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YOUR MONEY SUMMER 2020

INSIDE THIS ISSUE

THINK TWICE BEFORE CANCELLING PROTECTION INSURANCE

The pandemic has shown us that unexpected events can strike at any time and highlights the need for protection insurance to keep us afloat during times of financial hardship.

A YouGov[1] survey about the pandemic revealed that nearly a third (32%) of Britons fear for their future. Payouts from life insurance, critical illness and income protection can help lessen the financial impact of unexpected events. Data from the Association of British Insurers shows that a record amount of over £5.7bn was paid out in protection claims in 2019, showing that more and more people are relying on this type of cover for support in difficult times.

If you are reviewing your finances to try and reduce outgoings, critical illness and income protection should certainly not be on the list of expenditure to cut as such policies can be a lifeline if you were to lose your job or become ill for an extended period.

We are here to help with any questions you have about existing protection policies or if you are considering new ones. We will help ensure your protection needs are covered.

[1]YouGov, 2020

BACK TO BASICS FINANCIAL PLANNING

Throughout the lockdown, one notable theme has been people looking to find enjoyment in the simpler things in life, such as home baking, gardening and crafts. The 'back to basics' theme has also become important for our personal finances.

LESSONS FROM LOCKDOWN

Many people have seen their finances hit by the economic impact of the pandemic and may be trying to cope with less income, but the same outgoings. This has forced many consumers to review their financial habits by reducing expenses and becoming more mindful about expenditure.

DEALING WITH DEBT

Good budgeting skills have become a necessity, but it's also important not to ignore debt. Mortgage repayment holidays and other debt payment breaks have helped in the short term, but these will not last forever. Going forward, it's important to keep up with repayments or, if you are struggling, consult a debt adviser. When it comes to persistent debt, the worst thing to do is to do nothing.

FINANCIALLY FRAGILE

In an ideal world, every household would have had a financial buffer to cushion the blow when the COVID-19 crisis hit. Sadly, for some people, the pandemic has highlighted the fragile nature of their financial safety net. Over the last few decades, the burden of responsibility has increasingly shifted from state to individual, which has increased the importance of protection insurance in maintaining both your own and your family's financial security in uncertain times.

RAINY DAY FUNDS

The pandemic has also highlighted the need for emergency savings. If you don't have savings, regular schemes often pay more attractive rates of interest and can be a particularly good way to accumulate rainy day funds. If you do have savings, make sure you shop around for the best available rates rather than leaving funds stagnating in low interest accounts.

PLAN FOR THE LONG TERM

Although it's extremely easy to focus solely on short-term financial needs, it's also important not to lose sight of other long-term financial goals. While finding money to fund longer-term plans such as retirement savings can be difficult, the cost of delay can ultimately prove even more expensive.

HELPING YOU BUILD FINANCIAL RESILIENCE

The last few months have shown that we never really know what's around the corner and have also demonstrated the importance of being financially prepared for unexpected events in the future. If you need assistance strengthening your financial resilience, please get in touch.

IN THE NEWS...

CONTACTLESS PAYMENTS – THE 'NEW NORMAL'

The shift to contactless payments has accelerated in recent years and even more so during the pandemic, helped by an increase in the contactless limit from £30 to £45 on 1 April. Research[2] conducted between 10-12 April has revealed that two thirds (66%) of card transactions in the UK were contactless and almost half (45%) of UK adults admit their use of cash has decreased throughout the pandemic; 76% of respondents say they will continue using contactless payments after the crisis.

£20 SELLS FOR £7.5K

A new polymer £20 note has changed hands for £7,500 after going under the hammer at a secret auction. Listed with a guide price of between £3,000 and £4,000, the note sold for 375 times its face value, with the proceeds going to charity. The plastic £20, featuring artist JMW Turner, had a serial number of AA01 000010 and is likely to be the lowest numbered note in circulation. Whenever a new note enters circulation, the Queen is gifted the first one, which contains the AA01 000001 serial number.

CHANGES TO LISA WITHDRAWAL RULES

Temporary changes to the Lifetime ISA (LISA) withdrawal rules have been announced to help people who want to access their funds earlier than planned. You can use a LISA to save up to £4,000 a year towards your first home or retirement and the government adds a 25% cash bonus of up to £1,000 a year on top. Previously, if you made a withdrawal and you weren't aged 60 or over, a charge of 25% was applied to the amount withdrawn. The withdrawal charge has been reduced to 20% between 6 March 2020 and 5 April 2021.

[2]Mastercard, 2020

BE SCAM AWARE

Several UK bodies, including the Bank of England, National Crime Agency and the Financial Conduct Authority (FCA), have warned people to be particularly vigilant about scams, many of which are targeting vulnerable people, such as those who have lost their jobs or are under greater financial pressure in the current climate.

