Essential FINANCE

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Our last edition of Essential Finance was in January of this year and as I sit here today on this rainy, cold (!) July morning, I can't believe how quickly the time has gone by. Even more astonishing is how quickly the world as we knew it changed and became this 'new normal' that we are all trying hard to adapt to. It would be an understatement to say that we've all had quite a time of it these last four months or so and of course, we are not out of the woods yet.

Over pages 20–23, we explain how our business has adapted and what's been happening here at Pennine House and also with our team in general. And as you would expect, there's very much a Covid theme to all of our articles in this edition... despite the circumstances, we hope you find these of help and interest.

As you'll see from the article later on in this edition, we have been very much business as usual throughout the pandemic and that continues to be the case. Should you wish to discuss any of the articles or indeed, anything else then please do not hesitate to contact us on our usual office number.

And finally, like everyone else, we've been making the most of the technology available to us... including Zoom! The picture below was taken during one of our weekly team meetings... you'll no doubt recognise one or two familiar faces and I hope it brings a smile to your face. It certainly did ours... the small things in life, hey?

With best wishes to you, your family and loved ones, we'll see you in the Autumn for the next edition of Essential Finance.

Karen Wynard

Keeping in Zoom

Is video conferencing the new norm? It certainly feels like it!

Like many other people and businesses, our team are making the most of today's technology. From a general natter to getting down to business, it's certainly helped out when working from home.

Contents

Holding your nerve with your investments

Hard as it feels, now is the time to try and stay calm.

There is no disputing the impact of the Covid-19 pandemic. Despite previous coronavirus outbreaks in Asia, such as SARS in 2002, on this occasion it is different. Time now seems to be divided into 'before and after': the old normal and the new socially-distanced reality we are coming to terms with.

These two eras are clearly visible in the global stock markets, most of which fell sharply in March as the virus spread globally, closely followed by lockdowns and economic contraction.

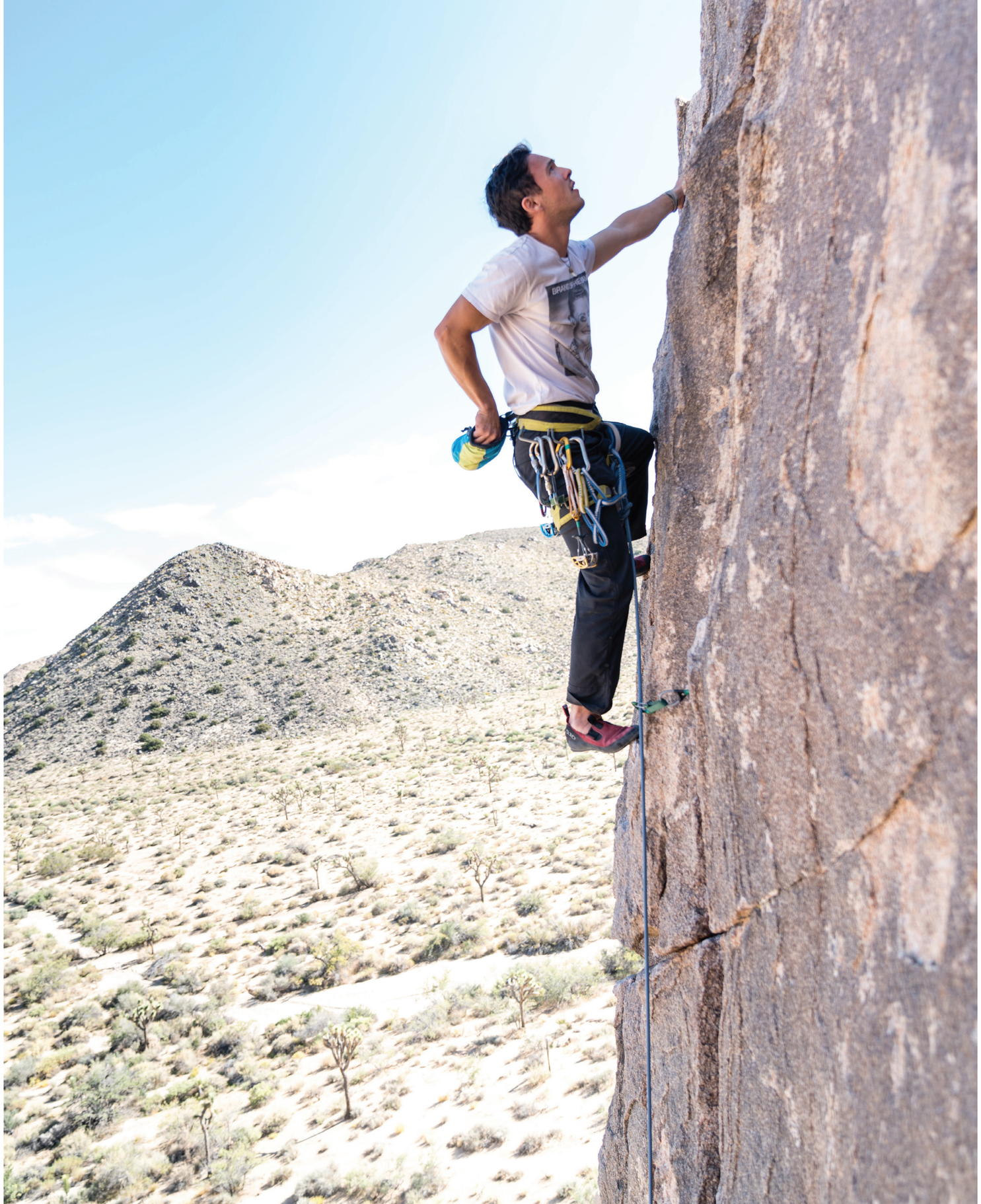
A steady stream of commentary has discussed whether life as we knew it has changed forever, from air travel to working patterns. That perspective of major changes has also extended to suggestions that there has been a fundamental change in the investment world. The scene has certainly altered – at least for now. There has been increased volatility in the values of investments, while businesses have reacted to the new environment in a variety of ways, the most obvious being to reduce dividend payments, which you will probably notice in coming months.

