Insight

WealthProfessional
CONSULTANCY & FINANCIAL PLANNING

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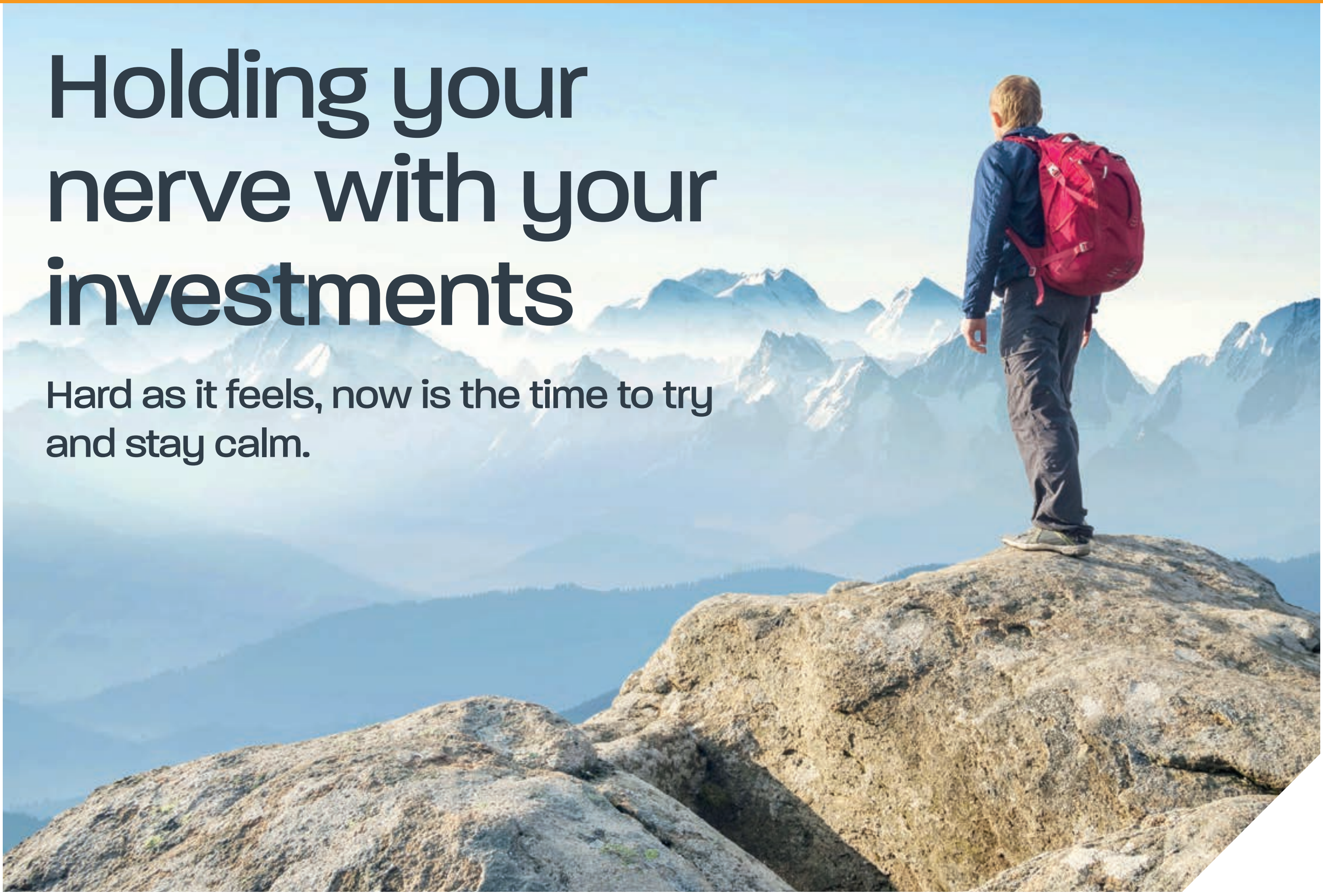
# Holding your nerve with your investments



## Hard as it feels, now is the time to try and stay calm.

**There is no disputing the impact of the Covid-19 pandemic. Despite previous coronavirus outbreaks in Asia, such as SARS in 2002, on this occasion it is different. Time now seems to be divided into 'before and after': the old normal and the new socially-distanced reality we are coming to terms with.**

These two eras are clearly visible in the global stock markets, most of which fell sharply in March as the virus spread globally, closely followed by lockdowns and economic contraction.

A steady stream of commentary has discussed whether life as we knew it has changed forever, from air travel to working patterns. That perspective of major changes has also extended to suggestions that there has been a fundamental change in the investment world. The scene has certainly altered – at least for now. There has been increased volatility in the values of investments, while businesses have reacted to the new environment in a variety of ways, the most obvious being to reduce dividend payments, which you will probably notice in coming months.

