FINANCIAL VIEWPOINT

CARL SUMMERS FINANCIAL SERVICES

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Don't lose out to inflation

Putting your hard-earned cash into savings accounts may not be the most efficient way to make your money work for you.

If you've been placing your cash into a savings account over the past decade, you might be surprised to find that your money could now be worth less now than when you first put it away. According to research from AJ Bell, if you'd put £10,000 into a cash ISA 10 years ago, it would now be worth £9,772 even when accounting for interest.

So why is this? Inflation is currently outpacing interest rates, with the latest figures showing that it reached 0.7% in January. Meanwhile, the Bank of England (BoE) base rate has stayed at 0.1% since March 2020 and doesn't look likely to rise any time soon.

The BoE base rate influences how much banks can charge people to borrow money or what they pay on savings. As a result, the current situation is bad news for savers as it reduces the spending power of their money. Yet it's good news for some borrowers – for example, those with a fixed-rate mortgage benefit from inflation as it effectively reduces their debt.

What is inflation?

Inflation is the rate at which prices for goods and services increase, affecting what you can buy for your money. The most common estimate is the Consumer Prices Index (CPI) measured by the Office for National Statistics (ONS).

It looks at the prices of thousands of things people spend money on, from cinema tickets to bikes, computers and TVs. It's important to remember that inflation is only an average rate that looks at certain products, so it affects households in different ways.

One of the BoE's key roles is to ensure that inflation stays at a target of around 2%. So if inflation falls below this level, the BoE is likely to cut interest rates to lower the cost of borrowing and encourage spending.

What's the alternative to cash?

If you'd used your whole cash ISA allowance each year and put in the maximum of £127,320 since 2011, it would now be effectively worth only £124,857, according to AJ Bell. Yet if you'd put the same amount into an average global stock market fund, it would now be worth £196,079 after accounting for inflation.

This means that if you'd started putting your money into a stocks and shares ISA at the same time, you'd be much better off than if you'd stuck with a cash ISA. Despite this, many people still hold onto their cash because of the security and convenience it offers. While it's important to have access to some cash for your short-term needs, it makes sense to invest your money when thinking about the long term so you don't lose out to inflation.

What about junior ISAs?

A junior ISA is a useful way to save or invest for a child under the age of 18. When they turns 18, the account can be converted to an adult ISA. There are two types available: a junior cash ISA or a junior stocks and shares ISA. As with an adult cash ISA, putting the money into a junior cash ISA means it may not grow as quickly as inflation. Alternatively, the returns from a junior stocks and shares ISA depend on the performance of the underlying investments.

So although investing does come with its own risks, you're likely to achieve higher returns than if you leave your money in a cash savings account. If you'd like to find out more about investing, a financial adviser can talk you through your options and help you find the most appropriate solutions for your circumstances.

An ISA is a medium to long term investment, which aims to increase the value of the money you invest for growth or income or both. The value of your investments and any income from them can fall as well as rise. The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Self-care for the self-employed

You may have heard of the concept of 'self-care' – taking time out of your day to do things that reduce stress and promote good mental health.

If you're self-employed, though, taking time out of your hectic schedule and looking after your finances is probably one of the best ways to take care of yourself. Working for yourself, while having clear advantages, also has some downsides – notably a lack of entitlement to sick pay, holiday pay or access to a workplace pension scheme.

Financial self-care

There are some things you can do to mitigate these disadvantages and protect yourself from financial blows, including:

Paying into a personal pension

Over five million Brits are now registered as self-employed, yet under a quarter (24%) of them are actively saving into a pension. With the full state pension currently just £175.20 per week, or a little over £9,100 a year, self-employed people are likely to need additional savings to live comfortably in retirement. While things may be tight because of the coronavirus pandemic, believe us – you'll thank yourself later for making those all-important contributions.

Protect your income

By which we don't just mean put it in the bank. Taking out a specialist self-employed income protection policy could act as a financial safety net if you were too sick to work or had to take time off due to an injury. These policies are designed to pay out a monthly income, on a short or long-term basis, to cover expenses such as your rent or mortgage, bills and other living costs if you are unable to work.