Taking a long view

However, it is worth trying to take a longer-term view. Think back – if you can – to previous crises, such as the financial crisis of 2007/08, the 9/11 terrorist attacks, the turn-of-millennium dotcom bubble and even the great storm and accompanying stock market crash of 1987. At the time, each of those events felt momentous and a break in history. Now, with the benefit of hindsight, these may even appear as little more than dips on a long-term investment chart. Investors who stayed the course did suffer in the short term, but they benefited in the long term. Those who panicked and sold up may have chosen the worst point to do so, and then faced the difficult decision of when to reinvest.

All we can say with certainty is that 2020 will be remembered as a difficult year for investors, but perhaps just one of many over the life of a portfolio.

The value of your investments, and the income from them, can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.



Planning towards your century

The extraordinary fundraising achievements of the 100 year old Captain Tom Moore have highlighted both how long some of us will continue to lead active and fruitful lives, and also how much the quality of such a long life will depend on how well we've planned for it.

The number of people who celebrate their 100th birthday has quadrupled in the last 30 years, according to the Office of National Statistics (ONS). Pre Covid-19 this trend looked likely to continue, with the ONS forecasting that around 19% of all new-born girls (and 14% of all new-born boys) will become centenarians.

The downside of living a long time in retirement is that your finances might not last the course. Most people start the last third of their lives in reasonably good health and with apparently adequate resources. But a long life does not always imply a healthy life. You might well need help with care costs if you were to fall ill or require help with your basic living activities. It is also likely that individuals will have to make a significant contribution towards their care costs in the future.

The other calls on retirees' financial resources may come from their families. The costs of going to university, buying a house, as well as school fees for the youngest relatives could all impact on the solvency of that great institution – the bank of mum and dad, or grandma and grandad. In addition, there could be the need, or at least the desire, to make a dent in a potential inheritance tax bill by making some lifetime gifts.

The traditional three life stages of education, work and retirement have become increasingly blurred as people retrain, set up their own businesses and switch careers for a longer working life. This gradual transition from work to retirement needs to be planned for.

Creating the right mix between investments, pensions and earned income will be key: planning that far ahead is never easy, so professional financial advice should be your first port of call.