### Taking a long view

However, it is worth trying to take a longer-term view. Think back – if you can – to previous crises, such as the financial crisis of 2007/08, the 9/11 terrorist attacks, the turn-of-millennium dotcom bubble and even the great storm and accompanying stock market crash of 1987. At the time, each of those events felt momentous and a break in history. Now, with the benefit of hindsight, these may even appear as little more than dips on a long-term investment chart. Investors who stayed the course did suffer in the short term, but they benefited in the long term. Those who panicked and sold up may have chosen the worst point to do so, and then faced the difficult decision of when to reinvest.

All we can say with certainty is that 2020 will be remembered as a difficult year for investors, but perhaps just one of many over the life of a portfolio.

## In this Issue...



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# Time to review your drawdown plans

Many people may need to reduce the income they are taking from their drawdown pension funds in light of recent falls in the value of their investments resulting from the economic impact of Covid-19.

The dramatic initial falls in equity markets were followed by some recovery and were by no means fully reflected in portfolios that were diversified into bonds and other assets. But there may, of course, be further fluctuations ahead.

The falls have reduced the value of people's pensions, equity ISAs and investment portfolios. For those accumulating savings and contributing regularly to a pension, the general guidance has been to continue contributions and wait for asset prices to recover in the longer term.

The situation can be different, however, if you are taking regular withdrawals from your pension fund or other investments and you may need to review your pension planning.

### Taking withdrawals

Withdrawals from pension funds are typically derived from dividends, interest and sales of units in the funds you hold in your pension. That is how you are able to benefit from the total returns of capital and income generated by your pension portfolio. If fund values continue to rise reasonably steadily, the combination of income and capital withdrawals should provide a steady source of income.

But a sudden downturn means you would need to sell more units in your funds to support the same level of income. The losses would be crystallised and those units would no longer be in your pension portfolio to bounce back if the market improves again. The impact on long term values is much greater if the downturn, and the consequent sales of units at lower values, occurs early on in retirement. The technical term for this is 'sequencing risk'.

Investors with well diversified portfolios have seen some of their holdings decline much less than other components in the portfolio. So the overall impact may well be much less than some of the headline figures, and withdrawals may not have a serious effect on future performance. The necessary rebalancing of portfolios may also allow withdrawals to come more from funds that have held up relatively well.

Many investors have some cash reserves that have been set up for such circumstances. If you are in this position, you might feel that it would be preferable to draw now on these cash reserves and wait for a time to make further drawings from your investments.

Under lockdown, our levels of spending have declined with sharp cut-backs on eating out, holidays, clothing and many other purchases. A temporary reduction in expenditure and plans for future spending may be a prudent strategy in the circumstances. There is also the possibility that some taxes are likely to rise soon to cover the costs of the pandemic.

Regardless of how you use your drawdown plan, it is essential to review the income you take from your investments on a regular basis. If fund values have fallen — or simply not grown as much as anticipated — you can act accordingly so that long-term plans are not jeopardised.

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# Can you afford to leave protection to chance?

**The State benefit system has come under more intense scrutiny during the coronavirus pandemic, highlighting some of the most serious gaps.**

There is nothing quite like a crisis to show where societies are vulnerable, as has been well demonstrated globally over the past few months. In the UK, the immediate concern was the resilience of the NHS, which initially appeared at risk of being overwhelmed by demand for intensive care beds. Then, like many other countries, the UK was also forced to look at providing extra financial support for people who suddenly found themselves out of work, whether through illness, quarantine requirements or temporary business closure.

The most significant element of the Government's response was the Coronavirus Job Retention Scheme (CJRS), which by late May was covering nearly 8.4 million employees on furlough – handing them up to £2,500 a month in replacement 'pay'. Without the CJRS, many of those employees would have looked to means-tested Universal Credit, under which the standard allowance for a couple aged 25 or over is just £594 a month, before any additions (e.g. for children). Even that lowly figure includes a temporary increase for 2020/21 of about £87 a month.

For employees who were suffering from Covid-19 symptoms, the four-day waiting period before statutory sick pay (SSP) began payment was scrapped, which sounds generous until you realise that SSP is worth only £95.85 a week.

The government also introduced a range of other measures to support anyone with reduced earnings, such as changing the law to prevent evictions for three months and, through the Financial Conduct Authority, pushing banks and other lenders to grant three-month payment holidays for mortgages that, provided they are pre-approved, do not affect the individual's credit file for that period.

### Getting back to normal

The damage that could have been done to millions of families by the fallout from Covid-19 has been mitigated by the Government's multifaceted response. However, the Chancellor is already acting to limit the cost of the Covid-19 measures on the government's finances. In a year or so from now, the social security safety net will probably have reverted to its lowly pre-Covid-19 levels.

