Financial Viewpoint

Carl Summers Financial Services

Thank you for reading our newsletter, if you would like to discuss any of the articles further, please do not hesitate to contact us

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How has COVID-19 affected your retirement?

2.6%

the average pension fund is 2.6% lower than at the start of year

1.5 million

people over the age of 50 are planning to delay their retirement

15%

plan to delay retirement by an average of three years

26%

say they plan on working indefinitely

The coronavirus pandemic has not been kind to older generations. As well as having a greatly increased risk of serious health complications from the virus itself, older people have suffered a serious blow to their retirement plans.

Data from Legal & General shows that 1.5m people over the age of 50 are planning to delay their retirement in some way as a direct result of COVID-19. Fifteen percent say they plan to delay retirement by an average of three years, while 26% say they plan on working indefinitely.

Pension funds fall…

Pensions savers initially saw the value of their pension pots fall in response to the stock market slump, which impacted the retirement income available for those on the verge of retirement. This is the main reason why so many are planning to delay their retirement. The average pension fund fell by 15.2% in Q1 2020 – an even worse performance than that observed at the height of the global financial crisis. Despite recovering losses in Q2 2020 the average pension fund is still 2.6% lower than at the start of the year.

… but flexible withdrawals decrease

Many savers have not panicked but taken a sensible approach to the crisis, with data showing that less money was flexibly withdrawn from pensions in the second quarter of this year. Savers withdrew £2.3bn during this period, down 17% on the £2.8bn withdrawn in Q2 2019. This suggests that in the face of challenging circumstances, savers have been able to use their common sense, resist temptation and keep their retirement plans on track.

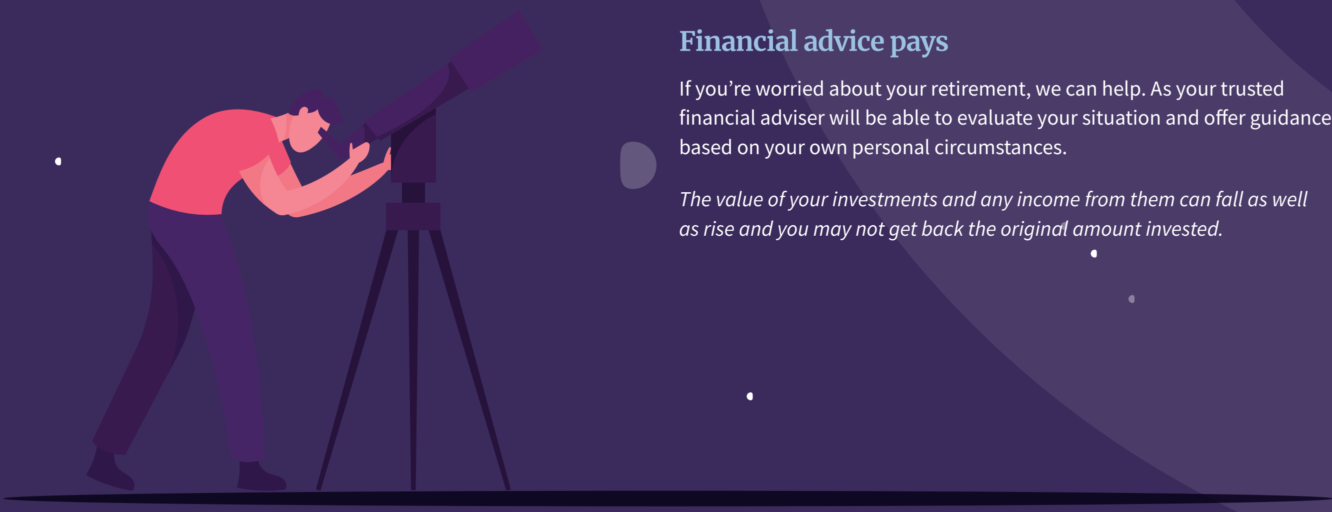
Onwards and upwards

In a press release, a group of regulatory bodies including The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) have urged consumers to keep a level head. They advise pension savers to be wary of scams and to seek professional advice before acting. TPR's chief executive, Charles Counsell, said: "Pensions remain a safe long-term investment for your retirement and it's important to avoid hasty decisions about cash that's taken a lifetime to build."

