DIRECT FINANCIAL SOLUTIONS

PERSONAL AND CORPORATE FINANCIAL PLANNING

Quality Financial Solutions You Can Trust

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Your Window on

Wealth

SPRING 2020

In the current climate, there is uncertainty in all of our lives with both health and financial concerns. However, while we are all understandably focusing on the here and now, it might be worth using this time to take a step back and review your long-term financial wellbeing as well. This newsletter takes a look at some of the areas you might want to consider. Of course, we are on hand to support you through any challenges ahead.

The Great Wealth Transfer: why it's good to talk

Transferring wealth from one generation to the next is a difficult conversation topic, but with the baby boom generation expected to pass down a record-breaking amount of assets over the coming years, confronting this taboo has never been so important. And experts suggest that, while discussions involving money can be uncomfortable, the best approach is invariably to talk.

The next 30 years are expected to witness the largest ever intergenerational passing of wealth as baby boomers – the wealthiest generation in history – prepare to pass on assets to their heirs. Commentators have dubbed it the 'great wealth transfer' with estimates[1] suggesting an unprecedented £5.5tn could be set to pass between generations in the UK.

Elephant in the room

While the significance attached to the wealth transfer process is unquestionable, most families remain uncomfortable talking about money, with finance among the few remaining taboo topics. As a result, discussing money issues with their children can prove a difficult task for many parents, with conversations typically awkward or stilted. However, it is vitally important retirees involve their offspring in financial planning decisions if the wealth transfer process is ultimately to be successful.

A balancing act

The issue of inheritance unsurprisingly raises a number of concerns for parents. For instance, there is the dilemma of wanting to help children financially while not dampening their offspring's work ethic. In addition, parents need to balance the emotional desire to leave significant sums to heirs with the need to ensure their own financial wellbeing, particularly in an era of spiralling long-term care costs.

Start the conversation

Arguably the key inheritance challenge, though, remains ensuring your children are ready to take on financial responsibility for family assets. Encouraging their involvement in your financial planning decisions now is a particularly good way to boost their financial literacy and ensure they are ready when the time comes. So, introduce them to us and we can help you start those difficult conversations.

[1]Kings Court Trust, 2018

DIVIDEND GROWTH RISES

Stock market investors had a bumper year for income in 2019, as UK companies paid out a record £110.5bn in dividends. Research[2] shows that dividend growth was up 10.7% on 2018 for two main reasons: a generally weak pound and an exceptional year for *'special dividends'*.

Because many UK dividends are declared in US dollars, returns were boosted by comparative sterling weakness due to Brexit uncertainty. The main contribution to the record dividend payout, however, was the exceptionally large £12bn of '*special dividends*' – particularly from the mining, banking and IT sectors.

Temper 2020 expectations

Experts warn investors against 'superficial excitement'. When 2019 performance is reviewed with currency factors and special dividends stripped out, underlying dividends rose by just 2.8%, the slowest increase since 2014. So, even before the COVID-19 outbreak, it was unlikely that 2020 would continue the record-breaking trend.

[2]Link Assets, 2019

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KEY POINTS FROM THE SPRING BUDGET

THE ECONOMY

- Economy predicted to grow by 1.1% in 2020-21, revised down from 1.4% forecast a year ago (this figure does not take into account the impact of COVID–19)
- Growth predicted to rebound to 1.8% in 2021–22, easing back to 1.5% in 2022–23
- Inflation forecast of 1.4% this year, increasing to 1.8% in 2021–2022

CORONAVIRUS AND PUBLIC SERVICES

- £5bn emergency response fund to support the NHS and other public services in England
- All those advised to self-isolate will be entitled to Statutory Sick Pay, even if they have not presented with symptoms
- Self-employed workers who are not eligible will be able to claim contributory Employment and Support Allowance (available from day one)
- £500m hardship fund for councils in England to help the most vulnerable in their areas
- Firms with fewer than 250 staff will be refunded for sick pay payments for two weeks
- Small firms will be able to access business interruption loans
- Business rates in England will be suspended for firms in the retail, leisure and hospitality sectors with a rateable value below £51,000
- £6bn in extra NHS funding over five years to pay for staff recruitment and start of hospital upgrades

