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evolve

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Bank of Mum and Dad
Make sure you can afford it and understand any tax implications

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welcome

Welcome to the first edition of *Evolve* for 2021. In a year of renewal, hopefully we'll see a world that is steadily returning to normal, while also rapidly accelerating into a transformed future.

With the coronavirus (COVID-19) pandemic continuing to impact on our lives, where will we be in six months, a year, ten years from now? One thing is certain, COVID-19 has reshaped all of our futures.

In these uncertain times, it can help to focus on the things you can control – and working out what your money's doing for you now and where it might come from in the future can give you real peace of mind. On page 05, as another year rapidly draws to a close, many of us may already be starting to think about what resolutions we can make to improve our financial health in 2021. Even though we may resolve to improve our finances, it's knowing where to begin that's key.

For the first time in over a decade, the point at which people can claim a State Pension (the 'State Pension Age') is simple. If you have reached your 66th birthday, you can claim it. Otherwise you cannot. Men and women born between 6 October 1954 and 5 April 1960 start receiving their pension on their 66th birthday. For those born after that, there will be a phased increase in State Pension age to age 67 in 2028, and eventually age 68 from 2037. Turn to page 04 to find out more.

The start of a new year is the perfect time to reassess how to reshape your personal financial journey. Whatever your circumstances and needs, we're here to listen to your future plans and support you in achieving them. We look forward to hearing from you.

We hope you enjoy this issue. A full list of the articles featured in this issue appears opposite.

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Kerry Crawford – Client Services

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2021 charity of the year

The Rainbow Centre, Scarborough

The Rainbow Centre was established in 1997 to offer practical support to vulnerable people in the local community. Since then, they have grown and offer an open door to anyone who is in need of help with any issues they are facing, offering compassion, support and hope. Each year, they make around 12,500 critical interventions, offering assistance to vulnerable people during their difficult circumstances and beyond.

They are a team of dedicated staff and volunteers that believe in fairness and equality and are very grateful for the support of the community in helping them to continue to provide their many services and facilities.

Please consider helping the centre by donating – even a small amount makes such a difference to supporting people of our local community.

We are raising funds to help the Rainbow Centre to provide basic utilities (gas/electric/water) and other necessities. We have also arranged to help out where we can with essential food deliveries, with a few of the staff volunteering for this.

We have decided to set a challenging target of £4,000 for this charity for 2021, and we have already donated £500.00 through our commitment of donating to charity what we would have spent on sending Christmas cards out to clients. There will be more to come, so please help out where you can and get involved in supporting this fantastic charity!

State Pension age rises

How could the change impact on your retirement plans?

For the first time in over a decade, the point at which people can claim a State Pension (the 'State Pension age') is simple. If you have reached your 66th birthday, you can claim it. Otherwise you cannot.

Men and women born between 6 October 1954 and 5 April 1960 start receiving their pension on their 66th birthday. For those born after that, there will be a phased increase in State Pension age to age 67 in 2028, and eventually age 68 from 2037.

'Triple lock' pledge is safe

Back in 2010, women could claim their State Pension from age 60, while men could claim theirs at age 65, but in 2018 women had their State Pension age increase to age 65 too. Further increases to the pension age are also expected for younger generations.

It comes as the Chancellor, Rishi Sunak, vowed the 'triple lock' pledge is safe. Mr Sunak said: 'We care very much about pensioners and making sure they have security and that's indeed our policy.'

Increasing as people live longer

Under this pledge, the State Pension increases each year in line with the highest of average earnings, prices (as measured by inflation) or 2.5%. The full State Pension for new recipients is worth £175.20 a week. To receive the full amount, various criteria, including 35 qualifying years of National Insurance, must be satisfied.

The age at which people receive the State Pension has been increasing as people live longer, and the government has plans for the increase to 68 to be brought forward. However, the increases have been controversial, particularly for women who have seen the most significant rise.

People reconsider retirement plans

Women born in the 1950s have been subjected to rapid changes and those involved in the WASPI (Women Against State Pension Inequality) campaign lost their legal challenge, claiming the move was unlawful discrimination.

The coronavirus (COVID-19) crisis has led many people to reconsider retirement plans, especially those who feel they are more at risk from the outbreak. Former pensions minister Ros Altmann argued that the crisis meant there was a 'strong case' for people to be given early access to their State Pension, even if it were at a reduced rate. She also pointed out the large differences in life expectancy in different areas of the UK.

Future for both is not entirely clear

Millions of people who will rely on their State Pension in retirement need to know two things: how much will they receive, and when. The future for both is not entirely clear. Firstly, the age at which the State Pension begins has been rising, and will continue to do so.

Secondly, there is always plenty of debate over the future of the triple lock – the pledge to ensure that the State Pension rises by a minimum of 2.5% each year.

