biggest impact came from the financial sector, which contributed to two-fifths of cuts, while oil dividend cuts accounted for another fifth. Dividends from the FTSE 100 were less severely impacted by the pandemic, with underlying dividends falling 35%, while mid-caps saw them drop 56%.

Reasons for optimism
Looking ahead, payouts could rise 8.1% on an underlying basis, yielding a total of £66bn in 2021, while a worst-case option suggests payouts could fall around 0.6% to £60.7bn.

Susan Ring, CEO, Corporate Markets of Link Group, said, *"There are reasons for optimism, but the resurgent pandemic has pushed back the reopening of the economy even further. We still believe the worst is past... our expectations for 2021 are significantly more subdued."*

[6]BlackRock, 2020

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More people accessing pension cash

More people accessed their pensions and more money was withdrawn in the final three months of 2020 compared to the same quarter the previous year. A total of £2.4bn was withdrawn from pensions flexibly in the three months to December 2020, representing a 6% increase from £2.2bn in Q4 2019.

The HMRC data[7] shows that 360,000 people accessed their pensions in the fourth quarter of 2020, up 10% from the same period in 2019, meaning the average amount withdrawn per individual was lower. There was a 4% increase in the number of individuals withdrawing compared to the previous three months.

COVID effect

October, November and December typically see a slight drop in the number of people accessing their pensions, so this change in behaviour may be attributable to the impact of the pandemic. With unemployment and redundancies rising, many people may be feeling the need to dip into their pensions.

Consider your options

Withdrawing money from your pension savings has its risks, so it's important to weigh up all your options carefully and seek financial advice before deciding.

[7]Gov, 2021

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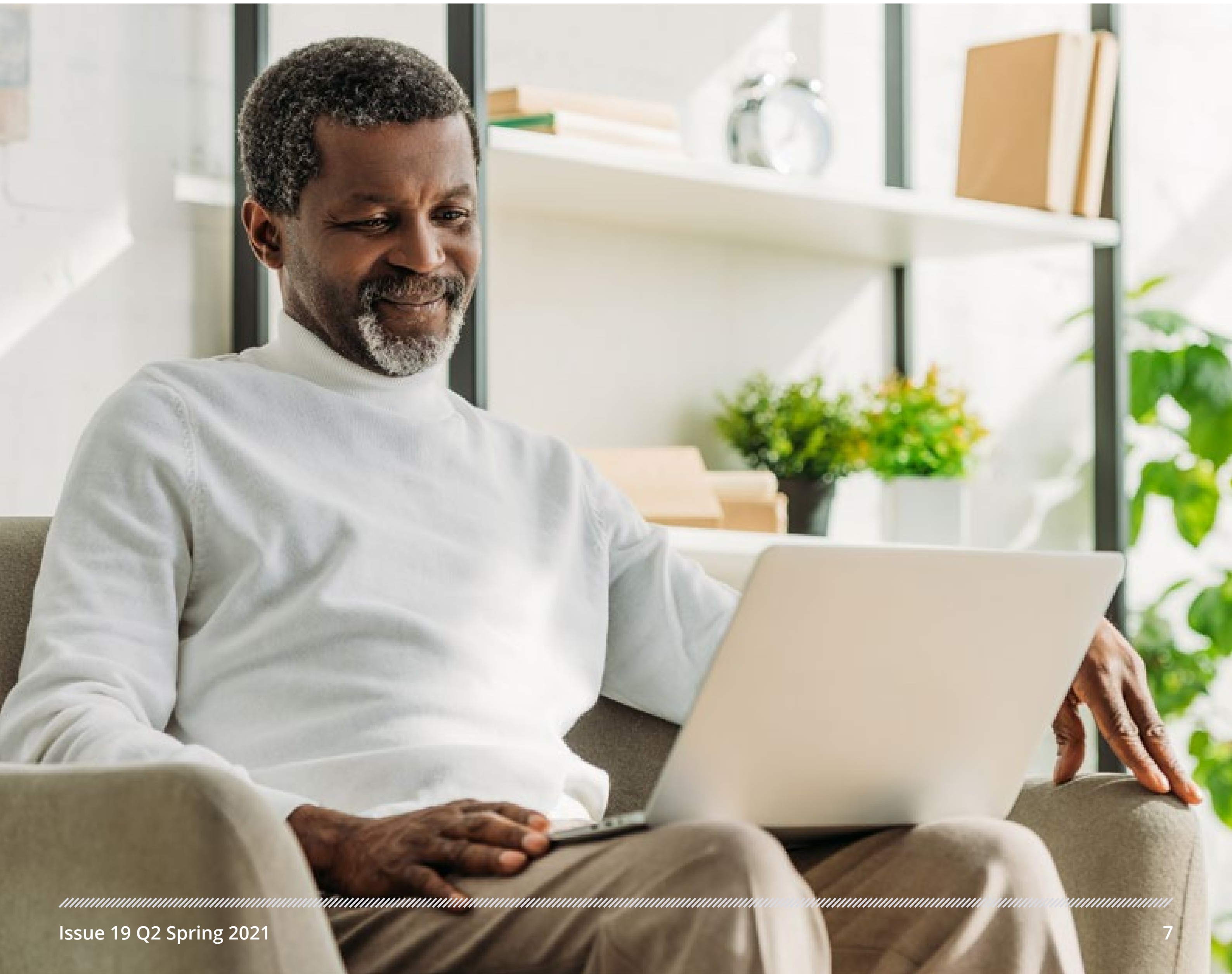

