



FINANCIAL VIEWPOINT

JOHNSON SAVAGE CONSULTANCY LTD

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Investment Update

Almost fully open for business

June saw a delay to the planned reopening of UK business and services, a drop in unemployment and some promising world economic news.

June brought the news that the UK's unemployment rate fell to 4.7% in the three months to April – a slight improvement from 4.8% in the three months to March. This, coupled with strong consumer spending figures for the month, offered some hope despite inflation jumping to 2.1% – mainly driven by the increase in the cost of fuel, clothing and eating out. Overall, the job market in particular showed good signs of recovery, with the opening of non-essential shops and outdoor hospitality venues across the UK.

The UK's planned 'freedom day' on 21 June was pushed back to July, due to the increase in Covid-19 cases following the spread of a new variant of the virus. The vaccination effort in turn stepped up – with the aim of vaccinating as much of the younger population as possible to stem the spread. Despite this news, the Confederation of British Industry (CBI) reported in June that its forecast for GDP growth is 8.2% by the end of 2021 – fuelled by a steady increase in household income and spending following the pandemic-related slowdown.

G7 makes vaccine pledge

The group of G7 economies met in the UK over three days in June, pledging among other things to commit one billion vaccines to poorer countries struggling with their rollouts. It showed that tackling the pandemic – as a global effort – is still at the forefront for many leading economies.

The latest outlook from the Organisation for Economic Cooperation and Development (OECD) was positive, forecasting that the world economy will grow by 5.8% this year. This is an improved revision from its previous forecast and can in part be attributed to successful vaccine rollouts in larger economies and the huge stimulus bill in the US.

The OECD estimates a longer period for the economic recovery in Europe and parts of South America, in contrast to the rapid bouncing back of the South Korean and US economies.

Inflation update

In May, the eurozone's annual rate of inflation jumped to 2%, which passed the European Central Bank's (ECB) target. The rise in inflation across the UK, Europe and US should not be a cause for concern, according to the ECB and Federal Reserve – which maintain the view that it's a fleeting phenomenon.

Competing with China's chip industry

In the US, the Senate passed a bill that aimed to compete with China's growth in the technology sector by funding research into artificial intelligence, quantum computing and developing the country's own chip industry.

However, China had cause for optimism in June, after reports that its producer-price index (which measures the cost of goods after they've left the factory) rose by 9% in May, the fastest pace since September 2008. It's thought this surge was caused by rising prices for oil, iron ore and non-ferrous metals.



Flexible insurance for when you need it

It's all too easy for us to put our head in the sand when it comes to thinking about our protection requirements. People tend to find it challenging to engage with the topic as it involves thinking of negative potential scenarios. In reality, this is the reason to put it to the top of your 'to-do list'. Life is hopefully rosy but being prepared for any eventuality is truly priceless.

One important type of protection worth serious consideration is accident and injury cover. Life's an adventure, we don't always know what's waiting for us around the corner and if the unexpected happens, you deserve the peace of mind that you've got things covered financially.

Flexible cover, tailored to your needs

We can advise you accident and injury cover for your circumstances that provides financial support covering a range of accidental injuries, from a broken bone, to one that could seriously impact your life.

The flexibility of cover available is one of the major benefits, in addition to the ability to choose the level of cover that is tailored to your individual requirements and lifestyle; and suits your budget.

Core cover includes broken bones, accidental death and permanent injury, permanent disability, funeral benefits and UK hospital stays.

Some policies give you optional cover add-ons like protecting your children, active lifestyle cover and healthcare cover, for those who may be at particular risk of contracting certain illnesses, such as those who work in the healthcare sector.

With accident cover you can make multiple injury claims and your policy will continue to protect you in the future.

The last few months have provided the perfect opportunity to take stock of your finances and protection cover; you may be thinking about reducing your outgoings, but protection policies can provide a lifeline when you need it most.

For a cost-effective way to look after yourself and your loved ones, so you're ready for the unexpected, we can help ensure all of your protection needs are covered. Then you can enjoy life, unclouded by concerns of what might happen if you're ill, injured or need to spend time in hospital.

