BONUM WEALTH
INDEPENDENT FINANCIAL PLANNING

Bonum Wealth Ltd, Regent House, 113 West Regent Street, Glasgow G2 2RU T: 0141 221 6398 E: support@bonumwealth.co.uk W: bonumwealth.co.uk

Your Window on
Wealth
SPRING 2021

Vaccines put a spring in investors' step

The arrival of spring is generally a time of great optimism and this year more than ever we are all certainly in need of a fresh bout of positivity. Thankfully for investors, there do seem to be increasingly hopeful signs on the horizon, with a growing belief we are now at least starting on the road to economic recovery.

Reasons to be cheerful

The successful development and rapid rollout of COVID-19 vaccines has provided hope that we will soon be able to live with the virus. As well as protecting vaccinated individuals, there are encouraging signs the immunisation programme will slow transmission in the community. This has raised hopes of a significant, vaccine-powered revival in economic activity later this year.

Global growth rebound

This vaccine-fuelled optimism is reflected in recent economic forecasts with the International Monetary Fund's latest projections suggesting the global economy is set to expand by 5.5% in 2021. This represents an upward revision of 0.3% compared to the organisation's previous forecast made last October.

Vaccine-induced euphoria also saw equity funds enjoy a strong quarterly inflow during the final three months of last year.

Negative rates?

A further boost to equity investments could stem from negative interest rates. Although it remains unclear whether or not such a policy will be introduced, in early February the Bank of England gave banks and building societies six months to prepare for such a possibility. If enacted, sub-zero rates would reduce the incentive to save in cash deposits and thereby potentially increase demand for shares, placing even greater emphasis on investment portfolios.

Time for a spring clean

While the economic outlook remains uncertain there are positive signs for investors and this means ensuring your investment portfolio is working hard for you is more important than ever. It could therefore be the perfect opportunity to review your portfolio and rebalance the allocation of asset classes, if necessary, in order to ensure your investments are well-diversified and performing in line with your long-term requirements and objectives.

The world's happiest retirees

A study[1] suggests Helsinki is the happiest place to live out retirement. The analysis also found that people typically need a pension pot worth around £225,000 to retire comfortably in one of the world's happiest cities.

Retirement heaven

In order to rank cities from across the globe, a *'happiness index'* was calculated, based on findings from the *'World Happiness Report'* combined with cost of living, average salary and life expectancy data from over 50 countries.

The calculations revealed that, along with Helsinki, three more northern European capitals – Copenhagen, Reykjavik and Oslo – also featured in the world's top-five cities with the happiest retirees. The final member of this distinguished quintet was Geneva, with Switzerland's second-most populous city third on the list.

UK retirees also happy

The analysis also produced figures taking account of not only the happiest but also the most affordable places to retire, with Melbourne topping this list of happy retirement destinations. And, reassuringly, Belfast, Edinburgh and London also featured among the world's top 20 happiest retirement cities ranked on this basis.

[1]Audley Villages, 2020

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

INSIDE THIS ISSUE:

Scottish Budget Update

On 28 January 2021, Scottish Cabinet Secretary for Finance, Kate Forbes, set out the government's proposed spending and tax plans for 2021/22. Speaking almost a year after Scotland's first COVID-19 case was identified, she told MSPs that the *"pandemic has shaken our society and economy to the core."*

Ms Forbes stated that the Budget would address *"three key priorities"* for Scotland's future, these being:

- Creating jobs and supporting a sustainable recovery
- Responding to the health pandemic
- Tackling inequalities.

She added that certain assumptions had been made when drawing up the Budget, due to the fact that the UK Budget was not taking place until March.

