Essentially Wealth

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Q4 2020

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Quilter Financial Planning

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Rise of the inheritance economy

An ageing Baby Boomer generation is expected to pass on a staggering £5.5 trillion[1] to younger generations over the next 30 years in what has been called 'the great wealth transfer.' Have you considered how you would like your heirs to benefit from your legacy, or whether you could afford to gift some wealth during your lifetime?

Considering lifetime gifting

Research, collected by YouGov[2], has found that just under half (48%) of Baby Boomers say they could afford to give money to family members before they die, less than a third (29%) ruled it out as an option they would consider, with the remainder unsure.

Of those who said they could afford to make lifetime gifts, 40% preferred the idea of making multiple small gifts, with a third (33%) favouring larger one-off wealth transfers.

Getting the right balance

For a growing number of households, the receipt of an inheritance or a financial gift from older generations could prove to be a financial lifeline. However, although you may want to give a helping hand to children or grandchildren who may be struggling financially, you also need to consider your own financial wellbeing in your retirement years, particularly with the prospect of a long retirement and possible long-term care costs. It can be difficult to strike the right balance without getting professional advice to understand all your options.

Time to break free from the taboo

Frank family conversations about financial matters are important for the wealth transfer process to be successful but we understand that discussing money issues with your children can be difficult and may make you feel uncomfortable.

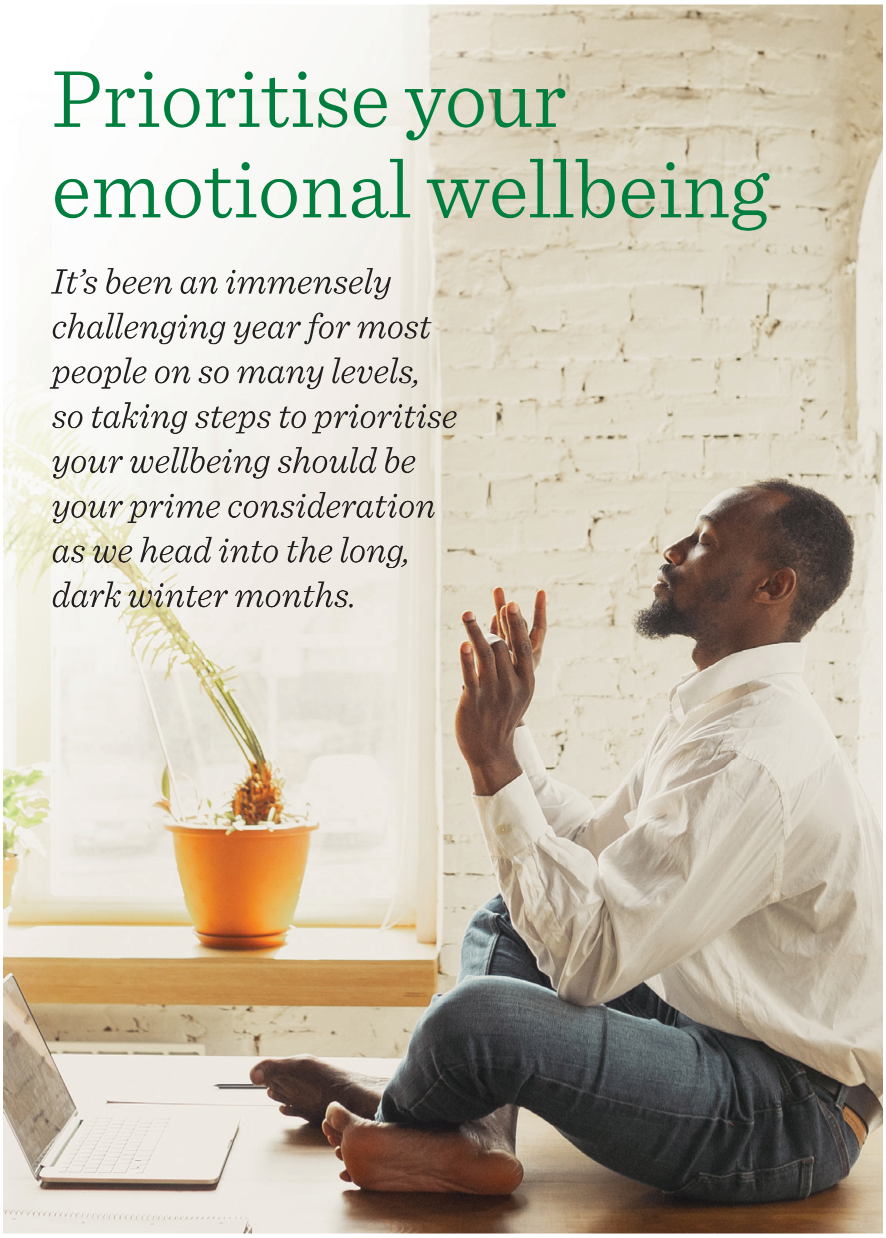
Involving your family

When considering if and how you may want to transfer your wealth, whether through inheritance or gifting during your lifetime, we encourage the involvement of family members in your financial planning discussions and we are happy to help you start and direct those conversations so everyone's needs are fulfilled.