PERSONAL TAXATION, WAGES AND PENSIONS

- Tax paid on the pensions of high earners, including NHS consultants, to be recalculated to address staffing issues
- The two tapered Annual Allowance thresholds for pensions will each be raised by £90,000
- The minimum level to which the Annual Allowance can taper down will reduce from £10,000 to £4,000 from April 2020
- Annual Capital Gains Tax exemption increased to £12,300 from 2020–21
- The Lifetime Allowance for pensions will increase in line with the Consumer Prices Index, to £1,073,100 for 2020–21
- From 11 March 2020 the Lifetime Allowance on gains eligible for Entrepreneurs' Relief reduced from £10m to £1m.

Under the spotlight – the first Budget of the decade

Chancellor of the Exchequer, Rishi Sunak, delivered his first Budget on 11 March and unleashed the largest increase in public investment for several generations, in an effort to boost the economy and see the country through the coronavirus crisis.

The economy
A dramatic Budget Day began with the Bank of England sanctioning an emergency half-point interest rate reduction amid growing concerns about the economic impact of COVID–19. On 19 March, a further cut to 0.1% was announced. Later, Mr Sunak revealed updated GDP projections which, excluding an inevitable but incalculable coronavirus impact, suggested the UK economy would grow by 1.1% in 2020–21, down from a previous forecast of 1.4%.

Personal taxation
The Chancellor's principal change in relation to personal taxation was to increase the National Insurance threshold to £9,500, which will save most workers around £100 annually from April. Income Tax bands, however, including the Personal Allowance above which people start paying tax, and higher-rate thresholds were maintained at current levels.

Pensions
As previously indicated, the new single-tier State Pension will increase from £168.60 a week to £175.20 in April, while the older basic State Pension will rise from £129.20 to £134.25 per week. Among other pension changes, the Chancellor announced a £90,000 increase in the tapered Annual Allowance thresholds.

Savings and investments
The main savings-related announcement 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 this April. The ISA (Individual Savings Account) allowance, including the £4,000 Lifetime ISA allowance if used, remains unchanged at £20,000.

Entrepreneurs' Relief
Mr Sunak also announced the lifetime limit on gains eligible for Entrepreneurs' Relief has been reduced from £10m to £1m. This reflects a belief that the concession has not provided a major boost to entrepreneurial activity.

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Women and pensions

Data from the 15th annual Women and Retirement Report[3] suggests an increasing proportion of women are prepared for retirement, although it also highlights a continuing disparity in levels of pension savings compared to men.

Record female participation

The report shows the number of women contributing to a pension has risen by 15% in the last 15 years and concluded that 57% of women are now saving enough for retirement. In addition, the average level of savings amongst women has increased.

Retirement gender gap

Despite the undoubted progress, the gender pay gap means men are still saving far more into pensions than their female counterparts. Indeed, men typically benefit from an additional £78,000 in their pension pots at retirement, which is equivalent to 2.5 times the average UK household disposable income.

Challenges to saving

The study highlighted several groups who remain under-prepared for retirement, with lower and middle female earners amongst the least prepared. Additionally, over a third of women entrepreneurs were found to be saving nothing for retirement.

Such worryingly low participation rates partly reflect financial pressures faced by many women. As women typically earn less than men, a larger proportion of their income will inevitably be directed towards essentials such as property or childcare costs.

We're here to help

Although an increasing proportion of the female population are now engaging with pensions, the research still suggests a worryingly high proportion of women have little or no pension provision. If you're concerned about your retirement prospects, then get in touch with us. It's never too late to get your retirement plans on track.

[3]Scottish Widows, 2019

...over a third of women entrepreneurs were found to be saving nothing for retirement

Weathering the storm together

Stock markets around the world are suffering a major period of volatility as a result of the COVID-19 outbreak. Although markets do not respond well to periods of uncertainty, what is certain is that volatility goes hand in hand with stock market investment; and although market movements can be concerning, we have all become much better at expecting the unexpected, experience has taught us that. On Budget day, both the Chancellor, Rishi Sunak, and the outgoing Governor of the Bank of England, Mark Carney, were keen to emphasise the temporary nature of the economic impact of COVID-19.