Long-term financial planning

And if young workers think this has nothing to do with them, they should think again. How long we work before we receive state financial support in retirement is a vital issue for long-term financial planning.

Younger workers have also been urged by pension providers to consider their retirement options, with a strong likelihood of State Pension age rising further as time passes.

A timely reminder to everyone

The increase to the State Pension age provides a timely reminder to everyone to check their pension pots and ask themselves whether the savings they've built up are enough for the kind of life they want in retirement.

As average life expectancy continues to increase, the State Pension age will inevitably follow suit. This means younger savers need to plan and assume they might not reach their State Pension age until 70 or even beyond. Anyone who aspires to more than the bare minimum in retirement needs to take responsibility as early as possible to build their own retirement pot. ■

Don't know where to start?

It's important to think about how much money you might need in the future and whether you'll have enough to give you the lifestyle you want. You might be eligible for the State Pension but can you manage on this alone? Also, you may want to retire before your State Pension age. To discuss your retirement planning options – please contact us.

Financial action plan

10 steps to help you build a better financial future

In these uncertain times, it can help to focus on the things you can control – and working out what your money's doing for you now and where it might come from in the future can give you real peace of mind.

Many of us may be starting to think about how we can improve our financial health in 2021 – and even though we may resolve to improve our finances, it's knowing where to begin that's key.

1. Show me the money

The first step to getting your finances on track is to know where your money is going. But that isn't always obvious. Tracking your expenses can keep your spending on a parallel track with your income and help you avoid overspending. This goes hand in hand with setting up a budget. You may have a good handle on your monthly bills, but what about your daily expenses? You may be surprised by how much money you spend on smaller items. Review all of your expenses for ways to cut back, and then decide what to do with the extra money. Set specific goals, such as building an emergency savings fund, paying off your credit card bills or increasing your retirement savings.

2. Reducing borrowing

Next make a list of all the borrowing you have – including mortgage, personal loans, store cards, credit cards and bank overdrafts. Calculate the amount you owe and remember that you should update this as the year progresses to track your progress. If you cannot reduce your overall borrowing, then you need to ensure you are paying as low an interest rate as possible. This may mean switching credit cards or mortgages, or consolidating various borrowings into one loan.

3. Tax really matters

There are plenty of tax allowances to make use of each financial year – remember this runs from 6 April to 5 April the following year – so it's worth being aware of which annual allowances you can benefit from. All tax rates quoted in this article are applicable to the current 2020/21 financial year.

One of the most popular ways to save tax is by fully utilising your individual annual Individual Savings Account (ISA) allowance, which is £20,000. You may save or invest your ISA allowance into one or more different ISAs, or you can put up to £4,000 into a Lifetime ISA (you must be aged 18 or over but under age 40 to open a Lifetime ISA). You won't pay income tax, dividend tax or capital gains tax on the proceeds of any investments you hold within an ISA.

In addition, investors have a £2,000 tax-free dividend allowance held outside of an ISA. Basic-rate taxpayers pay 7.5% on dividends. Higher-rate taxpayers pay 32.5% on dividends. However, if your dividend income is above this amount, investing in an ISA could give you the benefit of additional tax-efficient payments.

If you are a basic-rate taxpayer the Personal Savings Allowance (PSA) permits you to earn up to £1,000 interest on your savings without paying any income tax on it. If you are a higher-rate taxpayer you have a PSA of £500 before you pay tax, while additional-rate taxpayers who earn over £150,000 do not qualify for the PSA. ISAs may remain worthwhile for those additional-rate taxpayers who don't qualify, or who have a large amount of savings and have used up the PSA.

If you have investments held outside a pension or ISA, these will usually be subject to capital gains tax when they are sold or given to someone other than your spouse. The gain is usually calculated as the sale proceeds less purchase cost from assets and is taxable at 10% (basic-rate taxpayers) or 20% (higher and additional-rate taxpayers) except for residential property, where the rates are 18% and 28%.

Everyone has an annual tax-free capital gains allowance, currently £12,300. Gains up to this amount can be realised tax-free. If an asset is held jointly with a spouse, both can use their annual exemption against the gain, effectively doubling the tax-free allowance amount.

However, remember that tax rules can change in the future and their effects depend on your particular circumstances, which can also alter over time.

4. Good investing habits

Investing money regularly, instead of as a one-off lump sum, can reduce the impact of a market downturn on your portfolio. If you are looking for a smoother ride during volatile markets, pound-cost averaging – where money is drip-fed into the market over time – may be an appropriate option. Steady, regular investments can provide you with some protection in case of sudden market corrections.

Given that we don't know what markets will do from day to day or month to month, this stops you from investing all of your money at a peak and maximising losses. Some of your money will be invested when markets are down, so when they recover you are rewarded. Over the longer term, investing monthly averages out the highs and lows.

