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YOUR FINANCE *MATTERS*

Issue 14 Q1 2020

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FINANCIAL RESOLUTIONS FOR A PROSPEROUS NEW YEAR

The New Year period is a common time for people to take stock of their finances and make resolutions designed to boost their financial wellbeing. And a new study has found the likelihood of success in this area is heavily linked to receiving professional advice and the establishment of clear financial objectives.

Advice is key to success

The recently released research[1] actually provides a quantitative measure of the value attributed to advice when it comes to helping investors achieve their goals. The US study was based on real-life data relating to more than 100,000 advised investors and found that eight out of 10 with a defined retirement goal had at least an 80% greater probability of achieving their financial objectives. In other words, advised investors typically hit 80% of their financial goals.

Create a financial plan

The research vividly demonstrates how taking expert advice and constructing a tailored plan can significantly boost an investor's financial wellbeing. In many ways this is unsurprising, as the benefits associated with financial planning are well known and plentiful.

Financial wellbeing

Discussing your financial objectives with us enables you to consider exactly what you want to achieve with your assets and thereby establish clear goals that are both realistic and achievable. Regular financial reviews provide opportunities to monitor progress and adapt plans where necessary. Good financial planning also ensures all investments are tax-efficient by minimising both current and future tax liabilities.

It's good to talk

This study once again reiterates the significant value that can be gained from seeking professional financial advice. So, if your circumstances have changed or the New Year has encouraged you to refocus your financial objectives, then get in touch.

That way you can be sure your financial goals remain realistic and you give yourself the best chance of turning any New Year financial resolutions into reality.

[1]Vanguard, September 2019

IHT bill rises to record level

Figures released by HMRC show a record amount of Inheritance Tax (IHT) was collected in the last financial year. In total, UK citizens paid £5.4bn in death duties in 2018/19, an increase of 3% on the previous year. This rise continues a long-term trend, with IHT receipts having doubled in the last nine years, partly as a result of the £325,000 nil-rate threshold being frozen since April 2009.

UK trails in retirement stakes

According to the Natixis Investment Managers' Global Retirement Index, the UK lags behind many global counterparts in terms of retirement security[2]. The index uses data from a number of sources to collate a comparable score across countries and, in 2019, ranked the UK 17th out of 44 nations. The lowest score was recorded in assessment of finances in retirement, where the UK languished 34th in the rankings.

Blood not always thicker than water

A new survey[3] suggests a significant proportion of the older generation are set to shun family in their Wills. The research, conducted by Responsible Life, found that over a quarter of retirees are planning to leave money to charities, friends or neighbours in preference to their children or grandchildren.

[2]Natixis, 2019
[3]Responsible Life, 2019

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The green shoots of Spring?

As we enter a new decade, the global economy seems to be precariously balanced. Although recent data supports this pessimistic prognosis, forecasters suggest 2020 is set to observe a recovery.

Global growth rates

Gross domestic product (GDP) data for the third quarter of 2019, highlighted a continuing decline in global growth. In the US, GDP grew at an annualised rate of 1.9%, just below the 2.0% recorded in the second quarter. China's growth rate of 6.0% was the country's slowest in over 27 years.

While both the UK and German economies experienced growth in the third quarter, neither economy particularly flourished. The UK recorded its slowest annual rate in nearly a decade, while the German economy grew just 0.1% in the third quarter. Both economies were successful in avoiding consecutive quarters of negative growth – the 'technical' definition of recession.

Trade traumas weigh

Published in mid-October, the International Monetary Funds (IMF) World Economic Outlook, outlined the global economy is growing at its slowest pace since the financial crisis. They downgraded the 2019 world growth forecast to 3.0%, a 0.3 percentage point reduction from the April estimate. The bi-annual outlook cautioned that the self-inflicted wounds of the US-China trade war had created a 'precarious' economic situation.

