The financial planning magazine from Fairstone

IntelligentWealth

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FINANCIAL ACTION PLAN

10 STEPS TO HELP YOU BUILD A BETTER FINANCIAL FUTURE

PLANNING FOR SUCCESSION
How will you 'slice up your wealth pie'?

WHY SEEK PROFESSIONAL FINANCIAL ADVICE?
Tackling problems, creating a plan, dealing with challenges

FESTIVE FINANCIAL GIFTS
Deciding on the right investments for the children in your life

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As one of the UK's largest Chartered financial planning firms, our team of financial advisers offer independent financial advice, investment management and estate planning services. Our full range of services include:

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Tailored wealth management advice to help you achieve your life goals

Portfolio construction

Helping you to plan for your future with a tailored investment plan

Retirement planning

Helping you plan your finances to achieve the lifestyle you deserve

Protection planning

Helping you plan for the unexpected

Property finance

Helping you to buy the house of your dreams - mortgage advice that's tailored to you

Estate planning

Protecting the financial future of the ones you love - estate and inheritance planning that gives you financial control

Corporate financial advice

Helping you plan for the financial future of your business

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The value of investments can go down as well as up. Past performance is not an indication of future performance and you may not get back the full amount you originally invested.

Your home is at risk if you do not keep up repayments for a mortgage or a loan secured on your property. Redemption penalties may apply. Interest rates may vary and interest only mortgages may carry additional risks. Think carefully before securing existing debt to your property.

If you are in any doubt about tax implications that may affect you, please seek advice from a tax specialist before making any decisions.

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INSIDE **THIS ISSUE**

Welcome to our latest issue. We hope you are staying safe and well. As we approach the end of the year, a return to how life was at the start of 2020 is some way off. While there is no doubt that these are truly extraordinary times, the entirety of the Fairstone team is continuing to work tirelessly on your behalf to support you and your financial health.

Whatever your long-term plans might be, a crisis as sudden and pervasive as we have seen this year is bound to raise many questions. To make more sense of your options and to ensure that you have the best financial planning strategy in place for you and your family, please contact us – we are here to help you.

Meanwhile in these uncertain times, it can help to focus on the things you can control. And working out what your money's doing for you now and where it might come from in the future can give you real peace of mind. On page 06 we take a look at 10 steps you can take to help you build a better financial future.

With the festive season approaching, have you thought about gifting your children or grandchildren something different this Christmas? Giving them a good start in life by making investments into their future can make all the difference in today's more complex world. Many parents and grandparents want to help younger members of the family financially – whether that is to help fund an education, a wedding or a deposit for a first home. See page 08 for more information.

Also in this issue of 'Intelligent Wealth' we consider the risk faced by some savers of putting too much of their hard-earned money on deposit. Savers holding onto extra cash need to consider their long-term investment options, as explained on page 10.

New research shows that the Bank of Mum and Dad will be a driving force behind the recovery of Britain's housing market, with statistics showing that nearly one in four housing transactions will have been backed by the parents of homebuyers in 2020, with a quarter of borrowers now more reliant on financial support from family and friends. You can read more about this on page 05.

Also, whether you're starting out or well into your wealth creation journey, professional financial advice can help you to define your goals and the path to getting there. New research highlights how people need the reassurance, expertise and confidence that professional financial advice provides more than ever during difficult times. See page 11.

A full list of the articles featured in this issue appears opposite. We hope you enjoy reading them and if you require any further help or guidance, please do not hesitate to contact us.

Rest assured, everyone in Fairstone is collectively working to ensure we remain in an excellent position to deliver continued progress and first-class client service throughout 2020 and beyond.

Lee Hartley
CEO Fairstone

PLANNING FOR SUCCESSION

HOW WILL YOU 'SLICE UP YOUR WEALTH PIE'?

There is no easy way to say it – anticipating one's death is an uncomfortable topic. Yet it is often worth pushing past the initial discomfort to pursue the potential rewards of effective wealth transfer planning. There are three places your assets can go at your death: to your family and friends, to charity or to the Government in the form of taxes.

Almost half of all Baby Boomers say they have enough personal wealth that they can afford to gift some of it away during their lifetime, new research shows[1]. The figures, collected by YouGov, show that 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, and 26% say they are unsure.

LARGER ONE-OFF WEALTH TRANSFERS

Of those who say they can afford to make lifetime gifts, 40% say they would favour multiple small gifts and a third (33%) would prefer larger one-off wealth transfers. A further 30% are unsure which would better suit their needs.

