SIMPLYMONEY

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YOUR WINDOW ON FINANCIAL MATTERS

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THE FINANCIAL LANDSCAPE POST BREXIT

The outcome of the EU referendum was announced in the early hours of Friday 24 June and undeniably came as a shock to many people here and abroad. Uncertainty caused the pound and stock markets to fall. David Cameron resigned and a new government was formed. The new Prime Minister, Theresa May, came to office saying firmly, *"Brexit means Brexit"*.

So as a nation we are set for radical change, and much remains uncertain at present. The timetable for our withdrawal runs from the moment the Prime Minister invokes Article 50 of the Lisbon Treaty, and in the view of many experts the process will take at least two years to accomplish.

EVENTS SO FAR

As might be expected, economic confidence reached a low ebb with the UK losing its triple A rating.

In the days following the vote the pound fell to its lowest level against the dollar in more than 30 years. This will mean that imported goods including fuel are likely to begin to rise in cost. On the plus side, our exports will be cheaper and should prove more attractive to foreign buyers.

The new Chancellor, Philip Hammond, made it clear that he will no longer pursue the goal of eliminating the budget deficit by 2020, meaning that many austerity measures look set to be relaxed in an effort to maintain economic stimulus.

The Governor of the Bank of England, Mark Carney, has said that he will be monitoring the effects on the economy closely, and the Monetary Policy Committee have already cut interest rates to 0.25%.

HOW TO REACT TO CHANGE

Most experts agree that this is a time to be cautious. Whilst we face a major phase of economic realignment, there are a number of reasons for optimism.

On the stock markets, the FTSE 100, made up of many international blue chip companies, rose to a 12 month high in August, whilst the FTSE 250, which has a greater representation of UK companies, reached a new high for the year following the August interest rate reduction (it has since moved higher).

The UK economy was growing well before the referendum and could bounce back once more of the important details regarding our future trading relations with Europe become clear. The banking sector is in better shape than it was in 2008.

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.

NEWS IN BRIEF

Only 36% of savers take advice

Worrying statistics have come to light in a recent survey[1] amongst those with more than £250,000 saved for retirement. Only 36% used a professional financial adviser to create a retirement plan for their future.

Without a well-thought out plan, many people heading into their later years could find their finances coming under increasing pressure. With life expectancy continuing to rise and the cost of care increasing year on year, it's important to ensure there will be sufficient income available to provide a financially-secure retirement for years to come.

Research from the Financial Conduct Authority[2] shows that many pensioners simply opt for the annuity offered to them by their provider, without realising that they are within their rights to shop around amongst other companies and compare deals. Whilst staying with your existing provider might well represent a reasonable deal for your financial circumstances, taking advice could reveal alternative options better suited to your needs; and the potential for an increased income.

Retirement planning is too important to be left to chance. Taking professional advice is an important step in helping to ensure you enjoy a comfortable retirement.

[1] Franklin Templeton, 2016

[2] Financial Conduct Authority, Retirement Income Market Study, 2015

JUNIOR ISA – CASH OR STOCKS AND SHARES?

Junior Individual Savings Accounts (JISAs) are a great way to build up savings tax-efficiently for a child under 18 living in the UK. Your child can have a Junior cash ISA, a Junior stocks and shares ISA or a mixture of both and save up to a total of £4,080 in the 2016-17 tax year.

When it comes to choosing the right type of ISA account for their children, parents often ask how to make the choice between cash or stocks and shares.

CASH

Cash is solid and reliable, and with a cash ISA you are guaranteed to get back all the money you have put in – but with interest rates continuing to remain very low, there is a risk that inflation, which has risen in the last few months, will erode the value of the money saved over time. Some financial commentators are predicting that inflation could rise to 3% in 2017. If it does, to keep up with this rise in the cost of living the cash ISA has to match this rate.

STOCKS AND SHARES

If you are able to lock your money away for a reasonable amount of time – a minimum of five years – it might be better to invest in stocks and shares which historically have offered a better return. Unlike cash savings, money invested in stocks and shares rises and falls in line with what is happening in financial markets here and abroad. So the value of your investment can go up and down.