Take advantage of tax relief

If you're self-employed, you can deduct some of the costs of running your business from your taxable profits, reducing the overall amount of tax you pay. These are called 'allowable expenses', and include (but aren't limited to):

- Office costs, eg. stationery and equipment
- Travel expenses
- Costs of your business premises
- Stock or raw materials purchased to sell on
- Advertising or marketing

Remember to keep accounts!

It can be a little trickier to get a mortgage if you're self-employed but keeping impeccable accounts will certainly help. Lenders will want to see two to three years' accounts signed off by an accountant, so keep this in mind if you're looking to buy.

Ask the experts

If you'd like help with taking care of your finances as a self-employed worker, then we're here to help. We can help you sort an income protection policy, find a suitable mortgage deal, and advise on personal pensions.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

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Protect your peace of mind when moving home

Moving home can be a hectic and exciting time, but don't forget about protection – taking out the appropriate policies can save you a lot of stress in the long term.

If you've just moved home or are about to, it probably feels like you've been caught up in a bit of a whirlwind over the past few months. With searching for a property during a pandemic, making the move before the stamp duty holiday ends and potentially getting caught up in the resulting conveyancing backlog, protection policies are probably not top of your priority list.

Yet it's important to take the necessary precautions to ensure your new home and possessions are looked after – now more than ever. Here are some of the main types of protection you should be thinking about.

Mortgage protection

If you're unable to work due to illness or injury or because you've lost your job, mortgage payment protection will cover the cost of your mortgage each month. These policies usually last for a year or until you return to work – whichever is soonest.

You can pick how much you want your policy to pay out each month, and this can include a buffer for other expenses, such as bills. It's important to bear in mind though that providers usually set monthly limits of between £1,500 and £2,000. You won't always be able to claim straight away, and there's usually a waiting period of one or two months. The cost of mortgage protection will depend on:

- your salary;
- the size of your mortgage repayments;
- the type of policy you choose; and
- how soon you want to be covered.

Income protection

Income protection provides you with a regular income if you've lost your job or are unable to work due to illness or injury. There's usually a minimum wait of four weeks before you can start receiving payments. There are different types available:

- A short-term plan covers you for involuntary redundancy, but is usually limited to a set time period.
- A long-term plan will usually cover you until you return to work, retire, die, or the policy ends – whichever is soonest.

Buildings insurance

If you've got a mortgage, you're likely to have buildings insurance to cover the cost of repairing damage or rebuilding the structure of your home if it's damaged. But have you looked carefully through the policy and made sure that it definitely covers everything you need it to? Once you've moved, you may realise that your new home has a slightly more complex structure than you first realised, and it's important to make sure your buildings insurance takes this into account. If you're lucky enough to not have a mortgage, it's still a sensible idea to invest in this type of insurance for peace of mind.

Contents insurance

If you've bought new furniture and gadgets for your home, you might need to review your contents insurance. This type of insurance covers the cost of replacing possessions in your home if they're stolen, destroyed or damaged. It's a good idea to double check which of your items are covered so that you're not caught out if something does go wrong.

Act now

When you're caught up in the excitement of moving, thinking about protection might be the last thing on your mind. But remember that your circumstances can change quickly and it's important to make sure you're prepared now in case things don't go to plan in the future. For more information about protection and to talk about whether your current policies are right for your situation, speak to your financial adviser today.

OW3261 Exp. 19/04/2022

How has COVID-19 affected your retirement?

2.6%

the average pension fund is 2.6% lower than at the start of year

1.5 million

people over the age of 50 are planning to delay their retirement

15%

plan to delay retirement by an average of three years

26%

say they plan on working indefinitely

The coronavirus pandemic has not been kind to older generations. As well as having a greatly increased risk of serious health complications from the virus itself, older people have suffered a serious blow to their retirement plans.

Data from Legal & General shows that 1.5m people over the age of 50 are planning to delay their retirement in some way as a direct result of COVID-19. Fifteen percent say they plan to delay retirement by an average of three years, while 26% say they plan on working indefinitely.