If you are drawing up a financial plan to see you through to your late 90s, here are some practical steps to consider:

- ***Be flexible:*** *Financial plans and your attitude to them should be flexible to cope with unexpected changes. As we've seen recently, stock market falls can impact on your portfolio and pensions and you may be forced to adjust your plans, such as reviewing the age you intend to start drawing your pension.*
- ***Start saving early****: The longer your money is invested, the more it should be worth, thanks to the benefits of compound returns. Retirement may seem a long way off if you are in your 20s and 30s, but money put aside now can make a difference to your financial wellbeing in your 70s or 80s.*
- ***Know what you have****: Pensions are probably the cornerstone of your retirement plan, and they offer valuable tax relief. Keep track of your various pensions and get an up to date valuation of your State pension entitlement.*
- ***Maximise savings****: If you get a pay rise, increase your pension contributions so your savings keep pace with your income. It may be prudent to invest at least some of any windfall, for example from an inheritance, rather than spend it all at once.*
- ***Review your essential bills and additional spending****: If you are able to enjoy a healthier and more active later life, you may need more funds for leisure activities or holidays. Judicious cash flow planning can help you gauge how much you may need to save for any given stage.*

One lesson we can learn from Captain Tom – there's always scope for something new.

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Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

It will happen to you…

The Covid-19 pandemic has provided many people with an awkward reminder of things they prefer to ignore.

Key workers have become much more prominent during the coronavirus crisis. The list of 'key' occupations surprisingly included solicitors "acting in connection with the execution of wills". Like many of the other unexpected members of the list, their presence becomes clear once you stop to think about it.

Some solicitors' firms saw double the normal number of enquiries about will writing just as the lockdown started in March, according to the Law Society. Many people discovered that having a will suddenly moved up their list of priorities from 'do-it-later' to 'do-it-now'. Writing a will forces people to recognise their own mortality, which is why deferral and delay so often sets in. The Covid-19 pandemic has provided enough additional incentive to prompt many people into action.

However, difficulties with last minute solutions are a reminder of why it is much better to prepare in advance. For example, in England and Wales, the Wills Act 1837 requires the signature of the person making the will to be witnessed by two people who are physically present at the signing – video links do not count, according to the Ministry of Justice.

To complicate matters further in a time of social distancing, neither witness should be a beneficiary under the will, because it would invalidate their entitlement. Northern Ireland takes the same approach, although in Scotland the law only requires a single witness and the rules have been amended to allow for video witnessing.

Over half of the British adult population currently do not have a will. If you are part of that majority, then the rules of intestacy (which vary between the four constituents of the UK) will determine how your estate will be distributed on your death. Whether those rules are appropriate will depend upon your personal circumstances. But you should bear in mind that the intestacy rules do not automatically pass everything to a surviving spouse or civil partner if there are children, nor do they make any provision for unmarried partners.

Keeping control

Having a will lets you decide who receives what from your estate and can also control when and how benefits are distributed if you use a trust. For example, you may not want your children to inherit outright at 18.

Ideally your will should form the cornerstone of your estate planning. We can work with you and your legal advisers to develop a structure that meets your long-term goals as tax-efficiently as possible. The inheritance tax rules are particularly relevant at present because various changes look likely to be announced in this autumn's Budget. However, you shouldn't regard these expected tax changes as a reason to procrastinate. In fact, it is more important to act now and review lifetime planning options, which could become less attractive if the proposed reforms currently being considered take effect.