5. Pension savings boost

It's important to think about how much money you might need in the future and whether you'll have enough to give you the lifestyle you want. Making the right choices now could make a big difference to how much money you have in the future and saving into a pension plan could help you achieve the lifestyle you would like.

Even if you feel that your savings are on track to live comfortably in retirement, you can still top up your pension plan to help give your savings a boost and increase your potential wealth in retirement.

One of the great things about saving into some pension types is the tax relief you can receive. This means that if you're a basic-rate tax payer, for every £100 saved into your pension the cost to you is only £80. This could effectively be even less if you're a higher or additional-rate tax payer.

Tax rules may be altered in the future, and their effect depends on your personal situation, which can also change. Bear in mind, too, that you can't ordinarily draw benefits from a pension arrangement until you are aged at least 55 (rising to 57 by 2028), so this is a long-term investment.

6. Focus your goals

Did you start 2020 with plans to save and invest more money and reduce borrowings, but lost your way? Refocusing your finances and recommitting to financial goals can seem challenging, especially during the coronavirus (COVID-19) pandemic, but it's not a lost cause.

Focus on making several small, short, achievable financial goals. By setting smaller goals and achieving them one at a time, you're more likely to stay motivated and reach them.

Remember, yesterday is done and gone. You cannot change what you did yesterday, whether you made good choices or bad ones. But you can change what happens today. Being clear on your financial goals is essential to making the most of your money. Making decisions with a clear endpoint in mind can make it easier to achieve financial security and independence and allow you to enjoy the life you want.

7. Stick to your plan

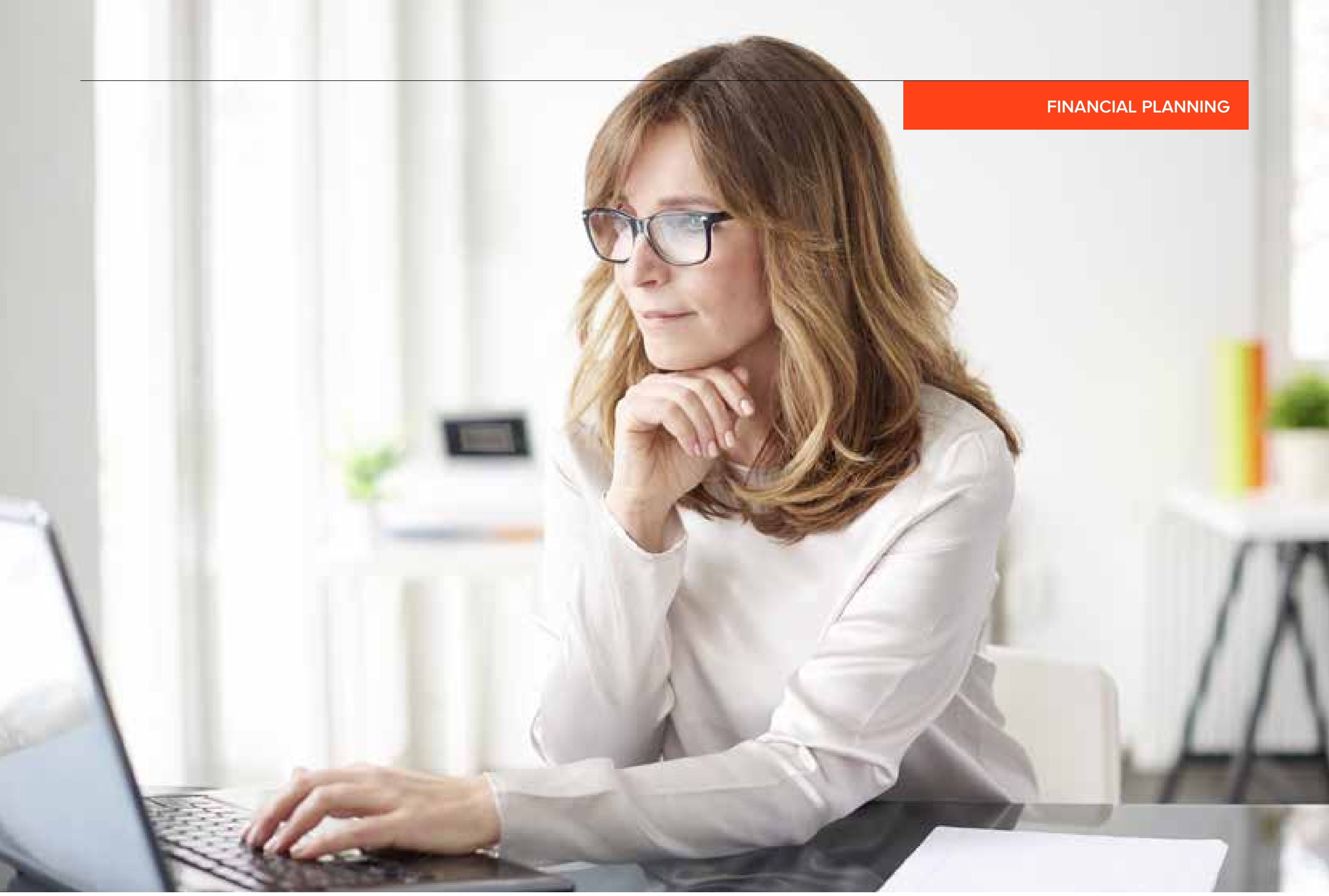
As governments around the world take further action to stem the spread of coronavirus, stock markets continue to react with increased volatility. During any period of volatility, thinking about your reasons for investing and what you ultimately plan to do with your money is important. But market volatility is unavoidable and is part of market behaviour. Markets move through stages of growth, slowing down and speeding up. Unfortunately, the timing of those cycles can be unpredictable.

