INVEST SOUTHWEST

12 Hammet Street, Taunton TA1 1RZ

T: 01823 353970

E: info@investsouthwest.co.uk

W: www.investsouthwest.co.uk

INVEST SOUTHWEST

INDEPENDENT FINANCIAL ADVISERS

Your Wealth

Autumn 2021

Inside this issue

Estate planning update

HM Revenue & Customs (HMRC) published its annual statistics on Inheritance Tax (IHT) in late July, revealing that IHT payments in the 2020-21 tax year totalled £5.4bn, up around £0.2bn (almost 4%) on the previous year, when receipts were slightly lower than 2018-19. Typically, more than 20,000 deceased estates a year are subject to an IHT charge.

The figures reveal that there has been a reduction in the number of estates affected in recent years, which HMRC believes is due to the phased introduction of the residence nil-rate band, which can allow the estates of married couples and civil partners to receive a total £1m nil-rate IHT band. A transferable nil-rate also assists this outcome, as it is possible to transfer any unused IHT allowance on death to a surviving spouse.

Estate planning can help to keep an estate out of the clutches of IHT or at least reduce the amount of tax payable, by taking simple steps such as making lifetime gifts, through to more complex trust arrangements. It is a specialist area, particularly with the possibility of a revised IHT regime being introduced, so professional input is advisable.

Reasons for economic optimism in the autumn months

Over the summer months, forecasting agencies took turns to upgrade their growth projections for developed nations as a succession of strong economic data was released. For example, in its latest assessment, the International Monetary Fund (IMF) increased its combined 2021 growth forecast for advanced economies by half a percentage point, primarily due to the success of vaccine rollouts and government stimulus measures supporting recovery. So, with the arrival of autumn, there are reasons to be optimistic, though future growth prospects are likely to be closely linked to the course the virus takes.

Uncertainties and risks

The IMF assessment did highlight a divergence in fortunes between rich and poor nations due to differing levels of access to vaccines. As a result, an offsetting downgrade across emerging markets and developing economies has resulted in the overall global growth forecast remaining unchanged.

Ongoing concerns surrounding inflation also persist, despite policymakers' insistence that the recent upward trend in prices will prove to be transient. Furthermore, current levels of government and central bank spending can only be a temporary phenomenon and, when stopped, will certainly have an impact on growth.

Grounds for optimism

While the outlook is therefore expected to remain relatively uncertain, there are grounds for investor optimism. Market fundamentals remain comparatively strong, with earnings growth still being fuelled by pent-up demand as economies reopen, and companies start to invest again as the recovery continues to gather momentum.

Diversification remains vital

There is no question that the world is in a period of immense change, with issues relating to the pandemic, as well as sustainability, fundamentally changing the investment landscape. Some things, however, do not change, like the importance of holding a diversified investment portfolio and the need for expert financial advice. That's where we come in.

The value of investments and income from them may go down. You may not get back the original amount invested. Inheritance Tax Planning is not regulated by the Financial Conduct Authority.

In the news

ESG assets will exceed £36.5trn by 2025

ESG assets are forecast to exceed £36.5trn – over a third of projected global assets – by 2025, according to Bloomberg Intelligence[1]. The analysis comes as environmental, social and governance factors are becoming increasingly important to investors across the globe.

Adeline Diab, Head of ESG and Thematic Investing EMEA & APAC at Bloomberg Intelligence, said, *"The pandemic and the global race to net zero carbon emissions have put ESG criteria into orbit – from niche to mainstream to mandatory."*

Significant recovery for UK dividends in Q2

UK dividends rose by 51% in the three months to June 2021, jumping to £25.7bn on a headline basis[2]. Almost 90% of the increase, when compared to Q2 2020, can be attributed to firms restarting dividends. The increase was significantly ahead of an expected rise of 31%.

Income rich, cash poor

Research[3] has revealed that 23% of households with an income of £100,000 would be unable to cover a major unexpected bill or survive more than three months without their income. The same is true for over one in ten households earning over £150,000. Although high earners have more coming in each month, in turn, they tend to have more outgoings, which can make saving difficult. However, the importance of having emergency funds should not be overlooked – it is essential for improving your resilience to financial shocks.

