HOWARD
WEALTH MANAGEMENT

Fareham Innovation Centre,
Merlin House, 4 Meteor Way,
Lee-On-The-Solent, Hampshire PO13 9FU

T 02393 877630
E info@howardwealth.com
W www.howardwealth.com

Your Wealth

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Warm outside? Don't forget about the LTA freeze

Summer, freedom and (hopefully) sunshine are all well on the way, but not planning for the Lifetime Allowance (LTA) freeze could cast a cloud over your finances.

For the next five years (until April 2026), the pension LTA will be held at its current level of **£1,073,100**. This means that the amount you can hold in your pension without incurring tax for withdrawals will remain static, even in the face of inflation. As a result, pension savers will likely need to consider other saving options over the next few years in order to avoid a 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. As people continue to build up their pensions, the number approaching the LTA will increase as a result of the 'big freeze'; so, you might wish to consider the various other options available to supplement your retirement savings.

The solution that suits you will be wholly dependent on your personal situation and circumstances. Consideration and planning are therefore important before you select the option that is right for you, particularly in light of the complexity of calculations around pensions and the LTA.

A summer of hope and optimism

As lockdown restrictions gradually ease, the public mood appears to be shifting, with a more positive atmosphere returning this summer.

This is unsurprising, as there is much to be positive about in the weeks and months to come. Crowds are set to return to theatres and music venues, the Chelsea Flower Show will be going ahead, and sports fans are excited to be returning to events and fixtures.

A faster than expected recovery

This renewed sense of optimism also extends to the economy, with data for H1 2021 demonstrating a stronger economic performance than previously anticipated. Due to this, it is looking likely that major economies across the globe are on track to return to near pre-pandemic conditions before 2021 is over.

Global economic growth projections strengthened

This improved outlook has caused many internationally renowned forecasting agencies to strengthen their projections for worldwide growth over the past few months. The latest *World Economic Situation and Prospects Report* published by the UN, for instance, bumped its annual growth forecast up to 5.4% – a significantly higher figure than its previous estimate of 4.7% in January. For the most part, this positivity is reflective of the speedy rollout of vaccination programmes in economies such as the US and China, in addition to increased global trade.

Uneven prospects

However, a vaccine-driven recovery is creating inequalities, with a lack of vaccine availability in some countries threatening a broader global recovery. The UN warned that *'the economic outlook for the countries in South Asia, sub-Saharan Africa and Latin America and the Caribbean remains fragile and uncertain.'*

The future's bright

While the future is looking much brighter as we advance further into 2021, the UN forecast (and subsequent warnings) highlight the continued impact of the pandemic on economic prospects. That is why taking professional advice continues to be vital to investment success. We can help you take full advantage of any investment opportunities that arise.

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Has COVID changed our investment behaviour?

The mantra of '*Keep Calm and Carry On*' is likely to have been a well-versed phrase for investors over the past year or so, as the pandemic profoundly impacted the investment landscape. The global impact of the virus has been the catalyst for a seismic shift in public behaviour. Investors should consider the implications of these changes when evaluating prospective investment opportunities.

Social and economic changes

While the pandemic's impact was unprecedented in many ways, what it has done is to accelerate socioeconomic trends that were already bubbling away beneath the surface. Pointing to the labour market as an obvious example, with previously present, but rather sidelined, flexible and remote working practices rapidly becoming the norm over the past year.

Digital development

The internet has long been part of our lives, but the pandemic has accentuated the importance of digital literacy. Businesses that went into the pandemic with an established online presence and offering, did better than their less-digitally adapted peers, with web presence becoming vital for retailers as e-commerce took centre stage. It has caused typically 'tech-averse' groups to make the shift to digital, as older groups most at risk from the virus began shopping online.

ESG under the spotlight

ESG (Environmental, Social and Governance) investment has been around for many years, but the pandemic has sent it mainstream as consumers became more aware of the importance of supporting companies with a vested interest in corporate governance and sustainability issues. Over the past year, what businesses are doing to support 'wellbeing', and how they treat their employees and suppliers, have come into the spotlight like never before, driving a new commitment to ESG issues. Sustainability and governance issues have been propelled up the corporate agenda.

Dividends making a slow recovery

It has been a rocky year for dividends, with data showing that investors lost almost £45bn in dividends between Q2 2020 and Q1 2021. Many will therefore be relieved to hear that, while dividends are still falling, they did so in Q1 2021 at the slowest rate recorded since the onset of the pandemic. This is according to the latest UK Dividend Monitor[1], which also revealed that half of UK companies restarted, increased or maintained their dividends in Q1, against a third in Q4 last year. Looking ahead, underlying dividends are predicted to increase by 5.6% year-on-year to £66.4bn, and banking dividends are making a slow return with *'positive signs from miners, insurance, and media companies.'* Ian Stokes, Managing Director of Corporate Markets EMEA (part of Link Group), stated, *"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."*

[1]Link Group, 2021

More consumers in control of their pensions

Multiple pension pots are now the norm, with 73% of people having more than one, according to a recent survey[2]. As a result, losing track of pension pots has been a common occurrence. Positively though, it is happening less, with the number of people who have lost track of their pension standing at 17% today against 21% in 2016. However, this still leaves around 6.4 million people who seem to have misplaced retirement savings! Commonly cited reasons include lost paperwork, failing to inform a pension provider about a change of address, or the takeover/rebranding of the pension company. Less than half of people (48%) know they can use the DWP's Pension Tracing Service, while 42% are aware they can contact a previous employer.