As with all insurance policies, conditions and exclusions will apply

Both the funeral and accidental death benefit once paid out, will end the plan.

Age restrictions apply on child cover



You can take out cover from the age of 18 to 60, without any health questions.



The cost of your policy will remain the same, even if you make a claim or as you get older.



Policies pay a fixed amount of money for specific injuries, depending on the level of cover.

Unlocking the value in your home

The number of people using equity release schemes fell last year as older homeowners grew more cautious.

Older homeowners seemed to be more reluctant to release cash from their homes in 2020, according to the Equity Release Council. Data from the trade body shows drawdowns from lifetime mortgages fell by 21% last year and 10% fewer plans were agreed than in 2019.

This drop suggests the coronavirus pandemic affected the equity release market in 2020, with activity slipping to a four-year low between April and June. Yet the end of the year was a different story – a backlog of cases meant it was unusually busy, with 11,566 new equity release plans agreed between October and December.

What is equity release?

Equity release enables homeowners who are aged 55 and over to access some of the money tied up in their homes. You can take the money as a lump sum or in several smaller amounts. Many people choose this option to supplement their retirement income, make home improvements or help children or grandchildren get onto the property ladder.

The most common way to release equity from your home is through a lifetime mortgage, which allows you to take out a loan secured on your property, provided it's your main residence. You can ring-fence some of the property value as inheritance for your family and you can choose to make repayments or let the interest roll up. The mortgage amount, including any interest, is paid back when you die or move into long-term care.

Alternatively, you can take out a home reversion plan, which enables you to sell all or part of your home for a lump sum or regular payments. You can continue living

there rent-free until you die, but you'll have to pay to maintain and insure it. You can ring-fence some of the property for later use. At the end of the plan, the property is sold and the proceeds are shared according to the remaining proportions of ownership.

Is equity release falling out of favour?

In 2020, £3.89 billion of equity was released from property, compared with £3.92 billion in 2019 and £3.94 billion in 2018, according to the Equity Release Council (5). These figures suggest people are biding their time before unlocking wealth from their homes, according to David Burrowes, the trade body's chairman (6).

Yet interest rates for lifetime mortgages are now falling, which could encourage people to take the next step. The average equity release interest rate fell to around 4% during the last three months of 2020, with the lowest rates now at around 2.3% (7). This rate is less than many of those available on 10-year fixed-rate mortgages, but higher than a lot of products with shorter fixed periods (8).

Is equity release right for you?

Deciding to release funds from your home isn't a decision to take lightly. While equity release means you have money to spend now instead of leaving it tied up in your property, it can be a complicated process. Remember that equity release often doesn't pay you the full market value for your home and it will also reduce the amount of inheritance your loved ones could receive. It's important to talk to a financial adviser who can help you decide whether the process is appropriate for you.

A Lifetime mortgage is a loan secured against your home. A Lifetime mortgage may affect your entitlement to state benefits, and it will reduce the value of your estate.



How to make the most of your lockdown savings

The pandemic has reportedly created 6 million accidental savers, but what's the best way to use this extra cash?

The effect of the lockdown on millions of bank accounts has been to boost savings for people whose incomes have remained the same but whose spending has dropped.

With the prospect of life returning to a new normal, it's a chance to think about how to make the most of these savings and build on them too.

Where were savings made?

Working from home meant the cost of commuting was put on hold. Holidays were not booked, and the closure of restaurants, bars and entertainment venues cut spending in those areas, resulting in slightly healthier current accounts.

All this, the Bank of England estimates, resulted in over £125 billion saved in 2020. Its survey does note that only a fraction of this is likely to be spent by households, suggesting a cautious approach.

This is understandable given the drop in income for furloughed employees, the loss of income for the unemployed and an unstable job market.

How to invest your lockdown savings

Leaving your savings in a high-street bank account won't build much interest. But there are options out there for those who want better returns on what they've saved:



Invest in a stocks and shares ISA – not only will any dividends paid to you be tax-free, but any gains will also be exempt from capital gains tax.



Contribute to your private pension – this comes with the benefit of tax relief status on your contribution if you're a taxpayer.