The economy and business

To support businesses and economic recovery from the coronavirus crisis, the Finance Secretary announced measures including:

- Total investment of £1.1bn in jobs and skills support
- The launch of a five year £100m Green Jobs Fund and commitment to establish a Green Jobs Workforce Academy
- Doubling of the Local Authority Discretionary Fund to £60m

Personal taxation

The Finance Secretary told MSPs that now was the time for *"stability, certainty and targeted support"* so there would be no changes to Income Tax rates. The thresholds for each tax band would, however, increase in line with inflation, as follows:

- Starter rate of 19% payable on earnings over £12,570, up to £14,667
- Basic rate of 20% to be charged on earnings over £14,667, up to £25,296
- Intermediate rate of 21% to be paid on earnings from £25,296, up to £43,662
- Higher rate of 41% on earnings over £43,662, up to £150,000
- Top rate of 46% on earnings over £150,000.

Meanwhile, the cut to Land and Buildings Transaction Tax (LBTT) for homebuyers, which was announced during the first lockdown, is due to end on 1 April. The Scottish Government has been under pressure to extend the tax 'holiday' after Chancellor Rishi Sunak announced that the equivalent scheme in England is to be extended until the end of June, but at the time of writing, this has not occurred.

COVID-19 and healthcare

Ms Forbes expressed gratitude for the dedication of Scotland's health workers throughout the pandemic, saying *"When the history of this pandemic is written, our NHS and social care staff will be recognised as the undisputed heroes they are. I'm sure I speak for everyone in this chamber – everyone in this country in fact – when I offer them our heartfelt thanks."*

In recognition of the ongoing severity of the pandemic, Ms Forbes announced:

- £869m to support Scotland's response to COVID-19
- £1.9bn for primary care
- £143.5m in funding to tackle alcohol and drugs issues – a £50m increase
- £1.1bn spending on mental health services – a £139m increase

Tackling inequality

Education, the Finance Secretary stated, is the best way of addressing inequality and she announced:

- £2.7bn across education and skills, including £1.9bn for universities and colleges
- Support for Gaelic education to remain steady at £25.2m
- £39.8m for the early learning and childcare (ELC) programme.

Transport, infrastructure and connectivity

Aiming to reduce Scotland's reliance on cars and to offer a more environmentally sustainable form of mass transport, a £1.6bn investment in the country's bus and rail services was announced, in addition to the following:

- Increase in spending on motorway and trunk roads from £748.9m to £825.9m
- £10.5m for the National Islands Plan, which is designed to tackle depopulation and improve transport links
- £102.7m for digital connectivity, up from £63.4m.

Closing Comments

In closing her Budget speech, Ms Forbes said, *"Now, with large-scale vaccination, focused firstly on the most vulnerable, there is some light at the end of the tunnel. This Budget seeks to build on that hope, and by focusing on how we continue to protect, recover, rebuild and renew our country, it seeks to make that light at the end of the tunnel shine that bit brighter."*

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

More people accessing pension cash

More people accessed their pensions and more money was withdrawn in the final three months of 2020 compared to the same quarter the previous year. A total of £2.4bn was withdrawn from pensions flexibly in the three months to December 2020, representing a 6% increase from £2.2bn in Q4 2019.

The HMRC data[2] shows that 360,000 people accessed their pensions in the fourth quarter of 2020, up 10% from the same period in 2019, meaning the average amount withdrawn per individual was lower. There was a 4% increase in the number of individuals withdrawing compared to the previous three months.

COVID effect

October, November and December typically see a slight drop in the number of people accessing their pensions, so this change in behaviour may be attributable to the impact of the pandemic. With unemployment and redundancies rising, many people may be feeling the need to dip into their pensions.

Consider your options

Withdrawing money from your pension savings has its risks, so it's important to weigh up all your options carefully and seek financial advice before deciding.

[2]Gov, 2021

ESG: A megatrend here to stay

New research suggests environmental, social and governance (ESG) investing is set to continue gaining prominence, with ESG issues increasingly converging into mainstream investment strategies.

A growing trend

The last few years have seen a substantial rise in ESG investing around the globe, driven by an increasing desire for investors to know both where their money is going and that it is having a positive impact. According to a survey conducted by CoreData, three-quarters of UK professional fund buyers now expect all investment funds to incorporate ESG factors within their strategies during the next five years.

Pandemic has raised awareness

Another finding suggests the pandemic has accelerated this momentum, with eight out of ten UK fund investors saying they increased their focus on ESG in the wake of COVID-19.