The crisis has highlighted the importance of having your own financial protection arrangements to cover possible income loss from illness or disability. The lesson of this experience is that the 'normal' social security safety net is inadequate, but full protection would probably be too costly for the Government to provide: protection needs to be personal.

*Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it (coronavirus concessions aside). Think carefully before securing other debts against your home.*

# National Savings hold off on rate cuts

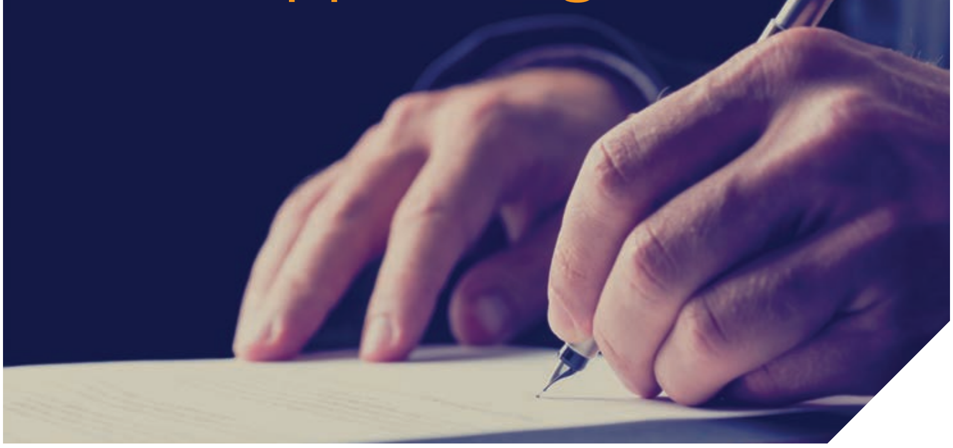
National Savings & Investments (NS&I) has cancelled planned rate cuts on a number of its variable rate accounts, including its popular Premium Bonds, to help savers during the Covid-19 pandemic.

Initially it had planned to cut the prize 'rate' on Premium bonds from 1.4% to 1.3% in May. Proposed rate cuts have also been cancelled on its Direct saver account (which will continue to pay interest at 1%), its Investment account (0.8%), and its Income bonds (1.16%).

However, NS&I has cut rates on its fixed rate products as planned. This includes its Guaranteed growth bonds, Guaranteed income bonds and Fixed interest savings certificates held by existing customers over different terms, from one to five years.

This will affect those reinvesting after a product matures. If you currently have one of these products then the rate is fixed until the end of the term.

# It will happen to you...



The Covid-19 pandemic has provided many people with an awkward reminder of things they prefer to ignore.

Key workers have become much more prominent during the coronavirus crisis. The list of 'key' occupations surprisingly included solicitors "acting in connection with the execution of wills". Like many of the other unexpected members of the list, their presence becomes clear once you stop to think about it.

Some solicitors' firms saw double the normal number of enquiries about will writing just as the lockdown started in March, according to the Law Society. Many people discovered that having a will suddenly moved up their list of priorities from 'do-it-later' to 'do-it-now'. Writing a will forces people to recognise their own mortality, which is why deferral and delay so often sets in. The Covid-19 pandemic has provided enough additional incentive to prompt many people into action.

However, difficulties with last minute solutions are a reminder of why it is much better to prepare in advance. For example, in England and Wales, the Wills Act 1837 requires the signature of the person making the will to be witnessed by two people who are physically present at the signing – video links do not count, according to the Ministry of Justice.

To complicate matters further in a time of social distancing, neither witness should be a beneficiary under the will, because it would invalidate their entitlement. Northern Ireland takes the same approach, although in Scotland the law only requires a single witness and the rules have been amended to allow for video witnessing.

Over half of the British adult population currently do not have a will. If you are part of that majority, then the rules of intestacy (which vary between the four constituents of the UK) will determine how your estate will be distributed on your death. Whether those rules are appropriate will depend upon your personal circumstances. But you should bear in mind that the intestacy rules do not automatically pass everything to a surviving spouse or civil partner if there are children, nor do they make any provision for unmarried partners.

## Keeping control

Having a will lets you decide who receives what from your estate and can also control when and how benefits are distributed if you use a trust. For example, you may not want your children to inherit outright at 18.

Ideally your will should form the cornerstone of your estate planning. We can work with you and your legal advisers to develop a structure that meets your long-term goals as tax-efficiently as possible. The inheritance tax rules are particularly relevant at present because various changes look likely to be announced in this Autumn's Budget. However, you shouldn't regard these expected tax changes as a reason to procrastinate. In fact, it is more important to act now and review lifetime planning options, which could become less attractive if the proposed reforms currently being considered take effect.

Even if you do have a will, don't file it away and forget it. A will, like any other piece of financial planning, needs to be reviewed regularly to reflect both changes in your circumstances and to tax rules.