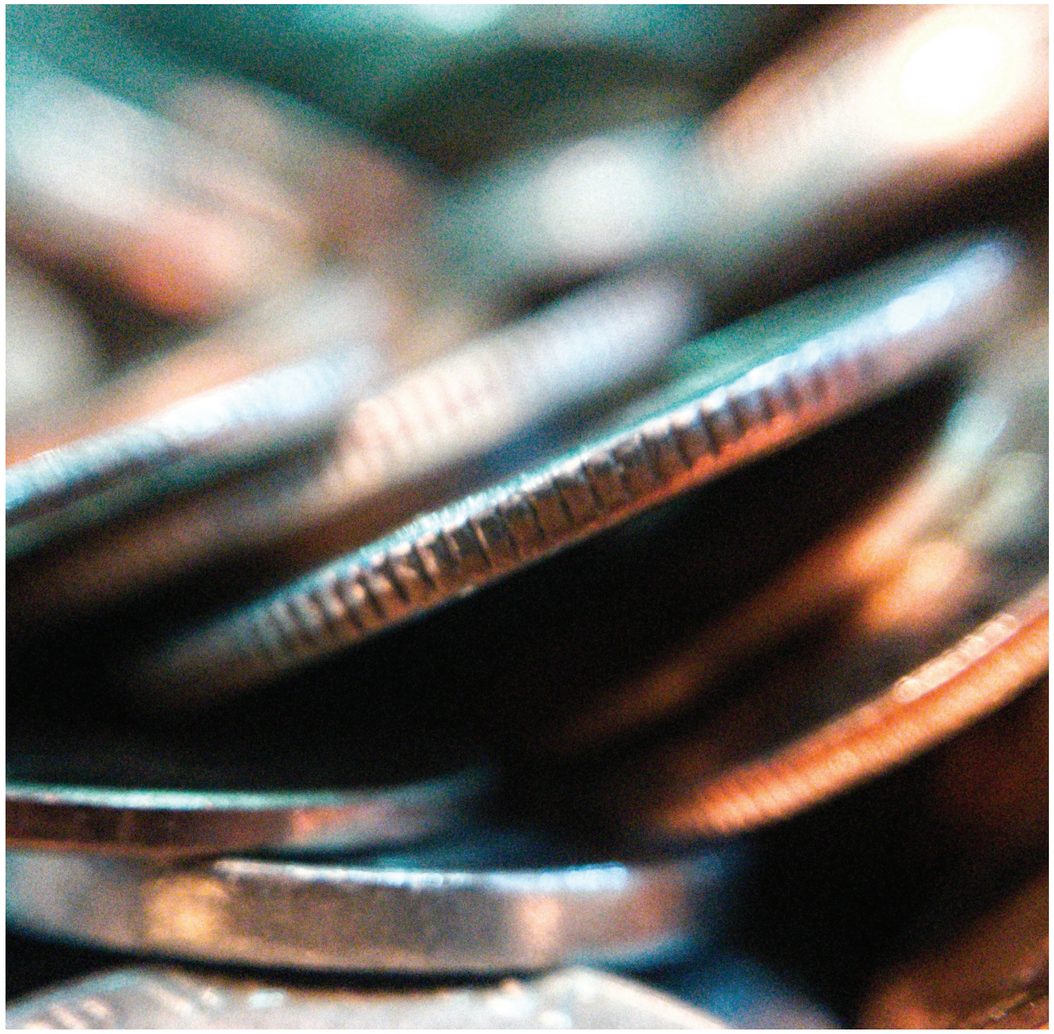
Even if you do have a will, don't file it away and forget it. A will, like any other piece of financial planning, needs to be reviewed regularly to reflect both changes in your circumstances and to tax rules.

The Financial Conduct Authority does not regulate will writing, trusts and some forms of estate planning.

The Financial Conduct Authority does not regulate tax advice, and tax laws can change.

Time to review your drawdown plans

Many people may need to reduce the income they are taking from their drawdown pension funds in light of recent falls in the value of their investments resulting from the economic impact of Covid-19.



The dramatic initial falls in equity markets were followed by some recovery and were by no means fully reflected in portfolios that were diversified into bonds and other assets. But there may, of course, be further fluctuations ahead.

The falls have reduced the value of people's pensions, equity ISAs and investment portfolios. For those accumulating savings and contributing regularly to a pension, the general guidance has been to continue contributions and wait for asset prices to recover in the longer term.

The situation can be different, however, if you are taking regular withdrawals from your pension fund or other investments and you may need to review your pension planning.

Taking withdrawals

Withdrawals from pension funds are typically derived from dividends, interest and sales of units in the funds you hold in your pension. That is how you are able to benefit from the total returns of capital and income generated by your pension portfolio. If fund values continue to rise reasonably steadily, the combination of income and capital withdrawals should provide a steady source of income.

But a sudden downturn means you would need to sell more units in your funds to support the same level of income. The losses would be crystallised and those units would no longer be in your pension portfolio to bounce back if the market improves again. The impact on long term values is much greater if the downturn, and the consequent sales of units at lower values, occurs early on in retirement. The technical term for this is 'sequencing risk'.

Investors with well diversified portfolios have seen some of their holdings decline much less than other components in the portfolio. So the overall impact may well be much less than some of the headline figures, and withdrawals may not have a serious effect on future performance.

The necessary rebalancing of portfolios may also allow withdrawals to come more from funds that have held up relatively well.

Many investors have some cash reserves that have been set up for such circumstances. If you are in this position, you might feel that it would be preferable to draw now on these cash reserves and wait for a time to make further drawings from your investments.