Commenting on the survey, founder and principal of CoreData, Andrew Inwood, said, *"The pandemic has helped reset humanity's moral compass and encouraged people to favour investments aligned with their beliefs and values."*

COP26 to generate interest

Research[3] has shown that environmental issues top the list of ESG concerns, particularly pollution and waste, and climate change. The trend towards ESG investing is therefore expected to receive a further boost in the run-up to the 26th UN Climate Change Conference of the Parties (COP26) which the UK is hosting in Glasgow this November.

The election of President Biden and his commitment to an ambitious new climate regime can also be expected to raise the profile of both COP26 and climate change issues in general. And this, in turn, will bring ESG investing into even sharper focus during 2021.

[3]BlackRock, 2020

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

Third of retirees financially supporting family

A third of potential retirees continue to financially support their families, with regular handouts amounting to more than £3,700 a year[4]. Those planning to retire expect an average income of £20,663, but anticipate around a fifth of this (£3,700) will be used to support the finances of younger family members. This equates to £311 a month, although 12% say they contribute £500 or more.

Supporting the family
Accommodation and living costs are the top priorities for those supporting loved ones, with 28% allowing their family to live with them rent free. One in four also give family members regular cash to cover everyday living costs such as food, and one in five cover some or all of their household bills. A further 19% pay for treats such as holidays, 15% have put money towards a property purchase, and 13% pay for university fees.

Think about your financial security too
We understand it's only natural to want to support loved ones, particularly with the current economic situation putting more pressure on people's finances. However, with the pandemic also impacting pension savings, this could affect your ability to continue to support family members. Talking to us can help you understand how much support you can realistically provide so that you don't end up compromising your long-term financial future.

[4]Key, 2020

Dividends down 44% year-on-year

UK dividends fell 44% in 2020 to £61.9bn, the lowest annual total since 2011, according to Link Group's latest Dividend Monitor[5]. However, a better-than-expected Q4 was boosted by suspended payouts being restored.

The biggest impact came from the financial sector, which contributed to two-fifths of cuts, while oil dividend cuts accounted for another fifth. Dividends from the FTSE 100 were less severely impacted by the pandemic, with underlying dividends falling 35%, while mid-caps saw them drop 56%.

Reasons for optimism
Looking ahead, payouts could rise 8.1% on an underlying basis, yielding a total of £66bn in 2021, while a worst-case option suggests payouts could fall around 0.6% to £60.7bn.

Susan Ring, CEO Corporate Markets of Link Group, said, *"There are reasons for optimism, but the resurgent pandemic has pushed back the reopening of the economy even further. We still believe the worst is past… our expectations for 2021 are significantly more subdued."*

[5]BlackRock, 2020

Retirement finances: Take back control

Two pieces of research have again highlighted consumer confusion and concerns around pension provision and thereby the necessity for people to take control of their retirement planning.

State pension overestimated
Firstly, a survey by Which?[6] found that three in ten people overestimate their future state pension income, some by almost £50,000 over the course of their retirement. There was also confusion about when people receive their pension, with only three in ten correctly identifying the current state pension age.

The research therefore vividly highlights worrying gaps in the nation's pensions knowledge and the consumer champion believes more needs to be done to improve understanding and engagement in order to put people in a position to successfully plan for retirement.

Key concern: Funding retirement
Other research[7] revealed that retirement remains the biggest financial worry across the UK workforce. In total, a third of employees said that funding retirement was their principal money concern, the second successive year this issue has topped the poll.

The research noted that a lack of engagement with later life finances was a key problem for employees and is concerned it remains such a big issue. This concern not only relates to finances but also the impact such worries have on employees' general wellbeing.

Take control
While funding retirement certainly presents a challenge to us all, the key to success is undoubtedly careful planning and seeking expert advice. It's vital to fully understand the unique circumstances and options relating to your retirement finances as that knowledge gives you power. So, don't spend time worrying: get in touch with us and we'll help you take control of your retirement.

[6]Which?, 2021, [7]Close Brothers, 2019

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