[1]Bloomberg Intelligence, 2021, [2]Link Group, 2021, [3]hl, 2021

Grandparents increased generosity during the pandemic

Most grandparents are familiar with the financial challenges faced by their grandchildren as they progress through education and into the world of full-time work. Costs such as university tuition fees can leave upcoming generations with substantial debts even before they enter the workplace, making it harder for them to save for a deposit on their first property purchase.

The impact of coronavirus has added a new dimension to the problem, with disrupted education and a battered economy raising uncertainties about future earnings potential. Many grandparents who have been fortunate enough to be able to help the next-generation-but-one along the rocky road to their lifetime dreams and ambitions, have been able to increase their help.

Evidence that grandchildren have often benefited financially from locked-down grandparents, unable to spend on holidays and eating out, has been provided through research conducted by Scottish Friendly Assurance Society. The financial mutual company surveyed a sample of grandparents who were already investing for their grandchildren to see what influence the pandemic had exerted.

Almost half increase their largesse

Responses showed that 47% of those grandparents had increased amounts given to their grandchildren during the previous 12 months. The main drivers were found to be a reduction in their own spending opportunities during the COVID-19 restrictions and a heightened desire to create a larger savings buffer for their grandchildren at a time of economic uncertainty.

Jill Mackay of Scottish Friendly commented, *"There are grandparents who do have the discretionary income to put towards family savings and this can be a big support. It's also encouraging to see grandparents deciding to invest more of their money rather than save it in cash."*

The value of investments and income from them may go down. You may not get back the original amount invested.

Blocking out *'noise'* for the good of your portfolio

It's so easy to feel overwhelmed by the endless barrage of negative news or *'noise'*, which can stoke anxiety about the performance of your investments and doubts over whether your investment strategy is on course. Learning to block out this noise, which may influence hasty or erratic investment decisions, is essential.

By keeping a record of your reasons for investing, you can help temper any inclination to deviate off course. Revisiting your initial decisions enables you to gauge whether your long-term priorities have altered.

Step back and breathe
The use of devices allows us to instantly be updated, which is important for things like keeping in touch with family, but with investing, avoid the temptation to set up alert notifications for companies or funds in which you are invested. Short but sweet advice from global investment guru Warren Buffett in 2016, after a period of extreme market volatility, perpetually rings true, *"Don't watch the market closely."*

Although there are obviously no guarantees, blocking out *'noise'* to focus on the long term, gives your investments a greater chance of yielding positive returns and benefiting from compounding.

Becoming a financial wellbeing *'all-rounder'*

Financial wellbeing is closely aligned with the control people have over their financial future. People with high levels tend to meet their long-term financial goals and have a clear idea about what makes them happy and what they want from life. This allows them to identify and achieve more meaningful life goals before and during retirement.

Balancing mind and money
People with a financial adviser are over four times more likely to display high levels of financial wellbeing, a new study[4] has determined.

Based on a survey of 10,466 UK residents, the study highlighted that the key to building financial wellbeing is to have both *'mindset'* and *'money'* building blocks. Those with the best financial wellbeing scores did well on both fronts.

Are you an *'all-rounder'*?
Respondents with the best possible combination of scores were classified as *'all-rounders'*, with this group financially comfortable and enjoying life now while also planning for their future happiness. Such people are equipped to achieve the perfect balance between understanding the importance of both money and mindset.

Wellbeing and advice aligned
Unsurprisingly, the data highlighted that people who seek professional financial advice are far more likely to fit into the *'all-rounder'* category, when compared with those who do not. Only 10% of those who had never received financial advice were lucky enough to combine a positive money mindset with healthy finances, compared to 44% of those who have an ongoing relationship with their adviser.

[4]Aegon, 2021

Working together to tackle the climate crisis

Due to be held this November in Glasgow, the United Nations 26th Conference of the Parties – COP26 – is recognised as the most important climate change event since the 2015 Paris Agreement. The summit will bring together world leaders to build on the work left unfinished by COP25.

Countries are being asked to co-operate to reduce emissions, with the aim of achieving global net zero by mid-century, as well as mobilising finance, and protecting natural habitats and communities.

