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WEALTH MANAGEMENT

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"An investment in knowledge pays the best interest." - Benjamin Franklin

Your Window on

Wealth

WINTER 2020

Financial resolutions for a prosperous New Year

The New Year period is a common time for people to take stock of their finances and make resolutions designed to boost their financial wellbeing. And a new study has found the likelihood of success in this area is heavily linked to receiving professional advice and the establishment of clear financial objectives.

Advice is key to success

The recently released research[1] actually provides a quantitative measure of the value attributed to advice when it comes to helping investors achieve their goals. The US study was based on real-life data relating to more than 100,000 advised investors and found that eight out of 10 with a defined retirement goal had at least an 80% greater probability of achieving their financial objectives. In other words, advised investors typically hit 80% of their financial goals.

Create a financial plan

The research vividly demonstrates how taking expert advice and constructing a tailored plan can significantly boost an investor's financial wellbeing. In many ways this is unsurprising, as the benefits associated with financial planning are well-known and plentiful.

Financial wellbeing

Discussing your financial objectives with us enables you to consider exactly what you want to achieve with your assets and thereby establish clear goals that are both realistic and achievable. Regular financial reviews provide opportunities to monitor progress and adapt plans where necessary. Good financial planning also ensures all investments are tax-efficient by minimising both current and future tax liabilities.

It's good to talk

This study once again reiterates the significant value that can be gained from seeking professional financial advice. So, if your circumstances have changed or the New Year has encouraged you to refocus your financial objectives, then get in touch. That way you can be sure your financial goals remain realistic and you give yourself the best chance of turning any New Year financial resolutions into reality.

[1]Vanguard, September 2019

State Pension top-ups surge

Figures recently released by HMRC have revealed a sharp rise in voluntary National Insurance Contributions (NICs) over the past couple of years as people seek to top up their State Pension record.

Chance to boost your pension

In 2018/19, the total value of voluntary 'Class 3' NICs amounted to £119.3m; in comparison, the figure was £12.8m in 2016/17 – a nine-fold increase in just two years. This surge has largely been driven by the introduction of new State Pension rules in 2016, particularly the increase in the number of years' contributions required to qualify for a full pension, from 30 to 35. As a result, it makes sense for some people to pay voluntary contributions, so they have enough qualifying years for a full State Pension.

Keep track of your pensions

It's certainly a good idea to regularly review your pension provision, both private and state. Pension providers send out annual benefit statements detailing entitlements and you can also request a state pension forecast from www.gov.uk/check-state-pension. Many people only review their pensions when they are about to retire, by which time it's too late – make sure you don't fall into that trap.

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:

IHT BILL RISES TO RECORD LEVEL

Figures released by HMRC show a record amount of Inheritance Tax (IHT) was collected in the last financial year. In total, UK citizens paid £5.4bn in death duties in 2018/19, an increase of 3% on the previous year. This rise continues a long-term trend, with IHT receipts having doubled in the last nine years, partly as a result of the £325,000 nil-rate threshold being frozen since April 2009.

UK TRAILS IN RETIREMENT STAKES

According to the Natixis Investment Managers' Global Retirement Index, the UK lags behind many global counterparts in terms of retirement security[2]. The index uses data from a number of sources to collate a comparable score across countries and, in 2019, ranked the UK 17th out of 44 nations. The lowest score was recorded in assessment of finances in retirement, where the UK languished 34th in the rankings.

BLOOD NOT ALWAYS THICKER THAN WATER

A new survey[3] suggests a significant proportion of the older generation are set to shun family in their Wills. The research, conducted by Responsible Life, found that over a quarter of retirees are planning to leave money to charities, friends or neighbours in preference to their children or grandchildren.

[2]Natixis, 2019

[3]Responsible Life, 2019

What future awaits the new £20?

At a launch event during October, Bank of England Governor Mark Carney revealed the latest in the Bank's new series of polymer banknotes, a £20 featuring the artist JMW Turner.

Cash no longer king

The polymer notes are certainly more resilient and secure than their paper predecessors, but isn't the cashless society gathering pace and poised to push the banknote to near extinction? According to trade body UK Finance, debit card payment numbers caught up with cash transactions in 2017 and along with other contactless methods these are racing ahead as cash use declines[4].

But hold on. Aren't reports of the death of cash, being greatly exaggerated? Maybe. Even the UK Finance projections suggest that 2027 will see around six billion cash transactions. That would be well down on the 2007 figure of some 22 billion, but you'd still need plenty of banknotes (and Royal Mint coins) in circulation to cover six billion payments, plus those under people's mattresses.

Fake news

Bank of England figures show there are over 3.8 billion banknotes out there, the £20 accounting for around half of them[5]. The most-used banknote is also the most-forged; last year 88% of the 228,000 forgeries found were twenties. Forgery was once a capital offence; the last hanging for faking a financial instrument was in 1829. Penalties are less harsh nowadays, so when the new £20 comes out in February its security features need to be effective.

Wisely, you don't keep cash under your mattress, but funds in the bank at low rates are being eroded. Yes, everyone needs a cushion of ready money, but long-term savings deserve the opportunity to grow in a way that suits your risk profile. We can help identify a strategy that suits.

[4]UK Finance, 2018

[5]Bank of England, Oct 2019

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Pension allowance breaches surge

HMRC data has revealed a significant increase in the total value of pension contributions exceeding the annual allowance, with more and more people falling foul of the complex rules and regulations.

