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Your Window on
Wealth

SPRING 2021

Vaccines put a spring in investors' step

The arrival of spring is generally a time of great optimism and this year more than ever we are all certainly in need of a fresh bout of positivity. Thankfully for investors, there do seem to be increasingly hopeful signs on the horizon, with a growing belief we are now at least starting on the road to economic recovery.

Reasons to be cheerful

The successful development and rapid rollout of COVID-19 vaccines has provided hope that we will soon be able to live with the virus. As well as protecting vaccinated individuals, there are encouraging signs the immunisation programme will slow transmission in the community. This has raised hopes of a significant, vaccine-powered revival in economic activity later this year.

Global growth rebound

This vaccine-fuelled optimism is reflected in recent economic forecasts with the International Monetary Fund's latest projections suggesting the global economy is set to expand by 5.5% in 2021. This represents an upward revision of 0.3% compared to the organisation's previous forecast made last October.

Vaccine-induced euphoria also saw equity funds enjoy a strong quarterly inflow during the final three months of last year.

Negative rates?

A further boost to equity investments could stem from negative interest rates. Although it remains unclear whether or not such a policy will be introduced, in early February the Bank of England gave banks and building societies six months to prepare for such a possibility. If enacted, sub-zero rates would reduce the incentive to save in cash deposits and thereby potentially increase demand for shares, placing even greater emphasis on investment portfolios.

Time for a spring clean

While the economic outlook remains uncertain there are positive signs for investors and this means ensuring your investment portfolio is working hard for you is more important than ever. It could therefore be the perfect opportunity to review your portfolio and rebalance the allocation of asset classes, if necessary, in order to ensure your investments are well-diversified and performing in line with your long-term requirements and objectives.

The world's happiest retirees

A study[1] suggests Helsinki is the happiest place to live out retirement. The analysis also found that people typically need a pension pot worth around £225,000 to retire comfortably in one of the world's happiest cities.

Retirement heaven

In order to rank cities from across the globe, a *'happiness index'* was calculated, based on findings from the *'World Happiness Report'* combined with cost of living, average salary and life expectancy data from over 50 countries.

The calculations revealed that, along with Helsinki, three more northern European capitals – Copenhagen, Reykjavik and Oslo – also featured in the world's top-five cities with the happiest retirees. The final member of this distinguished quintet was Geneva, with Switzerland's second-most populous city third on the list.

UK retirees also happy

The analysis also produced figures taking account of not only the happiest but also the most affordable places to retire, with Melbourne topping this list of happy retirement destinations. And, reassuringly, Belfast, Edinburgh and London also featured among the world's top 20 happiest retirement cities ranked on this basis.

[1]Audley Villages, 2020

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INSIDE THIS ISSUE:

A little more than a year after coronavirus hit our shores...

COVID support understandably featured front and centre of Chancellor Rishi Sunak's second Budget on 3 March, in what is an extraordinary and challenging time for the UK and global economies.

The Chancellor's pledge to *"continue doing whatever it takes"* set the tone for proceedings, with the statement centring around a three-point plan offering support for jobs and businesses, and fixing finances, while setting a path for an economic rebound, which he anticipates will be *"swifter and more sustained"* than previously expected.

Outlined by the Chancellor, the Office for Budget Responsibility's (OBR) medium-term economic outlook details a strong economic rebound for the UK, over the remainder of 2021, as restrictions ease, allowing economic activities to resume. Growth is expected to moderate towards the end of the year and output to return to its pre-pandemic level in mid-2022, six months earlier than previous predictions; this is predominantly reflective of the faster rollout of the vaccine. The OBR forecast the economy will grow by 4% this year and by 7.3% in 2022.

As the economy reopens and emergency fiscal support is withdrawn, borrowing is forecast to fall back from a peacetime record of £355bn in 2020/21 to £234bn in 2021/22.

During the Budget, the Chancellor chose not to set any new fiscal targets, though he did acknowledge that tax rises additional to the Corporation Tax rise he proposed for 2023 would be necessary in the coming years to help repair the public finances.

Key Points *Spring Budget 2021*

Job support

- Furlough scheme extended until 30 September 2021 - the government will continue to pay 80% of employees' wages up to £2,500 a month until the end of June, employers then pay a 10% contribution in July, rising to 20% in August and September
- The Self Employment Support Scheme also extended until the end of September.