Cautiously optimistic

The IMF predict that growth will pick up this year, forecasting that the world economy will expand by 3.4% in 2020. Global trade protectionism and geopolitical tensions remain primary risks to the outlook going forward. The estimated pickup reflects projected improvements in the economic performance in several markets, developed and emerging. Considering the uncertainty surrounding prospects for many of these countries and prominent risks, it is possible that a more subdued pace of global activity could emerge.

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WHAT FUTURE AWAITS THE NEW £20?

At a launch event during October, Bank of England Governor Mark Carney revealed the latest in the bank's new series of polymer banknotes, a £20 featuring the artist JMW Turner.

Cash no longer king

The polymer notes are certainly more resilient and secure than their paper predecessors, but isn't the cashless society gathering pace and poised to push the banknote to near extinction? According to trade body UK Finance, debit card payment numbers caught up with cash transactions in 2017 and along with other contactless methods these are racing ahead as cash use declines[4].

But hold on. Aren't reports of the death of cash, being greatly exaggerated? Maybe. Even the UK Finance projections suggest that 2027 will see around six billion cash transactions. That would be well down on the 2007 figure of some 22 billion, but you'd still need plenty of banknotes (and Royal Mint coins) in circulation to cover six billion payments, plus those under people's mattresses.

Fake news

Bank of England figures show there are over 3.8 billion banknotes out there, the £20 accounting for around half of them[5]. The most-used banknote is also the most-forged; last year 88% of the 228,000 forgeries found were twenties. Forgery was once a capital offence; the last hanging for faking a financial instrument was in 1829. Penalties are less harsh nowadays, so when the new £20 comes out in February its security features need to be effective.

Wisely, you don't keep cash under your mattress, but funds in the bank at low rates are being eroded. Yes, everyone needs a cushion of ready money, but long-term savings deserve the opportunity to grow in a way that suits your risk profile. We can help identify a strategy that suits.

[4]UK Finance, 2018
[5]Bank of England, Oct 2019

RETIREMENT TIME-BOMB TICKING

The latest population statistics released by the Office for National Statistics (ONS) show that the number of people in their nineties continues to grow. And this trend is raising serious concerns over whether traditional views of retirement are still fit for purpose.

Population trends

Figures from ONS show that the total number of people aged 90 and over rose to 584,024 in 2018 – an increase of 0.7% from the previous year. This continues the trend towards an increasingly ageing population which has been driven by a combination of medical advances and improvements in public health.

Implications for retirement

While greater longevity is clearly welcome news, the fact that so many people now live 30 or so years beyond traditional retirement age does have financial implications and is inevitably changing people's expectations for later life. Indeed, we are already seeing people withdraw more gradually from work as retirees find an optimum work-life balance that accommodates their personal needs.

A further complication is that, as the population ages, people are increasingly living more of their lives in a relatively poor state of health. Consequently, there is a greater chance of people requiring some form of care, which again has significant financial implications.

Planning increasingly essential

As a result of these trends, it has never been more important for people to set targets and ensure they have sufficient financial provision to cater for all of their retirement needs. And, as retirement planning is never a case of 'one size fits all', it is increasingly vital to obtain sound professional advice that can be tailored to your individual needs.