Pension funds fall...

Pensions savers initially saw the value of their pension pots fall in response to the stock market slump, which impacted the retirement income available for those on the verge of retirement. This is the main reason why so many are planning to delay their retirement. The average pension fund fell by 15.2% in Q1 2020 – an even worse performance than that observed at the height of the global financial crisis. Despite recovering losses in Q2 2020 the average pension fund is still 2.6% lower than at the start of the year.

... but flexible withdrawals decrease

Many savers have not panicked but taken a sensible approach to the crisis, with data showing that less money was flexibly withdrawn from pensions in the second quarter of this year. Savers withdrew £2.3bn during this period, down 17% on the £2.8bn withdrawn in Q2 2019. This suggests that in the face of challenging circumstances, savers have been able to use their common sense, resist temptation and keep their retirement plans on track.

Onwards and upwards

In a press release, a group of regulatory bodies including The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) have urged consumers to keep a level head. They advise pension savers to be wary of scams and to seek professional advice before acting. TPR's chief executive, Charles Counsell, said: "Pensions remain a safe long-term investment for your retirement and it's important to avoid hasty decisions about cash that's taken a lifetime to build."

Financial advice pays

If you're worried about your retirement, we can help. As your trusted financial adviser will be able to evaluate your situation and offer guidance based on your own personal circumstances.

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The world is changing – so should your insurance

The world is changing rapidly in a way that nobody could ever have expected, meaning your personal and financial circumstances are likely to have changed. It is important to regularly review all aspects of your finances and that includes reviewing your protection insurance, to make sure your policy provides adequate cover for your changing needs.

Underinsured

If you don't regularly review and update your policy, any pay-out you do receive from your claim may not be enough to cover you and your family's needs if you were to die or if you are unable to work due to illness.

Say you took out a life insurance policy covering you for a certain amount. After several years, you may have children, resulting in a move to a larger house. If you take a larger mortgage; your monthly outgoings would increase, and you would have bigger bills to pay. Therefore, the lump sum paid out to your family upon your death would no longer be sufficient to sustain their lifestyle and might leave them facing financial hardship.

New policies offer better protection

Like any industry, the insurance industry has evolved over time. Modern policies can offer you better protection and more extensive cover.

When comparing a critical illness policy sold in 2007 with one sold in 2017, the more modern policy may have better claims wording, provision for part-payment and other advantages.

If you have simply been paying your premiums on the same policy for years, it is likely that, as well as facing the risk of being underinsured, you also won't be benefiting from the kind of comprehensive cover offered by today's policies.

Let us protect you

With so many different types of protection insurance on the market, it's not surprising that many people just stick with the cover they have. It may not be the best cover for them. We can assist you in finding the very best policies for your circumstances, so you have the peace of mind that you, and your family, will be protected should the worst happen.

Please note: Older policies may cover illnesses which modern policies do not. Premiums may be cheaper due to the age of the policy. Certain cover may be excluded on a new policy due to pre-existing conditions.

Always get professional advice when reviewing your insurance policies.

As with all insurance policies, conditions and exclusions will apply

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Unlocking the value in your home

The number of people using equity release schemes fell last year as older homeowners grew more cautious.

Older homeowners seemed to be more reluctant to release cash from their homes in 2020, according to the Equity Release Council. Data from the trade body shows drawdowns from lifetime mortgages fell by 21% last year and 10% fewer plans were agreed than in 2019.

This drop suggests the coronavirus pandemic affected the equity release market in 2020, with activity slipping to a four-year low between April and June. Yet the end of the year was a different story – a backlog of cases meant it was unusually busy, with 11,566 new equity release plans agreed between October and December.

What is equity release?

Equity release enables homeowners who are aged 55 and over to access some of the money tied up in their homes. You can take the money as a lump sum or in several smaller amounts. Many people choose this option to supplement their retirement income, make home improvements or help children or grandchildren get onto the property ladder.

The most common way to release equity from your home is through a lifetime mortgage, which allows you to take out a loan secured on your property, provided it's your main residence. You can ring-fence some of the property value as inheritance for your family and you can choose to make repayments or let the interest roll up. The mortgage amount, including any interest, is paid back when you die or move into long-term care.

