Preparing for the inevitable

Don't leave your will until it's too late

Playing the long game

Planning ahead for a longer retirement

Financial security

Personal protection vs state provision

UHY Financial Planning

Review

Nottingham: 0115 959 0900 • London: 020 7216 4600

SUMMER 2020

IN THIS ISSUE:

» It will happen to you...

» Time to review your drawdown plans?

» National Savings hold off on rate cuts

» Planning towards your century

» Tax rises on the way?

» Leaving protection to chance?

» The kids are alright...

» Restart child benefit?

Credit: NAR studio/Shutterstock.com

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's different. Time now seems to be divided into 'before and after': the old normal and the new socially distanced reality we are now 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.

The investment 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 many ways, the most obvious being to reduce dividend payments.

The investor who stayed the course did suffer in the short term but benefited in the long term.

However, it is worth trying to take a longer-term view. Think back – if you can – to previous crises, such as the banking crash of 2007/08, the 9/11 terrorist attacks, and even the 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 chart. The investor who stayed the course did suffer in the short term but benefited in the long term. The investor who panicked and sold up may have chosen the worst point to do so, and then faced the difficult decision of when to reinvest.

✢ *The value of your investments, and the income from them, can go down as well as up and you may not get back the full amount you invested.*

Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

UHY Financial Planning Ltd
14 Park Row
Nottingham
NG1 6GR

t: 0115 959 0900

Quadrant House
4 Thomas More Square
London
E1W 1YW

t: 020 7216 4600

Adviser – Adam Wing BA (Hons) DipPFS
Financial Planning Manager

UHY Financial Planning Ltd is authorised and regulated by the Financial Conduct Authority.

This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The FCA does not regulate tax advice, so it is outside the investment protection rules of the Financial Services and Markets Act and the Financial Services Compensation Scheme. The newsletter represents our understanding of law and HM Revenue & Customs practice.
© Copyright 4 June 2020. All rights reserved

ESTATE PLANNNG

It will happen to you…

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

Key workers have become much more prominent during the coronavirus crisis. Surprisingly – until you stop to think about it – this list also included solicitors "acting in connection with the execution of wills".

Some firms of solicitors saw double the normal number of enquiries about will writing in the second half of March, just as the lockdown started, according to the Law Society. 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 – a complication in times of social distancing. Northern Ireland follows suit, but in Scotland a single witness and video witnessing are allowed.

Over half of the British adult population currently do not have a will. If you are in that majority, then the rules of intestacy will determine how your estate will be distributed on your death. These vary between the four regions of the UK, but do not automatically pass everything to a surviving spouse or civil partner where there are children, nor do they make any provision for unmarried partners.

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 the age of 18. Ideally your will should form the cornerstone of your estate planning.

Even if you do have a will, don't file 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.

Credit: Cristina Conti/Shutterstock.com

PENSION

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 the effect of the Covid-19 crisis.

– Credit: Alina Kvaratskhelia/Shutterstock.com

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.

For those accumulating savings and contributing regularly to a pension, the general guidance has been to continue contributions and wait for recovery in the longer term. However, if you are taking regular withdrawals from your pension fund or other investments, you may need to review your pension planning.

Withdrawals from pension funds are typically derived from dividends, interest and sales of units in the funds you hold in your pension. So you benefit from the total returns of capital and income generated by your pension portfolio.

If fund values rise steadily, the combination of income and capital withdrawals should provide a steady source of income.

Investors with well diversified portfolios have seen some of their holdings decline much less than other components. So the overall impact may well be much less than some headline figures with a less serious effect on future performance. Many investors have some cash reserves set up for such circumstances. If you are in this position, you might prefer to draw now on these cash reserves and wait to make further withdrawals.

A temporary reduction in expenditure and plans for future spending may be a prudent strategy. Bear in mind 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 to keep long-term plans on track.

✢ *The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.*

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

SAVING

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 NS&I 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.

Credit: de2marco/Shutterstock.com

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. An ageing population is often seen as a costly challenge, both for the State (in terms of State pension and health costs) and individuals, who may need to work longer and save more to ensure a decent standard of living in retirement. People may also need to build savings for longer to cover future care costs, if they fall ill or need more help with basic living activities later in life.

On the other hand, extended later life can also bring opportunities – albeit ones we need to prepare for.

Creating the right mix of income to sustain you into later life will be key to managing this shift and maintaining it for as long as you need it. 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 straightforward practical steps to consider:

Credit: gvictoria/Shutterstock.com

- *Be flexible:* Financial plans and your attitude to them should be sufficiently flexible to cope with unexpected changes. As we've seen with the Covid-19 crisis, stock market falls may have had an impact on your portfolio and pensions, so you may need to adjust your expectations.
- *Start saving early:* The longer your money is invested, the more it should be worth. 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 likely to be the cornerstone of your retirement plan, and they offer valuable tax relief. Keep track of your various pensions and get up to date valuations of your State pension entitlement.
- *Maximise savings:* If you get a pay rise, increase the amount that you pay into your pension so your savings keep pace with your income.
- *Review essential bills and additional spending:* If you are able to enjoy a healthier and more active later life this may require 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.

Retirement may seem a long way off...but money put aside now can make a difference to your financial wellbeing in your 70s and 80s.

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

✢ The value of your investments and the income from them can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

Credit: MemoryMan/Shutterstock.com

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.

PROTECTION

Can you afford to leave protection to chance?

The social security system has come under 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. In the UK, the immediate concern of the coronavirus pandemic 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 forced to provide extra financial support for people who suddenly found themselves out of work in these unforeseen circumstances.

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 – handing them up to £2,500 a month in replacement 'pay'. Had the CJRS not been put in place, 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.

Credit: Monkey Business Images/Shutterstock.com

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.

When that point is reached it will once again be important that you have your own financial protection arrangements in place to cover possible income loss due to 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: protection needs to be personal.

INVESTMENT

The kids are alright...

The first Child Trust Funds (CTFs) will mature in September, when the holders celebrate their 18th birthdays.

The Chancellor has more than doubled, to £9,000, the amount that can now be saved into a CTF and its replacement, the Junior ISA (JISA) for the 2020/21 tax year, creating the opportunity to make more substantial savings towards younger family members' nest eggs.

Credit: Pixel Shot/Shutterstock.com

CTFs were made available to all children born between 1 September 2002 and 2 January 2011. Their value will vary considerably: some parents will have made substantial contributions over the years, while others will find that this 'trust fund' contains just the initial payments made by the government.

These consisted of an initial £250 to invest in either a cash or stocks and shares CTF plan (lower income families received a £500 payment). This was later cut to just £50, before the scheme was withdrawn altogether in 2011. CTFs were replaced by JISAs, which didn't come with any 'free' money from the government, although parents could continue to contribute to existing CTFs. However the annual savings limits of both JISAs and CTFs have increased over the years.

A child can't have both a CTF and a JISA, but they can transfer a CTF into a JISA. Although the tax benefits are the same, interest rates paid on cash JISAs are higher than on the older CTFs. There is also more product choice. Each child can access their CTF or JISA funds from their 18th birthday. For most young adults, coming into these savings may be their first experience of managing substantial sums, so it's worth discussing with them in detail.

✢ *The value of your investments can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.*

The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on individual circumstances. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

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

TAX

Restart child benefit?

Credit: William Potter/Shutterstock

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

- Either choose to stop receiving child benefit (£21.05 a week for the first child and £13.95 for 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.

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