Essentially Wealth

Q2 2020

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Quilter Financial Planning

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For a sense of wellbeing – spring clean your finances

The days are longer, the sun is shining, it's time to embark on a good spring clean. A great opportunity to de-clutter, organise and refresh your home and life. When your environment is clean, it brings a sense of wellbeing and contentment. This concept to tidy and organise should also extend to your finances.

Financial health check-up

To understand the connection between wealth and wellbeing, a recent survey[1] asked people how they think and feel about their financial health. Three quarters of respondents (75%) were of the opinion that financial health meant 'having little or no debt and being prepared for unexpected events'. For many respondents (45%), money is a major cause of stress; this figure increases to 66% for those who had no savings or investments to fall back on. A common reason for not investing among younger respondents, was 'lack of knowledge' with 49% of millennials agreeing with this, compared to 35% of baby boomers.

Set goals and keep talking

An overwhelming majority (75%) of those survey respondents who use a financial adviser, reported having a positive sense of wellbeing. We can help you set realistic financial goals, get a plan in place and work towards these, helping you feel more in control, reduce stress and improve your feelings of financial wellbeing, both now and in the future.

[1]BlackRock, 2020

United in turbulent times – we're in it for the long haul

As a result of the COVID-19 outbreak, global stock markets are suffering a major period of volatility. We all know that markets do not respond well to periods of uncertainty and that volatility goes hand in hand with stock market investment. Although undulations in the markets can be concerning, experience has taught us to expect the unexpected.

Long-term focus

It's wise to stick with your plan in order to navigate market volatility, ensure your holdings are diversified and accept volatility. Investors with diversified portfolios, who stay in the market, have historically and consistently experienced steady gains over time. Even though it can be difficult to disregard daily market movements, it is vital to focus on the long term and remember that volatility also presents opportunities.

A clear head and a well-defined plan

Investment requires a disciplined approach and a degree of holding your nerve if markets fall. As Rudyard Kipling wrote, it's important to *"keep your head when all about you are losing theirs."* The worst investment strategy you can adopt is to jump in and out of the stock market, panic when prices fall and sell investments at the bottom of the market. A well-defined investment plan, tailored to your objectives, in line with your attitude to risk, that takes into account your financial situation, can help you weather short-term market fluctuations. Market volatility is a timely reminder to keep your investments under regular review; rest assured we've got your back.

"keep your head when all about you are losing theirs."

Unused services cost Brits £25bn a year

New research[2] has found that the typical adult spends £496 per month on regular commitments, but £39 of that accounts for services that aren't used.

The most wasted outgoing is for gym membership, with 12% saying they pay for it, despite not using it. Other unused services include redundant mobile phones and streaming services.

The survey found 38% of Britons review their direct debits and standing orders only every six months, one in 10 check them less than once a year and 2.6 million (5%) admit to never checking them. Why not make this part of your financial spring clean?

[2]Nat West, 2020

Financial education - giving your children a head start

Keeping your children occupied at home can prove challenging; it's a real strain, trying to keep them engaged and interested. With the COVID-19 outbreak causing the majority of children to be home-schooled, parents are understandably concerned about their education and development. One perfect way to help your children, a skill which isn't necessarily on the curriculum but is vital for everyday life, is financial education.

Due to limited curriculum time and financial knowledge, only 4 in 10 children and young adults currently receive financial education lessons. According to The Financial Capability Strategy, part of the Money & Pensions Service, children's attitudes to money are well-developed by the age of seven. Research confirms that children and young adults who receive a formal financial education are more likely to be money confident. They are more likely to have a bank account, understand debt, be capable of saving and generally have the skills needed to make the most of their money in the future.

Teach a life skill

This is your opportunity to put financial education on the home learning curriculum. Simple things like playing family board games together promote financial literacy; games such as 'Cashflow 101' and the ever-popular 'Monopoly', which now has junior versions, are a good starting point. As is giving your children a small amount of pocket money, which you can encourage them to save and maybe earn a small amount of interest on.

Talk to your children about how much things cost and very importantly, set a good example; your financial behaviour will lead the way. Emphasising that material goods are not what make people happy is a good lesson, as is reminding your child that some of the most valuable things in life, like spending time together, are free.

