BONUM WEALTH
CHARTERED FINANCIAL PLANNERS

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Your Window on
Wealth
SUMMER 2021

Reasons to be cheerful

As the country emerges from lockdown, an increasing sense of optimism seems to have filled the air with a much more familiar feel returning this summer. And there's plenty to look forward to over the coming months, with a host of major sporting events including the Olympics to excite and enthral us, audiences returning to theatres and concert halls across the land, and the rearranged Chelsea Flower Show set to extend summer into late September.

Faster recovery predicted
There also appears to be a similar air of optimism in relation to economic matters, with data across the first half of this year proving to be stronger than analysts had expected. As a result, there now seems to be a good chance that major economies on both sides of the Atlantic will have recovered the lost ground caused by the pandemic before the end of 2021.

Global growth forecasts upgraded
This has led to a string of renowned international forecasting agencies upgrading their global growth projections during the past few months. The UN's mid-2021 World Economic Situation and Prospects Report, for instance, revealed an annual growth forecast of 5.4% for this year, up significantly from January's 4.7% estimate. This brighter outlook largely reflects the rapid vaccine rollout in a few large economies, principally the US and China, as well as an increase in global trade.

Diverging fortunes
UN economists, however, did warn that inadequate availability of vaccines in many countries was threatening a more broad-based global recovery. The report did strike a note of caution, suggesting that, *'the economic outlook for the countries in South Asia, sub-Saharan Africa and Latin America and the Caribbean remains fragile and uncertain.'*

Advice remains paramount
While the outlook has certainly improved significantly across the first half of this year, the UN forecast reinforces how the pandemic continues to create a relatively uncertain economic backdrop. This inevitably means the provision of expert advice is a vital component of investor success. We can help you make the most of any investment opportunities that do arise.

Summer may be here but what about the LTA freeze?

The sun may be shining (if the Great British summer permits!) but the Lifetime Allowance (LTA) freeze is most certainly here.

The pension LTA has been frozen at its current level of £1,073,100 until April 2026. So essentially, the total amount you can hold in your pension without being taxed on withdrawals is static for the next few years, which means that a growing number of people may need to start considering a wider range of savings options for retirement, in order to avoid a potential tax bill. Tax is currently payable at 55% on everything over the limit if you take the money as a lump sum, or 25% if you take the money in another way, such as drawdown or through an annuity. If you're nearing the LTA, and an increasing number of people will be in this situation due to the big freeze, it's worth considering additional options available to complement saving for retirement.

There are a whole host of scenarios and outcomes depending on your personal circumstances. The calculations around pensions and the LTA can be very complex. So careful consideration of your options is essential before making any decisions.

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Dividend decline slowing

From Q2 2020 to Q1 2021, the pandemic cost investors almost £45bn in lost dividends. After such a tumultuous year, the good news is that the latest UK Dividend Monitor[1] highlights that in Q1 this year, dividends fell at their slowest rate since the beginning of the pandemic. In a positive sign, half of UK companies either restarted, increased or maintained their dividends in Q1, compared with a third of firms doing so in the previous quarter. For 2021, expectations are that underlying dividends will rise by 5.6% year-on-year to £66.4bn. The report outlines that banking dividends are returning at low levels and *'there are positive signs from miners, insurance, and media companies.'* Managing Director of Corporate Markets EMEA, part of Link Group, Ian Stokes, commented, *"During the pandemic, many companies that had been over-distributing, permanently reset their dividends to more sustainable levels. Most of these now hope to grow their dividends from this lower base. For others the effect of the cuts is more transitory so they will bounce back quickly."*

Fewer savers losing track of pensions

Key findings from a recent survey show that almost three quarters of people (73%) have multiple pension pots[2]. The number of people in this group who have lost track of one or all of their pensions has reduced slightly from 21% in 2016 to 17% today. Good news? Yes, but this still means that around 6.4 million people seem to have lost track of some of their retirement savings! Reasons cited include losing paperwork, not informing their pension provider when they move, or the pension company has been taken over or rebranded. Almost half of people (48%) knew to use the Pension Tracing Service from the DWP or to contact their previous employer(s) (42%) to find a lost pension.

[1]Link Group, 2021, [2]Aegon, 2021

COVID: Changing the way we invest

While *'Keep Calm and Carry On'* has perhaps been the most apt mantra for investors over the past year, the pandemic has clearly had a profound impact on the investment landscape. The global spread of the virus has prompted a seismic shift in public behaviour and investors need to consider the implications of these changes when evaluating future prospective investment opportunities.

Socioeconomic trends

Although in many ways the pandemic has actually slowed down the pace of our daily lives, it has also dramatically accelerated a number of socioeconomic trends that have been bubbling away for years. Perhaps the most obvious example of this relates to the world of work, with the shift to increasingly flexible working practices that had been evident for the last few decades suddenly receiving a turbo boost over the last year.

Digitalisation

Another key trend accentuated by the pandemic has been the increased focus on digitalisation. The massive growth in e-commerce, for instance, has resulted in those businesses with superior online offerings gaining greater competitive advantage. Noticeably, the shift to online shopping has been evident across the age range, as older consumers most at risk from the virus increasingly turned to e-commerce in order to avoid leaving home.

Socially responsible investing

While the concept of ethical investing has been around for decades, the pandemic has reinforced the immediate importance of sustainability and corporate governance issues. During a difficult year, greater focus has perhaps inevitably been placed on 'wellbeing' and how businesses treat both their employees and suppliers. As a result, sustainability and governance issues have been propelled up the corporate agenda.