Business support & taxation

- A new 'Recovery Loan Scheme' replacing previous emergency government funding to support businesses, offers loans between £25,000 and £10m up to 31 December 2021 (government provides an 80% guarantee)
- A new 'Restart Grant' scheme provides retail, hospitality, accommodation, leisure and personal care firms up to £18,000, and non-essential retailers £6,000
- Business Rates Relief for retail and hospitality firms has been extended for three months to 30 June 2021, with a two-thirds discount available until 31 December 2021
- Headline rate of Corporation Tax will rise from 19% to 25% in April 2023; a tapered rate will be introduced for profits above £50,000, so that only businesses with profits of £250,000 or more will be taxed at the full 25% rate, businesses with profits of £50,000 or less will continue to be taxed at 19%
- To encourage business investment, a temporary 'super-deduction' tax incentive scheme will cut companies' tax bills by 25p for every £1 they invest, by providing allowances of 130% on qualifying investment in new plant and machinery, from 1 April 2021 to 31 March 2023
- VAT 5% reduced rate for tourism and hospitality sectors extended until 30 September 2021, followed by an interim rate of 12.5% for six months.

Personal taxation, wages and pensions

- From 6 April 2021 Personal Allowance increased to £12,570 and the Income Tax higher rate threshold increased to £50,270, both thresholds will remain at these levels until April 2026
- National Insurance threshold increased to £9,568 from 6 April 2021, the Upper Earnings Limit will be £50,270
- Inheritance Tax nil-rate band remains at £325,000 and residence nil-rate band at £175,000, until April 2026
- Capital Gains Tax annual exemption remains at £12,300 for individuals and £6,150 for most trusts
- Lifetime Allowance for pensions remains at £1,073,100 until April 2026, the Annual Allowance remains at £40,000
- New single-tier State Pension increased to £179.60 per week in April 2021, the older basic State Pension increased to £137.60 per week
- ISA (Individual Savings Account) allowance remains at £20,000 for the 2021/22 tax year
- JISA (Junior Individual Savings Account) allowance or Child Trust Fund annual subscription limit remain at £9,000 for the 2021/22 tax year
- National Living Wage increased to £8.91 per hour from April 2021 and will include those aged 23 and over.

Property transactions

- Stamp Duty (SDLT) holiday on house purchases in England and Northern Ireland extended, with the £500,000 threshold at which SDLT starts to apply ending on 30 June, a threshold of £250,000 applies for a further three months, with the regular £125,000 threshold returning from 1 October 2021. In Wales, the Land Transaction Tax (LTT) temporary tax reduction has been extended to 30 June 2021
- Mortgage guarantee scheme introduced from April, with the government providing guarantees to UK lenders who offer mortgages to buyers to secure a loan with a 5% deposit on a property of up to £600,000 up to 31 December 2022.

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More people accessing pension cash

More people accessed their pensions and more money was withdrawn in the final three months of 2020 compared to the same quarter the previous year. A total of £2.4bn was withdrawn from pensions flexibly in the three months to December 2020, representing a 6% increase from £2.2bn in Q4 2019.

The HMRC data[2] shows that 360,000 people accessed their pensions in the fourth quarter of 2020, up 10% from the same period in 2019, meaning the average amount withdrawn per individual was lower. There was a 4% increase in the number of individuals withdrawing compared to the previous three months.

COVID effect
October, November and December typically see a slight drop in the number of people accessing their pensions, so this change in behaviour may be attributable to the impact of the pandemic. With unemployment and redundancies rising, many people may be feeling the need to dip into their pensions.

Consider your options
Withdrawing money from your pension savings has its risks, so it's important to weigh up all your options carefully and seek financial advice before deciding.

[2]Gov, 2021

ESG: A megatrend here to stay

New research suggests environmental, social and governance (ESG) investing is set to continue gaining prominence, with ESG issues increasingly converging into mainstream investment strategies.

A growing trend
The last few years have seen a substantial rise in ESG investing around the globe, driven by an increasing desire for investors to know both where their money is going and that it is having a positive impact. According to a survey conducted by CoreData, three-quarters of UK professional fund buyers now expect all investment funds to incorporate ESG factors within their strategies during the next five years.