Selling out in fear can be the worst thing to do. Large falls can often be followed by large rises, leading to the risk of losing on both sides – selling when prices are depressed and not buying in until they have moved higher. Avoid the daily monitoring of investments during falling markets as this can result in an over-emotional reaction and lead to making irrational decisions.

8. Smooth out returns

When it comes to investing, you need to take on some risk in order to generate a return. One of the best ways to control that risk is through something called 'diversification'. 'Don't put all your eggs in one basket' is a common expression. This means ensuring that you spread your capital amongst different investments so that you're not reliant upon a single investment for all of your returns.

Different types of investments perform in different ways over time. When some



rise in value, others are not changing or decreasing. So diversification helps to smooth out your returns. The key benefit of diversification is that it helps to minimise risk of capital loss to your investment portfolio.

9. Discuss your concerns

When faced with certain choices and in the midst of volatile periods, some people may understandably fall prey to their stock market emotions and make decisions that are not in their best long-term financial interest. But it's natural to feel worried.

Even experienced investors steeped in the market's historical cycles may feel torn between emotions and knowledge. That's why having a professional financial adviser, who can advise you before making any decisions, is key. This will enable you to discuss your concerns to help keep those market emotions in check and work together to ensure your long-term investment strategy remains on track.

10. Reinvest dividends

Dividends are payments of some of the profits made by a company to its shareholders. They are not guaranteed, and are at the discretion of the company, but when they are paid, you have the option to reinvest them into more of that company's shares. Reinvesting dividends provides benefits that shouldn't be ignored.

In a current era of low interest rates, investors need to use every tool they can to make the most of their money. Reinvesting dividends can add significant wealth over normal investment returns and is one of the most powerful tools available for boosting returns over time. Those seemingly small amounts reinvested can grow into much larger amounts when used to buy even more shares of stock that can pay further dividends in turn. ■

Bringing your financial plans to life

Planning for a successful future means different things to different people. Whatever your plans, expert professional financial advice can help bring them to life. As the impact of coronavirus is felt across the UK, you may have concerns about how it could affect you and your money. Please contact us to find out more or discuss your future plans with us.

Why seek professional financial advice?

Tackling problems, creating a plan, dealing with challenges

Whether you're starting out or well into your wealth creation journey, professional financial advice helps you to define your goals and the path to getting there. It gives you a map and ongoing support to help you take control of your future.

Everyone has different goals in life. But whatever your goals, receiving advice can help bring you closer to achieving them. When it comes to managing your money, trying to build wealth, securing your future and drawing up an effective plan for fulfilling your financial objectives, professional financial advice is essential.

Reassurance, expertise and confidence

Now more than ever, households need the reassurance, expertise and confidence that professional financial advice provides during these difficult times. The effects of the coronavirus (COVID-19) are likely to have long-lasting effects on our finances for years to come.

There is a proven direct correlation between a person's financial and mental wellbeing. New research[1] has identified how professional financial advice helps to improve the emotional wellbeing of clients by making them feel more confident and financially resilient when compared to those who have not received advice – especially in times of crisis.

Commonly recognised emotional benefits

Around 17 million people in the UK have received financial advice. For advised clients, the most commonly recognised emotional benefits of their adviser's services is having access to expertise, which makes them feel more confident in their financial plans, feeling more in control of their finances and gaining peace of mind.

The research also shows that advised clients feel positive about the service they received – with the key areas of satisfaction being the quality of advice and expertise (82%), communication style (81%) and trustworthiness (81%).

Feeling more confident about the future

The research highlights that people who receive professional financial advice feel more confident about the future and more financially resilient. Around three in five (63%) who received advice said they felt financially secure and stable compared to just half (48%) who had not received advice. Four in ten (41%) who had not received advice felt anxious about their household finances compared to just a third (32%) of those who were advised.

Advisers also helped people to boost their knowledge and gain a better understanding of their finances – particularly when it comes to protection and retirement planning. Advised clients feel up to three times more confident about understanding products and financial matters, compared with people who don't have an adviser.

