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Money & Wealth

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Inside this issue:

Don't let the pandemic derail your retirement plans

Young people impacted by pension holidays

Protect your family's financial future

Portfolio ponderings – keep one eye on the horizon

Contents

04 Safety net for savers

04 Sound too good to be true?

05 Numbers worth knowing in 2020–21

05 Timing pays off for the early bird ISA investor

06 Young people impacted by pension holidays

06 Don't let the pandemic derail your retirement plans

07 Lessons from the past on spreading risk

07 Taxed pension withdrawals

08 Global economy – on the ropes

09 Think twice before cancelling protection insurance

09 In other news

10 Protect your family's financial future

11 Portfolio ponderings – keep one eye on the horizon

12 Protecting your pensions and investments

12 Think before you act – pensions withdrawals

12 Rest assured – you can rely on us

Back to basics financial planning

Throughout the lockdown, one notable theme has been people looking to find enjoyment in the simpler things in life, such as home baking, gardening and crafts. The 'back to basics' theme has also become important for our personal finances.

Lessons from lockdown

Many people have seen their finances hit by the economic impact of the pandemic and may be trying to cope with less income, but the same outgoings. This has forced many consumers to review their financial habits by reducing expenses and becoming more mindful about expenditure.

Dealing with debt

Good budgeting skills have become a necessity, but it's also important not to ignore debt. Mortgage repayment holidays and other debt payment breaks have helped in the short term, but these will not last forever. Going forward, it's important to keep up with repayments or, if you are struggling, consult a debt adviser. When it comes to persistent debt, the worst thing to do is to do nothing.

Financially fragile

In an ideal world, every household would have had a financial buffer to cushion the blow when the COVID-19 crisis hit. Sadly, for

some people, the pandemic has highlighted the fragile nature of their financial safety net. Over the last few decades, the burden of responsibility has increasingly shifted from state to individual, which has highlighted the importance of protection insurance in maintaining both your own and your family's financial security in uncertain times.

Rainy day funds

The pandemic has also highlighted the need for emergency savings. If you don't have savings, regular schemes often pay more attractive rates of interest and can be a particularly good way to accumulate rainy day funds. If you do have savings, make sure you shop around for the best available rates rather than leaving funds stagnating in low interest accounts.

Plan for the long term

Although it's extremely easy to focus solely on short-term financial needs, it's also important not to lose sight of other long-term financial goals. While finding money to fund longer-term plans such as retirement savings can be difficult, the cost of delay can ultimately prove even more expensive.

Helping you build financial resilience

The last few months have shown that we never really know what's around the corner and have also demonstrated the importance of being financially prepared for unexpected events in the future. If you need assistance strengthening your financial resilience, please get in touch.

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In the news...

Dividend drought takes hold

With 45% of UK companies cutting dividends this year and more expected to follow, the economic shock from the pandemic has provided a setback to income investors. The Treasury has also announced that any companies borrowing over £50m through the Coronavirus Large Business Interruption Loan Scheme would be subject to restrictions, including a ban on dividend payments to shareholders (except where they were previously agreed). Research suggests over £52bn in company dividends are at risk in the UK this year[1], the biggest impacted sector being banks. Defensive dividends are more likely to be safe, such as healthcare, food retail, basic consumer goods, and drink and tobacco.

Almost £20bn in unclaimed pension pots

Estimates from the government suggest that there will be as many as 50 million dormant and lost pensions by 2050. Research[2] highlights that only one in 25 people consider telling their pension provider their new address when they move home; as a result, 1.6 million pension pots totalling £19.4bn – the equivalent of nearly £13,000 per pension pot – have gone unclaimed. A massive £1bn in pension assets were reunited with their owners in 2017.

[1]Link Assets, 2020
[2]ABI, 2020

Safety net for savers

The number of people enquiring about and opening savings accounts surged in the spring, as they sought to secure a safe home for their money and to lock into favourable rates before interest rate cuts fed through to savings rates.

The good news is that the Financial Services Compensation Scheme (FSCS) can provide a safeguard adding a valuable level of reassurance for UK savers. For any money you hold in an account with a UK-authorised bank, building society or credit union that fails, the FSCS will compensate you:

- up to **£85,000** per eligible person, per bank, building society or credit union
- up to **£170,000** for joint accounts.

Finer detail

The FSCS will automatically cover you; you do not need to take any action. You need to be on top of your cash balances because the cover applies to the total sum of money held, and because some banks share a banking licence, this will affect how much of your money is protected. So, if you hold over £85,000 / £170,000, it needs to be spread across different banks that don't share a licence to benefit from the protection. If you hold multiple accounts with banks that share the same banking licence, anything you hold over £85,000 / £170,000 in aggregate will not be protected. Keep on top of your cash balances with our help.