[1]Kings Court Trust, 2018, [2]Quilter/YouGov, 2020

Prioritise your emotional wellbeing

It's been an immensely challenging year for most people on so many levels, so taking steps to prioritise your wellbeing should be your prime consideration as we head into the long, dark winter months.



More time spent at home has knocked many people's confidence; interestingly new research has identified that people who receive financial advice feel more confident and financially resilient when compared to those who haven't taken advice[3]. Furthermore, the benefits felt are not just financial.

A haven of calm

In addition to the expected financial benefits, professional advice was found to improve emotional wellbeing by helping people to feel better about themselves and their finances. The research found that there were emotional and psychological benefits from having access to trusted expertise, which makes people feel more confident about the future, in control of their financial plans and more likely to achieve greater peace of mind as a result.

The importance of protection

In particular, protection products were found to benefit consumers way beyond the financial safety net they can provide, with advised customers who have protection cover feeling more prepared for life's shocks. One in five (20%) people who received advice, including advice on their protection needs, were found to feel less worried about what will happen to their family after they die, compared to one in seven (15%) who were advised generally, without their protection needs addressed.

Supporting your wellbeing – a role we take seriously

We understand that by providing trusted financial advice to help protect your financial security, we can play a role in supporting your wellbeing as well. Please get in touch.

[3]Royal London, 2020

Are you a lockdown saver?

Did you know that the average UK household saved up to £171 per week during lockdown, as spending on commuting, eating out, holidays and other leisure pursuits plummeted[4].

It looks like the trend is set to continue. With the government abandoning its back to work drive and State financial support continuing into 2021 in the form of the Job Support Scheme, Britons might not have to abandon their new savings habits just yet.

Bank deposits grow

While for some people, financial hardship has meant they are unable to save, Bank of England data suggests that personal bank deposits have tripled in comparison to recent averages, while consumers paid down a record £7.4bn of consumer credit in April – double the repayment in March, which was itself a record month[5].

What to do with your newfound funds

If you're part of the lockdown saving army, then don't let your windfall go to waste. You could use your extra cash to pay down debts, overpay on your mortgage or contribute more to your pension.

Advice is key

In these uncertain times, it's essential to get professional advice to ensure you get the most out of your hard-earned savings. That's why we're here – so please get in touch.

[4]Aviva, 2020, [5]BoE, 2020

Consumers paid down a record £7.4bn of consumer credit in April

End game for cash?

Although recent circumstances have certainly accelerated talk of the 'death of cash', predictions of its demise have been around for many years.

In fact, take it back a hundred and thirty years or so and you'll find renowned American, science fiction author Edward Bellamy, writing about a cashless future in his books. So, discourse surrounding a 'cashless society' certainly pre-dates lockdown.

Trends such as the introduction of online and mobile banking and the rise of contactless payments have long been features of modern society. There is no doubt that the pandemic has accelerated this trend at a tremendous pace, with credit and debit card usage soaring, as *"we don't accept cash"* became a familiar refrain over fears that handling cash could spread the virus. The maximum contactless spend was upped to £45 in April to facilitate this, with 66% of Mastercard transactions in the UK now contactless[6].

Time for the century old cash prophecy to come true?

The move to online, mobile and card payments points to a more permanent shift in consumer behaviour for many, but with the transition to all-electronic gathering momentum, what about the huge raft of people who are staunch cash users? Cash is still a necessity for 25 million people in the UK[7]. An entirely cashless society assumes that every person has the means, ability and technological know-how to pay by card or device for every transaction. So, although cash usage is indisputably eroding, it is vital to maintain access to cash for some societal groups, including the elderly.

[6]Mastercard, 2020, [7]Age UK, 2020

Businesses take on £58bn in lockdown debt

With lockdown forcing businesses up and down the country to close their doors for months, the government's various coronavirus loan schemes have proved a lifeline.

However, with more than half of UK businesses already indebted before lockdown even began, and a further £58bn borrowed since March[8], it's more necessary than ever to consider business protection insurance, including business loan protection.

