Q4 Autumn
Newsletter

Your Finance Matters

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Autumn: Time to hunker down and get organised

As the year progresses to the season of 'mists and mellow fruitfulness', thoughts inevitably turn to hunkering down with hot chocolate and toasted marshmallows as the nights draw in. Autumn is a season traditionally associated with change, as well as themes of comfort, preservation and protection; a time to get things in order.

Time to prepare
In many ways, autumn is the perfect time to get things done and that is certainly the case when it comes to finances. The halfway point of the fiscal year is fast approaching, making it an ideal time to consider your ISA or JISA investments and any other tax-related issues. It's also an opportune time to look at pension arrangements and check your protection needs are fully met.

Don't procrastinate!
While we all know the importance of keeping on top of our finances, it is easy to pop such tasks on our 'must-do list' and then proceed to forget all about them. A recently commissioned poll found 84% of the UK population put off key tasks by either doing nothing or doing something more enjoyable or completely unrelated, and a staggering one in five do this on a daily basis! Sound familiar?

Engage with your finances
It is though extremely important to sort out financial arrangements long before you 'need' to. This is particularly the case with retirement planning, although research suggests relatively few people do actually engage with their pensions: more people knew the value of their house (58%), car (55%) and television (63%) than the value of their pension (38%) with almost as many knowing the value of their wardrobe contents (34%).

Apparently, statistics don't lie, so it is clearly only human to procrastinate. However, it's also true there's no time like the present. It's our business to make sure your finances are in good shape. We can help you tick a few more tasks off your 'must-do list'.

Muddy waters swirl around IHT

In late July, HM Revenue & Customs (HMRC) published its annual statistics on Inheritance Tax (IHT). These revealed that IHT payments received by HMRC in the 2020-21 tax year totalled £5.4bn, up about £0.2bn (almost 4%) on 2019-20, when receipts were slightly lower than 2018-19. Typically, more than 20,000 deaths per year result in an IHT charge.

The stats show that recent years have seen some reductions in the number of estates affected, which HMRC believes is due to the phased introduction of the residence nil-rate band, which can allow married couples and civil partners up to £1m free of IHT. A transferable nil-rate band assists this outcome by enabling the transfer of unused IHT, or allowance upon death to a surviving spouse.

There are steps that can be taken to keep an estate out of range of IHT, or at least reduce any IHT due upon death; these include simple lifetime gifts through to more complex trust arrangements. Estate planning is a specialist area and, with the added possibility of a revised IHT regime soon, professional input is advisable.

In the news

ESG assets to top $50trn by 2025

ESG assets are forecast to exceed $50trn (£36.5trn) – over a third of projected global assets – by 2025, according to Bloomberg Intelligence. The analysis comes as environmental, social and governance factors are becoming increasingly important to investors across the globe. "The pandemic and the global race to net zero carbon emissions have put ESG criteria into orbit – from niche to mainstream to mandatory", said Adeline Diab, Head of ESG and Thematic Investing EMEA & APAC at Bloomberg Intelligence.

UK dividends see significant recovery in Q2

UK dividends rose by 51% in the three months to June 2021, jumping to £25.7bn on a headline basis, according to Link Group's UK Dividend Monitor. Almost 90% of the increase can be attributed to firms restarting dividends compared with Q2 2020 data. This increase was significantly ahead of expectations of an increase of 31% in Q2.

Income rich, cash poor – the wealthy with no savings

For households with a six-figure income, covering a major unexpected bill is just a drop in the ocean, right? Wrong. Research has revealed that 23% of households with an income of £100,000 would be unable to cover an unexpected bill or survive more than three months without their income. This is also true of over one in ten households earning over £150,000. Just as high earners have more coming in each month, they tend to have more going out. Saving can be difficult when your outgoings are high, but it is essential for improving your resilience to financial shocks.

COVID prompts uplift in grandparental support

Most grandparents are acutely aware of the challenges their grandchildren face as they progress through education and into the workplace. University tuition fees and other costs can leave the upcoming generations with debts before they begin full-time work, making it more difficult for them to accumulate the deposit on their first property purchase.

The impact of the pandemic has added a new dimension to the problem, with disrupted education and a battered economy raising questions about future earnings potential. This has not gone unnoticed by those grandparents fortunate enough to be able to help the next-generation-but-one along the rocky road to their lifetime dreams and ambitions. Many have been moved to upgrade their help.

Evidence that grandchildren have often benefited financially from locked down grandparents, unable to spend on holidays and eating out, has been provided through research conducted by a leading financial mutual. Scottish Friendly Assurance Society surveyed a sample of grandparents who were already investing for their grandchildren to see what influence the pandemic had exerted.