Sound too good to be true?

Now, more than ever, you need to stay on your toes and be extra vigilant as an increasing number of fraudsters descend to take advantage of the situation. UK fraud prevention groups are warning individuals to take heed, following a massive increase in the number of scams seeking to exploit the pandemic.

To equip yourself to stay ScamSmart; check the FCA website www.fca.org.uk/scamsmart.

In March, Action Fraud[3] revealed there was a colossal 400% increase in reporting of scams. You may think it will never happen to you, but as these scams increase in sophistication, we are all vulnerable and it becomes harder than ever to distinguish them from the real thing, so remember:

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

Help is at hand

Please contact us if you are unsure about any financial opportunities.

[3]Action Fraud, 2020

Numbers worth knowing in 2020–21

Knowing the various tax allowances and exemptions available in 2020–21 can help you maximise their use for your own individual financial planning. These are some of the numbers worth knowing:

Personal Taxation

The National Insurance threshold is now **£9,500**. The Personal Allowance has remained at **£12,500**, while the **£50,000** higher-rate threshold remains unchanged in parts of the UK where Income Tax is not devolved.

Inheritance Tax (IHT)

The current IHT nil-rate threshold is **£325,000** for individuals and **£650,000** for a married couple or civil partners. IHT is usually payable at a rate of 40% beyond these thresholds. The main residence nil-rate band, which applies if you want to pass your main residence to a direct descendant, has increased to **£175,000** per individual.

Pensions

A major attraction of paying into a pension is the tax relief available. This is 20% for basic rate taxpayers, 40% for higher rate and 45% for additional rate taxpayers.

The Annual Allowance for pensions has remained at **£40,000**. For those with an income above **£240,000** (£200,000 threshold income plus the £40,000 you can save into a pension) the Annual Allowance begins to taper; for every £2 of adjusted income above £240,000, the Annual Allowance for that year reduces by £1. The minimum Annual Allowance has reduced from £10,000 to **£4,000**.

The Lifetime Allowance – the maximum amount you can have in a pension over a lifetime – has increased to **£1,073,100**.

From 6 April, the new single-tier State Pension increased to **£175.20** per week and the older basic State Pension rose to **£134.25** per week.

Individual savings accounts (ISAs)

The ISA allowance, including the Lifetime ISA allowance if used, remains unchanged at **£20,000**. The annual amount you can save into a JISA (Junior Individual Savings Account) or Child Trust Fund has increased substantially, from £4,368 to **£9,000**. ISAs represent a tax-efficient way of saving or investing and the JISA is a great way of building up funds for your child.

Planning pays

The choice of tax-efficient products plays an important part in successful saving and investing, but it should not be the sole driver of your savings or investment decisions or steer you away from achieving your core goals. Our advice will consider the sensible steps you can take to reduce the amount of tax you pay, safeguarding your wealth in the future.

Timing pays off for the early bird ISA investor

Investors could be thousands of pounds better off by investing their full ISA allowance at the start of the tax year, compared to a last-minute ISA investor or even one who drip feeds money each month, according to research[4] which examined the investing habits of hypothetical ISA investors over the last 10 and 20 years.

The study concludes that if you were an 'Early Shirley' and invested your full allowance on 6 April for the past 20 tax years, you would be nearly £12,000 better off now than 'Last Minute Lara' – someone who had waited to invest on the last day of each tax year.

For those unable to afford the full ISA investment in one lump sum, consider investing like 'Monthly Monty', who uses a monthly savings plan to drip-feed money into an ISA. This approach is also likely to achieve better returns than investing it all at the last minute. The research figures show that by splitting your annual ISA allowance into 12 monthly investments, your investment would have grown to £296,247 over 20 years, which is still £7,496 more than if you had waited until the last minute.

[4]Fidelity International, April 2020
(Total Return in GBP of FTSE All Share)

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Don't let the pandemic derail your retirement plans

The pandemic is having a far-reaching impact on all aspects of our lives, not least our finances. Although stock market volatility has posed challenges, you must not allow the outbreak to send your retirement plans off track.

Resilience saves the day

The need to develop a resilient retirement plan has been vividly highlighted in recent weeks. Although market turbulence will impact all pension holders, those with a carefully-considered, clearly-defined plan will inevitably be in considerably better shape to navigate any market volatility ahead. On the approach to retirement, a larger proportion of a pension fund will be 'lifestyled'. This means it transfers to less risky assets, like cash, gilts or bonds, thereby tempering the overall level of investment risk.