Pandemic has raised awareness
Another finding suggests the pandemic has accelerated this momentum, with eight out of ten UK fund investors saying they increased their focus on ESG in the wake of COVID-19.

Commenting on the survey, founder and principal of CoreData, Andrew Inwood, said, *"The pandemic has helped reset humanity's moral compass and encouraged people to favour investments aligned with their beliefs and values."*

COP26 to generate interest
Research[3] has shown that environmental issues top the list of ESG concerns, particularly pollution and waste, and climate change. The trend towards ESG investing is therefore expected to receive a further boost in the run-up to the 26th UN Climate Change Conference of the Parties (COP26) which the UK is hosting in Glasgow this November.

The election of President Biden and his commitment to an ambitious new climate regime can also be expected to raise the profile of both COP26 and climate change issues in general. And this, in turn, will bring ESG investing into even sharper focus during 2021.

[3]BlackRock, 2020

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Third of retirees financially supporting family

A third of potential retirees continue to financially support their families, with regular handouts amounting to more than £3,700 a year[4]. Those planning to retire expect an average income of £20,663, but anticipate around a fifth of this (£3,700) will be used to support the finances of younger family members. This equates to £311 a month, although 12% say they contribute £500 or more.

Supporting the family

Accommodation and living costs are the top priorities for those supporting loved ones, with 28% allowing their family to live with them rent free. One in four also give family members regular cash to cover everyday living costs such as food, and one in five cover some or all of their household bills. A further 19% pay for treats such as holidays, 15% have put money towards a property purchase, and 13% pay for university fees.

Think about your financial security too

We understand it's only natural to want to support loved ones, particularly with the current economic situation putting more pressure on people's finances. However, with the pandemic also impacting pension savings, this could affect your ability to continue to support family members. Talking to us can help you understand how much support you can realistically provide so that you don't end up compromising your long-term financial future.

[4]Key, 2020

Dividends down 44% year-on-year

UK dividends fell 44% in 2020 to £61.9bn, the lowest annual total since 2011, according to Link Group's latest Dividend Monitor[5]. However, a better-than-expected Q4 was boosted by suspended payouts being restored.

The biggest impact came from the financial sector, which contributed to two-fifths of cuts, while oil dividend cuts accounted for another fifth. Dividends from the FTSE 100 were less severely impacted by the pandemic, with underlying dividends falling 35%, while mid-caps saw them drop 56%.

Reasons for optimism

Looking ahead, payouts could rise 8.1% on an underlying basis, yielding a total of £66bn in 2021, while a worst-case option suggests payouts could fall around 0.6% to £60.7bn.

Susan Ring, CEO, Corporate Markets of Link Group, said, *"There are reasons for optimism, but the resurgent pandemic has pushed back the reopening of the economy even further. We still believe the worst is past... our expectations for 2021 are significantly more subdued."*

[5]BlackRock, 2020

Retirement finances: Take back control

Two pieces of research have again highlighted consumer confusion and concerns around pension provision and thereby the necessity for people to take control of their retirement planning.

State pension overestimated

Firstly, a survey by Which?[6] found that three in ten people overestimate their future state pension income, some by almost £50,000 over the course of their retirement. There was also confusion about when people receive their pension, with only three in ten correctly identifying the current state pension age.

The research therefore vividly highlights worrying gaps in the nation's pensions knowledge and the consumer champion believes more needs to be done to improve understanding and engagement in order to put people in a position to successfully plan for retirement.

Key concern: Funding retirement

Other research[7] revealed that retirement remains the biggest financial worry across the UK workforce. In total, a third of employees said that funding retirement was their principal money concern, the second successive year this issue has topped the poll.

The research noted that a lack of engagement with later life finances was a key problem for employees and is concerned it remains such a big issue. This concern not only relates to finances but also the impact such worries have on employees' general wellbeing.

Take control

While funding retirement certainly presents a challenge to us all, the key to success is undoubtedly careful planning and seeking expert advice. It's vital to fully understand the unique circumstances and options relating to your retirement finances as that knowledge gives you power. So, don't spend time worrying: get in touch with us and we'll help you take control of your retirement.

[6]Which?, 2021, [7]Close Brothers, 2019

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