A greater understanding of financial products

Understanding of financial products was much greater amongst those who were advised compared to the non-advised. A quarter of non-advised individuals said they would not know where to start when asked about life insurance (23%) or protecting against serious illness (24%).

In comparison, just 7% of those who were advised gave this response when asked about life insurance and 8% would not know where to start when asked about protecting against serious illness.

Being more prepared for life's shocks

The research also looked at how the coronavirus (COVID-19) crisis made non-advised clients feel about their finances. A third (35%) of people felt anxious about their financial situation and 65% have come to appreciate the value in being more prepared for life's shocks.

An experienced adviser offers professional, tailored advice based on your individual circumstances and future aspirations. By understanding the mistakes that unadvised investors make, we are able to demonstrate the value that an adviser brings. ■

The value of professional financial advice

At a time when many people will be worried about their financial future, as the economic impact of COVID-19 continues to be felt, receiving professional financial advice is vital. This research illustrates how advice can offer real help to people in the successful achievement of their goals. If you would like to discuss your particular situation, please contact us.

Source data:

[1] Royal London engaged with a UK nationally representative sample of 4,007 people.

The research found 26% of UK population have received financial advice. Based on the latest population figures from the ONS, this equates to around 17 million (17,367,169) people. https://adviser.royallondon.com/globalassets/docs/adviser/misc/brp8pd0008-feeling-the-benefit-of-financial-advice-adviser-report.pdf

Bank of Mum and Dad

Make sure you can afford it and understand any tax implications

Parents have always supported their children in lots of different ways. These days, growing numbers of parents see their adult children struggling to build up enough in savings to put down the deposit on a house or to afford to move up from a first home to something larger – but does this mean parents should help financially?

New research shows that the Bank of Mum and Dad will be a driving force behind the recovery of Britain's housing market as buyers struggle with the economic impact of COVID-19[1]. Nearly one in four housing transactions (23%) will have been backed by the Bank of Mum and Dad in 2020, with a quarter (24%) of borrowers now more reliant on financial support from family and friends.

Total property transactions

Mirroring the impact of the lockdown on the UK housing market, it is estimated that the Bank of Mum and Dad lent £3.5bn to loved ones in 2020 – which is almost half the £6.3bn that parents, grandparents, other family and friends lent in 2019. As a result it will lead to the funding of 85,000 fewer home purchases.

The figures reflect the effective closure of the housing market under the COVID-19 induced lockdown and a wider collapse in purchases reported by HM Revenue & Customs, with total property transactions similarly falling by nearly half in Q2 2020. Despite this, the Bank of Mum and Dad was still involved in 175,000 housing transactions, with an estimated transaction value of £50.3bn, in 2020.

Make sure you can afford it

The Bank of Mum and Dad is set to be a key element in the driving force behind the housing sector's recovery, as thousands of buyers press ahead with their plans to buy. In 2019, 19% of all home purchases were funded wholly or partly by the Bank of Mum and Dad. In 2020 that figure rose to nearly a quarter (23%). Of those who've bought recently and received support from family and friends, 65% said it would have been 'unlikely' without help from the Bank of Mum and Dad.

If you do decide to act as the Bank of Mum and Dad, it's important to make sure you can afford it. If you're using your pension and savings to help out, consider what impact that will have on your own retirement. It's also important to make sure it's clear whether the money is a gift or a loan, as this will have different tax implications. If your child is moving in with a partner, you may want a say in how the rights to the property will be held should the relationship break down at some point.

Facing the economic implications

One in five (19%) expect they would have had to delay their purchase by more than five years without Bank of Mum and Dad support, and a further 14% said they never would have been able to buy without the help of family or friends.

The figures come as buyers face the economic implications of the pandemic and a restriction in the choice of high loan-to-value (LTV) mortgages on which many buyers (especially first-time buyers) rely. Data from Moneyfacts has shown a fall in the number of 90% LTV mortgages on the market which allow people to buy with just a 10% deposit.

Property market activity

Despite the Stamp Duty holiday for purchases under £500,000, just 8% of would-be purchasers say they are less reliant on family or friends for financial support as a result of the policy measures introduced to mitigate the effects of the coronavirus crisis. Only 12% have brought forward their plans to buy since the start of the pandemic.

If 'Build, Build, Build' is how we will recover from COVID-19, then the Bank of Mum and Dad will be centre stage once more. Generous parents, grandparents, family members and friends are gifting thousands towards deposits, with the Bank of Mum and Dad outpacing even the Stamp Duty cuts designed to stimulate property market activity.

Uncertain economic future

For years buyers have been faced with a limited supply of affordable homes - a challenge which is now being compounded by COVID-19. Not only are buyers facing an uncertain economic future, but changes by lenders in the wake of the pandemic have restricted the low-deposit mortgage options on which many young people rely to make their first step.