Other ways to make the most of your savings

Aside from investing, there are some useful ways to use any extra money saved during lockdown:



Pay down debt – if you have lingering debts, whether they're credit cards or student loans, consider using your extra cash to help eliminate them for good.



Mortgage overpayments – you could make regular overpayments on your mortgage, reducing its overall term length and the amount you owe on the loan. Check with your mortgage company about their terms and conditions relating to overpayments.



Build an emergency fund – this fund should contain enough to cover the essentials for a month (like bills, food and your rent or mortgage payments) if anything were to happen affecting your income. Consider opening a separate bank account – easily accessible to you – to store your fund.

A great place to start with all of these options is to create a budget that tracks your income every month compared to your spending, allowing you to work out how much you can put aside.

Our trusted financial advisers are here to help you find the best ways to invest your money to make the most of your savings – whatever your situation.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Time to consolidate your pensions?

Employer pensions can accumulate as we change jobs, and it's easy to lose track of how much each one contains. We explore what you need to know if you're thinking about consolidating your pensions.

When you leave a job, it's easy to forget about the workplace pension you might have had there. With the average person having several jobs during their lives, along with the 2012 introduction of auto-enrolment for employer-based pensions, it's not surprising that many of us have more than one pension to our name.

Whatever the situation with your workplace pensions, the first thing to do if you're thinking about consolidation is to speak to a financial adviser. We can help you figure out the best solution for your individual needs.



Tracking down your old pensions

All pension providers are obliged to send members of their schemes annual statements to keep them updated on how much their pension contains.

The Association of British Insurers (ABI) estimates 1.6 million pension pots worth billions of pounds are forgotten about due to people just moving home. So it's vital to write to your old pension providers to let them know if your address changes.

The government is in the process of launching a dashboard where all pension providers will be able to input member details, giving customers the ability to see their pensions in one place. But the process will take some years for all providers to supply their data.

Consolidating your pensions

As to whether you should consolidate your pensions into one pot, the first step should be to check the small print. If you have an older pension (around 20 years or older), you could lose some of its benefits if you transfer and be left with steep exit fees taken out of your pension amount.

Unlike older pension schemes, the newer 'defined contribution' pensions are more common and less likely to be affected by exit penalties if you want to transfer them into one place. The funds are invested, which makes consolidation an attractive option.

It's worth noting that if you're still paying into a defined contribution scheme and want to withdraw from it, the amount you can pay in and claim tax relief on could reduce.

On average, management fees for workplace pensions are around 1%. Newer pensions could benefit from tax benefits that older ones don't come with, so it's always worth checking each policy individually and get some advice from a financial adviser.

Leaving older pensions where they are

Along with exit fees and tax privileges, pre-2006 pensions (that were not affected by tax changes established in 2006) could have benefits like guaranteed annuity rates (promising a guaranteed income after retirement), which could be lost if transferred to another pension pot.

Final salary scheme pensions are probably best where they are, too, due to the nature of their payouts when you retire (based on what you earn at retirement.)

Some people opt to create a self-invested personal pension (SIPP), which lets them choose where their pension money is invested. This is beneficial to those who want to put their money into sustainable funds and make ethical investment choices.



Should we be concerned about rising inflation?

Most economists expect inflation to pick up over the next few months as lockdown restrictions ease and shops and restaurants reopen. But is this a cause for concern?

As lockdown measures begin to lift, financial markets are making their adjustments in anticipation of a rise in inflation, with bond yields picking up (meaning prices have fallen) and stock markets rotating from defensive sectors into cyclical.

What is inflation?

Put simply, inflation measures the change in the prices of goods and services. If it rises then it takes more of our cash to buy things. We all experience inflation in our daily lives, from filling up our cars with fuel, buying groceries or using public transport.

In the UK, the official measure of inflation is the Consumer Prices Index. It's published by the Office for National Statistics (ONS), which monitors what people are spending their money on, using a basket of everyday goods and services.

The ONS adjusts the basket from time to time to reflect our changing spending habits. During lockdown, there was a shift with products like hand sanitiser and hand wipes being added, and items like white chocolate and ground coffee dropping off the list.