*The Financial Conduct Authority does not regulate will writing, trusts and some forms of estate planning.*
*The Financial Conduct Authority does not regulate tax advice, and tax laws can change.*

# TAX RISES ON THE WAY?

**The fallout from Covid-19 has created a large bill for the Government...which ultimately means the taxpayer.**


When the Chancellor launched the Self-Employed Income Support Scheme, he commented that "it is now much harder to justify the inconsistent contributions between people of different employment statuses". The comment was widely seen as a hint that the self-employed could soon face higher national insurance contributions (NICs), bringing the amount they pay closer to the level paid by employees.

A rise in the NICs rate would be unlikely to be the only tax increase. Shortly after Rishi Sunak's announcement, the Office for Budget Responsibility (OBR) revealed an estimate that Covid-19 would lead to the Government borrowing £273 billion in the current financial year. That's almost five times the figure it had projected at the time of the spring Budget. The Coronavirus Job Retention Scheme has been extended by four months since the OBR's April calculations, so its next borrowing estimate could be over £350 billion.

The Government won the December election with a manifesto commitment that it would "not raise the rate of income tax, VAT or National Insurance". If it keeps to that pledge, then it could be forced to look to areas such as pension tax relief for extra revenue.

Forewarned is forearmed.

*The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.*

# Planning towards your century

**The extraordinary fundraising achievements of the 100 year old Captain Tom Moore have highlighted both how long some of us will continue to lead active and fruitful lives, and also how much the quality of such a long life will depend on how well we've planned for it.**

The number of people who celebrate their 100th birthday has quadrupled in the last 30 years, according to the Office of National Statistics (ONS). Pre Covid-19 this trend looked likely to continue, with the ONS forecasting that around 19% of all new-born girls (and 14% of all new-born boys) will become centenarians.

The downside of living a long time in retirement is that your finances might not last the course. Most people start the last third of their lives in reasonably good health and with apparently adequate resources. But a long life does not always imply a healthy life. You might well need help with care costs if you were to fall ill or require help with your basic living activities. It is also likely that individuals will have to make a significant contribution towards their care costs in the future.

The other calls on retirees' financial resources may come from their families. The costs of going to university, buying a house, as well as school fees for the youngest relatives could all impact on the solvency of that great institution – the bank of mum and dad, or grandma and granddad. In addition, there could be the need, or at least the desire, to make a dent in a potential inheritance tax bill by making some lifetime gifts.

The traditional three life stages - of education, work and retirement - have become increasingly blurred as people retrain, set up their own businesses and switch careers for a longer working life. This gradual transition from work to retirement needs to be planned for.

Creating the right mix between investments, pensions and earned income will be key: planning that far ahead is never easy, so professional financial advice should be your first port of call.

If you are drawing up a financial plan to see you through to your late 90s, here are some practical steps to consider:

- *Be flexible: Financial plans and your attitude to them should be flexible to cope with unexpected changes. As we've seen recently, stock market falls can impact on your portfolio and pensions and you may be forced to adjust your plans, such as reviewing the age you intend to start drawing your pension.*
- *Start saving early: The longer your money is invested, the more it should be worth, thanks to the benefits of compound returns. Retirement may seem a long way off if you are in your 20s and 30s, but money put aside now can make a difference to your financial wellbeing in your 70s or 80s.*
- *Know what you have: Pensions are probably the cornerstone of your retirement plan, and they offer valuable tax relief. Keep track of your various pensions and get an up to date valuation of your State pension entitlement.*
- *Maximise savings: If you get a pay rise, increase your pension contributions so your savings keep pace with your income. It may be prudent to invest at least some of any windfall, for example from an inheritance, rather than spend it all at once.*
- *Review your essential bills and additional spending: If you are able to enjoy a healthier and more active later life, you may need more funds for leisure activities or holidays. Judicious cash flow planning can help you gauge how much you may need to save for any given stage.*

One lesson we can learn from Captain Tom – there's always scope for something new.

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# Restart child benefit?

The high income child benefit charge means that a family in which a parent has an income between £50,000 and £60,000 can either:

- *choose to stop receiving child benefit (£21.05 a week for the first child and £13.95 each other child); or*
- *pay back a percentage of child benefit paid, in income tax. Those earning £60,000 or more will have to repay the entirety in income tax if choosing this route.*

If you have chosen the stop-payment option, you may wish to revise your choice in 2020/21. Your earnings may well fall in the current tax year – perhaps you have been furloughed on £2,500 a month – in which case your annual income may drop below the £50,000 threshold at which these complications occur. A claim for child benefit payments can only be backdated for a maximum of three months, so if you are in that situation, the sooner you ask the Child Benefit Office to restart payments, the better.

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**To discuss any issues raised in this newsletter, or any other aspect of your financial planning, speak to your dedicated Wealth Professional Adviser or Client Support Team at: -**

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