Under lockdown, our levels of spending have declined with sharp cut-backs on eating out, holidays, clothing and many other purchases. A temporary reduction in expenditure and plans for future spending may be a prudent strategy in the circumstances. There is also the possibility that some taxes are likely to rise soon to cover the costs of the pandemic.

Regardless of how you use your drawdown plan, it is essential to review the income you take from your investments on a regular basis. If fund values have fallen - or simply not grown as much as anticipated - you can act accordingly so that long-term plans are not jeopardised.

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Can you afford to leave protection to chance?

The State benefit system has come under more intense scrutiny during the coronavirus pandemic, highlighting some of the most serious gaps.

There is nothing quite like a crisis to show where societies are vulnerable, as has been well demonstrated globally over the past few months. In the UK, the immediate concern was the resilience of the NHS, which initially appeared at risk of being overwhelmed by demand for intensive care beds. Then, like many other countries, the UK was also forced to look at providing extra financial support for people who suddenly found themselves out of work, whether through illness, quarantine requirements or temporary business closure.

The most significant element of the Government's response was the Coronavirus Job Retention Scheme (CJRS), which by late May was covering nearly 8.4 million employees on furlough – handing them up to £2,500 a month in replacement 'pay'. Without the CJRS, many of those employees would have looked to means-tested Universal Credit, under which the standard allowance for a couple aged 25 or over is just £594 a month, before any additions (e.g. for children). Even that lowly figure includes a temporary increase for 2020/21 of about £87 a month.

For employees who were suffering from Covid-19 symptoms, the four-day waiting period before statutory sick pay (SSP) began payment was scrapped, which sounds generous until you realise that SSP is worth only £95.85 a week.

The government also introduced a range of other measures to support anyone with reduced earnings, such as changing the law to prevent evictions for three months and, through the Financial Conduct Authority, pushing banks and other lenders to grant three-month payment holidays for mortgages that, provided they are pre-approved, do not affect the individual's credit file for that period.

Getting back to normal

The damage that could have been done to millions of families by the fallout from Covid-19 has been mitigated by the Government's multifaceted response. However, the Chancellor is already acting to limit the cost of the Covid-19 measures on the government's finances. In a year or so from now, the social security safety net will probably have reverted to its lowly pre-Covid-19 levels.

The crisis has highlighted the importance of having your own financial protection arrangements to cover possible income loss from illness or disability. The lesson of this experience is that the 'normal' social security safety net is inadequate, but full protection would probably be too costly for the Government to provide: protection needs to be personal.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it (coronavirus concessions aside).

Think carefully before securing other debts against your home.

The kids are alright…

The first Child Trust Funds (CTFs) are due to mature this September, giving those who turn 18 in that month access to a useful nest egg.

The Chancellor has more than doubled, to £9,000, the amount that can now be saved into a CTF, and its replacement the Junior ISA (JISA). Parents and other family contributors now have the opportunity to contribute more towards younger family members' savings. Both CTFs and JISA plans can be cashed in by children who have them from their 18th birthday.

The value of CTF plans will vary considerably. Some families will have made substantial contributions over the years, and there may be further investment growth on top. Others will find that this 'trust fund' contains just the initial payment made by the government when they were launched in January 2005. All children born between 1 September 2002 and 2 January 2011 were eligible.

Parents initially received a £250 payment from the government to invest in either a cash or stocks and shares CTF plan (lower income families received a £500 payment). However, this was later cut to just £50 before the scheme was withdrawn in 2011. CTFs were then replaced by JISAs, although contributions could continue for existing CTFs. JISAs didn't come with any 'free' money from the government, but the annual savings limits have increased regularly over the years.

A child can't have both a CTF and a JISA. However, it is possible to transfer a CTF into a Junior ISA. Although the tax benefits are the same, interest rates paid on cash JISAs are higher than on the older CTFs. There is also more product choice.

Saving tax free

With each of these accounts, savings can roll up in a tax-free environment, as there is no income tax to pay on any interest earned (in cash holdings), or capital gains tax (CGT) to pay on investment returns. For those able to save more substantial sums this may be a benefit. It's also worth noting that parents and grandparents can make contributions into these accounts on top of their own ISA limits.

Neither child nor parent can access these funds before the child's 18th birthday, at which point a JISA rolls into a standard ISA in the child's name. Those with CTFs can roll their money over into an ISA at this point too, if they don't want to cash in these savings. This may be the preferred route that parents wish to encourage.

