PARTNERS WEALTH MANAGEMENT

PWM Insights:

Planning your financial freedom (November 2020)

Welcome to a new edition of PWM Insights. It has been sometime since I last provided an update in this format. The events of 2020 have meant that that my focus has been to ensure all clients feel reassured during one of the busiest and most eventful years of my career to date.

In this update, I briefly reflect on the tumultuous year, the reducing interest rates (including NS&I), some current tax opportunities you should use before any potential change, and a brief look at how we are adapting to the socially distanced world to improve the technology we provide to keep you informed and in control.

Investment markets and their impact on future plans

In the last few months, I have been privileged to engage with many different investment teams that form a part of our independently ratified panel to gain an overview of their thinking surrounding events including COVID-19, Brexit, US elections and a number of other potential flashpoints. What has become apparent is that due to the constantly changing nature of the world, current views have becoming outdated almost as soon as an article was drafted.

The only certainty within short term investment markets is that there will be more uncertainty ahead. This may lead to volatility (and perhaps opportunity) in investment markets. If we look back to March, investment values dropped almost universally as a result of the pandemic, but recovered quickly.

During this time, we were there to offer you the support and that you needed. I know that many of you took comfort from us as we had ensured that you had sufficient cash reserves available to provide peace of mind of knowing that there was no requirement to draw on investments at an inopportune moment. Due to the careful planning we undertake, we were more focussed on your health, overall financial wellbeing and the impact of the negative news flow and the concern this might have caused.

The pandemic served as a good reminder of the adage that investments should be viewed as being for the medium to long term (at the current time we are entering a second lockdown, plus Brexit, US elections etc.), and the motto holds as firm now as it did earlier this year.

Please be assured that we continue to constantly engage with and review the investment managers who form our independent panel alongside your (and each client's) individual plans, views and goals. This will ensure that portfolios are positioned to make the most of opportunities whilst limiting potential volatility (aligned to the risk you find acceptable) as far as possible. We would also stress the importance of reviewing your cash reserves to ensure that you have sufficient funds to meet any short-term requirements you potentially may have during these volatile periods. If you are in any doubt, please do get in touch.

Reducing interest rates and NS&I

Prior to the pandemic, we were already in a prolonged period of low interest rates, and we are now in a position where the Bank of England base rate is at an all-time low of 0.1%.

Bank of England base rate

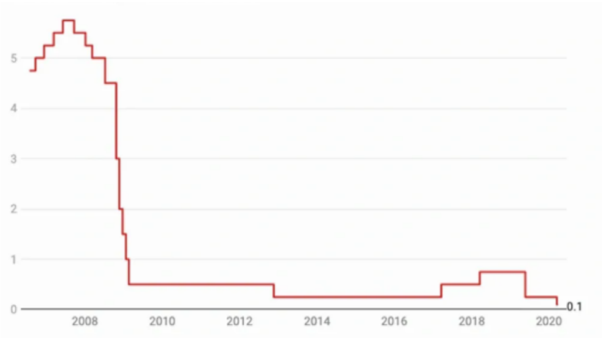

Chart: The Conversation, Source: Bank of England

The reduced base rate has inevitably led to many institutions cutting rates. with National Savings and Investments (NS&I) receiving the most press attention. Late last month they announced a raft of cuts to their rates, which will take effect from 24 November this year, and a reduction in the chances of winning the premium bond jackpot and underlying interest rate from December. The impact of these cuts is wide-ranging - the rate offered under their popular income bonds will reduce from 1.15% to 0.01% per annum; the rate under their direct saver will reduce from 1% to 0.15% per annum.

According to the Financial Times, "Analysts say NS&I's move is no temporary cut: as long as central bank interest rates stay ultra-low, it will have little reason to reverse policy" (FT, 24 September 2020).