Inflation is all an illusion... or is it?

It's easy to ignore the impact of inflation on your finances. Most people's spending habits this month compared with the same time a year ago would probably stick to the same patterns – regardless of inflation at the time – because the differences seem small and therefore wouldn't affect the way they spend.

If you're trying to save money though, it's worth remembering that with interest rates currently lower than the rate of inflation, the real value of any cash savings is falling. In other words, the cost of living is increasing at a faster rate than your savings are growing, which means the spending power of your money is actually falling.

How will inflation affect investments?

Many people in the UK are preparing to spend the cash they've saved over the past year when the lockdown ends and shops, restaurants and entertainment venues reopen. Activity is likely to return to pre-pandemic levels and the expectation is that inflation is likely to pick up. Some economists are worried about inflationary pressures. In addition to this is the effect of government stimulus packages on the economy, which would provide another tailwind.

However, experts believe it's likely to be a short-lived phase and should not pose a longer-term challenge to fixed income or equity markets. The Bank of England does foresee inflation rising towards the 2% mark, but believes it will be a temporary phenomenon. Continuing deflationary forces like ageing demographics, technological innovation and global supply chains cast doubt over predictions of a new era of inflation.

Ultimately if you want to beat inflation in terms of finding some good returns on your savings, investing is the best option at the moment – due to cash savings rates being at such low levels.

One of the best ways to ensure your investments are given the strongest opportunity to navigate the effects of inflation on financial markets is through a global, multi-asset portfolio that's actively managed by a professional team of investors. Speak to a financial adviser to find out more.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.



How to plan for inheritance tax

Following the news that thousands more people are expected to pay the standard 40% inheritance tax this year because of the effects of the pandemic, we explore some of the ways to navigate the complexities of inheritance tax.

The complex laws around inheritance tax (IHT) caught many people off guard during the Covid-19 pandemic.

Along with the often-sudden loss of a loved one came the issues arising from IHT on gifts passed down to children and grandchildren.

This tax year marks the latest in a series where the number of people being charged IHT on gifts has increased.

Since 2009, beneficiaries have paid 40% IHT on estates worth more than £325,000.

Inheritance tax facts

Following the Budget in March, it was announced that thresholds will remain the same for IHT until 2026:

For single people, the threshold is **£325,000**.

For those who are married or in a civil partnership, the threshold is **£650,000**.

Couples can also pass on their assets (like an owned home) worth up to **£1 million** in total if they leave it to children or grandchildren.

Gift your way to less inheritance tax

There are ways to avoid passing on a large IHT bill to your family, whether it's through gifting or charitable donations:

- You can give away assets or cash worth up to £3,000 a year (known as the annual exemption) with no IHT to pay regardless of the total value of your estate when you die.
- You can give as many gifts of up to £250 to as many people as you want each year – although not to anyone who has already received a gift of your whole £3,000 annual exemption. To make use of this exemption, it's important to keep accurate records.
- If you are married or in a civil partnership, you can pass on your entire estate to your surviving spouse, tax free, when you pass away. Things could become more complicated, however, if your spouse was born in a different country.
- If you give a gift – of any amount – and live for a further seven years after the gift has been given, the beneficiaries will not have to pay any IHT if you pass away after that seven-year period.
- Leaving money to a charity means it's free of IHT and could cut the tax rate on the remaining amount in your estate.

Transferring to a trust or pension

Setting up a trust to transfer some of your estate into for the benefit of your grandchildren is another way to reduce the IHT liability on your assets. However, the trustees could still encounter some income or capital gains tax.

While it may not be the most obvious choice, setting up a pension for your children or grandchildren could be a tax-efficient option. The fund will transfer to them when they turn 18 but they won't be able to access the money until they're much older.

As with anything tax-related, the rules are especially complex when it comes to where your inheritance goes and how much your beneficiaries will end up receiving. That's why it's so important to speak with your financial adviser to review all your options and find the most efficient ways to pass on your wealth.

To learn more about how to make the most of your money this tax year and for more information about inheritance tax and your tax-free allowances, speak to your financial adviser.

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