Financial advice pays

If you're worried about your retirement, we can help. As your trusted financial adviser will be able to evaluate your situation and offer guidance based on your own personal circumstances.

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



Is your deposit enough?

When James and Allison first started renting together, they were determined it would be a temporary move.

Fresh out of university, they turned their attention immediately to homeownership, putting away as much of their money as their rent and living costs would allow.

Allison had always been careful with my money and imagined with both of them saving they would be able to get a foot on the property ladder sooner rather than later.

Along came COVID

Fast forward six years with a budget of £250,000 and a carefully scrimped and saved £25,000 deposit and the couple finally started house hunting.

Then along came 2020. A global pandemic, the closure of the property market, a failing economy and widespread job losses. James, a hotel manager, was placed on furlough. Allison was fortunately able to work from home. With government support and the hope that the situation would be temporary, the couple remained optimistic.

It was widely reported that lenders were pulling hundreds of mortgage products for buyers with 5% and 10% deposits

Mortgage lenders took a more cautious approach, however. In the months that followed, news that lenders were pulling hundreds of mortgage products for buyers with 5% and 10% deposits was widely reported in the media.

The struggle to find a mortgage

Just before lockdown hit, James and Allison had managed to secure a mortgage in principle with a 10% deposit. Now, like many others, they faced being denied a mortgage despite having an agreement in principle. Through no fault of their own, they found themselves thousands short on their deposit

Difficult, but not impossible

Reporting shows first-time buyers are set to lose their ‘share-of-sales stronghold’ by the end of the year, James and Allison are far from alone in their experiences. And, while 56% of first-time buyers under the age of 35 have received financial assistance from the Bank of Mum and Dad, not everyone is in the same position.

Getting a mortgage may still be possible for the many despite the difficulties in the market. That’s where we come in. We can help people like James and Allison to get a grip on their finances and find a mortgage that suits their circumstances. We’re here to consider all the options available to you.

Latest news

Boris Johnson recently announced his intention to develop plans to allow more low deposit mortgages to be made available. Ministers are scoping plans to allow more mortgages to be offered with a 5% deposit. We will keep you up to date with developments.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

Do you have ‘cash in the attic’?

Wherever you go, you’d be hard pressed to find a house without at least a little bit of clutter. From the kids’ old teddies (well, they might want Ed the Ted for their own children, you see) to receipts from the 1980s (they might take it back after 40 years), attics and basements across the UK are full of what optimists might call ‘keepsakes’ and what others would probably call ‘junk’.

But is it always? If Flog It or Cash in the Attic are anything to go by, our houses are literal gold mines of undiscovered treasures, just waiting to be found amongst the everyday bric-a-brac.

What could your attic hold?

Over the years, some truly priceless artefacts have been uncovered in the homes of unwitting residents. Here’s a list of some of the oddest – and most valuable.

An ‘old box’ that was more than it seemed

A battered looking wooden box, used as a TV stand by an elderly gentleman, was discovered upon his death when his house was being cleared out. This unassuming item turned out to be an ancient Japanese Mazarin Chest, and is valued at a staggering £6.3m.

Rare rugby memorabilia

A treasure trove of extremely rare rugby kit and memorabilia from the turn of the 20th century (including an England shirt from the first ever game in Twickenham in 1910) was found languishing in a dusty box by the great grandson of rugby player and WWI hero Charlie Pritchard. The priceless items are currently on loan to the World Rugby Museum in Twickenham.

Priceless Indian artefacts

The ancestors of a British army officer were amazed to discover a cache of Indian arms taken from a Sultan’s palace at the turn of the 19th century. Wrapped in newspaper and discovered in a dusty Berkshire attic, the weapons, including an ornate, gold-encrusted sword and a gun believed to be the one fired by the ‘Tiger of Mysore’ himself in his final stand against the British in 1799, are expected to fetch millions at auction.

Time for a clear out?

If you’re feeling galvanised into a spring (or winter) clean, then be careful what you chuck out! You too could be sitting on a valuable treasure.