Third of retirees financially supporting family

A third of potential retirees continue to financially support their families, with regular handouts amounting to more than £3,700 a year[8]. Those planning to retire expect an average income of £20,663, but anticipate around a fifth of this (£3,700) will be used to support the finances of younger family members. This equates to £311 a month, although 12% say they contribute £500 or more.

Supporting the family
Accommodation and living costs are the top priorities for those supporting loved ones, with 28% allowing their family to live with them rent free. One in four also give family members regular cash to cover everyday living costs such as food, and one in five cover some or all of their household bills. A further 19% pay for treats such as holidays, 15% have put money towards a property purchase, and 13% pay for university fees.

It's only natural to want to support loved ones

Think about your financial security too
We understand it's only natural to want to support loved ones, particularly with the current economic situation putting more pressure on people's finances. However, with the pandemic also impacting pension savings, this could affect your ability to continue to support family members. Talking to us can help you understand how much support you can realistically provide so that you don't end up compromising your long-term financial future.

[8]Key, 2020

Dividing your finances on divorce

The past year has sadly put huge strain on many relationships, with couples locked down together for months on end whilst trying to work remotely and home school their children, bringing relationships to breaking point. This brings financial challenges.

Separating your finances
When a couple divorce, they need to decide how to fairly divide financial assets such as their home, money in current and savings accounts, investments and pensions. For example, they may be entitled to a share in the sale of their property, or a portion of their ex-spouse's pension. They may also have to make decisions about the value of maintenance payments required to maintain their and their children's lifestyle.

Currently, however, the heightened stress and reduced financial circumstances caused by the pandemic may make coming to an agreement more difficult. If a couple is unable to agree, they may still be able to settle out of court by hiring a trained mediator or collaborative lawyer. If not, they may have to ask a court to decide.

Talk it through
We can help couples divide their assets tax-efficiently and guide individuals through how to best invest the proceeds of a settlement. We can also help set up comprehensive protection cover and help people manage their post-divorce expenditure.

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Retirement finances: Take back control

Two pieces of research have again highlighted consumer confusion and concerns around pension provision and thereby the necessity for people to take control of their retirement planning.

State pension overestimated
Firstly, a survey by Which?[9] found that three in ten people overestimate their future state pension income, some by almost £50,000 over the course of their retirement. There was also confusion about when people receive their pension, with only three in ten correctly identifying the current state pension age.

The research therefore vividly highlights worrying gaps in the nation's pensions knowledge and the consumer champion believes more needs to be done to improve understanding and engagement in order to put people in a position to successfully plan for retirement.

Key concern: Funding retirement
Other research[10] revealed that retirement remains the biggest financial worry across the UK workforce. In total, a third of employees said that funding retirement was their principal money concern, the second successive year this issue has topped the poll.

The research noted that a lack of engagement with later life finances was a key problem for employees and is concerned it remains such a big issue. This concern not only relates to finances but also the impact such worries have on employees' general wellbeing.