Heirs could inherit up to £1m tax-free

Inheritance Tax (IHT) has come under the spotlight over the past few years; the Office of Tax Simplification have conducted a couple of reviews on the unpopular tax, which was left untouched in the Spring Budget. The good news is that, with expert planning, you can legitimately reduce the amount of IHT payable to HM Revenue & Customs and pass on assets to your family as intended.

IHT thresholds – know your numbers

For individuals, the current IHT nil-rate threshold is £325,000, and £650,000 for a married couple or civil partners. Any unused portion of the nil-rate band can be passed to a surviving spouse or civil partner on death. Beyond these thresholds, IHT is usually payable at a rate of 40%.

Since April 2017, there has also been a main residence nil-rate band, which applies if you want to pass your main residence to a direct descendant (e.g. child or grandchild). For the 2020-21 tax year, this allowance is £175,000.

Added to the existing threshold of £325,000 this could potentially give rise to an overall IHT allowance of £500,000 for individuals, or £1m for those who are married or in civil partnerships.

It's important to note that larger estates will find that residence relief is tapered, reducing by £1 for every £2 by which the net estate's value exceeds £2m.

Take professional advice

There are a variety of ways you can reduce IHT and we can help you decide what could work best for you. If you feel that your estate is likely to be subject to IHT you should obtain in-depth professional advice that looks at all aspects of your requirements, lifestyle and goals, and develops a financial strategy that meets your needs.

“Philanthropy lies at the heart of human greatness”

The act of philanthropy can be defined as a desire to promote the welfare of others, expressed especially by the donation of money to good causes, such as charities or other deserving causes. It’s not straightforward to identify precisely what qualifies as philanthropy. You could count occasionally dropping some loose change into a collection box, in which case most of us could regard ourselves as philanthropists.

The scale of giving

To fall into the category of a true philanthropist, your scale of giving probably does need to be exceptional, such as Microsoft’s Bill and Melinda Gates, whose charitable foundation endeavours to enhance healthcare and reduce worldwide poverty. If philanthropy is measured in terms of self-sacrifice, a small monthly donation by someone of modest means could also be deemed generous.

Planning is key

For anyone hoping to embark on acts of philanthropy, they should carefully plan their acts of kindness and take advice on the effect their generosity could have on their wealth. For instance, philanthropists might be able to benefit from tax advantages (subject to current HMRC rules) such as Gift Aid on taxpayers’ donations or Inheritance Tax rate cuts, which could reduce your IHT liability from 40% to 36% if you leave at least 10% of your estate to charity.

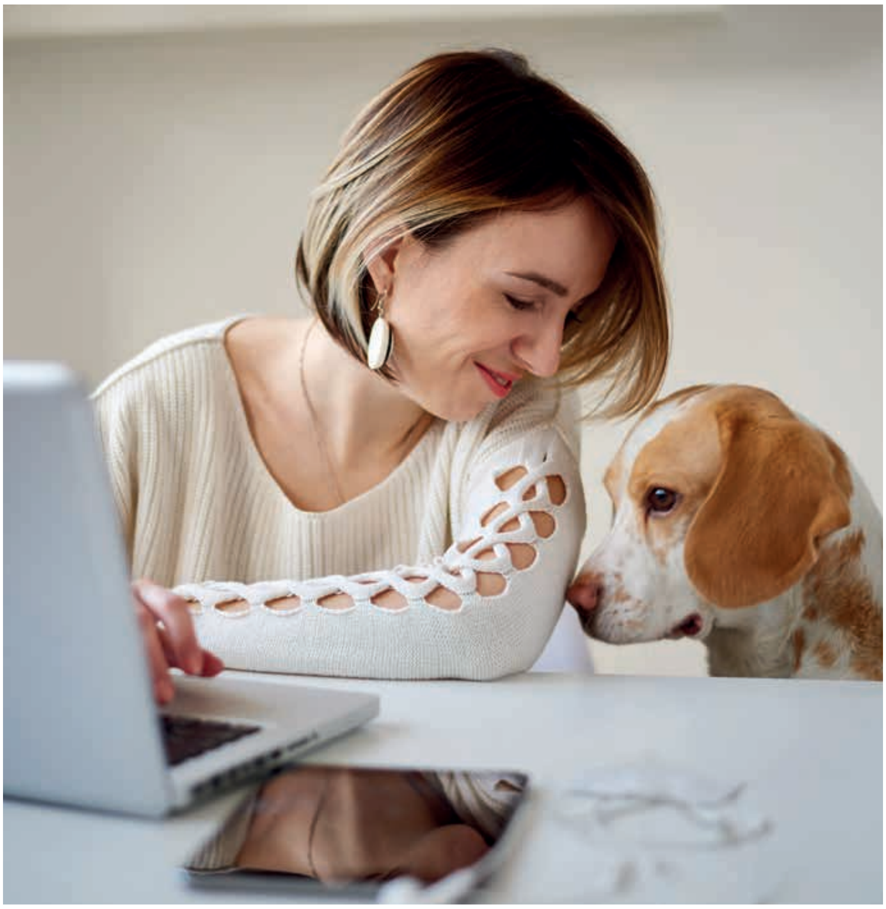
The act of philanthropy can be defined as a desire to promote the welfare of others