Alternatively, you can take out a home reversion plan, which enables you to sell all or part of your home for a lump sum or regular payments. You can continue living there rent-free until you die, but you'll have to pay to maintain and insure it. You can ring-fence some of the property for later use. At the end of the plan, the property is sold and the proceeds are shared according to the remaining proportions of ownership.

Is equity release falling out of favour?

In 2020, £3.89 billion of equity was released from property, compared with £3.92 billion in 2019 and £3.94 billion in 2018, according to the Equity Release Council. These figures suggest people are biding their time before unlocking wealth from their homes, according to David Burrowes, the trade body's chairman.

Yet interest rates for lifetime mortgages are now falling, which could encourage people to take the next step. The average equity release interest rate fell to around 4% during the last three months of 2020, with the lowest rates now at around 2.3%. This rate is less than many of those available on 10-year fixed-rate mortgages, but higher than a lot of products with shorter fixed periods.

Is equity release right for you?

Deciding to release funds from your home isn't a decision to take lightly. While equity release means you have money to spend now instead of leaving it tied up in your property, it can be a complicated process. Remember that equity release often doesn't pay you the full market value for your home and it will also reduce the amount of inheritance your loved ones could receive. It's important to talk to a financial adviser who can help you decide whether the process is appropriate for you.

A Lifetime mortgage is a loan secured against your home. A Lifetime mortgage may affect your entitlement to state benefits, and it will reduce the value of your estate.

‘No matter how long the winter, spring is sure to follow’

As we entered the new year with further lockdowns and history making world events, the hope of spring hangs in the air, an enticing prospect, this year, more than ever. While we’re waiting for the green shoots of spring to emerge, why not use the time effectively by getting your finances in order before the end of the tax year?

The tax year ends on 5 April 2021, which is Easter Monday this year, so don’t wait until the last minute to double-check you’ve taken advantage of all the tax-efficient allowances available to you. To avoid a last-minute Easter rush, we’re on hand to get you organised with all aspects of your end of tax year planning. Here’s a reminder of some of your main tax planning opportunities:

Pensions

— The current Annual Allowance is £40,000 (for every £2 of adjusted income over £240,000, an individual’s Annual Allowance is reduced by £1. The minimum Annual Allowance is £4,000

— The Lifetime Allowance places a limit on the amount you can hold across all your pension funds without having to pay extra tax when you withdraw money. The limit is currently £1,073,100

Tax efficient investments

— Individual Savings Accounts (ISAs) – maximum annual contribution of £20,000 per adult (stocks and shares, and cash options available, maximum allowance not to be exceeded)

— Junior Individual Savings Allowances (JISAs) – maximum annual contribution of £9,000 per child (stocks and shares, and cash options available, maximum allowance not to be exceeded)

— Enterprise Investment Schemes (EISs) – maximum investment of £2,000,000, relief on investments in certain unquoted trading companies, up to £1m per annum (or £2m as long as at least £1m of this is invested in knowledge intensive companies)

— Venture Capital Trusts (VCTs) – maximum annual investment of £200,000, relief on investment in certain qualifying companies

Making Inheritance Tax-free gifts

— Each financial year you can make gifts of up to £3,000 (in total, not per recipient) and if you don’t use this in one tax year, you can carry over any leftover allowance to the next year (some other exempted/ small gifts allowable)

— To reduce the amount of IHT payable, many families consider giving their assets away during their lifetime. These are called ‘potentially exempt transfers.’ For these gifts not to be counted as part of your estate on death, you must outlive the gift by seven years

— If you have enough income to maintain your usual standard of living, you can make gifts from your surplus income. Advice is essential as strict criteria apply

Using Capital Gains Tax allowances

— Annual exemption of £12,300 per person, £6,150 for trusts – currently under review, correct at time of publication.

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.

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Past performance is not a reliable indicator of future performance and should not be relied upon.

Due to the high-risk nature of these products (EISs and VCTs) they will not be suitable for everyone.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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