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Your Money

Autumn 2021

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New investment habits set to outlast lockdown

In the past 18 months, many Britons have saved more money than usual as the closure of the economy reduced spending. Many canny investors have been channelling their savings into increased investment contributions.

New research[1] suggests that the majority of UK investors (76%) intend to keep up higher levels of contributions, with half saying they intend to sacrifice everyday spending to continue doing so. On average, post-lockdown investors plan to invest nearly a fifth (19%) more, increasing to 36% more for younger investors. Just 6% plan to reduce their contributions.

While the number of investors has surged during lockdown, many experts assumed that this would reduce as restrictions (and lockdown boredom) were lifted. This has not been the case however, especially as many savings accounts have continued to offer poor returns as interest rates remain low.

Get started now

Historically, investments have performed better than cash deposits in the long term. While returns on your investments are never guaranteed, building a diversified portfolio may be a smart move while interest rates remain so low.

[1]Barclays Smart Investor, 2021

Autumn: a time of change and preparation

As the darker evenings and colder days of autumn approach, our thoughts often turn to hunkering down and preparing for the winter months.

A season traditionally associated with change, preservation and preparation, autumn is a perfect time to get your finances organised before the rush of the festive season and the New Year.

Getting prepared

Autumn is an excellent time to get things done for many reasons, but it is a particularly good time to take stock of our finances. October marks the halfway point of the 2021-22 tax year, making it the perfect time to review your ISA and JISA contributions thus far, in addition to any other tax-related issues. Also take a look at your pension arrangements and check you are adequately protected against any potential financial shocks.

Don't put it off!

It's easy to talk about the importance of keeping on top of our finances and then put the task on the back burner. A recent poll[2] discovered that Britain is a nation of procrastinators, with 84% of respondents admitting they put off important tasks by either doing nothing, or doing something more enjoyable or completely unrelated, while one fifth procrastinate every single day!

Facing your finances

However, the best way to keep on top of your finances is to deal with them even before you *'need'* to – especially when it comes to your pension. Shockingly, research[3] has found that almost as many people (34%) know the value of their wardrobe contents as those who know the value of their pension pots (38%)! Meanwhile, far more people know the value of their house (58%), their car (55%) and their television (63%).

Clearly, it is in our nature to procrastinate. However, many of us do get stressed when we're not on top of things. Remember, you don't have to do it alone – we can help you face your finances and get some of those important jobs ticked off sooner rather than later.

[2]Micro Biz Mag, 2021, [3]Aviva, 2021

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A third enter retirement in debt

Retirement. You've paid off your mortgage, said goodbye to your colleagues for the last time and now it's finally time to put your feet up and enjoy some well-deserved rest, free of commitments. That's the ideal, anyway. Unfortunately, many retirees enter this stage of their lives with significant commitments hanging over their head, with research[4] finding that a third of people now retire in debt. Worse still, 2021 retirees owe around a fifth more than last year's cohort – around £20,650 on average. Forty percent have credit card debt, 31% still have outstanding mortgage payments, 17% are in their overdraft, while 8% have borrowed from family and friends.

IHT bills up year-on-year

Data[5] published by HMRC has revealed that estates paid £5.4bn in Inheritance Tax (IHT) in the 2020-21 tax year – £0.2bn (nearly 4%) up on 2019-20. Each year, over 20,000 estates are liable for IHT, but there are ways to keep your estate under the nil-rate threshold or at least minimise your liability.

Triple lock changes for 2022-23

After much speculation, in September, 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.

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.

[4]Key, 2021, [5]HMRC, 2021

Investment industry commits to climate change battle

As November approaches, anticipation mounts for the United Nations 26th annual climate change summit (COP26), which is being touted as the most important climate change event since the 2015 Paris Agreement.

With the event to be held in Glasgow, the UK will be in the spotlight as world leaders unite to continue the work left unfinished by COP25 and to review countries' progress since the 2015 targets were set.

Why is COP26 so highly anticipated?