Despite the large number of people who estimate they can afford to pass some of their savings and assets to family members, Government statistics suggest only between 31% to 39% of people aged 50-69 have ever given a financial gift. And just a small minority appear to have a plan for regular annual gifting, with just 15% of 50-59-year-olds having gifted in the last two years.

INTERGENERATIONAL FINANCIAL ADVICE

The statistics reveal the importance of wealth transfer planning and lifetime gifting advice. It is estimated that around £5.5trn of intergenerational wealth transfers will occur over the next 30 years[2]. An effective plan can lessen the likelihood of family conflict, reduce estate costs, reduce taxes and preserve wealth.

Obtaining professional intergenerational financial advice will increasingly become a key part of financial planning for the Baby Boomer generation. This generation has accrued significant personal wealth, having benefitted from rising house prices, stock market growth and the higher prevalence of generous pension schemes, and they want to give younger generations a financial boost.

LIFELINE FOR SOME YOUNGER PEOPLE

In contrast, younger generations often find themselves facing high house prices and the need to make significant personal contributions to their Defined Contribution pensions in order to secure a decent retirement fund.

Gifting between the generations will increasingly become a lifeline for some younger people as they struggle to get on the housing ladder, pay for school fees and deal with the ever-increasing expenses of living.

CAREFUL BALANCING ACT TO FIGURE OUT

Passing on wealth to the next generation is one of the most important yet challenging aspects of financial planning. It's vital that helping the younger generations doesn't come at the expense of your own retirement funds and so there is a careful balancing act to figure out if you can afford it. If you can afford to gift, it's vitally important to consider the various Inheritance Tax and gifting rules.

Despite this, there is still a clear 'gifting gap' between the number of people who can afford to gift and those who actually have a lifetime gifting plan in place. Gifting is a great way to help you make the most of your financial assets and enjoy seeing your life savings helping your children and grandchildren. ■

WEALTH TRANSFER PLANNING PROCESS

Establishing who gets what, how they get it, and when they get it, are, as a general rule, personal matters. But these decisions can have significant financial implications. Life events, as well as market and regulatory factors, can impact the wealth transfer planning process. Therefore, it is important for your wealth transfer plan to remain flexible and be revisited and adjusted periodically. Please contact us to discuss your plans.

Source data:

[1] Research commissioned by Quilter and undertaken by YouGov Plc, an independent research agency. All figures, unless otherwise stated, are from YouGov Plc. The total sample size is 1,544 UK adults, comprised of 529 Baby Boomers, 501 Generation Xers and 514 Millennials. Fieldwork was undertaken between 07/07/2020 – 08/07/2020. The survey was carried out online.

[2] Passing on the pounds – The rise of the UK's inheritance economy. Published May 2019. Author: Kings Court Trust

BANK OF MUM AND DAD

MAKE SURE YOU CAN AFFORD IT AND UNDERSTAND ANY TAX IMPLICATIONS

Parents have always supported their children in lots of different ways. These days, growing numbers of parents see their adult children struggling to build up enough in savings to put down the deposit on a house or to afford to move up from a first home to something larger – but does this mean parents should help financially?

New research shows that the Bank of Mum and Dad will be a driving force behind the recovery of Britain's housing market as buyers struggle with the economic impact of COVID-19[1]. Nearly one in four housing transactions (23%) will have been backed by the Bank of Mum and Dad in 2020, with a quarter (24%) of borrowers now more reliant on financial support from family and friends.

TOTAL PROPERTY TRANSACTIONS

Mirroring the impact of the lockdown on the UK housing market, it is forecast that the Bank of Mum and Dad will lend £3.5bn to loved ones this year – which is almost half the £6.3bn that parents, grandparents, other family and friends lent in 2019. As a result it will lead to the funding of 85,000 fewer home purchases.

The figures reflect the effective closure of the housing market under the COVID-19 induced lockdown and a wider collapse in purchases reported by HM Revenue & Customs, with total property transactions similarly falling by nearly half in Q2 2020. Despite this, the Bank of Mum and Dad will still be involved in 175,000 housing transactions, with an estimated transaction value of £50.3bn, this year.

MAKE SURE YOU CAN AFFORD IT

The Bank of Mum and Dad is set to be a key element in the driving force behind the housing sector's recovery, as thousands of buyers press ahead with their plans to buy. Last year, 19% of all home purchases were funded wholly or partly by the Bank of Mum and Dad. In 2020 that figure is set to rise to nearly a quarter (23%). Of those who've bought recently and received support from family and friends, 65% said it would have been 'unlikely' without help from the Bank of Mum and Dad.