The investment industry has stated its intention to play a vital role in the global climate transition. Launched in December, the Net Zero Asset Managers Initiative has grown to over 120 investors, managing $43trn – all committed to supporting the goal to reach net zero and investments aligned with net zero emissions. COP provides an opportunity for investors to consider how they can innovate in developing solutions to solve climate issues and in financing sector transition.

Institutional Investors Group on Climate Change CEO, Stephanie Pfeifer, commented on the popularity of the initiative, *"In just six months nearly half of the global asset management sector has committed to achieving net zero emissions with their clients across the funds they manage. This marks a fundamental tipping point across the investment sector and a significant boost in efforts to tackle climate change and decarbonise the global economy. There's a lot more to achieve, but the sector is increasingly on a path to a net-zero future."*

The value of investments and income from them may go down. You may not get back the original amount invested.

Sudden Wealth Syndrome: coping with a windfall

You'd be likely to feel happy and excited if you received a large windfall suddenly or unexpectedly. Whether you're receiving an inheritance, have become a successful entrepreneur, or perhaps you're selling your business, the reality is that for many, sudden wealth can feel overwhelming.

It can even result in a recognised psychological condition called *'Sudden Wealth Syndrome'*. Symptoms vary from person to person, but can include feelings of isolation, uncertainty about the future, or fear of losing their new-found financial stability.

Adapting to a new financial status can lead to poor mental health and even result in self-destructive behaviour, such as excessive spending or risky investments. Unfortunately, news stories about people who won millions in the lottery before losing it all, or getting into debt, are all too common. Our mental state has a significant impact on how we handle our money, in fact 46% of people who struggle with debt were found to have a mental health issue[5].

How to avoid the negative impacts of sudden wealth

Although we can't avoid all the negative feelings associated with sudden wealth, there are things we can do to safeguard our finances:

- Don't act in haste – take your time before making any decisions. In the meantime, put your windfall into an easy-access savings account(s), within Financial Services Compensation Scheme limits, where it can accrue interest
- Stay under the radar – Sudden Wealth Syndrome can lead to anxiety and paranoia that people only like you because you have money, so by keeping things discreet, it will help alleviate these feelings and assist clear decision-making
- Take professional advice – investing or spending large sums without advice can be catastrophic for your finances. It's vital to take professional investment and tax planning advice.

To ensure your new-found wealth works hard for you and your family, we're on hand to help you make wise decisions.

[5]Money and Mental Health Policy Institution, 2019

IF YOU WOULD LIKE ANY ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.

LPA overhaul? – consultation launched

During the summer, the Ministry of Justice launched a 12-week consultation into the process of registering and creating a Lasting Power of Attorney (LPA).

A handy component of intergenerational wealth planning, LPAs are legal documents, introduced in 2007 to replace the Enduring Power of Attorney, that allow one person (the *'donor'*) to appoint another (the *'attorney'*) to manage their finances and/or general health and welfare. Questions have arisen in recent years, as to the system's fitness for purpose. Also, concerns that unscrupulous relatives may be abusing the system to gain access to their elderly victims' wealth, have arisen.

Time for tech

The Ministry of Justice commented, *'The number of registered Lasting Powers of Attorney (LPA) has increased drastically in recent years to more than five million, but the process of making one retains many paper-based features that are over 30 years old... The consultation will look at how technology can be used to reform the process of witnessing, improve access and speed up the service.'*

With the consultation closing in mid-October, the government intends to publish a response in January 2022.

The value of investments and income from them may go down. You may not get back the original amount invested.

In other ***news***

Triple lock changes for 2022-23

After much speculation, in September, the Secretary of State for Work and Pensions, confirmed suspension of the average earnings component of the pension triple lock, to avoid a disproportionate rise of the State Pension following the pandemic. For the 2022-23 tax year only, the new and basic State Pension will increase by the higher of either 2.5% or the consumer rate of inflation.

National Insurance and dividend tax rises

A new health and social care tax will be introduced across the UK from April 2022. The tax will initially begin as a 1.25 percentage point increase in National Insurance, paid by both workers and employers. From April 2023, it will become a separate tax on earned income, calculated in the same way as National Insurance and ring-fenced as a health and social care levy. Tax on share dividends is also scheduled to increase by 1.25 percentage points.