Take control
While funding retirement certainly presents a challenge to us all, the key to success is undoubtedly careful planning and seeking expert advice. It's vital to fully understand the unique circumstances and options relating to your retirement finances as that knowledge gives you power. So, don't spend time worrying: get in touch with us and we'll help you take control of your retirement.

[9]Which?, 2021, [10]Close Brothers, 2019

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New investors spring into action

With interest rates plummeting to record lows, savers are discovering that cash is not always king. This is encouraging a new band of investors to dip their toes in the investment market.

While some families have suffered financially during the pandemic, many have saved significant sums due to a reduction in spending on non-essential items. Official data[11] shows the UK household savings ratio soared from 9.5% in the first three months of 2020 to a record 27.4% in the second quarter and has remained historically high since.

Save or invest?

Bank of England data shows £125bn was squirrelled into savings accounts last year and that figure is expected to rise substantially during the first half of 2021. As a result, many people have seen their savings balances grow at a time when ultra-low deposit rates offer little in the way of return, prompting many to consider alternatives to holding cash and take their first tentative steps into the investment market.

The value of advice

With so many funds available, the investment process can appear daunting and new investors often find it difficult knowing where to start. The key is to formulate a sound investment plan with sensible goals and to seek advice.

A study seeking to quantify the value of financial advice, found that people have better financial outcomes when they have an ongoing relationship with an adviser, *'Those who reported receiving advice at both time points in our analysis had nearly 50% higher average pension wealth than those only advised at the start.'* Benefits were greater for less-affluent investors, with a 'just getting by' group enjoying a 24% (£35,054) boost to their pension wealth across the ten year study period[12].

Marathon not a sprint

Before investing, it's important to establish a savings safety net and commit to investing over the long term, meaning at least five, preferably ten years. Historically, although investing in equities has delivered better returns than cash, there is inevitably a risk the value of investments can fall; we therefore need to establish your risk tolerance before recommending any investments.

Whether you're thinking about your pension, establishing an investment portfolio, a stocks and shares Individual Savings Account (ISA), or perhaps a Junior Individual Savings Account (JISA) for under-18s in the family; if you're looking to make your money work harder this spring but need help getting started, we can help you begin your investment journey.

[11]UK Parliament, 2021, [12]ILC, 2019

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Hopes of a "swifter and more sustained economic recovery"

Chancellor of the Exchequer, Rishi Sunak, delivered his second Budget on 3 March, which centred on a three-part plan to continue supporting people and businesses through the pandemic, to fix public finances once recovery is underway and to lay the foundations for the future economy.

The Chancellor opened his statement by revealing the latest predictions from the Office for Budget Responsibility (OBR) which provide hope of *"a swifter and more sustained economic recovery"* than previously expected. The latest forecast predicts growth for the UK economy of 4% in 2021 and 7.3% in 2022. Mr Sunak also confirmed details of various COVID-19 support measures to bring total fiscal support to over £407bn.

From a taxation perspective, the Chancellor was left with little room for manoeuvre as the Conservative manifesto pledged not to lift Income Tax, National Insurance or VAT rates, so some key tax thresholds will be frozen. The Personal Allowance will rise with inflation in April as planned, to **£12,570**, before 20% Income Tax becomes payable, and the higher rate threshold, at which people start to pay tax at 40%, will rise to **£50,270**. However, both thresholds will then be frozen at these levels until April 2026. Similarly, tax thresholds for the pension Lifetime Allowance, Inheritance Tax and the annual exemption for Capital Gains Tax will remain until 2026.

Interestingly, a new NS&I retail 'green savings bond' will be launched later this year to fund renewable energy and clean transport projects.

Why it pays to update your pension expression of wishes

An expression of wishes tells your pension provider who you would like the beneficiaries of your pension to be in the event of your death. Multiple beneficiaries can be named, and you can state how much of your pension you want each to receive.

However, while many people complete an expression of wishes when they first open a pension, it's easy to forget to update it as circumstances change or mistakenly believe this isn't necessary as long you have a Will.

Consequences of not updating an expression of wishes

The best way to ensure your wishes are followed is to keep your expression of wishes up to date. If you don't, there's a risk your money may not end up where you wanted it to. Pension providers will normally pay out according to their clients' wishes, but they have the flexibility to choose different beneficiaries if deemed appropriate.