MILLIONS OF VICTIMS

Recent figures[3] show that over five million people in the UK had fallen victim to, or knew someone who had been duped by, a financial scam since the beginning of the virus outbreak.

The most common financial scams relate to banking, accounting for 60% of victims. A further 35% had been targeted by an insurance scam. Fraudsters have also been offering free pension reviews and one in five consumers reported having been targeted by a pension scam.

SCAMSMART

To check whether an investment or pension opportunity is legitimate, you can use the FCA online scam checker, which can be found here: www.fca.org.uk/scamsmart

ADVICE FROM THE GOVERNMENT

Government advice for consumers to protect themselves from fraud includes checking the company's credentials via a reliable source such as the FCA's Financial Services Register, being wary of deals that sound too good to be true, not giving out personal details, not clicking on links from unknown senders and seeking professional financial advice before making any decisions. The official advice can be found here: www.gov.uk/government/news/be-vigilant-against-coronavirus-scams

GUIDANCE IN UNCERTAIN TIMES

We are more vulnerable and likely to fall victim to scams when anxious, stressed or suffering financial pressures, so if you are unsure about any financial opportunities that come your way, please contact us. Rest assured, we're here to keep you and your finances safe during this period of uncertainty.

[3]Canada Life, 2020

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation. The value of investments and income from them may go down. You may not get back the original amount invested.

NUMBERS WORTH KNOWING IN 2020-21

Knowing the various tax allowances and exemptions available in 2020-21 can help you maximise their use for your own individual financial planning. These are some of the numbers worth knowing:

PERSONAL TAXATION

The National Insurance threshold is now **£9,500**. The Personal Allowance has remained at **£12,500**, while the **£50,000** higher-rate threshold remains unchanged in parts of the UK where Income Tax is not devolved.

INHERITANCE TAX (IHT)

The current IHT nil-rate threshold is **£325,000** for individuals and **£650,000** for a married couple or civil partners. IHT is usually payable at a rate of 40% beyond these thresholds. The main residence nil-rate band, which applies if you want to pass your main residence to a direct descendant, has increased to **£175,000** per individual.

PENSIONS

A major attraction of paying into a pension is the tax relief available. This is 20% for basic rate taxpayers, 40% for higher rate and 45% for additional rate taxpayers.

The Annual Allowance for pensions has remained at **£40,000**. For those with an income above **£240,000** (£200,000 threshold income plus the £40,000 you can save into a pension) the Annual Allowance begins to taper; for every £2 of adjusted income above £240,000, the Annual Allowance for that year reduces by £1. The minimum Annual Allowance has reduced from £10,000 to **£4,000**.

The Lifetime Allowance – the maximum amount you can have in a pension over a lifetime – has increased to **£1,073,100**.

From 6 April, the new single-tier State Pension increased to **£175.20** per week and the older basic State Pension rose to **£134.25** per week.

INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

The ISA allowance, including the Lifetime ISA allowance if used, remains unchanged at **£20,000**. The annual amount you can save into a JISA (Junior Individual Savings Account) or Child Trust Fund has increased substantially, from £4,368 to **£9,000**. ISAs represent a tax-efficient way of saving or investing and the JISA is a great way of building up funds for your child.

PLANNING PAYS

The choice of tax-efficient products plays an important part in successful saving and investing, but it should not be the sole driver of your savings or investment decisions or steer you away from achieving your core goals.

Our advice will consider the sensible steps you can take to reduce the amount of tax you pay, safeguarding your wealth in the future.

YOUNG PEOPLE IMPACTED BY PENSION HOLIDAYS

Taking a break from pension contributions has been shown to have more of an effect at younger ages than for those who are closer to retirement because savings made earlier in life benefit from a longer time in which to grow.

Research shows that if a 25-year-old, on an average salary, took a three-year break from pension contributions, they would miss out by £800 a year in retirement (assuming retirement at age 65) equating to around 10% of their monthly private pension income.

Under the same circumstances, a 55-year-old would only lose around £400 a year on retiring at age 65.

Young women are more likely to take a pension holiday, with figures showing that 10.5% of women aged 22-29 have opted out of their workplace pension, compared to 8.1% of men in the same age group[4]. Women in their 20's and 30's are more likely to be faced with challenges such as starting a family, working part-time, or managing the cost of childcare, all of which can make retirement planning seem less of a priority.