If you do decide to act as the Bank of Mum and Dad, it's important to make sure you can afford it. If you're using your pension and savings to help out, consider what impact that will have on your own retirement. It's also important to make sure it's clear whether the money is a gift or a loan, as this will have different tax implications. If your child is moving in with a partner, you may want a say in how the rights to the property will be held should the relationship break down at some point.

FACING THE ECONOMIC IMPLICATIONS

One in five (19%) expect they would have had to delay their purchase by more than five years without Bank of Mum and Dad support, and a further 14% said they never would have been able to buy without the help of family or friends.

The figures come as buyers face the economic implications of the pandemic and a restriction in the choice of high loan-to-value (LTV) mortgages on which many buyers (especially first-time buyers) rely. Data from Moneyfacts has shown a fall in the number of 90% LTV mortgages on the market which allow people to buy with just a 10% deposit.

PROPERTY MARKET ACTIVITY

Despite the Stamp Duty holiday for purchases under £500,000, just 8% of would-be purchasers say they are less reliant on family or friends for financial support as a result of the policy measures introduced to mitigate the effects of the coronavirus crisis. Only 12% have brought forward their plans to buy since the start of the pandemic.

If 'Build, Build, Build' is how we will recover from COVID-19, then the Bank of Mum and Dad will be centre stage once more. Generous parents, grandparents, family members and friends are gifting thousands towards deposits, with the Bank of Mum and Dad outpacing even the Stamp Duty cuts designed to stimulate property market activity.

UNCERTAIN ECONOMIC FUTURE

For years buyers have been faced with a limited supply of affordable homes. A challenge which is now being compounded by COVID-19. Not only are buyers facing an uncertain economic future, but changes by lenders in the wake of the pandemic have restricted the low-deposit mortgage options on which many young people rely to make their first step.

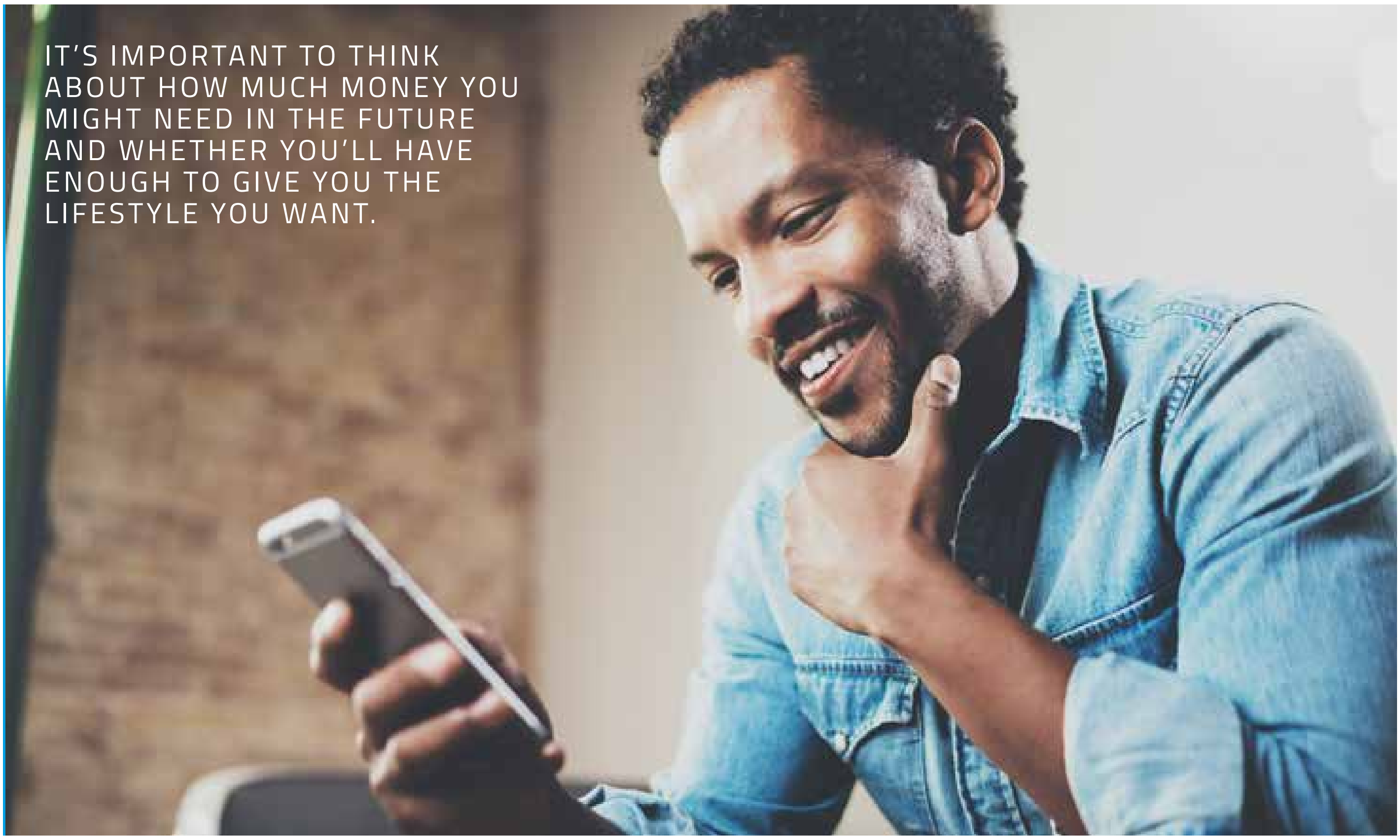
While the Bank of Mum and Dad is helping those lucky enough to have their backing, a generation of hopeful buyers without the support of the Bank of Mum and Dad could find themselves locked out of the housing market. ■