In it for the long haul

Making decisions based on short-term economic disruption is exceptionally risky. Usually the optimum strategy is to be patient, resist the urge to sell and maintain a longterm investing philosophy. Pension savings are intended for the long term. For younger investors, there's plenty of time for markets to recover and pensions to achieve growth aspirations before retirement income is required. Those closer to retirement need to take stock of their full complement of retirement resources before making any decisions. This will involve reviewing your pensions, savings and investments; in addition, we can quantify your level of income and determine whether this has been impacted by recently-cut dividends or reduced savings rates.

Optimum work-life balance

Due to increasing longevity, a greater proportion of the population now withdraw more gradually from work as retirees strive to achieve a work-life balance that accommodates their needs. This staggered approach to retirement provides greater flexibility, as part-time work enables many pensioners to preserve retirement funds into later life. Even prior to the pandemic, this was an increasingly popular choice.

Advice increasingly essential

It's not surprising, given the recent level of uncertainty, that the demand for professional financial advice has increased sharply. It has never been more important to obtain sound advice to ensure your retirement plans remain firmly on track. If you are concerned about the impact of the pandemic on your plans, we will help you weigh up all your options and make a balanced assessment of risks tailored specifically to your individual needs.

A pension is a long term investment, the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

Young people impacted by pension holidays

Taking a break from pension contributions has been shown to have more of an effect at younger ages than for those who are closer to retirement because savings made earlier in life benefit from a longer time in which to grow.

Research shows that if a 25-year-old, on an average salary, took a three-year break from pension contributions, they would miss out by £800 a year in retirement (assuming retirement at age 65) equating to around 10% of their monthly private pension income.

Under the same circumstances, a 55-year-old would only lose around £400 a year on retiring at age 65.

Young women are more likely to take a pension holiday, with figures showing that 10.5% of women aged 22–29 have opted out of their workplace pension, compared to 8.1% of men in the same age group[5]. Women in their 20's and 30's are more likely to be faced with challenges such as starting a family, working part-time, or managing the cost of childcare, all of which can make retirement planning seem less of a priority.

[5]Royal London, 2019

Lessons from the past on spreading risk

Five decades ago, a little-known company was dominating the headlines as the price of its shares propelled northwards, before plummeting back to earth a couple of months later. Mining company Poseidon announced the discovery of new nickel ore reserves in Western Australia just as world nickel prices hit a new high.

Poseidon and polly peck – the rise and fall

In the second half of 1969, Poseidon shares had been trading at A$0.80, when all of a sudden, the price climbed week on week as investors pounced. In February 1970, the shares reached A$280.00, before profit-taking ensued and the share price plunged. After nickel prices tailed off, Poseidon nickel ore was regarded low quality and receivership followed in 1974. Twenty years later and a little-known fashion house, Polly Peck, suffered a similar fate. Acquired by new owners in 1980, a number of deals brought such growth that the company's shares entered the FTSE 100, but ten years later, in 1990, Polly Peck shares were suspended amid fraud allegations.

Tough lessons learnt – diversify your portfolio

With many investors in Polly Peck and Poseidon suffering losses, a painful lesson was learnt about the concentration of risk. As a general principle, investment in individual equities or shares should be spread around, so that if one share price falls heavily it only affects a proportion of your overall portfolio.

For many investors, a good way to achieve a spread of risk is through collective investment schemes with risk profiles aligned to their specific requirements. Taking your objectives and needs into consideration, we can advise on the investment strategies and products most appropriate for you.

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Taxed pension withdrawals

Since pension freedoms were introduced in April 2015, people over the age of 55 have been able to cash in their entire pension as an alternative to taking it in regular instalments. Research[6] has revealed that one in five over-55s withdrew taxed lump sums from private pensions during 2019. The top three priorities for the money were saving, putting it into the bank or making home improvements.

Consider tax implications

At first glance, the research appears to indicate sensible financial planning reasons for pension withdrawals, rather than frivolous spending. However, in reality, there is little financial sense in shifting a taxed lump sum from a tax-efficient pension simply to place the proceeds on deposit. This is partly due to potential tax bills on withdrawals, but also relates to inheritance rules around pensions, which mean most people would be better off leaving money in a pension until they need the cash for income or specific spending requirements.

Professional advice

Taking professional advice before making any pension-related decisions is vitally important, particularly in the current economic climate. So, if you are considering accessing your pension soon, get in touch – we will help you make the best decision.