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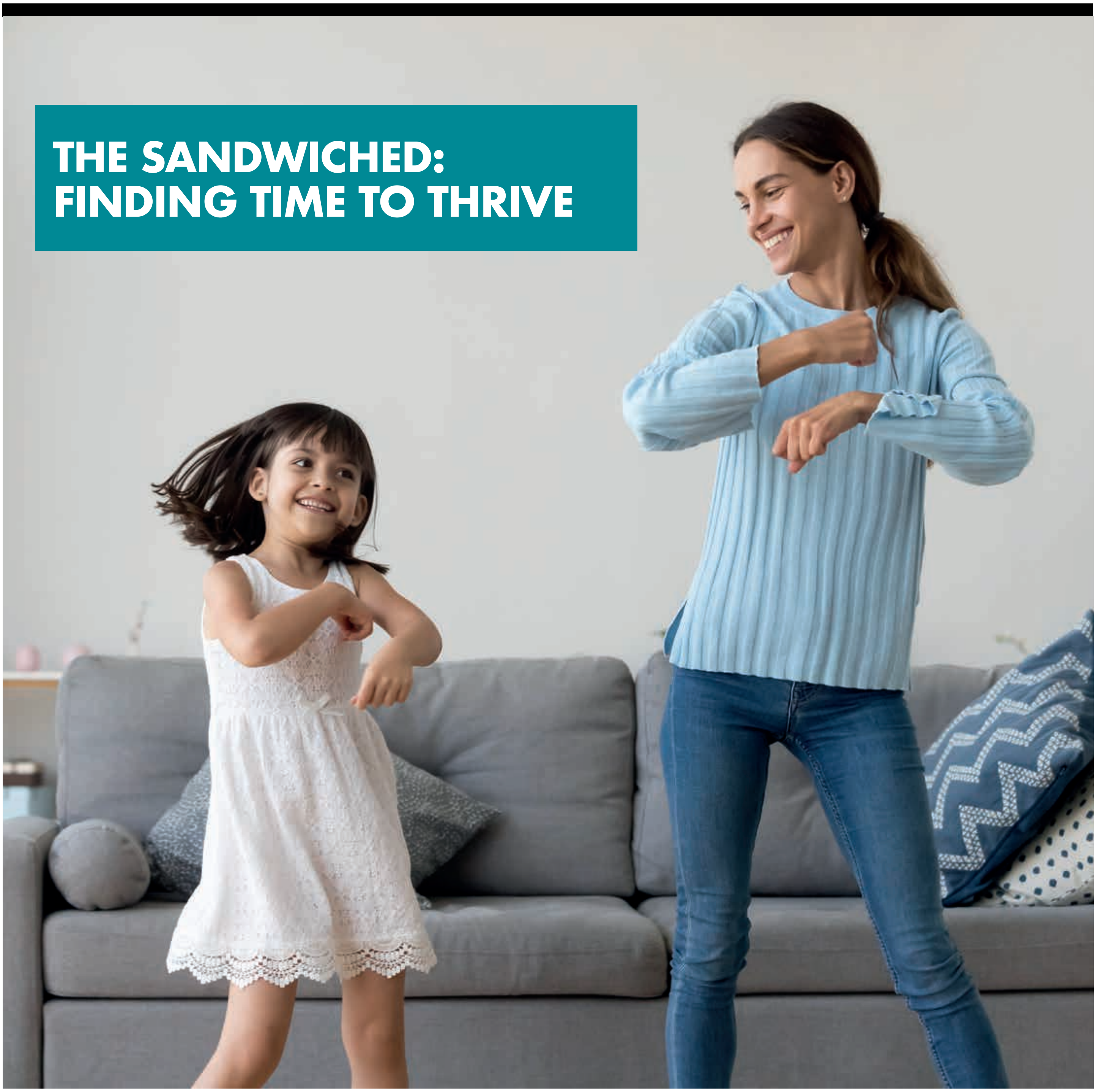

THE SANDWICHED: FINDING TIME TO THRIVE

One consequence of an ageing population and delayed parenthood is the growing number of people who are left sacrificing their own time, wellbeing and finances in order to care for those around them. And it's very easy for this group to simply focus on surviving rather than thriving.

The 'sandwich generation'

This term was first coined in the 1980s to describe adults 'sandwiched' between a dependent child and an adult relative requiring care. And estimates[6] suggest this group now represent a sizeable chunk of the UK population, with almost four million people in the sandwich generation.

Time-poor

A fundamental problem facing the sandwiched is that the dual challenge of caring for younger and older relatives can leave them incredibly time-poor. Indeed, research[6] suggests almost half of this group devote less than 35 minutes a day to themselves. In other words, putting themselves in the picture represents a genuine challenge.