Doubling of Junior ISA allowance

There was welcome news for young savers in the Budget with the government announcing the JISA allowance was to be more than doubled from £4,368 to £9,000 per tax year.

JISAs replaced Child Trust Funds (CTFs) in 2011, but those who hold CTFs will still benefit from the increased allowance.

Both JISAs and CTFs are a tax efficient way to build up savings for a child. They can be opened for any child under 18 living in the UK and the money can be held in cash and/or invested in stocks and shares. The child can manage the account from age 16 and at age 18 they can withdraw the money if they want, when the account otherwise becomes a normal cash or stocks and shares ISA.



Long-term investing – lessons from history

Markets have experienced a challenging few months. Following the downturn, investors will no doubt be pondering their portfolios. Interesting research[3] explores the validity of the longstanding adage - time in the market, not timing the market. The numbers really do bear out.

In March 2000, at the height of the dot-com boom, if an investor made an investment of £1,000 in the average investment company and reinvested the dividends, the original investment would now be worth £3,665, a return of 267%. More than triple the amount invested. (Here 'investment company' includes investment trusts and other closed-ended investment companies but excludes venture capital trusts and 3i Group plc.) It's worth noting that this 20-year period includes the dot-com crash, the global financial crisis and the recent COVID-19 related market falls.

Annabel Brodie-Smith of the Association of Investment Companies commented on the findings: *"The bursting of the tech bubble and the global financial crisis saw huge falls in markets... However, investors who were able to stay invested or even invest during the downturn would have been richly rewarded over the long term. No one has a crystal ball, but these returns show the power of long-term investment and why it can often pay to have one eye on your portfolio and the other on the horizon."*

[3]AIC, 2020

Key points from the Spring Budget

On 11 March, Chancellor of the Exchequer, Rishi Sunak, presented his first Budget, revealing expansive measures to shore up the economy and help the nation through the COVID-19 outbreak.

Interest rate cut

The Bank of England started Budget Day by announcing an emergency half point reduction in its base rate, reducing it to 0.25% (on 19 March a further cut to 0.1% was announced). The Chancellor later revealed updated GDP projections which, excluding the inevitable impact of the pandemic, suggested the UK economy would grow 1.1% in 2020-21, down from the previously forecast 1.4%.

Personal taxation

Mr Sunak's main change to personal taxation was an increase in the National Insurance threshold to £9,500, which will save most workers around £100 each year. However, the Personal Allowance was frozen at £12,500, while the £50,000 higher-rate threshold also remains unchanged in parts of the UK where Income Tax is not devolved.

Pensions

Increases to State Pensions, which had already been announced, see the new single-tier State Pension rising from £168.60 to £175.20 per week and the older basic State Pension increasing from £129.20 to £134.25 per week.

Savings landscape

A major announcement for savers was a substantial increase in the JISA (Junior Individual Savings Account) allowance and Child Trust Fund annual subscription limit from £4,368 to £9,000. The ISA (Individual Savings Account) allowance, including the Lifetime ISA allowance if used, was left unchanged at £20,000.