Responses showed that 47% of those grandparents had enhanced the amounts contributed to their grandchildren's savings during the previous 12 months. The main drivers were found to be a reduction in their own spending opportunities during the COVID-19 restrictions and a heightened desire to create a larger savings buffer for their grandchildren at a time of economic uncertainty.

"There are grandparents who do have the discretionary income to put towards family savings and this can be a big support," comments Jill Mackay of Scottish Friendly. "It's also encouraging to see grandparents deciding to invest more of their money rather than save it in cash."

National Insurance and dividend tax rises

A new health and social care tax will be introduced across the UK from April 2022. The tax will initially begin as a 1.25 percentage point increase in National Insurance, paid by both workers and employers. From April 2023, it will become a separate tax on earned income, calculated in the same way as National Insurance and ring-fenced as a health and social care levy. Tax on share dividends is also scheduled to increase by 1.25 percentage points.

COP26 – Working together to tackle the climate crisis

The United Nation's 26th Conference of the Parties – COP26 – is recognised as the most important climate change event since the 2015 Paris Agreement. Due to be held this November in Glasgow, the summit will bring together world leaders to build on the work left unfinished by COP25 and the goals set out in the Paris Agreement.

'The investment industry has signalled its intention to play a role in the global climate transition.'

The main goals include working together to secure global net zero by mid-century, mobilising finance, and adapting to protect communities and natural habitats.

The investment industry has signalled its intention to play a role in the global climate transition. Launched in December, the Net Zero Asset Managers initiative has grown to over 120 investors, managing $43trn – all committed to supporting the net zero goal and investing aligned with net zero emissions. COP provides an opportunity for investors to consider how they can innovate in developing solutions to climate issues and in financing sector transition.

Institutional Investors Group on Climate Change CEO, Stephanie Pfeifer, commented on the popularity of the initiative, "In just six months nearly half of the global asset management sector has committed to achieving net zero emissions with their clients across the funds they manage. This marks a fundamental tipping point across the investment sector and a significant boost in efforts to tackle climate change and decarbonise the global economy. There's a lot more to achieve, but the sector is increasingly on a path to a net zero future."

Balancing money and mindset to become a financial wellbeing 'all-rounder'

A new study has found that people with a financial adviser are over four times more likely to display high levels of financial wellbeing than those who have never received financial advice.

Financial wellbeing relates to the control people have over their financial future. Those with high levels tend to not only meet their long-term financial goals, but also have a clear idea about what makes them happy and what they want from life, thereby allowing them to identify and achieve more meaningful life goals both now and in retirement.

The 'all-rounder'
This latest analysis was based on a survey of 10,466 UK residents and found that the key to building financial wellbeing is to have both 'money' building blocks and 'mindset' building blocks. People with the best financial wellbeing scores did well on both fronts; in essence, all money and no long-term happiness plan was found to be no better overall than having a plan but no money.

Respondents with the best possible combination of scores were classified as 'all-rounders', with this group financially comfortable and enjoying life now while also planning for their future happiness. Essentially, such people are equipped to achieve the perfect balance between understanding the importance of both money and mindset.

Wellbeing and advice go hand in hand
Perhaps unsurprisingly, the study revealed that people who seek professional financial advice are far more likely to fit into the 'all-rounder' category than those who do not. Overall, just 10% of those who had never received financial advice were fortunate enough to combine healthy finances with a positive money mindset, compared to 44% of those who enjoy an ongoing relationship with a financial adviser.

Sudden Wealth Syndrome: dealing with a financial windfall

If you received a large windfall suddenly or unexpectedly, you'd likely expect to feel happy and excited for the opportunities it presents. Whether you're a successful entrepreneur, perhaps selling your business or inheriting, sudden wealth can feel overwhelming.

Far from being a happy event for some, coming into a large sum of money can prove a massive emotional shock. In fact, it can even result in a recognised psychological condition called 'Sudden Wealth Syndrome'. The symptoms of this syndrome will vary from person to person, but can include feeling isolated from friends and family, guilty about the good fortune, uncertain about the future, or afraid of losing new-found financial stability.

The process of adapting to one's new financial status can lead to poor mental health and thus self-destructive behaviour, for example excessive spending or risky investments.

The link between mental health and money issues
It is well known that our mental state has a significant impact on how we handle our money. In fact, nearly half (46%) of all people with problem debt also have a mental health issue. Unfortunately, stories about people who won millions of pounds in the lottery before losing it all, or even getting into debt, are all too common.