While the Bank of Mum and Dad is helping those lucky enough to have their backing, a generation of hopeful buyers without the support of the Bank of Mum and Dad could find themselves locked out of the housing market. ■

How can I help my children buy their first property?

An important issue to be aware of is how the mortgage lender will treat the deposit if it is described as a loan rather than a gift. If the money is a loan, then the lender must factor this into their affordability calculations and so may lend less as a result. Also, don't forget the sum of money handed over may not be needed now, but what happens if life subsequently becomes a bit of a struggle? Speak to us to discuss your options.

Source data:
[1] https://www.legalandgeneral.com/bank-of-mum-and-dad/

'Future self'

Boosting future retirement savings

Young people are faced with a unique set of challenges when it comes to saving for retirement. One of these is perception. They can often think of their 'future self' as a different person and so may prefer holding on to their income for more immediate priorities, like a first home deposit, rather than saving for someone they perceive as a stranger.

A new study has revealed how nearly two million younger people could have an extra £7,000 a year in retirement income, simply through a series of small behavioural nudges[1].

Getting young people to picture their 'future self' and introducing simpler pension labels to link contribution levels and retirement income were just two small changes that were shown to boost future retirement savings by up to £142,450 amongst those under the age of 30.

The study looked to understand what motivated younger people to save more, particularly at a time when their immediate economic outlook may look bleak. The process included psychological testing by the Behavioural Insights Team (BIT) with around 3,000 22-29-year-olds across the UK to learn more about their attitudes, confidence and expectations around their future finances.

The experiment tested different approaches in an attempt to identify what small 'nudges' could make the biggest difference to those who had pointed to a lack of awareness of pensions and information on how to change their contributions.

Small 'nudges' could make the biggest difference

1. Labelling makes a difference: By including tangible explanations, such as 'a 12% contribution would keep you above the poverty line' and 'a 15% contribution would allow for a comfortable retirement', twice as many young people would recommend almost doubling pension contributions from the default minimum of 8% to 15%.

2. Reframing investments over savings: When participants were asked how much to 'invest' in their pension as opposed to how much they should 'save' – the amount they recommended someone puts aside shot up by a third (34%).

3. Prompts drive engagement: Once young people start actively thinking about their future, they'll care more about their retirement prospects. After answering a set of questions about where they see themselves in the future, the number of participants who want to raise their pension contributions increased by 11%, equivalent to 800,000 young people saving more.

Persistent problems of pessimism and disengagement

Research carried out alongside the experiments found that young people were relatively pessimistic about their retirement. Nearly 90% stated they were either not at all confident, a little confident, or moderately confident they were doing enough for their retirement.

Most people wanted to retire by 64 at the latest (63%) but expected it to be much later. In fact, over one in five (21.9%) expect either to retire after 70 or never actually stop working. The main barriers to saving were having no spare money after paying their bills, the need to save for a major expense such as a house deposit or paying off debts.

However, beyond these 'financial constraints' the two most common answers were simply they hadn't thought about retirement or savings (21%), and didn't know how to increase their contributions (15%).

Before COVID-19, nearly half (49%) of 22-29-year-olds were not saving adequately for retirement, meaning they face working for far longer than they expect to, or retiring with only enough money to cover the basics.

This situation has only intensified with mass unemployment looming and more than a quarter (26%) of 18-24-years-olds having already lost their job. Sectors and jobs that young people disproportionately work in, such as hospitality and retail, part-time and zero hours, have been the most affected. ■

Get your retirement plans in motion

There's a whole lot to think about when you're planning for retirement. Is it worth paying into private or workplace pensions? Are you saving enough? Which investments should you choose? All these unanswered questions can make planning feel a little overwhelming. Most importantly, before taking any major decisions relating to your retirement plans, take the time to get professional financial advice. Please contact us for further information.

Source data:

[1] Scottish Widows study

Behavioural Insights Team research

BIT conducted a short experiment with 2,822 22-29-year-olds, focused on increasing engagement with pensions. Each participant saw one of four vignettes about 'Alex', a 25-year-old with average income and default contributions, and their responses to how Alex should change her savings were recorded.

Calculations

- £142,450 calculated using the online MAS pension calculator. Based on a 22-year-old earning the UK average salary, £30,420 (ONS), increasing combined employer and employee contributions from the default 8% to 15%.
- 8% contributions = £162,799 saved into a pension by 68, or £17k income p.a., including State Pension.
- 15% contributions = £305,249 saved into a pension by 68, or £24k income p.a., including State Pension.

Retirement Report research

Adequate Savings Index based on research carried out online by YouGov across a total of 5,757 adults aged 18+.

Data is weighted to be representative of the GB population. Fieldwork was carried out 26 March – 11 April 2020.

Are you keeping too much in cash?