The Great Wealth Transfer: start the conversation

Any discussions involving money can be uncomfortable and particularly so when it involves the transfer of wealth from one generation to the next. However, the next 30 years are expected to see the largest ever intergenerational passing of wealth, as Baby Boomers pass on assets to their heirs.

Baby Boomers have been the wealthiest generation in history and the so-called 'Great Wealth Transfer' is estimated[4] to be a colossal £5.5tn, so it could be a good time to start a family discussion.

A taboo subject

Financial matters remain one of the few remaining taboo subjects for many families. How can you start the conversation and avoid it being stilted or awkward? Despite the difficulties, it's vitally important for parents to involve their offspring in financial planning decisions if the wealth transfer process is to be successful.

Finding a balance

It can be challenging to find the right balance, between a desire to leave a significant inheritance, whilst ensuring your own financial wellbeing is taken care of – the unknown future cost of long-term care is one important consideration here. In addition, although helping your child financially may be important to you, you would probably not want to dampen their own work ethic.

A family discussion

Encouraging your children to become involved in financial planning discussions about family assets is a good way to boost their financial literacy and ensure they are ready when the time comes. We can help you start those conversations by including them in the family's financial planning, so introduce them to us.

[4]KC Trust, 2018

Spot and stop scams

In these uncertain times, criminals have been using the COVID-19 outbreak to scam members of the public, particularly the most vulnerable.

Action Fraud[5] revealed there had been a massive 400% increase in reporting of scams in March – the majority of which related to online shopping scams, with victims purchasing protective products (such as face masks) that failed to arrive.

Other examples involved phishing (or 'smishing'), where scammers attempt to trick victims into clicking on a malicious link in an email or text message, and lender loan fraud, whereby victims are offered access to quick cash in return for an upfront fee.

Keep safe

The government has issued specific guidance[6] reminding people to be vigilant. This can be found here www.gov.uk/government/news/be-vigilant-against-coronavirus-scams

Remember:

- Reject offers that come out of the blue
- Don't click on links from senders you don't know
- Be wary of deals that sound too good to be true
- Never give out personal details
- Take the time to make checks and seek financial guidance.

Here to help

If you are unsure about any financial opportunities, please contact us first.

[5]Action Fraud, 2020
[6]Gov.UK, 2020

Don’t suffer from decision fatigue - make time for life’s big decisions

With people leading increasingly busy lives, they can often find themselves so overcome with everyday goings-on that, when it comes to tackling difficult financial decisions, they don’t have the mental capacity to cope.

Head in the sand

Research[7] has found that people typically ‘don’t do difficult decisions’, with over four million saying they don’t have the headspace to deal with challenging issues and a further 6.4 million saying they have insufficient time to deal with crucial life admin.

Many respondents confessed to putting minimal effort into key decisions, with over half saying they put a great deal of time and effort into selecting their holiday destination, less than one in three adopt such a comprehensive approach to pension arrangements. Over half of respondents can’t decide on whether to buy critical illness cover, while just under half haven’t considered changing their pension arrangements.

Blue-sky thinking

On the plus side, making small modifications to the way you approach decision-making can dramatically improve your ability to tackle difficult decisions and make better financial choices.

Selecting a quiet, tranquil location, free from distractions can really aid decision-making. Being mindful to set aside some time when you can fully focus on the issue in hand will certainly assist, as will avoiding making decisions after a tough day. A great way to enhance your capabilities and rise above any confusing head fog is to visualise the future and to link financial decisions to life ambitions, to really connect with your long-term objectives.

Helping you every step of the way

We are always here to help you with life’s difficult financial decisions. We will guide you through the decision-making process; with our assistance you might even find that making better financial decisions isn’t challenging or time consuming. It’s a good feeling to take control of your financial future.

[7]Scottish Widows, 2019

Cashless society – a worrying prospect for many

As society fast becomes cashless, a recent review has called for extra safeguards to support the cash infrastructure in the UK[8].

A significant number of people and businesses are still reliant on cash transactions on a daily basis, and it is feared that the move towards an entirely digital future would negatively impact over eight million adults in the UK, who would struggle to cope in a cashless society.

There have been calls for Parliament to hand extra powers to regulators and introduce rules forcing banks to provide suitable access to cash for customers.

[8]Access to Cash Review, March 2020