HOW CAN I HELP MY CHILDREN BUY THEIR FIRST PROPERTY?

An important issue to be aware of is how the mortgage lender will treat the deposit if it is described as a loan rather than a gift. If the money is a loan, then the lender must factor this into their affordability calculations and so may lend less as a result. Also, don't forget the sum of money handed over may not be needed now, but what happens if life subsequently becomes a bit of a struggle? Speak to us to discuss your options.

Source data:

[1] https://www.legalandgeneral.com/bank-of-mum-and-dad/



FINANCIAL ACTION PLAN

10 STEPS TO HELP YOU BUILD A BETTER FINANCIAL FUTURE

In these uncertain times, it can help to focus on the things you can control. And working out what your money's doing for you now and where it might come from in the future can give you real peace of mind.

As another year rapidly draws to a close many of us may already be starting to think about what resolutions we can make to improve our financial health in 2021. And even though we may resolve to improve our finances, it's knowing where to begin that's key.

1.
SHOW ME THE MONEY

The first step to getting your finances on track is to know where your money is going. But that isn't always obvious. Tracking your expenses can keep your spending on a parallel track with your income and help you avoid overspending. This goes hand in hand with setting up a budget. You may have a good handle on your monthly bills, but what about your daily expenses? You may be surprised by how much money you spend on smaller items. Review all of your expenses for ways to cut back, and then decide what to do with the extra money. Set specific goals, such as building an emergency savings fund, paying off your credit card bills or increasing your retirement savings.

2.
REDUCING BORROWING

Next make a list of all the borrowing you have – including mortgage, personal loans, store cards, credit cards and bank overdrafts. Calculate the amount you owe and remember that you should update this as the year progresses to track your progress. If you cannot reduce your overall borrowing, then you need to ensure you are paying as low an interest rate as possible. This may mean switching credit cards or mortgages, or consolidating various borrowings into one loan.

3.
TAX REALLY MATTERS

There are plenty of tax allowances to make use of each financial year – remember this runs from 6 April to 5 April the following year – so it's worth being aware of which annual allowances you can benefit from. All tax rates quoted in this article are applicable to the current 2020/21 financial year.

One of the most popular ways to save tax is by fully utilising your individual annual Individual Savings Account (ISA) allowance, which is £20,000. You may save or invest your ISA allowance into one or more different ISAs, or you can put up to £4,000 into a Lifetime ISA (you must be aged 18 or over but under age 40 to open a Lifetime ISA). You won't pay income tax, dividend tax or capital gains tax on the proceeds of any investments you hold within an ISA.

In addition, investors have a £2,000 tax-free dividend allowance held outside of an ISA. Basic-rate taxpayers pay 7.5% on dividends. Higher-rate taxpayers pay 32.5% on dividends. However, if your dividend income is above this amount, investing in an ISA could give you the benefit of additional tax-efficient payments.

If you are a basic-rate taxpayer the Personal Savings Allowance (PSA) permits you to earn up to £1,000 interest on your savings without paying any income tax on it. If you are a higher-rate taxpayer you have a PSA of £500 before you pay tax, while additional-rate taxpayers who earn over £150,000 do not qualify for the PSA. ISAs may remain worthwhile for those additional-rate taxpayers who don't qualify, or who have a large amount of savings and have used up the PSA.