Avoiding the negative impacts of sudden wealth
While we can't always plan for it, or even avoid some of the negative feelings associated with coming into money, there are things we can do to keep our finances safe.

- Don't make any hasty decisions – put your windfall into an easy-access savings account(s) (within Financial Services Compensation Scheme limits), where it can accrue interest, until you have decided what to do with it
- Keep it on the down low – Sudden Wealth Syndrome can cause paranoia and anxiety that people only like you because you have money. Keeping things discreet will help alleviate these feelings and help with clear decision-making
- Take professional advice – spending or investing large sums of money without advice can be disastrous for your finances. Investment and tax planning advice are crucial. We're on hand to help you make wise decisions that will ensure your new-found wealth works hard for you and your family.

Far from being a happy event for some, coming into a large sum of money can prove a massive emotional shock

For those with a lot of cash in the bank, interest rates lower than the inflation rate mean they will see their cash eaten away

Inflation debunks 'cash is king' mantra

A modest level of price inflation is generally seen as acceptable and even as a sign of a healthy economy. For some years, the Bank of England's target for annual Consumer Prices Index (CPI) growth has been 2%; not a steady 2%, as short-term fluctuations are inevitable, but an average of about 2% over several years.

Inflation rates matter to savers and investors because a high inflation rate erodes the spending power of money. For those with a lot of cash in the bank, interest rates lower than the inflation rate mean they will see their cash eaten away by an invisible but corrosive force, the wider the rate differential, the worse the impact on cash holdings.

Bank interest rates have been very low for the decade or more since the global financial crisis; the inflation rate indicated by CPI growth has also been subdued. This year, however, has seen inflation indices rise faster as the economy recovers. Few economists are talking about double-digit inflation, but the upward trend may prove persistent.

Cash savings in reverse gear

All of the above makes it seem odd that a survey of 2,000+ participants by NatWest Group found that, of the 76% of parents/guardians of under-18s that are saving or investing for them, four in five are doing so exclusively in cash. Praising those that put money aside for their children, NatWest said, 'The purchasing power of these 'safe' cash balances actually goes backwards over the longer term.'

A healthy bank balance of course has its place, as a reassuring buffer against unexpected expenditure (appropriate insurance policies reduce the risk of this), but it is rarely the best long-term home for larger sums.

In other news

A third are indebted as they enter retirement

Retirement. That much-awaited time when, after paying off your mortgage and accumulating a pension pot, you stop work and sail off into the sunset to enjoy your twilight years. Unfortunately, not every retiree's story matches this ideal. Indeed, far from having everything paid off, it has been reported that nearly a third of those retiring this year will do so in debt. While the number of people approaching retirement in debt has remained steady (32% this year vs 33% last year), the value of those debts is around a fifth higher than last year's average, with 2021 retirees owing £20,650 on average. This debt comes from various sources: Credit card debt – 40%, mortgage debt – 31%, overdraft – 17%, borrowing from family and friends – 8%.

IHT receipts soar in 2021

HMRC data9 has revealed that the government collected £5.4bn in Inheritance Tax (IHT) receipts in the 2020-21 tax year – £0.2bn (almost 4%) up on the previous tax year. Typically, more than 20,000 deaths per year result in an IHT charge. There are steps that can be taken to keep an estate out of range of IHT or at least reduce any IHT due upon death.

Triple lock changes for 2022–23

After much speculation, in September, the Secretary of State for Work and Pensions, confirmed suspension of the average earnings component of the pension triple lock, to avoid a disproportionate rise of the State Pension following the pandemic. For the 2022-23 tax year only, the new and basic State Pension will increase by the higher of either 2.5% or the consumer rate of inflation.

Investing through the ages

Creating plans and setting goals are important at all stages of life, even if they inevitably change as we progress through life's journey. Similarly, investment strategies also need to adapt as we move from one life stage to the next.

Twenty and thirtysomethings

Arguably, financial decisions made in early adulthood are more important than any other and the key one is undoubtedly to start saving. While retirement may seem a distant prospect, financial habits formed during these years will ultimately determine whether you enjoy a comfortable retirement or have to work later in life.

A relatively long time-horizon means this group can tolerate greater risk as there is more time to recover any potential losses. A majority of savings should therefore typically be allocated to equity investments which offer the greatest growth potential. Some savings, however, do need to be readily available for unexpected expenses or shorter-term projects such as a house deposit.

Forties and fifties

During these peak earning years, building up a pension and investment portfolio is paramount. Establishing a sound, tax-efficient plan is also key, while arranging regular financial reviews can ensure plans remain on track. As retirement looms, a more conservative approach may be appropriate, with funds switching from equities to more stable asset categories like bonds.