Don’t be underinsured

Have you reviewed your home contents insurance policy and make sure you’re covered for everything you own – including the contents of your attic and basement.

Get in touch with us and we can help find a contents insurance policy that suits your needs. In the meantime – we’re off to watch Antiques Roadshow!

Investing for the long term – lessons from the past

The emergence of COVID-19 brought a rapid end to the drawn-out recovery of major stock markets from the share price lows associated with the financial crisis a decade ago. When the scale of the threat to lives and livelihoods became apparent, market analysts and investors reassessed the global economic outlook and corporate prospects; they didn't like what they saw and a wave of selling followed, with inevitable consequences. Most share prices, and thus stock indices, were impacted.

Market analysts and investors aren't infallible, but when something like COVID-19 strikes they get nervous because closed borders, flight bans and lockdowns can pose a threat even to large companies, especially in exposed sectors. Axed dividends and distressed rights issues are anathema to the jittery; and the largest blue-chip companies aren't immune. Little wonder then that the 100 shares comprising the UK's blue-chip share index, the FTSE 100, rapidly lost about one-third of their combined value before regaining some composure.

Lessons from history

Created in 1984 with a starting level of 1,000 points to provide a wider index of leading shares quoted in London, the FTSE 100 largely superseded the narrower Financial Times 30-share index launched in 1935. As a barometer of economic outlook and corporate prospects, the FTSE 100 has gauged a few storms over the past 36 years. A chart of its progress reveals a plethora of spikes and dips, the starkest of which can be associated with key events in recent financial history.

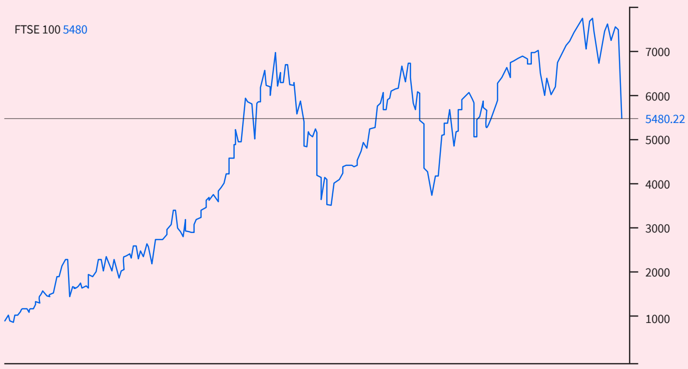


Chart: **FTSE 100 from inception to March 2020**
https://tradingeconomics.com/united-kingdom/stock-market
Not the first FTSE 100 dip

After its launch on 3 January 1984, the FT's new share index only slipped very briefly below 1,000 points that year. It then made progress, sometimes faltering, to hit 2,000 points by March 1987, by then buoyed by the effect of the previous October's 'Big Bang' modernisation of the London Stock Exchange's trading structure. Six months of further upticks followed and the index broke through 2,350 in early October 1987. It would be two years before that level was attained again.

On 19 October 1987, the Monday after The Great Storm ravaged Southern England, global stock markets suffered a crash so severe that the day became known as Black Monday. A tsunami of selling, much of it blamed on new-fangled computer-program trading, rapidly took the FTSE 100 down to around 1,600, starting with an 11% drop on the Monday and 12% the next day.

The ascent of the 1990s

Share-price recovery was slow, hampered by a short UK recession in 1991-92 caused in part by high interest rates and an over-valued pound associated with efforts to keep sterling within Europe's exchange rate mechanism. After Chancellor Norman Lamont took sterling out of the ERM in September 1992, having spent billions and upped base rate to 15% trying to stay in, the index gained about 14% in six months.

As 1994 dawned, a decade on from its launch, the FTSE 100 stood at around 3,400; although then, as now, changes had been made to its constituent shares as companies' respective market capitalisations waxed and waned. Concerns about the economy and tax plans dampened sentiment and the index fell below 3,000 during the first half of 1994 before starting a five-year ascent to break the 6,000 barrier in the summer of 1998. After a 500% rise in 14 years, what came next for the FTSE 100?