Savers holding onto extra cash during the COVID-19 pandemic

Some savers are putting their hard-earned money at risk by holding too much on deposit. Savers holding onto extra cash during the coronavirus (COVID-19) pandemic need to consider their long-term investment options, as new data shows the savings ratio for some people has increased during the pandemic.

Figures published by the Office for National Statistics (ONS) show that the savings ratio as a total, which measures the amount of surplus cash households have, has increased during this period. As a result, some households have been able to increase their cash deposits during the pandemic due to a combination of lower discretionary spending during lockdown and households consciously putting more into cash reserves.

Exposed to the risk of inflation

But cash is the investment type most exposed to the risk of inflation. Over the longer term it tends to underperform 'real assets' like stocks and shares. Inflation is a very powerful destructive force and understanding inflation is an important factor when it comes to financial success. Over time, inflation can reduce the value of your savings, because prices typically go up in the future.

According to the ONS, in Quarter 2 of 2020 (Apr to June) household spending (adjusted for inflation) growth was negative 23.6% compared with Quarter 1 (Jan to Mar)[1]. The largest negative contribution to growth was from restaurants and hotels, which fell by negative 89.4% compared with Quarter 1.

Households holding onto more cash

The largest positive contribution to growth was from food and non-alcoholic beverages, which increased by positive 3.5% compared with Quarter 1. These ONS figures are also consistent with the Bank of England's estimates that the deposits in household bank accounts grew £17bn a month from March to June, more than triple the rate seen in the previous six months.

But as some households are able to hold onto more cash, many have received underwhelming rates of return on their cash savings. National Savings & Investments (NS&I) recently reduced rates on its savings products, while other cash accounts offer relatively modest returns.

Emergency cash

A cash savings buffer is key as it provides protection in the event of a loss of income. This means you have something to break your fall and avoid short-term borrowing to cover day-to-day costs. It is normally recommended that households keep enough cash on hand to cover between 3 to 6 months of essential spending. This money should be held in an easily accessible account, although this typically means accepting little or no interest.

Cash savings

Once you have enough to cover a financial emergency, it is important to start to make some of that money work harder. Locking money up in a deposit account can help savers to achieve a modest return, although rates on cash remain very low.

Stocks & shares

Over longer periods of time, historically the stock market has performed well. There have been and will continue to be plenty of bumps and bruises along the way, but the overall trend has been upwards

Investing can deliver better long-term returns, but markets go up and down over time and past performance is not guaranteed, so it is important when investing to leave the money untouched for several years. One of the most efficient ways to invest is through a Stocks & Shares Individual Savings Account (ISA). This offers tax-efficient growth and every adult can invest up to £20,000 during every tax year, which runs from 6 April to 5 April the following year.

If you have built up a lump sum, this could be invested into an ISA account in one go; however, depending on your particular situation, it may be appropriate to gradually invest in funds or stocks over a period of several months. This process, known as

'pound cost averaging', helps to ensure you smooth your investments and don't invest all your savings at a peak in the market.

Lifetime ISA (LISA)

Another form of ISA account, the LISA, offers a savings boost from the Government. This is only allocated to those who use the money to purchase a first home or do not access it until they turn age 60. So it is predominantly aimed at first-time buyers, or people who have maximised their pension contribution allowance. If you withdraw it for any other reason, then a penalty applies.

Pensions

Saving into a pension fund attracts pension tax relief, rewarding savers with a 20% or 40% top-up for basic and higher-rate taxpayers respectively. Strict penalties apply on withdrawals before age 55, but for those who want to commit money towards their future this is a very tax-efficient way to invest for the long term.

Those people in employment who are eligible to be auto-enrolled into a pension should already have regular contributions to their retirement fund being made through their salary. If they have extra disposable income they may want to consider paying more into their pension.

Some workplace schemes may not be able to facilitate this, in which case a personal pension provider can receive contributions. Normally 20% tax relief will be applied and higher-rate taxpayers may need to recover additional tax relief via their tax return. ■

Saving for the future

We all have many different goals in life. These typically fall into short, medium or long-term targets. Depending on the nature of your goals, you may need to consider different ways to save and invest. With so many fund options available, we can ensure that you choose the right solutions to meet your needs and secure your future. Contact us for more information.

Source data:

[1] https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/datasets/consumer trends chained volume measure seasonally adjusted

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

Investing with a conscience

Placing money in companies that bring positive change

Issues such as climate change and sustainability have become increasingly hot topics globally and often the subject of conversation. As a result, Environmental, Social and Governance-linked (ESG) investment strategies continue to dominate financial headlines.

These strategies, which include impact investing, are not new, but momentum is growing as shareholders demand greater action and consumers hold businesses to a higher standard. Increasingly, a significant number of UK investors expect their investments to align with their personal beliefs and continue to express interest in sustainable investing.

Potentially higher returns

Findings from new research identified that UK millennials are less likely to compromise their personal beliefs in order to benefit from potentially higher returns compared to their global counterparts[1].