There are still competitive rates available, particularly within some of the newer challenger banks, and don't forget that up to £85,000 of each individual's money is protected by the Financial Service Compensation Scheme. The skill is knowing which to choose, how much to deposit to maximise the protection available, when to switch etc. Our Deposit Service assists with all of this, allowing you to benefit from better rates and simpler administration. You will receive automatic updates when banks increase or decrease rates and have the ability to move money between your accounts – paper free – all at the click of a button.

Please do get in touch to discuss this in more detail, as it is a simple switch that can earn you a greater return, enhance the protection on your capital and allow all of your accounts to be viewed online in one secure portal.

Budget Day postponed – make the most of existing rates before a potential increase

One impact of COVID-19 was that the Budget, rumoured to be taking place this November, was postponed.

No matter what may happen in terms of a vaccine or "herd immunity", the truth is that we may be less immune to the financial ramifications of the months of financial support to individuals, businesses and the economy, which the government may still seek to address in the next budget when it happens. Many commentators are mooting that there will be an increase in tax to help the Treasury deficit and debt caused by the government's COVID-19 response. The speculation around budgetary implications seems to centre around two key areas, namely Capital Gains Tax (CGT) rises and changes to pension tax relief.

Whilst we would discuss these with you at the point of our formal reviews, and implement this at some point during the tax year, our suggestion would be to consider the action points below now so that you can ensure that if changes are implemented, your allowances that are presently available have been used to the maximum.

Consider realising any gains and use your CGT allowance if you can

Up until the end of the tax year you can use your £12,300 exemption (2020/21) to realise capital gains from investments without tax (to provide a tax efficient income slice, or perhaps reinvest). It is sensible, where possible, to use this exemption, and spouses/civil partners can also transfer assets between each other so that both can benefit from the exemption.

It appears unlikely this exemption will be withdrawn, but more probable that the CGT tax rates may increase – many commentators feel this could be brought in line with income tax. Therefore, if you have gains to realise, it may be preferable to do this pre-budget. The current CGT rates as a higher or additional rate taxpayer are 20% on your gains from chargeable assets or 28% on residential property. If rates did rise to match income tax as speculated, some capital gains could potentially be charged at as much as 45% tax. Therefore, realising capital gains at present may be advantageous.

Make pension contributions now

Tax relief on pensions is a subject that frequently has arisen in the run up to most budget announcements over the last few years. Speculation is mounting that the Chancellor may be keen to favour a move towards lowering pension tax relief for higher earners, reducing the rate of pension tax relief to 20% for everyone. This would go some way towards minimising the government's spending on this relief. At present if you are a higher or additional rate taxpayer then you would receive tax relief on your contribution at your marginal rate (40% or 45%).

A timely technology update for you....

During these times of social distancing, technology is coming to the fore to keep us all in touch with one another - even my technophobe mum has learned how to FaceTime and Zoom to such an extent she now uses these words as verbs!

It is clear that technology is vital to help you remain in control of your overall goals and finances (and to you help understand how the more daunting investment headlines relate to these). Over the coming months we will discuss a wide-ranging number of changes to our technology with you, and how we are ensuring that you have an unprecedented amount of information at your fingertips between our meetings with you. One particular enhancement that many are finding particularly interesting is how we are able to provide the real-time data regarding movements in investment markets and the impact on your longer-term cash flow and plans – this in particular will help you immediately understand and contextualise the unsettling headlines you might see.

As a partnership, we are all excited by the improving technological changes that we will be developing to bring you an even better client service. As these involve a full assessment of suitability on an individual client by client basis, it is not something that can simply change overnight. With this in mind, we will fully discuss these with you at our next review meetings and run full individual cost/benefit analysis. This analysis will differ for everyone where we feel the new technology is in your best interests. However, please do get in touch if you wanted to learn more about these now.

I hope that this update is useful and informative, if you have any questions regarding any part of this, please contact me or your Partners Wealth Management adviser.

Duncan Wilson
Partner and Chartered Financial Planner
dwilson@partnerswealthmanagement.co.uk
020 7444 4066
partnerswealthmanagement.co.uk