When I'm sixty-four

Changes to the State Pension age mean more people now continue to work and invest well into their sixties. At this stage, attention will increasingly shift to income generating products and ensuring projected income levels are sufficient to live on. Focus will also inevitably move to wealth protection and issues relating to wealth transfer.

Whatever your age, we'll help you make the right investment choices at the right time.

'Flip the context' to protect your savings

The Financial Conduct Authority (FCA) has revealed that over £2m was lost to pension scammers in the first five months of 2021. The average amount lost so far in 2021 is £50,949, compared to £23,689 in 2020.

The FCA research shows that pension holders were nine times more likely to accept 'advice' from someone online than they would from a stranger they met in person. FCA advice urges everyone who receives a pension offer online to imagine what they would do in real life, by flipping the context. For instance, if a stranger in a pub told you to put your pension into something they were selling, would you do that?

Signs of a scam

- Offer of a free pension review out of the blue
- Being offered guaranteed higher returns
- Offer to release cash from your pension, even though you're under 55
- High-pressure sales tactics – scammers may try to pressure you with 'time-limited' offers
- Unusual investments which tend to be unregulated and high risk.

If you are concerned about any pension offers you receive, don't hesitate to contact us.

Regulator notes vital insurance need

Earlier this year, the Financial Conduct Authority published the results of its latest Financial Lives Survey. These showed, among other things, that COVID-19 had presented a severe test for the population's finances, and that about a quarter of UK adults displayed signs of low financial resilience. Such signs include overindebtedness, low levels of savings and low or erratic earnings.

There were two stages to the FCA survey: the first covered the period August 2019 to February 2020; the second was conducted in October 2020 to test the impact of COVID-19 on the population's financial health. The pre-COVID stage presented a mixed picture, with some positive findings but also some areas of concern in matters such as protection insurance cover.

Mind the gap
On the plus side, FCA reported, 'The proportion of people holding any insurance product increased from 81% in 2017 to 88% in 2020.' However, the survey exposed what FCA referred to as 'a significant protection gap', as its data showed that 53% of respondents held no protection products whatsoever, albeit an improvement from 59% in 2017.

The protection gap was particularly marked among those aged 18-24 as well as a range of other groups, including those with vulnerabilities or lacking confidence in managing their money. Yet many in these groups are responsible for families that would likely suffer hardship if they were to die prematurely or suffer unexpected illness or injury.

There may be many pressures on the financial resources of adults in the younger age ranges and on vulnerable groups, but it is important for them to have adequate protection if possible, perhaps with help and encouragement from wider family as appropriate.

UK investors plan to continue lockdown habits

During the pandemic, many people have been able to significantly increase their investment contributions, as spending on travel, leisure and hospitality plummeted.

Now, a poll has revealed that, far from reducing their investment contributions as restrictions loosen, 76% of UK investors intend to keep up their lockdown habits, with half planning on reducing everyday spending in order to continue investing the same amount or more. On average, investors plan to contribute 19% more each month postlockdown, increasing to 36% for younger generations. By contrast, just 6% plan to reduce their contributions.

The pandemic spawned a new generation of investors, but it was easy to assume it was just a temporary craze spurred on by lockdown boredom. These findings suggest otherwise, and show a permanent change in the UK's attitude towards spending, saving and investing. The rise in investing makes particular sense when set against a backdrop of rock-bottom interest rates.

Get started on your investment journey
While it is never guaranteed, investments have historically delivered better returns than savings over the long term. For assistance in building a diversified portfolio aligned to your risk profile, please do get in touch.