The latest personal pension statistics, which cover 2017/18, show a staggering 26,550 people reported contributions exceeding the £40,000 annual allowance in their self-assessment tax return, with combined total contributions amounting to £812m, an average of £30,584 per person. Furthermore, over the past decade, the number of individuals reporting such a breach has risen dramatically, with just 230 people facing similar tax charges in 2007/08 when the annual allowance was £225,000.

Pension complexity

The sharp rise in breaches can largely be blamed on a big reduction in the annual allowance in 2011 and the introduction of the tapered annual allowance in 2016, which added even greater complexity to the pension landscape. Indeed, unless government heeds industry advice and significantly simplifies allowance rules, the next few years are likely to see even more people caught out by the overly complex regime.

Here to help

As many people are discovering, a breach of allowances can be extremely costly. It's therefore imperative to seek professional advice if you are unsure how pension allowances impact on you. And remember, we are always here to help.

The evolution of ethical investing

Ethical investment has traversed into the mainstream, as people increasingly choose to allocate their investable funds toward companies whose values and practices align with their personal beliefs, whether they be environmental, social, religious, or political. Some investors may choose to eliminate specific industries or allocate to other sectors which meet their ethical preferences. This involves creating an investment policy with very specific rules aimed at avoiding companies or industries that don't meet the criteria.

Recent climate protests around the globe have raised awareness and prompted many people to question their (and corporations') impact on the environment. This heightened awareness is transcending to investment preferences. With many people asking what they can do to reduce their carbon footprint, redirecting their investments is one credible option. Divestment from companies involved with fossil fuel extraction exemplifies this; research shows 45% of investors would move their money if they discovered it was invested in fossil fuels[6].

Not a new kid on the block

Not new to the investment arena, ethical funds have been around since the 1980s; client demand has accelerated at pace more recently, as more opportunities and vehicles for investment arise. Data reveals an increasing number of investors (66%) would like to support companies that have a positive contribution to society and the environment[6].

Impact insight

Another term to become familiar with is 'impact investing', this involves, not only the avoidance of businesses contributing to damaging activities, but actively supports companies bringing about positive change in and around their business and the wider world, whilst demonstrating high levels of accountability and governance. This involves reviewing companies' operating practices and selecting companies that are trying to solve social and environmental challenges. With an impact approach, investment decisions are based on a company's impact evidence (data), rather than personal beliefs.

Navigate with certainty

Heightened public awareness, and appetite for how money and investments can impact climate change and other societal issues, means that there is undoubtedly a growing movement towards greater mindfulness in 'good' investing. Research is essential because although a company's mission statement may reflect the values and beliefs of an investor, their practices may differ. Selecting investments based on ethics offers no guarantee of performance.

We're here to help you navigate the investment options available.

[6]Triodos, 2019

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The green shoots of Spring?

As we enter a new decade, the global economy seems to be precariously balanced. Although recent data supports this pessimistic prognosis, forecasters suggest 2020 is set to observe a recovery.

Global growth rates
Gross domestic product (GDP) data for the third quarter of 2019, highlighted a continuing decline in global growth. In the US, GDP grew at an annualised rate of 1.9%, just below the 2.0% recorded in the second quarter. China's growth rate of 6.0% was the country's slowest in over 27 years.

While both the UK and German economies experienced growth in the third quarter, neither economy particularly flourished. The UK recorded its slowest annual rate in nearly a decade, while the German economy grew just 0.1% in the third quarter. Both economies were successful in avoiding consecutive quarters of negative growth – the 'technical' definition of recession.

Trade traumas weigh
Published in mid-October, the International Monetary Funds (IMF) World Economic Outlook, outlined the global economy is growing at its slowest pace since the financial crisis. They downgraded the 2019 world growth forecast to 3.0%, a 0.3 percentage point reduction from the April estimate. The bi-annual Outlook cautioned that the self-inflicted wounds of the US-China trade war had created a 'precarious' economic situation.

Cautiously optimistic
The IMF predict that growth will pick up this year, forecasting that the world economy will expand by 3.4% in 2020. Global trade protectionism and geopolitical tensions remain primary risks to the outlook going forward. The estimated pickup reflects projected improvements in the economic performance in several markets, developed and emerging. Considering the uncertainty surrounding prospects for many of these countries and prominent risks, it is possible that a more subdued pace of global activity could emerge.

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RETIREMENT TIME-BOMB TICKING

The latest population statistics released by the Office for National Statistics (ONS) show that the number of people in their nineties continues to grow. And this trend is raising serious concerns over whether traditional views of retirement are still fit for purpose.

Population trends
Figures from ONS show that the total number of people aged 90 and over rose to 584,024 in 2018 – an increase of 0.7% from the previous year. This continues the trend towards an increasingly ageing population which has been driven by a combination of medical advances and improvements in public health.

Implications for retirement
While greater longevity is clearly welcome news, the fact that so many people now live 30 or so years beyond traditional retirement age does have financial implications and is inevitably changing people's expectations for later life. Indeed, we are already seeing people withdraw more gradually from work as retirees find an optimum work-life balance that accommodates their personal needs.

A further complication is that, as the population ages, people are increasingly living more of their lives in a relatively poor state of health. Consequently, there is a greater chance of people requiring some form of care, which again has significant financial implications.

Planning increasingly essential
As a result of these trends, it has never been more important for people to set targets and ensure they have sufficient financial provision to cater for all of their retirement needs. And, as retirement planning is never a case of 'one size fits all', it is increasingly vital to obtain sound professional advice that can be tailored to your individual needs.

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