If you have investments held outside a pension or ISA, these will usually be subject to capital gains tax when they are sold or given to someone other than your spouse. The gain is usually calculated as the sale proceeds less purchase cost from assets and is taxable at 10% (basic-rate taxpayers) or 20% (higher and additional-rate taxpayers) except for residential property, where the rates are 18% and 28%.

Everyone has an annual tax-free capital gains allowance, currently £12,300. Gains up to this amount can be realised tax-free. If an asset is held jointly with a spouse, both can use their annual exemption against the gain, effectively doubling the tax-free allowance amount.

However, remember that tax rules can change in the future and their effects depend on your particular circumstances, which can also alter over time.

4.
GOOD INVESTING HABITS

Investing money regularly, instead of as a one-off lump sum, can reduce the impact of a market downturn on your portfolio. If you are looking for a smoother ride during volatile markets, pound-cost averaging – where money is drip-fed into the market over time – may be an appropriate option. Steady, regular investments can provide you with some protection in case of sudden market corrections.

Given that we don't know what markets will do from day to day or month to month, this stops you from investing all of your money at a peak and maximising losses. Some of your money will be invested when markets are down, so when they recover you are rewarded. Over the longer term, investing monthly averages out the highs and lows.

5.
PENSION SAVINGS BOOST

It's important to think about how much money you might need in the future and whether you'll have enough to give you the lifestyle you want. Making the right choices now could make a big difference to how much money you have in the future and saving into a pension plan could help you achieve the lifestyle you would like.

Even if you feel that your savings are on track to live comfortably in retirement, you can still top up your pension plan to help give your savings a boost and increase your potential wealth in retirement.

One of the great things about saving into some pension types is the tax relief you can receive. This means that if you're a basic-rate tax payer, for every £100 saved into your pension the cost to you is only £80. This could effectively be even less if you're a higher or additional-rate tax payer.

Tax rules may be altered in the future, and their effect depends on your personal situation, which can also change. Bear in mind, too, that you can't ordinarily draw benefits from a pension arrangement until you are aged at least 55 (rising to 57 by 2028), so this is a long-term investment.

6.
FOCUS YOUR GOALS

Did you start 2020 with plans to save and invest more money and reduce borrowings, but lost your way? Refocusing your finances and recommitting to financial goals can seem challenging, especially during the coronavirus (COVID-19) pandemic, but it's not a lost cause.

Focus on making several small, short, achievable financial goals. By setting smaller goals and achieving them one at a time, you're more likely to stay motivated and reach them.

Remember, yesterday is done and gone. You cannot change what you did yesterday, whether you made good choices or bad ones. But you can change what happens today. Being clear on your financial goals is essential to making the most of your money. Making decisions with a clear endpoint in mind can make it easier to achieve financial security and independence and allow you to enjoy the life you want.

7.
STICK TO YOUR PLAN

As governments around the world take further action to stem the spread of coronavirus, stock markets continue to react with increased volatility. During any period of volatility, thinking about your reasons for investing and what you ultimately plan to do with your money is important. But market volatility is unavoidable and is part of market behaviour. Markets move through stages of growth, slowing down and speeding up. Unfortunately, the timing of those cycles can be unpredictable.

Selling out in fear can be the worst thing to do. Large falls can often be followed by large rises, leading to the risk of losing on both sides – selling when prices are depressed and not buying in until they have moved higher. Avoid the daily monitoring of investments during falling markets as this can result in an over-emotional reaction and lead to making irrational decisions.

8.
SMOOTH OUT RETURNS

When it comes to investing, you need to take on some risk in order to generate a return. One of the best ways to control that risk is through something called 'diversification'. 'Don't put all your eggs in one basket' is a common expression. This means ensuring that you spread your capital amongst different investments so that you're not reliant upon a single investment for all of your returns.

Different types of investments perform in different ways over time. When some rise in value, others are not changing or decreasing. So diversification helps to smooth out your returns. The key benefit of diversification is that it helps to minimise risk of capital loss to your investment portfolio.

9.
DISCUSS YOUR CONCERNS

When faced with certain choices and in the midst of volatile periods, some people may understandably fall prey to their stock market emotions and make decisions that are not in their best long-term financial interest. But it's natural to feel worried.

Even experienced investors steeped in the market's historical cycles may feel torn between emotions and knowledge. That's why having a professional financial adviser, who can advise you before making any decisions, is key. This will enable you to discuss your concerns to help keep those market emotions in check and work together to ensure your long-term investment strategy remains on track.

10.
REINVEST DIVIDENDS

Dividends are payments of some of the profits made by a company to its shareholders. They are not guaranteed, and are at the discretion of the company, but when they are paid, you have the option to reinvest them into more of that company's shares. Reinvesting dividends provides benefits that shouldn't be ignored.