[6]Canada Life, 2020

Global economy – on the ropes

The response to the pandemic, involving governments imposing a range of lockdown measures, will inevitably have an enormous impact on economic activity around the globe.

On home shores, early data for the first quarter provides an indication of the economic damage, showing GDP fell by 2% in the UK, with the economy shrinking by 5.8% in March alone. An even larger decline was registered in the 19-country Eurozone, with output across the bloc dropping 3.8% in Q1. Italy and France plummeted into recession, with quarterly contractions of 5.8% and 4.7% respectively. In addition, the German economy also tipped into recession with GDP down 2.2% in Q1.

US and China economies contract and hostilities intensify

Preliminary estimates on the US economy suggest the record streak of expansion experienced since 2014 had ended, with a contraction of 4.8% in the first quarter. Meanwhile, the world's second-largest economy, China, shrank at an annualised rate of 6.8% during Q1. The Chinese authorities have abandoned setting a growth target, acknowledging the challenges facing its economy amid heightened international disquiet due to the fallout from the pandemic.

What does the future hold?

Ongoing uncertainty surrounding the virus and the likelihood of developing a successful vaccine, make it challenging to predict the future path of the global economy. A recent assessment from the International Monetary Fund (IMF), suggests we are facing the steepest economic downturn since the Great Depression. While the IMF has emphasised its predictions are marked by '*a higher-than-usual degree of uncertainty*', it is forecasting a rebound in 2021, with the global economy expected to grow at a rate of 5.4% as activity normalises. They have stressed though, that if a second global wave did occur, that could effectively keep the world in recession for a second consecutive year.

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Think twice before cancelling protection insurance

The pandemic has shown us that unexpected events can strike at any time and highlights the need for protection insurance to keep us afloat during times of financial hardship.

A YouGov[7] survey about the pandemic revealed that nearly a third (32%) of Britons fear for their future. Payouts from life insurance, critical illness and income protection can help lessen the financial impact of unexpected events. Data from the Association of British Insurers shows that a record amount of over £5.7bn was paid out in protection claims in 2019, showing that more and more people are relying on this type of cover for support in difficult times.

If you are reviewing your finances to try and reduce outgoings, critical illness and income protection should certainly not be on the list of expenditure to cut, as such policies can be a lifeline if you were to lose your job or become ill for an extended period.

We are here to help with any questions you have about existing protection policies or if you are considering new ones. We will help ensure your protection needs are covered.

[7]YouGov, 2020

In other news

Contactless payments – the 'new normal'

The shift to contactless payments has accelerated in recent years and even more so during the pandemic, helped by an increase in the contactless limit from £30 to £45 on 1 April. Research[8] conducted between 10-12 April has revealed that two thirds (66%) of card transactions in the UK were contactless and almost half (45%) of UK adults admit their use of cash has decreased throughout the pandemic; 76% of respondents say they will continue using contactless payments after the crisis.

£20 sells for £7.5k

A new polymer £20 note has changed hands for £7,500 after going under the hammer at a secret auction. Listed with a guide price of between £3,000 and £4,000, the note sold for 375 times its face value, with the proceeds going to charity. The plastic £20, featuring artist JMW Turner, had a serial number of AA01 000010 and is likely to be the lowest numbered note in circulation. Whenever a new note enters circulation, the Queen is gifted the first one, which contains the AA01 000001 serial number.

Changes to LISA withdrawal rules

Temporary changes to the Lifetime ISA (LISA) withdrawal rules have been announced to help people who want to access their funds earlier than planned. You can use a LISA to save up to £4,000 a year towards your first home or retirement and the government adds a 25% cash bonus of up to £1,000 a year on top. Previously, if you made a withdrawal and you weren't aged 60 or over, a charge of 25% was applied to the amount withdrawn. The withdrawal charge has been reduced to 20% between 6 March 2020 and 5 April 2021.

[8]Mastercard, 2020

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Protect your family's financial future

Taking the time to properly plan your estate involves balancing the goals of ensuring you have sufficient funds to live on, as well as organising your finances so your assets are protected for your loved ones when you are not around anymore.

Obtaining a comprehensive view of your assets is a good place to start; this will enable you to properly value your estate, whilst checking you have the right documentation in place.

Dot the i's and cross the t's

Detailing your wishes about how you want your estate managed upon your death, once you've valued your estate, will ensure that when the person looking after your estate applies for probate, they will know exactly what your wishes were. Having a valid Will in place and setting up trusts to manage money or other assets on behalf of beneficiaries are vital components of successful estate planning. Different trusts provide an alternative to direct inheritance or transfer of certain parts of an estate, giving you control over who receives what and when. Lasting Powers of Attorney (LPA), covering 'property and financial affairs' and 'health and welfare' are worth establishing sooner rather than later.