[2]Aegon, 2021

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Pension savers enticed by 'risky' investments

At a time where it is becoming harder to save up adequate sums for retirement, a new study shows that the UK's low interest rate environment is causing retirees to turn to riskier pension and investment products which could potentially lose them a significant sum.

Risky business
A poll from the Financial Services Compensation Scheme (FSCS), shows that one in five people aged between 55 and 75 have been tempted to invest in riskier products than those they would ordinarily be comfortable with, lured by a higher rate of return. And, surprisingly, less than one in eight had taken financial advice to explore alternative options for making the most of their cash.

***"Life-changing"* losses**
This has resulted in a rising number of people seeking compensation under the FSCS arrangements, said Chief Executive Caroline Rainbird. She continued, *"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."*

Professional advice is key
The FSCS survey is yet another example of research vividly highlighting the importance of seeking professional financial advice before investing in little-known products. Advice helps investors explore and understand the risks before taking the plunge and putting their hard-earned money at risk. Whether you're approaching retirement or have already retired, we can assist you in maximising your savings whilst minimising the risk.

Thinking of privately educating your child?

Private school fees have once again increased this year, with an average termly fee of £12,000 (£36,000 per year) for boarding schools and £5,064 (£15,191 per year) for day pupils[3].

A lifetime endeavour
As data from the Independent Schools Council shows, sending your child to private school is a significant financial commitment – for many families, it could be their biggest expense after their homes. So, having a saving mindset from day one (contributing regularly to savings accounts and encouraging family members to do the same, for example), or even building up an investment portfolio for those with longer to save, could soon help those funds build up. Investments have the potential – although this is not guaranteed – to outstrip the returns you'll get from savings accounts.

Getting tax-efficient
Using up those tax-free exemptions and allowances (for example the £20,000 ISA allowance), enables parents to save or invest without paying tax on their interest or returns; they can also make withdrawals without incurring tax. Grandparents can also lower their Inheritance Tax (IHT) liability through lifetime gifts – and see the benefits their money is having while they're still around.

Other money-raising methods
Other ways of funding your child's education include borrowing (either via a personal loan or remortgaging your property) and withdrawing your 25% tax-free lump sum from your pension if you are over the age of 55. Remember that your own financial security is also important, so make sure you still have enough to fund your retirement.

When you are making a significant and long-term financial commitment, it really is advisable to consult a professional, who can help you achieve your savings goals without compromising your own financial future – so please do get in touch.

[3]ISC, 2021

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Probate delayed by 'hidden assets'

Probate software specialist Exizent has published its first Bereavement Index[4], with some interesting findings. It shows that many people fail to organise their finances before death, leading to stress and anxiety for those left dealing with a '*financial mess*'.

According to the research, one in seven (14%) of those tasked with administering the estate of someone who has died, begin the process without full knowledge of all the deceased's accounts and assets. In fact, so many people die without leaving behind sufficient financial information, that 37% of accounts only come to light during probate.

Secret accounts

No wonder, then, that nearly 90% of those who have recently lost a loved one found the probate process '*stressful*' – or '*extremely stressful*' for one in six correspondents. Secret or hidden accounts were associated with higher stress, with respondents in this situation twice as likely to be '*extremely*' stressed, while for 40%, probate had mental health implications.

Get organised

Not only will organising your financial affairs and keeping an up-to-date Will ensure your wishes are carried out when you die; it will also save your loved ones a great deal of time and stress. For guidance on getting your finances in order, speak with us.

[4]Exizent, 2021

Is IHT change on the cards?

It's been three years since then-Chancellor Philip Hammond asked the Office of Tax Simplification to look into potential amendments to the Inheritance Tax (IHT) regime[5]. Since then, no changes have been made to the tax incurred when wealth passes onto the next generation; could Rishi Sunak be the one to take up the mantle once more?[6]

A significant, pandemic-shaped deficit means that some unwelcome tax hikes could be on the cards. And IHT is a logical target for some economists, who see this tax as a way of generating income for the Treasury with little economic impact, as well as driving social mobility.

This was the conclusion of research from the Institute for Fiscal Studies (IFS) entitled *Inheritance and inequality over the life cycle: what will they mean for younger generations?* The paper found that inheritances have comprised an increasing proportion of national income over the past 50 years – something that could influence policymakers' decisions around the taxation of wealth transfer.

Inheritance inequality

According to the IFS, those born in the 1980s can expect inheritances worth an average 16% of their lifetime income – against just 9% for those born 20 years earlier. This trend is likely to lead to rising levels of wealth inequality between rich and poor families. Arguably, a stricter IHT regime could help lessen the impact.

Younger generations' fortunes largely depend on how wealthy their parents are, with the 1960s and 1980s generations whose parents occupy the top fifth of the wealth scale expecting a lifetime boost of 17% and 29% from their inheritances, respectively. By contrast, the boost is just 2% and 5% respectively for those whose parents are on the lowest rung.

This means that not only are there differences by age, with the younger group benefiting more, but also by differences in parental wealth, which delivers a significant benefit. However, with 'levelling-up' an unequal UK, high on our cash-strapped government's agenda, IHT is a likely candidate for reforms – and that could hit wealthier families hard. It's best to prepare for a range of scenarios and take professional advice for the best financial strategy.

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

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

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