We are already seeing the devastating impact of climate change, with extreme weather events becoming all too commonplace in recent years and wreaking destruction around the globe. What is more, a shocking new report from the UN's Intergovernmental Panel on Climate Change (IPCC) in August, found that *'it is more likely than not'* that the *'tipping point'* of 1.5 degrees Celsius above pre-industrial temperatures will be reached within the next 20 years.

What will it aim to achieve?

Four main goals have been set out, as follows:

1. Secure global net zero by mid-century and keep 1.5 degrees within reach
Countries have been asked to put forward ambitious 2030 emissions reduction targets.

2. Adapt to protect communities and natural habitats
Countries need to work together to protect and restore ecosystems and to prevent further habitat loss in the years ahead.

3. Mobilise finance
The achievement of these goals depends on the mobilisation of trillions in private and public sector finance.

4. Work together
Nothing can be achieved if countries don't commit to working together.

The role of the investment industry

The investment industry has declared its commitment to supporting the global climate transition through the Net Zero Asset Managers Initiative. Launched in December 2020, the initiative now has over 120 signatories managing $43trn of assets. All are in alignment with the global goal to achieve net zero by 2050 or sooner and are committed to supporting investment in line with emissions targets. COP26 presents a perfect opportunity for investors to consider how they can contribute to developing innovative solutions to climate change and helping to finance the sector's transition.

Stephanie Pfeifer, CEO of the Institutional Investors Group on Climate Change, stated that the initiative had been hugely popular. *"In just six months,"* she said, *"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."*

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'Cash is king' mentality could prove costly

For many years, savers have seen cash as a safe, reliable option when building up a nest egg for the future.

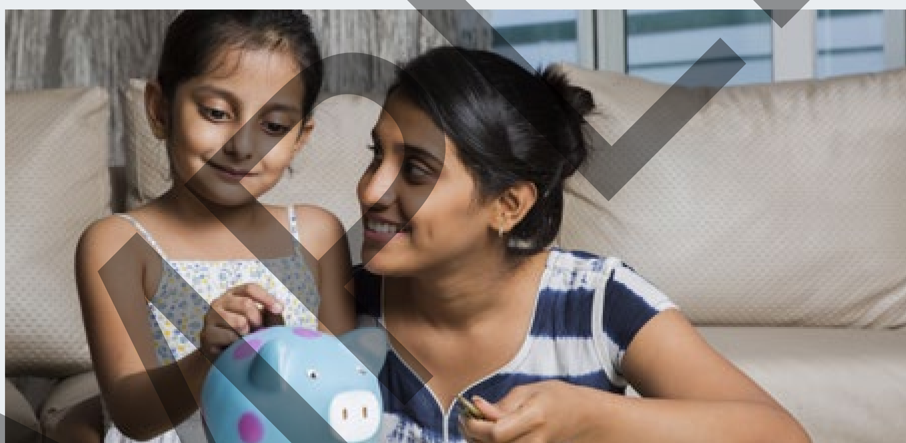
However, inflation has the potential to seriously reduce the value of cash savings over the years. Whilst a modest level of price inflation is considered a marker of a healthy economy, high inflation rates will gradually erode the spending power of money – especially when combined with low interest rates. The higher the differential, the worse the impact will be.

For several years, the Bank of England's (BoE's) target for inflation has been around 2%, allowing for inevitable short-term fluctuations; rates have typically been subdued since the 2008 financial crisis, as have bank interest rates. However, the Consumer Prices Index (CPI) – the official measure of UK inflation – has grown much faster this year as the economy recovers from the pandemic, a trend which may well persist beyond 2021. On the other hand, the BoE reduced its base interest rate to a record low of 0.1% during the first lockdown. Together, high inflation and low interest mean that those with excessive cash in the bank will see the spending power of their savings eaten away rather quickly.

Cash is no longer king

It is therefore surprising that a NatWest survey of over 2,000 people found that, of the 76% of parents and guardians who are saving and/or investing for their children, four in five are doing so exclusively in cash. Whilst commending parents for putting money away for their children, NatWest commented, *'The purchasing power of these 'safe' cash balances actually goes backwards over the longer term.'*

There is no denying that a healthy bank balance, in addition to appropriate protection insurance policies, serves as a reassuring buffer against financial shocks. However, a bank or savings account is rarely the best place for significant sums.