Plan, plan, plan

However, while it may seem unnatural for the sandwiched to consider their own needs, it is vital they do so, particularly in relation to their finances. It's therefore imperative to secure financial stability by planning diligently, saving carefully and keeping retirement provision a top priority. Seeking sound professional advice and developing an effective financial plan is therefore arguably more important for the sandwich generation than any other group.

[6]Aviva/YouGov, March 2019

> ...half of this group devote less than 35 minutes a day to themselves.

The evolution of ethical investing

Ethical investment has traversed into the mainstream, as people increasingly choose to allocate their investable funds toward companies whose values and practices align with their personal beliefs, whether they be environmental, social, religious, or political. Some investors may choose to eliminate specific industries or allocate to other sectors which meet their ethical preferences. This involves creating an investment policy with very specific rules aimed at avoiding companies or industries that don't meet the criteria.

Recent climate protests around the globe have raised awareness and prompted many people to question their (and corporations') impact on the environment. This heightened awareness is transcending to investment preferences. With many people asking what they can do to reduce their carbon footprint, redirecting their investments is one credible option. Divestment from companies involved with fossil fuel extraction exemplifies this; research shows 45% of investors would move their money if they discovered it was invested in fossil fuels[7].

Not a new kid on the block

Not new to the investment arena, ethical funds have been around since the 1980s; client demand has accelerated at pace more recently, as more opportunities and vehicles for investment arise. Data reveals an increasing number of investors (66%) would like to support companies that have a positive contribution to society and the environment[7].

Impact insight

Another term to become familiar with is 'impact investing', which involves, not only the avoidance of businesses contributing to damaging activities, but actively supports companies bringing about positive change in and around their business and the wider world, whilst demonstrating high levels of accountability and governance. This involves reviewing companies' operating practices and selecting companies that are trying to solve social and environmental challenges. With an impact approach, investment decisions are based on a company's impact evidence (data), rather than personal beliefs.

Navigate with certainty

Heightened public awareness, and appetite for how money and investments can impact climate change and other societal issues, means that there is undoubtedly a growing movement towards greater mindfulness in 'good' investing. Research is essential because although a company's mission statement may reflect the values and beliefs of an investor, their practices may differ. Selecting investments based on ethics offers no guarantee of performance.

We're here to help you navigate the investment options available.

[7]Triodos, 2019

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University challenge of digs and tuition

In recent years it has become more widely accepted that university isn't the only route to satisfying and rewarding employment. Apprenticeships and vocational training are among the other paths available; and there are many instances of success in business by those who entered a workplace direct from school and worked their way to the top.

Equality of opportunity may still have some way to go but increasing numbers of able youngsters from what are classified as deprived areas of the UK are now applying for university places. Details of the extent of this trend emerged in the 2019 figures from the Universities and Colleges Admissions Service.

UCAS said: *"In England, the number of young people applying from the most deprived areas has increased 6% to 38,770. In Scotland, young applicants from the most deprived areas have grown by 3%. In Wales, applicants from the most deprived areas remained at 1,390[8]".*

As for the situation across the spectrum, it was revealed that 39.5% of 18-year-olds in England made a UCAS application, a new record. In Northern Ireland the rate was 46.9%, Scotland 32.7% (not including Scottish further education college undergraduate applications) and Wales 32.9%.

Helping out with costs

With accommodation costs and tuition fees to be met by most students (assistance may be granted in some cases UK-wide and for eligible students from Scotland), planning ahead for university costs makes sense and can be more effective if it involves parents and wider family such as grandparents.

The sooner saving for university begins the better. Investing in a Junior ISA every year (2019–20 annual limit £4,368 per child) can produce a useful sum, accessible on reaching 18. We can advise on JISAs and other savings and investment products to enable family members to help with university and life beyond, whilst also providing for their own future needs.

[8]UCAS, July 2019

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PENSION ALLOWANCE BREACHES SURGE

HMRC data has revealed a significant increase in the total value of pension contributions exceeding the Annual Allowance, with more and more people falling foul of the complex rules and regulations.