Not updating your expression of wishes could therefore make the process of settling the death benefits more difficult and drawn out for potential beneficiaries at an already painful time.

How we can help

We can help with all aspects of your pension planning, so don't hesitate to get in touch if you'd like further assistance updating your pension expression of wishes.

'Side hustles' become a lockdown staple

If you've seen your income drop during the pandemic, have you considered taking up a side hustle? The term is an Americanism that is slowly making its way into common usage here in the UK. It refers to the practice of taking up a second job alongside your main job.

A nation of side hustlers?

A poll of 2,000 adults[13] published in October 2020 found that a third of respondents expected to face an average shortfall of £239 going into the festive season, with the result that 20% had started a side hustle to increase their income. What's more, 55% of them said they expected to continue into the New Year.

Common ways to earn extra money include selling old clothes, DVDs and tech, doing odd jobs like DIY, lawnmowing or cleaning, and making and selling baked goods or crafts.

Tax implications

Don't forget that side hustling could have tax implications, e.g. changing your Income Tax band. You also need to remember to set aside tax on your side hustle earnings, as you'll need to declare and pay this within specified timescales.

[13]musicMagpie, 2020

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Key Points Spring Budget 2021

Job support

- Furlough scheme extended until 30 September 2021 – the government will continue to pay 80% of employees' wages up to £2,500 a month until the end of June, employers then pay a 10% contribution in July, rising to 20% in August and September
- The Self Employment Support Scheme also extended until the end of September.

Business support & taxation

- A new 'Recovery Loan Scheme' replacing previous emergency government funding to support businesses, offers loans between £25,000 and £10m up to 31 December 2021 (government provides an 80% guarantee)
- A new 'Restart Grant' scheme provides retail, hospitality, accommodation, leisure and personal care firms up to £18,000, and non-essential retailers £6,000
- Business Rates Relief for retail and hospitality firms has been extended for three months to 30 June 2021, with a two-thirds discount available until 31 December 2021
- Headline rate of Corporation Tax will rise from 19% to 25% in April 2023; a tapered rate will be introduced for profits above £50,000, so that only businesses with profits of £250,000 or more will be taxed at the full 25% rate, businesses with profits of £50,000 or less will continue to be taxed at 19%
- To encourage business investment, a temporary 'super-deduction' tax incentive scheme will cut companies' tax bills by 25p for every £1 they invest, by providing allowances of 130% on qualifying investment in new plant and machinery, from 1 April 2021 to 31 March 2023
- VAT 5% reduced rate for tourism and hospitality sectors extended until 30 September 2021, followed by an interim rate of 12.5% for six months.

Personal taxation, wages and pensions

- From 6 April 2021 Personal Allowance increased to £12,570 and the Income Tax higher rate threshold increased to £50,270, both thresholds will remain at these levels until April 2026
- National Insurance threshold increased to £9,568 from 6 April 2021, the Upper Earnings Limit will be £50,270
- Inheritance Tax nil-rate band remains at £325,000 and residence nil-rate band at £175,000, until April 2026
- Capital Gains Tax annual exemption remains at £12,300 for individuals and £6,150 for most trusts
- Lifetime Allowance for pensions remains at £1,073,100 until April 2026, the Annual Allowance remains at £40,000
- New single-tier State Pension increased to £179.60 per week in April 2021, the older basic State Pension increased to £137.60 per week
- ISA (Individual Savings Account) allowance remains at £20,000 for the 2021/22 tax year
- JISA (Junior Individual Savings Account) allowance or Child Trust Fund annual subscription limit remain at £9,000 for the 2021/22 tax year
- National Living Wage increased to £8.91 per hour from April 2021 and will include those aged 23 and over.

Property transactions

- Stamp Duty (SDLT) holiday on house purchases in England and Northern Ireland extended, with the £500,000 threshold at which SDLT starts to apply ending on 30 June, a threshold of £250,000 applies for a further three months, with the regular £125,000 threshold returning from 1 October 2021. In Wales, the Land Transaction Tax (LTT) temporary tax reduction has been extended to 30 June 2021
- Mortgage guarantee scheme introduced from April, with the government providing guarantees to UK lenders who offer mortgages to buyers to secure a loan with a 5% deposit on a property of up to £600,000 up to 31 December 2022.

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