In a current era of low interest rates, investors need to use every tool they can to make the most of their money. Reinvesting dividends can add significant wealth over normal investment returns and is one of the most powerful tools available for boosting returns over time. Those seemingly small amounts reinvested can grow into much larger amounts when used to buy even more shares of stock that can pay further dividends in turn. ■

BRINGING YOUR FINANCIAL PLANS TO LIFE

Planning for a successful future means different things to different people. Whatever your plans, expert professional financial advice can help bring them to life. As the impact of coronavirus is felt across the UK, you may have concerns about how it could affect you and your money. Please contact us to find out more or discuss your future plans with us.

FESTIVE FINANCIAL GIFTS

DECIDING ON THE RIGHT INVESTMENTS FOR THE CHILDREN IN YOUR LIFE

As the festive season approaches, have you thought about gifting your children or grandchildren something different this Christmas? Giving them a good start in life by making investments into their future can make all the difference in today's more complex world.

INVESTING SOME MONEY – EITHER AS A ONE-OFF LUMP SUM OR ON A REGULAR BASIS – IS AN IDEAL WAY TO GIVE A CHILD A HEAD START IN LIFE.

Many parents and grandparents want to help younger members of the family financially – whether to help fund an education, a wedding or a deposit for a first home. Christmas is a time for giving so what better gift to make to your children or grandchildren than a gift that has the potential to grow into a really useful sum of money.

There are a number of different ways to get started with investing for children that could also help you benefit from tax incentives to reduce the amount of tax paid, both now and in the future. Don't forget that tax rules can change over time so it is important to obtain professional financial advice before making financial decisions.

OWNERSHIP OF THE INVESTMENTS

Investing some money – either as a one-off lump sum or on a regular basis – is an ideal way to give a child a head start in life. There are a number of options available when it comes to ownership of investments for a child. Children receive many of the same tax-efficient allowances as adults, so it's a good idea to consider specialist child savings accounts.

Some people prefer to keep investments for children in their name; that way, if a future need arises in which you require access to the funds, it is still available to you as it has not yet been transferred to the child.

If you retain personal ownership of the investment, it will be your tax rates that apply as opposed to the child's. If the investment remains in your estate upon death, more taxes could be payable, so be aware of this.

BARE TRUSTS

You can hold investments for your child in a bare trust or designated account. Bare trusts allow you to hold an investment on behalf of a child until they are aged 18 years (in England and Wales) or 16 (in Scotland), when they'll gain full access to the assets.

Bare trusts are popular with grandparents who would like to invest for their grandchild, because the investments and/or cash are taxed on the child who is the beneficiary. This is only the case if you are not the parent of the child. If you are and if it produces more than £100 of income it will be treated as yours for tax purposes.

Grandparents can contribute as much as they like as there is no limit to how much can be invested each year into this type of account. This can be a beneficial way of reducing a potential Inheritance Tax bill if a grandparent would like to make gifts to a child.

DISCRETIONARY TRUSTS

A discretionary trust can be a flexible way of providing for several children, grandchildren or other family members. For example, you might set up a trust to help pay for the education of your grandchildren. The trust deed could give the trustees discretion to decide what payments to make, depending on which children go to university, what financial resources their families have and so on.

A discretionary trust can have a number of potential beneficiaries. The trustees can decide how the income of the investment is distributed. This type of trust is useful to give gifts to several people, such as grandchildren. However, it's worth keeping in mind that the tax rules can become complex when using a discretionary trust and the investment and distribution decisions are taken by the trustees (of which you can be one).

JUNIOR ISAS

If you want to ensure the money you give to your children remains tax-efficient, a Junior Individual Savings Account (JISA) is available for children born after 2 January 2011 or before 1 September 2002 who do not already hold a Child Trust Fund.

The proceeds are free from income tax and capital gains tax and are not subject to the parental tax rules. They have an annual savings limit of £9,000 for the current tax year which runs from 6 April to 5 April the following year.

A child can have both a Junior Stocks & Shares ISA and a Junior Cash ISA. From the age of 16, children can have control over how their JISA is managed, but cannot withdraw from it until the age of 18.

CHILD JUNIOR SIPPS

It is never too early to start saving for retirement – even during childhood. While it may seem a little early to be thinking about retirement as the parent of a child, it's worthwhile. The sooner someone starts saving, the more they will gain from the effects of compounding. There are significant benefits to setting up a pension for a child. For every £80 you put in, the Government will top it up with another £20, which is effectively free money.