Security in uncertain times

If you have taken on more debt to keep your business afloat during the pandemic, you're certainly not alone. If, however, you didn't have an insurance policy in place as security prior to lockdown (like 80% of businesses[9]), it's all the more important you take one out now.

How does business loan protection work?

Business loan protection provides funds to repay debt such as commercial mortgages, business loans or director's loans should the company find itself unable to. This could happen if, for example, one of the company's directors were to die or develop a serious illness. A business loan protection policy usually takes the form of a life insurance or critical illness policy (or sometimes both), which will provide funds to repay the business's debts if the worst were to happen. If you're a business owner, you may have used your own personal assets, such as property, as security for a business loan. If so, not only you, but your loved ones, could face financial hardship if you are not insured.

Don't take the risk

Many businesses have unfortunately lost their battle for survival this year – but don't let yours be one of them. Nobody likes to imagine they will die or become ill during their career, but unfortunately it does happen – as recent events have shown us only too well. So, please get in touch – we can help you find a suitable policy to protect your business against the unexpected.

[8]UK Treasury, 2020, [9]Legal & General, 2018

Child Trust Funds come of age

Is your child reaching the age of 18? If so, they could be amongst a huge swathe of teenagers set to cash in on their Child Trust Funds for the first time. Set up by the Labour government in 2002, the scheme aimed to encourage parents to save for their children's future, with the money only accessible at the age of 18.

Under the scheme, the government contributed £250 when a child was born and an additional £250 when they were seven years old (£500 for lower-income families). Although the programme was phased out in 2011, the first of the Child Trust Fund (CTF) generation have reached adulthood and are able to access their savings pots, which could now be worth over £1,000 – or tens of thousands in some cases where parents have made maximum additional contributions.

What happens now?

In advance of the child's 18th birthday, your CTF provider should contact you before the account matures, to outline your options. These may (depending on the provider) include withdrawal, transfer to an adult ISA in their name or transfer to an equivalent account which retains its tax-free status, so savers can continue to benefit from the interest while they decide what to do with it.

Many don't know they have one

Of the 6.3m children with a CTF waiting for them, nearly a third (1.8m) may not even know they have an account, according to HMRC estimates[10]. So, how can you find out if your child has one? Well, all you need is their National Insurance number and you can fill in a form to find out where the account is located. Just visit: www.gov.uk/child-trust-funds/find-a-child-trust-fund.

In the driving seat

There are many potential homes for the maturing CTF money. The most important thing is not to panic, to have a plan and properly take the time to think about what you want to do with the money long-term. If you would like advice on how to make the most of your potential windfall, we're here to help – just get in touch, we can talk through your options with you.

[10]HMRC, 2020

Private pension age – on the rise

The government has confirmed the minimum age at which individuals in the UK can access their private pension will increase to 57 in 2028.

Savers who pay into a personal pension directly or one arranged through their workplace, can currently access their money at 55. The move means that those retiring in the future will have to wait an extra couple of years to access their pension. The government had indicated six years ago that they intended to do this, due to increasing life expectancy, but finally provided confirmation of their plans in early September. The change will affect workers currently aged 47 and under. Although not great news for those planning to stop work well before the average 64-65, at least the government have provided advance warning and the extra two years will give people longer to put more into their pension – some silver linings.

Autumn Budget on the back burner

Chancellor Rishi Sunak has set out a series of measures aimed at halting job losses and stemming business failures as part of his Winter Economy Plan.

His statement, delivered on 24 September, was a last-minute replacement for the planned Autumn Budget which the Treasury had cancelled the previous day. It was a decision taken to focus efforts on dealing with the short-term economic problems caused by the pandemic.

The centrepiece of the Winter Economy Plan was a new scheme to replace furlough, running from 1 November. The Job Support Scheme will last for six months and see the government subsidise the pay of employees working for businesses that are operating but facing decreased demand. On 9 October, Rishi Sunak announced that the Job Support Scheme will be expanded to protect jobs and support businesses required to close because of local or national restrictions. And on 22 October, the Chancellor unveiled increased support for jobs and workers impacted by COVID restrictions. Under the revised scheme, employers will pay less and staff can work fewer hours before they qualify for extra financial help.

The global economy – uncertainty weighs

The release of Q2 data revealed the extent of the impact the pandemic has had on the global economy, as an array of countries reported record falls in output, as lockdowns inflicted severe economic disruption.

Although uncertainties surrounding the pandemic continue to cause economic stress, many economists believe the steepest declines are over; however, the pace of recovery is ambiguous.