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Retirees tempted by 'risky' investments

A new study conducted by the Financial Services Compensation Scheme (FSCS) suggests the UK's prolonged low interest environment is encouraging retirees to consider riskier pensions and investment products, which could ultimately result in them losing significant sums of money.

Taking a risk
The FSCS poll of 2,000 retirees aged 55 to 75, found that one in five had been tempted to invest in riskier products than they would normally consider due to the lure of a higher rate of return. Surprisingly, however, the research also found that less than one in eight respondents had consulted a financial adviser in order to explore how they could make their money work harder for them.

Life-changing sums
Commenting on the findings, FSCS Chief Executive Caroline Rainbird confirmed there had been a rise in the number of people seeking compensation from the scheme. She added, *"The real danger is that if consumers choose to put money into high-interest pension and investment products that are not FSCS protected, they could lose life-changing sums of money from their retirement pots if the product provider fails."*

Importance of advice
The FSCS survey once again vividly highlights the importance of seeking expert financial advice before taking out pensions or investment products. Professional advice provides peace of mind and ensures investors are not taking any undue risks with their hard-earned cash. If you are approaching, or already in retirement, and want to maximise the return on your savings, please get in touch.

Saving for private education

The average termly fee for private schools has reached £12,000 (£36,000 annually) for boarders and £5,064 (£15,191 annually) for day pupils, according to the Independent Schools Council[3].

Planning for the future
It is a big decision to privately educate your child; school fees could easily be a family's largest expense after their home. Starting to save from day one and encouraging family members to contribute to accounts will assist you in accumulating what you need. If you have longer to save, (10+ years) then investing could be a great longer-term option. While there is some risk involved, investments have greater potential to outstrip the returns you would get from a savings account (although this is not guaranteed).

Use your allowances and exemptions
By using their £20,000 annual ISA allowance, parents can invest and pay no tax on their returns, as well as withdraw their money without incurring tax. Meanwhile, grandparents can make use of lifetime gifting, which can have the dual benefit of reducing the value of their estate for Inheritance Tax purposes and seeing their money benefit their grandchildren whilst they are still around.

Other ways of funding a private education
In some instances, older parents are taking their 25% tax-free lump sum from their pension and using it to fund their offspring's education. If you do this, remember it is important to leave yourself enough for retirement.

However you fund your child's education, it's important to take financial advice to ensure you don't compromise your own financial security. We can help you plan effectively for the years ahead.

[3]ISC, 2021

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'Secret accounts' slow the probate process

According to the first Bereavement Index from probate software specialist Exizent[4], many people fail to put their financial affairs in order before they die, leaving behind a *'financial mess'* and a stressful experience for those tasked with administering their estate.

The Index revealed that one in seven (14%) of those tasked with gathering the assets of someone who has recently died weren't aware of all the deceased's bank accounts and assets at the start of the process. In fact, because many people pass away without leaving full details of their financial affairs, over a third (37%) of accounts are only found during the probate process.

Hidden assets

This is likely why nearly nine in 10 recently bereaved respondents said they found the probate process stressful, while one in six said it was *'extremely'* stressful. And, where the deceased had *'hidden assets'*, the respondents were twice as likely to find the process *'extremely'* stressful. Worryingly, 40% said it had an impact on their mental health.

Put your affairs in order

For advice on getting your financial affairs in order, to avoid a stressful experience for those left behind, please do get in touch.

[4]Exizent, 2021

Rising inheritances and deficit may hasten IHT change

In 2018, Chancellor Philip Hammond asked the Office of Tax Simplification to review Inheritance Tax[5]. However, subsequent events have meant that the tax regime for transfers of wealth between generations has not been revised, though Mr Hammond's next-but-one successor Rishi Sunak could yet dust-off two OTS reports[6].

A big deficit caused by the pandemic points to unwelcome tax rises. Some economists see tax on transfers of wealth as a way to generate revenue without stifling the economy, whilst also acting to improve social mobility. One influential think-tank recently explored inheritance and inequality.

The Institute for Fiscal Studies' April 2021 paper, *Inheritance and inequality over the life cycle: what will they mean for younger generations?* identifies trends that could influence policymakers' thinking on taxation of wealth transfer, whether during someone's lifetime or after death. One key finding is that inheritances have formed a rising part of national income for the past five decades.

Inequality of inheritance

The IFS calculates that inheritances for those born in the 1960s will on average equal 9% of their other lifetime income, compared with 16% for those born in the 1980s. If this trend of rising levels of inherited wealth continues,

the gap between rich and poor families can only widen; a more stringent version of IHT could mitigate that.

A major impact clearly stems from parental wealth. The IFS projects that people within each of the two age groups having parents in the top one-fifth on the wealth scale will receive average inheritances that deliver a lifetime income boost of 17% or 29%, respectively, but only 2% or 5% if their parents are in the bottom one-fifth on the wealth scale.

So, the younger group will receive a greater boost from inheritance than the older one and within both groups those with wealthier parents will benefit far more, heightening inequality. With social levelling-up prominent on a financially-stretched government's agenda, IHT changes could prove costly for the better-off. It's sensible to prepare for all scenarios, taking expert advice on strategy.

[5]gov.uk, 2018, [6]gov.uk, 2019

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