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

Focus on the long-term

To navigate market volatility, it's best to stick to your plan, diversify your holdings and very importantly, expect 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 ignore daily market movements, it is vital to focus on the long term and remember that volatility also presents investment opportunities.

A clear head will stand you in good stead

As Rudyard Kipling wrote, it's important to *"keep your head when all about you are losing theirs."* Investment requires a disciplined approach and a degree of holding your nerve if markets fall. Investment professionals know that markets can be volatile and will inevitably go down as well as up from time to time. 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.

Finger on the pulse

Instead of being worried by volatility, the best strategy is to be prepared. 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.

We aim to manage the inherent volatility of markets, so your savings have the best chance of growing for the future – without giving you sleepless nights and whilst ensuring you aren't taking too much, or too little, risk with your money.

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The ebb and flow of economic hopes

The latest batch of gross domestic product (GDP) figures shows the global economy faltered at the end of last year. While decisive policy action is providing support to growth, the economic fallout from the COVID–19 outbreak is likely to dent hopes of an imminent meaningful recovery.

2019 bows out on a low

Fourth quarter GDP data painted a bleak picture of the global economy at the turn of the year. In the UK, for instance, the economy stagnated with no growth at all, while the German economy barely registered any growth, and the French and Italian economies both shrank. Japan performed even more woefully, with the economy contracting sharply in the fourth quarter.

The US and China did perform more strongly, posting identical growth rates during the final three months of 2019 to those recorded during the preceding quarter. However, even in these two countries, the data confirmed a broader overall trend towards decelerating growth rates.

Policy action supporting growth

The US Federal Reserve and a number of other central banks cut interest rates during the second half of last year, and this monetary stimulus has provided some support to the global economy. Policymakers are also introducing other measures designed to foster recovery; in December, for example, Japan announced a $120bn stimulus package to shore up its ailing economy.

But COVID–19 will hamper recovery

The economic problems caused by the outbreak look set to hinder efforts to boost growth. While producing reliable estimates of the likely impact of the outbreak is extremely difficult, economists suggest China is facing a short-lived but potentially sharp economic shock. Given China's significance on the global economic stage this, as well as the continuing spread of the disease, will undoubtedly have implications for growth across the rest of the world.

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WHAT IS A MEGATREND?

Global megatrends are sustained, macroeconomic, transformative developments, that may alter the trajectory of the economy, business, society, cultures, and our lives, to define and shape our future world.

The implications of these trends are diverse, presenting both opportunities and risks. Megatrends don't exist in isolation. The interconnectivity of our world means trends overlap and investment themes appear. Recent research[4] has highlighted some megatrends expected to shape our lives in the next couple of decades, these include rapid urbanisation, climate change, demographic and social change, shifts in global economic power and technological breakthroughs.

[4]PwC and BlackRock/iShares, 2020

WHAT MAKES A PHILANTHROPIST?

It can be tricky to pin down precisely what qualifies as philanthropy. Basically, it's an active desire to promote the welfare of others, often expressed by giving generously to charities or other deserving causes. If we count dropping some of our loose change into a collection box now and then or giving £3 a month by direct debit, most of us could regard ourselves as philanthropists.

So, how important is the scale of giving? To qualify as a true philanthropist, your scale of giving probably does need to be outstanding. At the high end of global philanthropy come billionaires such as Microsoft's Bill and Melinda Gates, whose charitable foundation aims to enhance healthcare and reduce severe poverty worldwide. On the other hand, if philanthropy is measured in terms of self-sacrifice, a small monthly donation by someone of modest means could also be deemed generous.

Between the two extremes of the spectrum, are acts of philanthropy on many levels. To assist would-be philanthropists, various UK counties have their own community foundations. Individual benefactors and entities, inspired by the work of the great philanthropic families of the past, such as Cadbury, Rowntree and Rathbone, need to plan their benevolence carefully and take advice about its effect upon their wider financial affairs.

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