The International Monetary Fund (IMF) predicts the global economy will contract 4.9% in 2020. This downgrade on previous projections is reflective of social distancing restrictions remaining in place for longer and the consequent effect on consumer spending.

In 2021, the IMF predict the global economy will expand 5.4%; but they emphasise there is a higher-than-usual degree of uncertainty encircling its predictions. Chief Economist at the IMF, Gita Gopinath, observed: *"The strength of this recovery is highly uncertain. On the one hand, you could get positive news, you could have better news on vaccines and on treatments and greater policy support, and that can trigger a faster recovery. But on the other hand, there are important downside risks, too, which is that the virus could come back up. You could have financial tightening that could lead to debt distress. So, there are both upsides and downsides."*

Uncertain times look set to prevail. We will be here to navigate any uncertainty together.

Retirement focus – more important now than ever (whatever your age)

Have your retirement plans been derailed in the past few months?

If they have, you're certainly not alone, as huge swathes of people have unfortunately suffered the same affliction; in fact, nearly one fifth of those aged 50 or over, believe their retirement will be negatively impacted by the pandemic. Of these, a quarter have not been able to retire due to their finances, a fifth have had to dip into their retirement savings whilst not working and a tenth have retired sooner than expected because of redundancy[11].

Hard-hit sectors

Employees in certain industries, already finding it challenging to save into a pension, could be especially hard-hit and face a lifetime of playing catch up with their retirement savings[12]. Over a quarter of those working in the arts and travel industries have not even started saving into a pension, while two-thirds of retail workers are worried they would quickly run out of money if they did retire.

Not all bad news

Thanks to auto enrolment, over ten million people have saved into a workplace pension, but there are signs the positive impact is receding, with nearly half of those aged 22 to 29 still not doing enough to prepare for later life, with many facing retirement poverty. Whatever stage you're at and whatever sector of the economy you work in, it's never too early or too late to get your retirement plan on track.

Young and old – strategise

If you're younger, don't let any falls in income impact your pension contributions if possible. Small, regular contributions throughout your life can build up and make a difference to the quality of your retirement. If you're older, it's possible you're thinking about postponing retirement or if you lose your job, you might choose to retire earlier than intended. If you still have a job but your savings have been impacted, an option may be to delay retirement to give yourself more time to prepare.

Take control

For many people, decisions about their retirement have been driven by the financial impact of the pandemic, rather than personal choice. Don't rush into making life-changing financial decisions; we want you to be in control of your retirement and to have options. Whatever your personal circumstances, we're here for all your financial planning needs.

[11]Co-op, 2020, [12]Scottish Widows, 2020

Staying financially fit in the new norm

Many of us have seen challenging and unexpected changes to our circumstances over the last few months and it's possible that your financial plans no longer match your lifestyle and needs. Here are some points to remember to help keep you financially fit.

Review your budget

Regularly review your income and outgoings, particularly if your circumstances have changed. You may have found yourself in a fortunate position to be able to save more, due to reduced outgoings. Any expensive debt should be cleared as a priority.

Strengthen your safety net

For you and your family, protection policies such as income protection, critical illness cover and life insurance should be considered. If you already have policies in place, we can help you to review them to ensure they still offer the most suitable cover at a competitive cost.

Look to the future

It's important not to let short-term events divert you from your plans for the future. Investing for the future remains imperative, no matter what age you are, whether this is via a pension, Individual Savings Account, or elsewhere.

Ongoing advice

If you think your plans may have been affected by changes to your circumstances or you have any other concerns, talk to us. We can help you see the bigger picture, evaluate your options and help keep you on track for the future.

Is retirement on the agenda?

Retirement is proving to be a distant dream for many Britons, according to recent government figures[13] which have revealed a spike in people working in later life.

On average, men stopped working at 65.2 in 2020, nearly two years up from 63.3, in 2000. For women, the average age of exit from the working environment in 2020 comes in at 64.2, up three years from 61.2 two decades ago.

For many, the rise in the state pension age has been a deciding factor for choosing when to retire. The state pension age is now 66, regardless of gender, and it is due to rise to 67 from 2026 and 68 from 2037.

However, you need to bear in mind that unforeseen events could play a large role in forcing retirement upon you – of the 2.1 million 50 to 64-year-olds who were not in work between April and June 2020, just over a fifth said they had stopped for health reasons and a further 15% said they were made redundant or had been sacked.

[13]DWP, 2020

Important Information: We have updated our Privacy Policy to better explain how we keep and use your information to profile groups based on factors like interests, age, location and more, so we can better understand our customers, to adapt and improve our products and services. To find out more, please read our Privacy Policy online.

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. Some rules may vary in different parts of the UK.