For most young adults, coming into these savings may be their first experience of managing substantial sums, so it's worth discussing with them in detail. There are likely to be short term calls on the funds for higher education or other costs, but there are additional saving options such as personal pensions. These may seem a very long term investment indeed for an 18 year old, but the earlier savings start to build, the better.

The value of your investments can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on individual circumstances. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

The value of tax reliefs depends on your individual circumstances. The Financial Conduct Authority does not regulate tax advice, and tax laws can change.

National Savings hold off on rate cuts

National Savings & Investments (NS&I) has cancelled planned rate cuts on a number of its variable rate accounts, including its popular Premium Bonds, to help savers during the Covid-19 pandemic.

Initially it had planned to cut the prize 'rate' on Premium bonds from 1.4% to 1.3% in May. Proposed rate cuts have also been cancelled on its Direct saver account (which will continue to pay interest at 1%), its Investment account (0.8%), and its Income bonds (1.16%).

However, NS&I has cut rates on its fixed rate products as planned. This includes its Guaranteed Growth Bonds, Guaranteed Income Bonds and Fixed Interest Savings Certificates held by existing customers over different terms, from one to five years.

This will affect those reinvesting after a product matures. If you currently have one of these products then the rate is fixed until the end of the term.

Restart child benefit?

The high income child benefit charge means that a family in which a parent has an income between £50,000 and £60,000 can either:

- Choose to stop receiving child benefit (£21.05 a week for the first child and £13.95 each other child); or
- Pay back a percentage of child benefit paid, in income tax. Those earning £60,000 or more will have to repay the entirety in income tax if choosing this route.

If you have chosen the stop-payment option, you may wish to revise your choice in 2020/21. Your earnings may well fall in the current tax year – perhaps you have been furloughed on £2,500 a month – in which case your annual income may drop below the £50,000 threshold at which these complications occur.

A claim for child benefit payments can only be backdated for a maximum of three months, so if you are in that situation, the sooner you ask the Child Benefit Office to restart payments, the better.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

Our News - Summer 2020

Business as usual in unusual times...

We have a very detailed Disaster & Business Continuity plan here at Eastwood Financial Services but guess what? It didn't include a global pandemic! As you might expect, it certainly does now...

Luckily for us, we have a very straightforward business in that we are based in one, very accessible location and the majority of what we need is stored electronically meaning that most of our staff are able to work from and are contactable at home. So prior to the Prime Minister asking us all to 'Stay at Home', we were already gearing up for such an eventuality. We have retained a skeleton staff in the office throughout and are now gradually working towards operating fully from Pennine House again.

Obviously, our business is based very much on the relationships we have with our clients, contacts, suppliers and of course each other. There is the good old telephone and email is the gift that keeps on giving but the ability to use video calling and Zoom has meant that we've been able to keep in touch very effectively these last few months. Zoom in particular has been a god-send for us... whilst you can't beat face to face contact, Zoom is a good enough substitute for the time being.

And of course, we look forward to welcoming staff and clients back to Pennine House in due course. We have a fantastic space here and we are very proud of it... at the start of the lockdown, it saddened me to open up the building every day but then leave rooms and areas locked up and in darkness for days on end. I've made my peace with that now but I did feel like Miss Havisham on a few occasions!

Our weekly team meetings have been fun... each adviser has taken it in turn to put together a quiz. I can hear the groans from here 'not another quiz!' but I have to say, we've got some very talented individuals when it comes to animations, graphics and quiz-mastering! The competitive spirit to outdo each other has grown week by week... and I can certainly vouch for the fact that the quizzes have got harder as the weeks have gone by!

So that's us... I'm delighted and proud to say that we rose to the challenge and in the main, have experienced a seamless transition from normal to 'new' normal. However, as I say that, I haven't lost sight for one minute that this hasn't been the case for all businesses and they continue to have our thoughts and best wishes.

Karen Wynard

And in other news…

Huge congratulations to our director Anthony Flowers and his wife Grace on the arrival of their first child, Roisin Mary Flowers. Roisin came into the world in the early hours of the 30 June, weighing 7lb 6oz and the family are all very happy and doing well.

Congratulations also to Ian Sheppard who joined our board of directors back in May. Ian is well known to us and has worked within the Eastwood Group of companies since 2011... he'll provide oversight for our IT and finance functions whilst assisting with general support and commercial aspects within the business.