The latest personal pension statistics, which cover 2017/18, show a staggering 26,550 people reported contributions exceeding the £40,000 Annual Allowance in their self-assessment tax return, with combined total contributions amounting to £812m, an average of £30,584 per person. Furthermore, over the past decade, the number of individuals reporting such a breach has risen dramatically, with just 230 people facing similar tax charges in 2007/08 when the Annual Allowance was £225,000.

Pension complexity

The sharp rise in breaches can largely be blamed on a big reduction in the Annual Allowance in 2011 and the introduction of the tapered Annual Allowance in 2016, which added even greater complexity to the pension landscape. Indeed, unless government heeds industry advice and significantly simplifies allowance rules, the next few years are likely to see even more people caught out by the overly complex regime.

Here to help

As many people are discovering, a breach of allowances can be extremely costly. It's therefore imperative to seek professional advice if you are unsure how pension allowances impact on you. And remember, we are always here to help.

WORK FOR YOURSELF? MAKE YOUR PENSION WORK FOR YOU

Self-employment offers many benefits: being your own boss and having the flexibility to choose your working hours being but a couple of examples. But when it comes to pensions, those who work for themselves are finding they're at a disadvantage.

Research[9] has revealed that, although 74% of self-employed people think it's important to save for retirement, only 24% are currently paying into a pension. Furthermore, over half (55%) would welcome more guidance on funding their retirement, suggesting they lack the confidence and knowledge to plan for the future alone.

Excluded from auto enrolment

One major reason why so few self-employed people are currently contributing to a pension is that they are not eligible for auto enrolment. Over 10 million employed people have now been automatically enrolled in a workplace pension scheme by their employer, but no such option is available for the self-employed[10].

Professional advice for your peace of mind

If you are self-employed and want to begin saving for retirement, but perhaps don't know how best to go about it, then professional advice will really help to give you peace of mind and boost your confidence about the years ahead. We can support you to find the pension plan that best suits you, so that you can look forward to the future.

[9]Nest Insight, 2019
[10]The Pensions Regulator, 2019

ATOMIC EXPLOSION!

ACRONYMS TAKE OVER MANY INVESTMENT CONCEPTS

From ASOS to Zoopla, acronyms, abbreviations and made-up names are everywhere in the digital age. It may seem like a phenomenon largely confined to online marketing and, though there has been an eruption of new monikers in that arena, the process of shortening or updating ordinary corporate names, regulators' titles and investment plans has also seen some explosive phases.

BP's journey from Anglo-Persian Oil Company Limited to BP PLC, adopted in 2000, involved five changes of name along the way. It took many years for the corporate image to catch up with the familiar filling-station branding. Through the years, many combinations of initials have been employed and almost everyone knows BA and BT, GKN and GSK, and lots more besides.

Pardon my jargon
As the regime for regulating investment business evolved, changes made to the framework brought yet more shorthand jargon. Among examples that came and went were PIA, FSA and SFA (pardon? – the Securities and Futures Authority!). In their roles today we have FCA and PRA.

The UK has also seen new financial products such as PEP, TESSA, ISA, TESSA-only ISA, VCT, SIPP, SSAS, OEIC and ICVC. In 2002, after 205 years' trading, insurer Norwich Union gave itself a made-up name, Aviva, not to be mistaken for your local transport operator Arriva or IT firm AVEVA. We can't help you with train times, but we can explain financial gobbledygook for you in plain English. TTFN.

> The financial sector provides further examples, including HSBC, RBS, TSB and the merged Halifax Building Society and Bank of Scotland that became HBOS for a while.

STATE PENSION TOP-UPS SURGE

Figures recently released by HMRC have revealed a sharp rise in voluntary National Insurance Contributions (NICs) over the past couple of years as people seek to top up their State Pension record.

Chance to boost your pension
In 2018/19, the total value of voluntary 'Class 3' NICs amounted to £119.3m; in comparison, the figure was £12.8m in 2016/17 – a nine-fold increase in just two years. This surge has largely been driven by the introduction of new State Pension rules in 2016, particularly the increase in the number of years' contributions required to qualify for a full pension, from 30 to 35. As a result, it makes sense for some people to pay voluntary contributions, so they have enough qualifying years for a full State Pension.