A 1,000-point drop

High interest rates and other threats to UK economic growth and even talk of an impending recession brought a 1,000-point drop in the FTSE 100 in the autumn of 1998, almost all of it recovered by the year-end. General bullishness continued through 1999, which ended with the index nudging 7,000. As the year 2000 unfolded, a combination of overvaluation, epitomised by the rapidly inflating 'dotcom bubble', and a global economic slowdown brought further investor jitters.

The bull market had marched the FTSE 100 up the hill; the ensuing three-year bear market marched it back down again to around 3,600 in the spring of 2003. The index would take another five years to climb back above 6,500, where it was delicately poised for the next big shock: the 2008 collapse of US investment bank Lehman Brothers and the cascade of failures prompting what became known simply as 'the global financial crisis'. By March 2009, the index was down around 3,500 again.

Long term trend

It was a long haul back from there for the FTSE 100 but, after gyrations associated with various stages of the Brexit process, the start of 2020 saw it comfortably above 7,000. News of a new virus outbreak in an unfamiliar Chinese city seemed at first like a distant threat. As the outbreak turned into a pandemic, global markets faltered again and the FTSE 100 headed below 5,000 before recovering some of the loss. COVID-19 has brought a reset of the blue-chip barometer, the FTSE 100 index.

Despite a variety of market shocks and rebounds, the index still has a long term growth trend. It is important to remember that some market volatility is inevitable; markets will always move up and down. As an investor, putting any short-term market volatility into historical context is useful.

Financial advice and regular reviews are essential to help position your portfolio in line with your objectives and attitude to risk, and to develop a well-defined investment plan, tailored to your objectives and risk profile.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

OW2654 Exp. 27/04/21

Cohabiting couples should make a Will

When Tom and Pete bought their first property together, things couldn't have been going better. They both had good jobs, were pulling in decent salaries and were excited about spending the rest of their lives together.

They chatted about making a Will a few times, but somehow life always got in the way. Until one day, 10 years later, Pete got a call that would change his life forever. Knocked down by a car while crossing the road, Tom had tragically passed away.

The intestacy trap

Grieving for the loss of his partner, Pete then found out that, due to the UK's intestacy laws, he wasn't entitled to inherit any of Tom's property, financial assets or belongings, unless they were jointly owned. Despite Pete knowing that Tom had loved him and would want him to inherit, the absence of a Will meant that none of that mattered.

Thankfully, Pete and Tom had owned their property as joint tenants, meaning Tom's share automatically passed to Pete according to the rights of survivorship. However, without children or any surviving parents or siblings, the remainder of Tom's assets ended up being passed on to a distant uncle with whom Tom didn't have any contact.

Now, Pete faces a battle to pay his bills and mortgages without Tom's savings and investments, life insurance policy and even the car that Tom owned but they both used.

Three in five UK adults do not have a Will

How a Will could have helped

Had Tom got around to writing a Will, he would have been able to specify exactly who would receive what from his estate, including his savings, investments, car and other belongings. In addition to writing a Will, Tom could have made his wishes known, by nominating beneficiaries to his pension and writing life policies under trust. By taking these steps, Pete would have been given the extra financial support he now so desperately needs.

As it stands, Pete still has the legal right to claim against Tom's estate as they had been cohabiting for more than two years - but this will be a costly and time-consuming process and a positive outcome isn't guaranteed. If Tom had a Will, this added stress could have been avoided.

Don't put it off

With cohabiting couple families growing faster than married couple and lone parent families, it's clear that more people are choosing not to get married, just like Tom and Pete. However, there's a catch. Cohabiting couples have none of the legal protections afforded by marriage, meaning that a Will is one way to ensure your partner inherits according to your wishes. Despite this, research shows three in five UK adults do not have one.

Let us help

Don't let what happened to Pete, happen to you. Speak to a solicitor or Will writing expert to make sure your loved ones are protected.

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OW3035 Exp. 03/12/2021

Business Protection

You need it more than ever

Prior to lockdown, over half (51%) of businesses had some form of debt, owing an average of £176,000 each – and yet just 20% used an insurance policy as security.

To add to this already significant issue, bank lending to struggling businesses via government-backed COVID-19 loan schemes reached nearly £52bn as of mid-August – meaning that UK businesses are more heavily indebted than ever.