A Junior Self-Invested Personal Pension Plan (SIPP) is a personal pension for a child and works just like an adult one. Parents and grandparents can save up to £2,880 into a SIPP for a child each year. What's great about this gift is that the Government will top it up with 20% tax relief. So you can receive up to £720 extra, boosting the value of your present to £3,600. This can help a child to build a substantial pension pot if payments are made every year.

But while starting a pension for your child or grandchildren will benefit them in the long run, you need to consider that they won't be able to access their money until they are much older. ■

PLANNING TO GIVE THE CHILDREN IN YOUR LIFE A FINANCIAL GIFT THIS CHRISTMAS?

A gift of money to your children or grandchildren at Christmas can be a wise choice, especially if you take a long-term approach. Many families want to give their children or grandchildren a head start for their future finances. When it comes to investing for children, tax can make a big difference to returns over the longer term. We can help you decide on the right investments for the children in your life. Please contact us to discuss the options available.

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THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

ARE YOU KEEPING TOO MUCH IN CASH?

SAVERS HOLDING ONTO EXTRA CASH DURING THE COVID-19 PANDEMIC

Some savers are putting their hard-earned money at risk by holding too much on deposit. Savers holding onto extra cash during the coronavirus (COVID-19) pandemic need to consider their long-term investment options, as new data shows the savings ratio for some people has increased during the pandemic.

Figures published by the Office for National Statistics (ONS) show that the savings ratio as a total, which measures the amount of surplus cash households have, has increased during this period. As a result, some households have been able to increase their cash deposits during the pandemic due to a combination of lower discretionary spending during lockdown and households consciously putting more into cash reserves.

EXPOSED TO THE RISK OF INFLATION

But cash is the investment type most exposed to the risk of inflation. Over the longer term it tends to underperform 'real assets' like stocks and shares. Inflation is a very powerful destructive force and understanding inflation is an important factor when it comes to financial success. Over time, inflation can reduce the value of your savings, because prices typically go up in the future.

According to the ONS, in Quarter 2 (Apr to June) household spending (adjusted for inflation) growth was negative 23.6% compared with Quarter 1 (Jan to Mar)[1]. The largest negative contribution to growth was from restaurants and hotels, which fell by negative 89.4% compared with Quarter 1.

HOUSEHOLDS HOLDING ONTO MORE CASH

The largest positive contribution to growth was from food and non-alcoholic beverages, which increased by positive 3.5% compared with Quarter 1. These ONS figures are also consistent with the Bank of England's estimates that the deposits in household bank accounts grew £17bn a month from March to June, more than triple the rate seen in the previous six months.

But as some households are able to hold onto more cash, many have received underwhelming rates of return on their cash savings. National Savings & Investments (NS&I) recently reduced rates on its savings products, while other cash accounts offer relatively modest returns.

EMERGENCY CASH

A cash savings buffer is key as it provides protection in the event of a loss of income. This means you have something to break your fall and avoid short-term borrowing to cover day-to-day costs. It is normally recommended that households keep enough cash on hand to cover between 3 to 6 months of essential spending. This money should be held in an easily accessible account, although this typically means accepting little or no interest.

CASH SAVINGS

Once you have enough to cover a financial emergency, it is important to start to make some of that money work harder. Locking money up in a deposit account can help savers to achieve a modest return, although rates on cash remain very low.

STOCKS & SHARES

Over longer periods of time, historically the stock market has performed well. There have been and will continue to be plenty of bumps and bruises along the way, but the overall trend has been upwards

Investing can deliver better long-term returns, but markets go up and down over time and past performance is not guaranteed, so it is important when investing to leave the money untouched for several years. One of the most efficient ways to invest is through a Stocks & Shares Individual Savings Account (ISA). This offers tax-efficient growth and every adult can invest up to £20,000 during every tax year, which runs from 6 April to 5 April the following year.

If you have built up a lump sum, this could be invested into an ISA account in one go; however, depending on your particular situation, it may be appropriate to gradually invest in funds or stocks over a period of several months. This process, known as 'pound cost averaging', helps to ensure you smooth your investments and don't invest all your savings at a peak in the market.

LIFETIME ISA (LISA)

Another form of ISA account, the LISA, offers a savings boost from the Government. This is only allocated to those who use the money to purchase a first home or do not access it until they turn age 60. So it is predominantly aimed at first-time buyers, or people who have maximised their pension contribution allowance. If you withdraw it for any other reason, then a penalty applies.