Reducing your IHT liability

With careful planning, the amount of Inheritance Tax (IHT) payable on your death can be reduced, enabling assets to pass to your family or other beneficiaries as intended. The current IHT nil-rate threshold is £325,000 for individuals 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%.

A main residence nil-rate band applies if you want to pass your main residence to a direct descendant; certain forms of trust may mean disqualification, so take expert advice. This allowance is currently £175,000; when added to the existing threshold of £325,000 this could give rise to an overall IHT allowance of £500,000 for individuals, or £1m for those who are married or in civil partnerships. Larger estates will find that residence relief is tapered, reducing by £1 for every £2 by which the net estate's value exceeds £2m.

A relatively straightforward way of passing money on during your lifetime, is gifting from surplus income. Conditions apply, and advice would be needed to ensure that the gifts are made in the right way.

Advice you can trust

To ensure your money ends up with the people you want, for the reasons you choose — we can help, so you pass on assets in the most effective, tax-efficient way.

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Portfolio ponderings – keep one eye on the horizon

As economic challenges endure, it's good to maintain the mindset with your investments, it's 'time in the market, not timing the market' that really matters. Research[9] has explored the concept and the numbers make some compelling reading.

In the midst of the dot-com boom (March 2000), if someone invested £1,000 in the average investment company* and reinvested the dividends, the original investment would have been worth £3,665 as at 6 April 2020, a 267% return. The 20-year period includes the dot-com crash, the global financial crisis and COVID-19 related market falls.

The Association of Investment Companies' Annabel Brodie-Smith reflected on these 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.*"

[9]AIC, April 2020

*'Investment company' includes investment trusts and other closed-ended investment companies but excludes venture capital trusts and 3i Group plc

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Protecting your pensions and investments

Stock markets do not react well in times of uncertainty and the pandemic has piled pressure on financial markets worldwide.

During periods of increased volatility, the importance of portfolio diversification, as a means of guarding against market turbulence, remains a constant investment principle.

It is advisable to revisit your investment objectives, review your long-term financial goals and reassess your attitude to risk, to ensure your current investment strategy provides sufficient protection from market volatility. Holding a diverse portfolio with a mix of investments suited to your particular risk appetite is key.

Diversification benefits

A balanced portfolio contains a combination of different asset classes, such as equities, bonds, property and cash. Each asset class has a different degree of risk; while equities have the potential to deliver higher returns than bonds, the latter can provide an element of capital preservation for times when you require a more risk-averse approach. Adopting portfolio diversification means you do not put all your eggs in one basket.

Avoid over-diversification

While building diversity into an investment portfolio is undoubtedly important, try to guard against over-diversification. If you hold too many assets, you run the risk of spreading your money too thinly and this could have a detrimental impact on potential returns.

Volatility will happen

The pandemic has rattled markets, but stock market volatility is normal and markets often rebound quickly once immediate issues are resolved. If you are investing for the long term, try to look beyond the short-term volatility. At the moment, it may be best policy to sit tight, but you should discuss your own specific circumstances with your adviser before taking any action.

Rest assured – you can rely on us

Many people's lives and circumstances have shifted exceptionally over the past few months. The virus has presented concerns on so many levels – health, security and financial.

Quality advice

We want to reassure you that we understand the challenges you may face and we're here to support you. If you are worried about any aspect of your finances, you can rely on our experience and knowledge; rest assured, through open and honest communication, we can guide you through any challenges.

Think before you act - pension withdrawals

In the first quarter of the year, nearly £2.5bn was withdrawn from pensions. This represents a 19% increase on Q1 2019 withdrawals and the highest recorded Q1 of any year since pensions freedoms began[10].

The total value of flexible withdrawals from pensions, since flexibility changes in 2015, has now exceeded £35bn.

Take your time to make the right decision

With pensions designed to provide you with an income throughout your retirement, it is sensible to consider all your options before making any decisions. You will have less to live on in the future if you take out more money than you need or start to withdraw funds sooner.

[10]HMRC, Apr 2020

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It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor. Some rules may vary in different parts of the UK. 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. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency. No part of this document may be reproduced in any manner without prior permission. Written and supplied by The Outsourced Marketing Department. Nexus IFA Ltd (Reg. in England No. 07542873) is an Appointed Representative of The Whitechurch Network Limited which is authorised and regulated by the Financial Conduct Authority.