Business loan protection

Business loan protection provides funds to repay a business loan, commercial mortgage, or a director's loan if one of the company's owners were to die or be diagnosed with a serious or terminal illness. Essentially, this type of insurance comprises a life cover or critical illness policy taken out on the life of the business owner or key person, with the payout ensuring the business can pay its debts should the worst happen.

Most lenders require some form of security when lending to businesses; often, business owners will use their own personal wealth (e.g. their property) as security. So, in addition to their business suffering if they were to unexpectedly die or become seriously ill, their family could face serious financial hardship or even lose their home.

Director's loans

It is common for businesses to have a director's loan account, through which the director can:

— Lend money to the business to fund initial start-up costs or see it through cash flow pinch points, for example;

— Borrow money from the company that is not classed as salary, dividends or expense repayments.

According to research from Legal & General, the average director's loan totals £169,000 – and yet well over a quarter (28%) of businesses are unaware that director's loans must be repaid upon death. This means the business could collapse if there is no insurance policy in place as security.

Loss of a key person

A staggering 52% of businesses say they would cease trading within a year if they lost a key person. Losing a key member of staff can have a huge impact on the business in terms of lost profits, poor cashflow and, potentially, a change in its creditors' attitudes to outstanding debts. That's where business loan protection comes in – it can help alleviate financial pressure by paying off the company's debts and enabling the business to get back on track.

As with all insurance policies, conditions and exclusions will apply

51%

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£176k

was the average amount owed by businesses in the UK

20%

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52%

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OW2980 Exp. 14/10/2021

Spotlight on Enterprise Investment Schemes and Venture Capital Trusts

Complex tax-efficient investments such as Enterprise Investment Schemes (EIS) and Venture Capital Trusts (VCT) are a consideration for those who may be able to tolerate a high level of investment risk.

EIS and VCT are investment vehicles which encourage investment in small, unquoted trading companies in their early stages, who are typically trying to raise capital. These initiatives benefit the economy by promoting innovation amongst the small higher-risk business community, which in turn drives productivity, creates jobs and boosts economic growth.

Since their launch in the 1990s, they have become popular features on the investment landscape. Both schemes still provide an attractive proposition for experienced investors today, looking for the chance to invest in new businesses with the added benefit of portfolio diversification.

High volume of inflows to the small business sector

The schemes have proved successful in terms of generating cash for the small business sector. Data shows since their launch in 1994, over £20bn of funds have been raised through the EIS scheme, with 29,770 individual companies benefiting from investment. VCT have had a similarly positive impact, raising £8.4bn of funds since their creation in 1995.

How do they work and how much can I invest?

In the case of the EIS, investors typically purchase shares directly in firms. VCT are listed companies that allow investors to spread the investment risk over a number of companies by subscribing for shares in the VCT itself, a similar approach to investment trusts.

Currently both offer 30% tax relief and tax-free capital growth, provided an EIS investment is held for at least three years and a VCT for five years. The maximum amount anyone can invest in an EIS is £1m per tax year, or £2m, as long as at least £1m of this is invested in 'knowledge-intensive' companies. Individuals can invest up to £200,000 each fiscal year in new shares issued by a VCT.

A further attractive benefit of EIS is their eligibility for Business Relief. This means if the investment is held for two years, and until death, the value of the assets will not be liable for Inheritance Tax.

Potential risks

While there are plenty of benefits associated with these schemes, they are only suitable for investors who are comfortable holding high-risk investments. This enhanced risk element stems from the fact that EIS and VCT invest in small, fledgling enterprises.

Although some of these companies will flourish and deliver strong returns, some will fail. As a result, these schemes have a high-risk profile, which is something any prospective investor needs to carefully consider. EIS and VCT investments are only suitable for a relatively small proportion of an investor's overall portfolio. As these schemes invest in small companies with shares that are illiquid, they can be hard to sell.

As long as the risks are fully understood, these schemes are worth considering for investors seeking a long-term investment that maximises tax-efficiency and provides portfolio diversification.

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

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.

OW2553 Exp. 10/03/21