Keep track of your pensions
It's certainly a good idea to regularly review your pension provision, both private and state. Pension providers send out annual benefit statements detailing entitlements and you can also request a state pension forecast from www.gov.uk/check-state-pension. Many people only review their pensions when they are about to retire, by which time it's too late – make sure you don't fall into that trap.

Pension inequality starts at birth

In recent years, the gender pay gap has been a rather hot topic. However, the difference between the pensions savings of men and women – or gender pension gap – is perhaps less discussed. By the age of 50, women have accumulated an average of just £56,000 in pensions savings against £112,000 for men[11].

Girls are losing out

What's more, HMRC data shows that the gender pension gap begins as early as infancy. According to recent statistics, 13,000 girls had money paid into a pension on their behalf by parents or grandparents in 2016/17, compared with 20,000 boys[12].

What you can do

Starting to save for your child or grandchild (whatever their gender!) early in life can make a huge difference to their pension pot down the line. If you'd like to find out how much you can pay into a pension on behalf of your child, or explore which plan might best suit their needs, we can help.

[11]Aegon, 2018
[12]HMRC, 2019

STAY PROTECTED IN 2020

Don't overlook the importance of having the right plans in place to protect yourself, your family, your valuables and your home, in case an unexpected event should happen.

Insurance cover isn't just about a payout when you die. It can also give you peace of mind in knowing that you would be able to cope financially if you were ill, have an accident, lose valued possessions or suffer damage to your home.

We can help you find the right cover, so you stay protected.

TONE UP YOUR FINANCES IN 2020

As we face the year ahead with great anticipation, thoughts of resolutions, often centred around lifestyle improvements and healthy living, usually feature high on our to-do lists. It's all too easy to overlook the resolution to take stock and refocus on your finances. A new year is the perfect opportunity to do this.

Whilst a financial overhaul may seem a duller prospect than taking on a new challenge or hobby, taking the time to do this now could really have a positive impact on your future wealth.

Reconnect with your goals

Whatever life stage you've reached, you'll no doubt have some short and long-term financial goals you want to achieve, such as moving to a new home, saving for a child's education, travelling the globe, providing financial support to family or retirement planning. Reviewing these goals and determining the amount of money required to fulfil them is a good discipline and helps you connect to your aspirations, standing you in better stead of ultimately achieving them.

Prioritising your pension

The earlier you start saving into your pension, the more you can contribute and the longer your money has time to grow. With tax relief available on contributions (within limits), pension saving is one of the best ways to ensure you stay on track for a comfortable retirement. No matter what age you are, your pension should be regarded as an essential part of your financial plan.

Tax-efficient saving opportunities

As the tax year end approaches, you still have time to use your annual ISA allowance, giving you even more opportunity to build up your savings tax-efficiently. Don't forget about the Junior ISA too, for your children or grandchildren, which can form the basis of a great financial foundation for your loved ones.

Revisit your mortgage

If it's been a while since you took out your existing mortgage, there could be a more suitable deal for you. Usually a family's biggest monthly outgoing, considering your mortgage options is essential in being nimble with your hard-earned money. Being savvy here could potentially enable you to deflect money into your pension or savings.

Review protection policies

Life insurance and other types of protection, such as income protection or critical illness cover, should form a vital part of your financial plan. It's worth reviewing these policies as your circumstances change, to ensure you have the right type and level of cover in place.

Keep talking

When it comes to reviewing and planning your finances, it's important that you keep us in the picture if your circumstances alter. You may have moved home and have a larger mortgage, inherited a sum of money, changed jobs, divorced or extended your family. If you keep us in the loop, that will enable us to ensure that your plans are perfectly tailored to your circumstances and attitude to risk.

Make 2020 shape up to be the year you prioritise your finances, an invigorating prospect.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.