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Financial advice and wellbeing: a match made in heaven

Recent research has found that those who receive professional financial advice are four times more likely to enjoy high levels of financial wellbeing[6]. In addition, clients who take advice build up three times more pension wealth on average (£246,000) than those who don't (£95,000). Advised clients also accumulated more than double the non-pension savings (£65,000) of those who didn't see an adviser (£32,000).

[6]Aegon, 2021

'Flip the context' and protect your hard-earned cash

Pension savers lost more than £2m to scammers in the first five months of this year. The average amount lost per victim so far in 2021 is a staggering £50,949 – more than double the £23,689 lost on average in 2020.

This is according to worrying research from the Financial Conduct Authority (FCA), which found that pension holders are nine times more likely to trust pension *'advice'* from an online acquaintance than from a stranger they met face to face. To avoid losing your life savings, the FCA suggests *'flipping the context'*, and imagining what you would do if a stranger in the pub told you to put your pension into something they were selling.

Spotting scams

Have you:

- Been offered a free pension review out of the blue?
- Been guaranteed high returns?
- Been offered the opportunity to release cash from your pension under 55 years of age?
- Felt pressured into a deal, for example with a *'time-limited'* offer?
- Been offered an unusual investment opportunity (often unregulated and high risk)?

If so, or if you have doubts about any investment opportunities related to your pension, get in touch.

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FCA highlights need for adequate protection cover

Back in February, the Financial Conduct Authority (FCA) released its latest Financial Lives Survey. Firstly, and unsurprisingly, it revealed the severe strain the COVID-19 pandemic had put on the nation's finances. Secondly, around a quarter of UK adults were showing signs of poor financial resilience, including over-indebtedness, low savings and low or irregular earnings.

The survey was carried out in two stages, with the first analysing the period between August 2019 and February 2020, and the second examining the financial impact of COVID-19 between March and October 2020. Even before the pandemic struck, there were points of concern among some of the more positive findings, including a general lack of protection insurance cover.

The protection gap

Positively, the number of people holding an insurance product of any kind increased to 88% in 2020, from 81% in 2017. However, with 53% of respondents holding no protection products at all (albeit less than the 57% that said the same in 2017), the FCA highlighted what it called *'a significant protection gap'*.

The gap was particularly pronounced among young adults aged between 18-24, as well as vulnerable consumers and those who lack confidence in managing their finances. Concerningly, many people who fit these criteria have families who, were they to die or become too ill to work, would suffer significant financial hardship.

Younger generations and those in vulnerable groups may have many pressures on their finances, but it is important to take out adequate protection cover if possible – perhaps with familial help and encouragement, depending on the circumstances.

A lifetime of investing

As we move through life, our plans and goals will inevitably change. This also goes for our investment strategies, which need to flex and adapt as we move through the decades.

Your twenties and thirties

The financial decisions we make in early adulthood set the foundations for the rest of our lives. At this stage, one of your key goals should be to start saving. Retirement may seem a long way away but getting into good financial habits now could mean the difference between a comfortable retirement and having to work well into your later years.

Due to the timescales involved, now is the time to take on a little more risk – you're more likely to recover any losses in the long term. So, it makes sense to put most of your savings into equity investments, which offer the highest potential for growth. Remember, you'll also need some easily accessible savings for unexpected expenses, or to put down a property deposit.

Turning 40 and 50

Often considered the peak earning years, your forties and fifties should be dedicated to bolstering your pension and investment portfolio. It is also vital to have a sound, tax-efficient financial plan in place at this stage, with regular reviews to ensure you remain on track to meet your goals. As you approach retirement, a more conservative approach may be appropriate, with funds switching from equities to more stable asset categories.

Steady on in your sixties

With the State Pension Age continuing to rise, many people are now working and investing until well into their sixties. Your attention will now be shifting to income-generating products, and ensuring your income remains in line with your living expenses. You'll also likely be considering the best and most tax-efficient ways to protect and transfer your wealth.

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

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It is important to take professional advice before making any decision relating to your personal finances.

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