[4]Royal London, 2019

TIMING PAYS OFF FOR THE EARLY BIRD ISA INVESTOR

Investors could be thousands of pounds better off by investing their full ISA allowance at the start of the tax year, compared to a last-minute ISA investor or even one who drip feeds money each month, according to research[5] which examined the investing habits of hypothetical ISA investors over the last 10 and 20 years.

The study concludes that if you were an 'Early Shirley' and invested your full allowance on 6 April for the past 20 tax years, you would be nearly £12,000 better off now than 'Last Minute Lara' — someone who had waited to invest on the last day of each tax year.

For those unable to afford the full ISA investment in one lump sum, consider investing like 'Monthly Monty', who uses a monthly savings plan to drip-feed money into an ISA. This approach is also likely to achieve better returns than investing it all at the last minute. The research figures show that by splitting your annual ISA allowance into 12 monthly investments, your investment would have grown to £296,247 over 20 years, which is still £7,496 more than if you had waited until the last minute.

[5]Fidelity International, April 2020
Total Return in GBP of FTSE All Share

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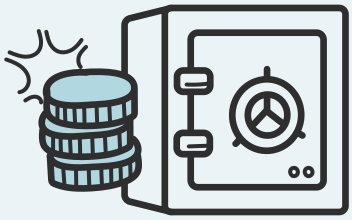
Tax treatment is based on individual circumstances and may be subject to change in the future.



FINANCIAL SAFEGUARDS

Many people have already felt the financial impact of the pandemic and want reassurance that any savings they have will be protected.

If your savings are in an account with a UK-authorised bank, building society or credit union that fails, the Financial Services Compensation Scheme (FSCS) provides a safeguard adding a valuable level of reassurance. The FSCS pays compensation for the following:

- up to **£85,000** per eligible person, per bank, building society or credit union
- up to **£170,000** for joint accounts.

The FSCS will automatically compensate you if the institution goes bust, meaning you do not need to take any action yourself. It's a good idea to spread your savings across a number of financial institutions, so that you don't hold any more than £85,000 with one. This is because the FSCS will only cover £85,000 per person, per FCA authorised institution. Accounts held with deposit-takers that operate under a shared FCA licence will be aggregated for the purposes of the scheme.

We can help you keep on top of your cash balances.

IF YOU WOULD LIKE ANY ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.

PROTECTING YOUR PENSIONS AND INVESTMENTS

Stock markets do not react well in times of uncertainty and the pandemic has piled pressure on financial markets worldwide. During periods of increased volatility, the importance of portfolio diversification, as a means of guarding against market turbulence, remains a constant investment principle.

It is advisable to revisit your investment objectives, review your long-term financial goals and reassess your attitude to risk, to ensure your current investment strategy provides sufficient protection from market volatility. Holding a diverse portfolio with a mix of investments suited to your particular risk appetite is key.

DIVERSIFICATION BENEFITS

A balanced portfolio contains a combination of different asset classes, such as equities, bonds, property and cash. Each asset class has a different degree of risk; while equities have the potential to deliver higher returns than bonds, the latter can provide an element of capital preservation for times when you require a more risk-averse approach. Adopting portfolio diversification means you do not put all your eggs in one basket.

AVOID OVER-DIVERSIFICATION

While building diversity into an investment portfolio is undoubtedly important, try to guard against over-diversification. If you hold too many assets, you run the risk of spreading your money too thinly and this could have a detrimental impact on potential returns.

VOLATILITY WILL HAPPEN

The pandemic has rattled markets, but stock market volatility is normal and markets often rebound quickly once immediate issues are resolved. If you are investing for the long term, try to look beyond the short-term volatility. At the moment, it may be best policy to sit tight, but you should discuss your own specific circumstances with your adviser before taking any action.

TAXED PENSION WITHDRAWALS

Since pension freedoms were introduced in April 2015, people over the age of 55 have been able to cash in their entire pension as an alternative to taking it in regular instalments. Research[6] has revealed that one in five over-55s withdrew taxed lump sums from private pensions during 2019. The top three priorities for the money were saving, putting it into the bank or making home improvements.

CONSIDER TAX IMPLICATIONS

At first glance, the research appears to imply sensible financial planning reasons for pension withdrawals, rather than frivolous spending. However, in reality, there is little financial sense in shifting a taxed lump sum from a tax-efficient pension simply to place the proceeds on deposit. This is partly due to potential tax bills on withdrawals, but also relates to inheritance rules around pensions, which mean most people would be better off leaving money in a pension until they need the cash for income or specific spending requirements.

PROFESSIONAL ADVICE

Taking professional advice before making any pension-related decisions is vitally important, particularly in the current economic climate. So, if you are considering accessing your pension soon, get in touch – we will help you make the best decision.

[6]Canada Life, 2020

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