PENSIONS

Saving into a pension fund attracts pension tax relief, rewarding savers with a 20% or 40% top-up for basic and higher-rate taxpayers respectively. Strict penalties apply on withdrawals before age 55, but for those who want to commit money towards their future this is a very tax-efficient way to invest for the long term.

Those people in employment who are eligible to be auto-enrolled into a pension should already have regular contributions to their retirement fund being made through their salary. If they have extra disposable income they may want to consider paying more into their pension.

Some workplace schemes may not be able to facilitate this, in which case a personal pension provider can receive contributions. Normally 20% tax relief will be applied and higher-rate taxpayers may need to recover additional tax relief via their tax return. ■

SAVING FOR THE FUTURE

We all have many different goals in life. These typically fall into short, medium or long-term targets. Depending on the nature of your goals, you may need to consider different ways to save and invest. With so many fund options available, we can ensure that you choose the right solutions to meet your needs and secure your future. Contact us for more information.

Source data:
[1] https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/datasets/

WHY SEEK PROFESSIONAL FINANCIAL ADVICE?

TACKLING PROBLEMS, CREATING A PLAN, DEALING WITH CHALLENGES

Whether you're starting out or well into your wealth creation journey, professional financial advice help you to define your goals and the path to getting there. It gives you a map and ongoing support to help you take control of your future.

Everyone has different goals in life. But whatever your goals, receiving advice can help bring you closer to achieving them. When it comes to managing your money, trying to build wealth, securing your future and drawing up an effective plan for fulfilling your financial objectives, professional financial advice is essential.

REASSURANCE, EXPERTISE AND CONFIDENCE

Now more than ever, households need the reassurance, expertise and confidence that professional financial advice provides during these difficult times. The effects of the coronavirus (COVID-19) are likely to have long-lasting effects on our finances for years to come.

There is a proven direct correlation between a person's financial and mental wellbeing. New research[1] has identified how professional financial advice helps to improve the emotional wellbeing of clients by making them feel more confident and financially resilient when compared to those who have not received advice – especially in times of crisis.

COMMONLY RECOGNISED EMOTIONAL BENEFITS

Around 17 million people in the UK have received financial advice. For advised clients, the most commonly recognised emotional benefits of their adviser's services is having access to expertise, which makes them feel more confident in their financial plans, feeling more in control of their finances and gaining peace of mind.

The research also shows that advised clients feel positive about the service they received – with the key areas of satisfaction being the quality of advice and expertise (82%), communication style (81%) and trustworthiness (81%).

FEELING MORE CONFIDENT ABOUT THE FUTURE

The research highlights that people who receive professional financial advice feel more confident about the future and more financially resilient. Around three in five (63%) who received advice said they felt financially secure and stable compared to just half (48%) who had not received advice. Four in ten (41%) who had not received advice felt anxious about their household finances compared to just a third (32%) of those who were advised.

Advisers also helped people to boost their knowledge and gain a better understanding of their finances – particularly when it comes to protection and retirement planning. Advised clients feel up to three times more confident about understanding products and financial matters, compared with people who don't have an adviser.

A GREATER UNDERSTANDING OF FINANCIAL PRODUCTS

Understanding of financial products was much greater amongst those who were advised compared to the non-advised. A quarter of non-advised individuals said they would not know where to start when asked about life insurance (23%) or protecting against serious illness (24%).

In comparison, just 7% of those who were advised gave this response when asked about life insurance and 8% would not know where to start when asked about protecting against serious illness.

BEING MORE PREPARED FOR LIFE'S SHOCKS

The research also looked at how the coronavirus (COVID-19) crisis made non-advised clients feel about their finances. A third (35%) of people felt anxious about their financial situation and 65% have come to appreciate the value in being more prepared for life's shocks.

An experienced adviser offers professional, tailored advice based on your individual circumstances and future aspirations. By understanding the mistakes that unadvised investors make, we are able to demonstrate the value that an adviser brings. ■

THE VALUE OF PROFESSIONAL FINANCIAL ADVICE

At a time when many people will be worried about their financial future, as the economic impact of COVID-19 continues to be felt, receiving professional financial advice is vital. This research illustrates how advice can offer real help to people in the successful achievement of their goals. If you would like to discuss your particular situation, please contact us.

Source data:

[1] Royal London engaged with a UK nationally representative sample of 4,007 people. The research found 26% of UK population have received financial advice. Based on the latest population figures from the ONS, this equates to around 17 million (17,367,169) people. https://adviser.royallondon.com/globalassets/docs/adviser/misc/brp8pd0008-feeling-the-benefit-of-financial-advice-adviser-report.pdf

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