Work / Life Balance

Up and down the country, homes have been transformed into offices and classrooms and our team have faced the same challenges.

From keeping a watchful eye on children and their schoolwork to popping into the office and collecting chairs to avoid the backache that comes with sitting on dining room chairs for prolonged periods of time, we've all got some stories to tell!

Lockdown Bingo

My contribution was lockdown bingo – a bit silly but highly successful at lifting our spirits! The aim of the game was simple... take a selfie for each category (anything from a rainbow for the NHS to a closed pub) until you have a full house.

A £50 Amazon voucher was up for grabs for the winner. Hayley Hartley, together with her two young children Poppy and Oscar, managed to get herself out there in the pouring rain and complete it very quickly – fair play to her and a job well done!

Warwick Busfield

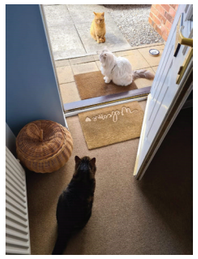
And what about our lives in lockdown?

We all remember how we felt when lockdown started. It's been hard on everyone, especially when it comes to missing our loved ones. But during these uncertain times, it's important to consider the positives we can take from it. From clapping on our doorsteps every Thursday night, to decluttering our home 'Marie Kondo' style – we're all handling lockdown life in different ways. Here, some of our team tell us about some highlights from their own experiences.

For me, lockdown has meant catching up on everything I didn't have time to do before. For the first time in a while, my weekends consist of no plans, no sense of time and nowhere to be.

I'm working through a backlog of books such as 'The Maid of Buttermere' which takes me back to my beloved Lake District, there's no excuse for me to miss virtual fitness classes with my personal trainer, and I've been taking long walks in the countryside – something that certainly hasn't gone unnoticed by my dog, Flick!

Karen Wynard

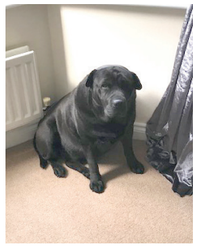


Keeping our distance, especially from those closest to us, has been hard on us all. But for Jake, Milo and Oscar, they have mastered the art of social distancing.

No prior training was required from me!

Ian Devlin

Personally, lockdown has helped me to rediscover forgotten hobbies. The big one is the joys of gardening. I'm certainly no Monty Don but our garden has never looked better!

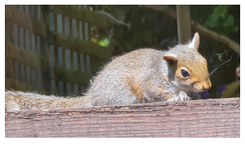


But who's enjoying lockdown most in the Yemm household? I'd have to say our dog, Tia. With unlimited walks and attention, she's never wagged her tail more. It also meant more fresh air and exercise for us, and I'm certainly feeling the benefits.

Clive Yemm

Walking in David Attenborough's footsteps, I've been following my local wildlife by setting up a camera trap in my garden – it's certainly made lockdown life more interesting!

The owl photograph was taken from my back door, the squirrel was found out on the patio and the fox was captured using the camera trap.



Tim Ball

Meet Teddy and Tilly. Those of you who have had Zoom calls with me will probably already be familiar with these two (they like to make an appearance on the windowsill behind me). I did try putting them in the kitchen out of the way when I was on these calls, but they just start knocking very loudly on the glass kitchen door until it is opened so I quickly gave up on that idea and just let them sit silently behind me instead. Also, if you ever hear snoring on a call with me please be reassured that I have not fallen asleep on you… I usually have a sleeping Staffy next to me when I am working.

Rachael Craven

My highlight of lockdown has been sending a weekly blog to all clients – but even more so, I really enjoyed reading their responses and how people filled their time during lockdown.

All the different stories and unusual things people have been doing to pass the time definitely lifted the spirits!

One particular stand out memory I wrote about was clapping on a Thursday, although I couldn't explain why and still can't – must be getting old and soft! I wrote: "I do live in quite a large village but a fairly quiet street with mainly older villagers but watching and joining in with them on Thursday at 8.00pm bashing pans, cheering, clapping and ringing cow bells in appreciation of all key workers still echoes and will always remind me of how we all come together for people putting themselves in the front line for our protection. Our effort, insignificant I know – but it just feels right?".

Richard Turner

Giving you financial freedom

Eastwood Financial Services is committed to offering independent, careful and comprehensive financial planning to both businesses and private clients.

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