ESG is a set of standards seeking to reduce negligent corporate behaviour that may lead to environmental degradation, armament sales, human rights violations, racial or sexual discrimination, harmful substances production, worker exploitation and corruption, though this list is by no means exhaustive and remains disputed.

More sustainability conscious

This study of more than 23,000 people who invest from 32 locations globally revealed that in the UK, only 20% of millennials, who are often perceived to be more sustainability conscious, would compromise their personal beliefs if the returns were high enough. Globally however, 25% would be willing to be flexible with their values.

According to the UK results of the Global Investor Study, some 50% of Britons aged 71+, 23% of baby-boomers and 22% of those classed as Generation X would trade their personal beliefs for higher returns.

Excluding 'sin-stocks'

In the UK almost a third (24%) of those who class themselves as having 'expert/advanced' investment knowledge are substantially more likely to trade their personal beliefs for better investment returns compared with 18% of 'beginner/rudimentary' investors.

A total of 78% of Britons said they would not invest against their personal beliefs, and for those who would, the average return on their investment would need to be 21% to adequately offset any guilt. Socially Responsible Investment (SRI) generally focuses on excluding 'sin-stocks' from the investment pool based on negative screening guidelines.

Entering the mainstream

In the last two years, sustainable investing in the UK has increased, with 48% of people now frequently investing in sustainable investment funds compared with 34% in 2018, sending a positive market signal that sustainable investing is entering the mainstream.

Overall, 40% of UK investors stated that investing sustainably was likely to lead to higher returns. Some 51% said they were attracted to investing sustainably due to its wider environmental impact. Globally, expert or advanced investors are the most likely to think sustainable investments have the most potential to offer higher returns (44%) and the least likely to think investing this way will ultimately disappoint (9%).

Top three 'behaviours'

Opinion was split among investors globally in terms of how asset managers should address challenges that arise from the fossil fuel industry. Just over a third (36%) said managers should withdraw investment from companies in these industries to limit their ability to grow. However, over a quarter (27%) said managers should remain invested to drive change.

Furthermore, investors said that the top three 'behaviours' companies should be most focused on were their social responsibility, attention to environmental issues and the treatment of their staff. ■

Is your future in sustainable investing?

What used to be viewed once as a niche investment philosophy is now firmly planted in the mainstream, with investors aligning their personal values around sustainability and social progressiveness. If you'd like to explore an ESG investing journey with us, please speak to us for further information.

Source data:

[1] In April 2020, the Schroders Global Investor Study 2020 commissioned an independent online survey of over 23,000 people (aged 18-37) who invest from 32 locations around the globe. This spanned countries across Europe, Asia, the Americas and more. This research defines people as those who will be investing at least €10,000 (or the equivalent) in the next 12 months and who have made changes to their investments within the last ten years.

The critical factor

Life-changing cover, for life-changing events

The coronavirus (COVID-19) pandemic has caused many households to reassess their financial defences with the purchase of protection insurance. The diagnosis of a serious illness can mean a very difficult time for your health and your wealth. 'If you were to become critically ill and could not earn a living, would your family cope financially, especially to pay bills, mortgage and other expenses?'

Our lifestyles may vary, but we all need to make financial safeguards. Critical illness cover can provide vital financial security when you need it most. Most homebuyers purchase life assurance when they arrange a mortgage, but overlook critical illness cover, another form of financial protection that we are statistically more likely to need before reaching retirement.

Finding the right peace of mind

With the right protection in place, you and your loved ones won't have to worry about money when money is the last thing they want to worry about. It's essential to find the right peace of mind when faced with the difficulty of dealing with a critical illness. Critical illness insurance pays a tax-free lump sum on diagnosis of any one of a list of specified serious illnesses, including cancer, heart attack and stroke.

The good news is that medical advances mean more people than ever are surviving life-threatening conditions that might have killed earlier generations. Critical illness insurance provides cash to allow you to pursue a less stressful lifestyle while you recover from illness, or you can use it for any other purpose.

Combining different cover types

It's almost impossible to predict certain events that may occur within our lives, so having critical illness cover in place for you and your family, or if you run a business or company, offers protection when you may need it more than anything else. You can choose how much cover you want and whether you want to combine different cover types. You can also choose to take out cover with your partner.

Even if you are single with no dependants, critical illness cover can be used to pay off your mortgage, which means that you would have fewer bills or a lump sum to use if you became very unwell. And if you are part of a couple, it can provide much-needed financial support at a time of emotional stress. Whether or not you need critical illness cover as well as life insurance will depend entirely on your individual circumstances. ■

Do you need critical illness cover?

It's easy to think a critical illness isn't going to happen to you, but should the worst happen you can help make sure your family and loved ones are protected by easing their financial worries. To discuss how we can help, speak to us to find out more.

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