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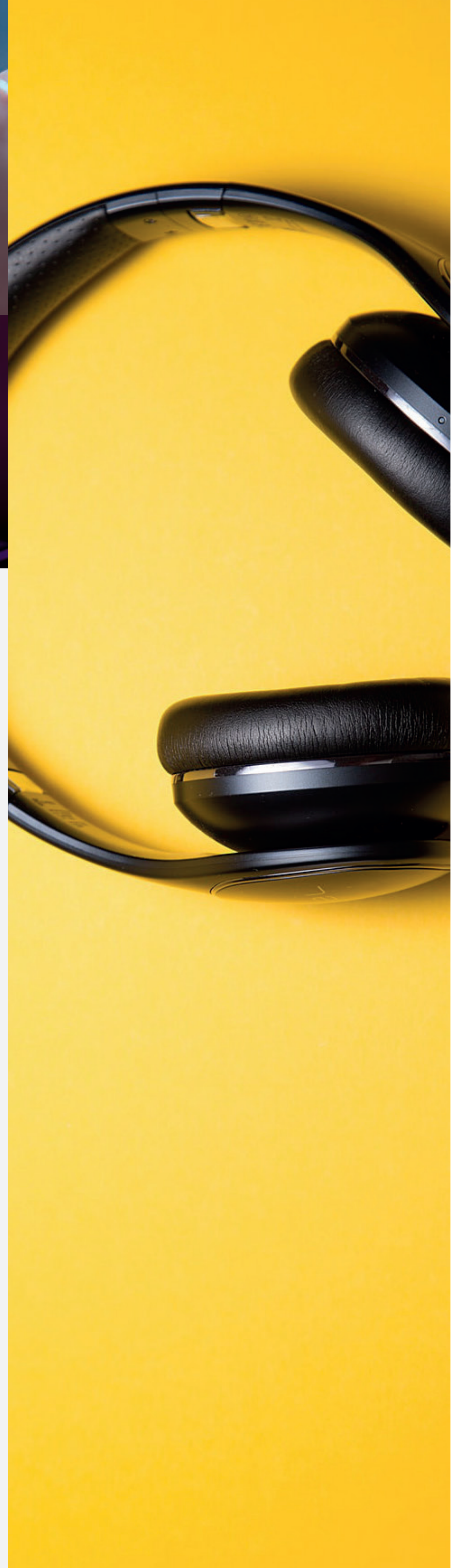

'Noise' blocking – good for your portfolio

It's easy to feel bombarded by the constant cycle of negative news headlines or 'noise', which can add to your anxiety about how your investments are doing and uncertainty as to whether your investment strategy is on the right course. It's important to try and block out this noise which could influence you to make hasty or erratic investment decisions.

Set and revisit your goals Keeping a record of your reasons for investing can help temper any inclination to hastily change your plans. Revisiting your initial decisions allows you to assess whether your long-term priorities remain the same.

Avoid continuous monitoring
Our mobile phones allow us to keep completely up to date, which is obviously important for things like keeping in touch with family, but when it comes to investing, it's best to avoid the temptation to set up alert notifications for funds or companies that you are invested in. Warren Buffett had this advice in 2016 after a period of extreme market volatility saying, "Don't watch the market closely"; advice that still rings true today.

Time in the market
Shutting out the noise to concentrate on the long term, gives your investments a greater chance of yielding positive returns and benefiting from compounding, although there are obviously no guarantees.

Grounds for economic optimism as we journey through the autumn

Although the strength and speed of the global recovery over the first half of this year exceeded most expectations, the economic outlook inevitably remains uncertain. However, while future growth prospects are likely to stay closely linked to the future path of the virus, as we journey through autumn there do appear to be grounds for optimism.

Stronger recovery predicted

Over the summer months, forecasting agencies took turns to upgrade their growth projections for developed nations as a succession of economic data proved stronger than analysts had predicted. In its latest assessment, for example, the International Monetary Fund (IMF) increased its combined 2021 growth forecast for advanced economies by half a percentage point, primarily due to the success of vaccine rollouts and government stimulus measures supporting recovery.

Risks and uncertainties

The IMF assessment though, did highlight a divergence in fortunes between rich and poor nations due to differing levels of access to vaccines. As a result, an off setting downgrade across emerging markets and developing economies meant this year's overall global growth forecast actually remained unchanged.

Ongoing concerns surrounding inflation also persist, despite policymakers' insistence that the recent upward trend in prices will prove transient. Furthermore, the current mammoth levels of spending by governments and central banks can only be a temporary phenomenon and, when stopped, will impact on growth.

Grounds for optimism

While the outlook is therefore expected to remain relatively uncertain, there are grounds for investor optimism. Market fundamentals, for instance, remain comparatively strong, with earnings growth still being fuelled by pent-up demand as economies reopen, and companies starting to invest again as the recovery has gathered momentum.

Diversification remains key

There is no question that the world is in a period of immense change, with issues relating to the pandemic, as well as sustainability, fundamentally altering the investment landscape. Some things however do not change, like the importance of holding a diversified investment portfolio and the need for expert financial advice. That's where we come in.

Financial advice and wellbeing go hand in hand

According to a recent study, those who take financial advice are four times more likely than those without, to have high levels of financial wellbeing. The study also revealed that the average advised client accumulated almost three times more pension savings (£246,000), compared to nonadvised people (£95,000). Advised clients also accumulated total nonpension savings of £65,000 versus £32,000 (non-advised).

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