With a Junior ISA you could be looking at a time horizon of as much as 18 years. By saving into a Junior ISA on a regular monthly basis, there is the opportunity to smooth out the peaks and troughs in the stock market. If the stock market falls, you could buy more shares at a cheaper price.

We can advise you on the various funds available and help you make the right choice for your child.

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SURVIVING FINANCIALLY AFTER THE DEATH OF A LOVED ONE

Bereavement is a sad and difficult time for families, and it can be made much worse if the surviving partner is left to cope with money worries. Regular bills like mortgage payments can often be a heavy financial burden if they have to come from one salary instead of two. The death of a partner can mean that families need to pay for services such as extra child care and help around the house.

Whilst it's tempting to put off thinking about the financial consequences of losing a partner or loved one, figures from the Association of British Insurers[1] show that in 2015, UK insurance companies paid out an average of £9.4m each day to over 128,000 families as a result of claims on protection policies.

A LIFELINE FOR FAMILIES

Thinking about life insurance isn't the most cheerful or uplifting subject, but it could prove to be the lifeline a family needs. If your children, partner or relatives depend on your income to cover the cost of paying the mortgage or rent and other living expenses, then it makes good sense to think about the protection and peace of mind that life insurance can give.

Those who don't have life insurance often say they can't afford the premiums. However, the cost of life insurance is not as expensive as many people seem to think. Life insurance premiums have come down in cost over the last few years, and cover can start at just a few pounds a month.

REVIEWING EXISTING POLICIES

If you have life insurance in place, but it's been a while since you reviewed the cover it provides, this could be a good time to take another look. If you've taken out a bigger mortgage, added to your family or are approaching retirement, then it might be in your best interests to consider reviewing your policy. There may now be more cost-effective policy options available to you.

[1] Association of British Insurers, UK Insurers and long-term savings key facts, 2015

HOW MUCH WILL YOU SPEND IN RETIREMENT?

This is often one of the most challenging questions faced by those approaching retirement. Recent research[1] has concluded that the average cost of being a pensioner is £11,620 a year. This figure represents an increase of £420, up 3.75% on last year.

As might be expected, there are marked regional variations. Those living in Wales spend £9,990 whereas those living in the more expensive South-East spend more, around £13,270.

Unsurprisingly, retired people spend more time at home, and around 14% of their cash is spent on fuel and housing. This is more than they spend on food and non-alcoholic drinks (13%).

What these figures demonstrate is how important it is to make adequate provision for retirement. The new flat-rate state pension, paid to those retiring after April 2016, is set at £155.65 for someone with the required National Insurance contribution record, meaning that there will be a funding shortfall for many who have either not made sufficient contributions or have 'contracted out' for a significant period of their working life.

PENSION PLANNING PAYS

To enjoy a comfortable old age you need to think about what your retirement goals are, and how much money you need to fulfil them.

Many people find it helpful to think about their income needs under various simple headings, such as basic living costs, emergency cash reserve, pastimes and hobbies, gifts to family members, and money earmarked to enable them to realise their 'bucket list' ambitions.

By viewing your finances this way, you can gain a clear picture of how much you need to have saved by the time you reach retirement. With these amounts in mind, you can build up a comprehensive plan to help ensure that you can enjoy the sort of retirement you've always wanted.

THE VALUE OF GOOD ADVICE

The key to building up an adequate fund is to start as early as possible and save as much as you can reasonably afford, not least because of the tax breaks available on contributions. Annual and lifetime allowances apply.

[1] Key Retirement, The annual cost of being a pensioner, May 2016

WILL BREXIT DERAIL PENSION FREEDOMS?

With the vote to leave the EU creating uncertainty in many quarters, some experts have questioned whether pension tax relief and the reforms introduced in April 2015 might come under the spotlight and be subject to change.

The view put forward is that if the government and new prime minister need to make fiscal adjustments to protect the UK economy during its withdrawal from the EU, reducing generous pension tax relief, including the treatment of pensions on death, might have a part to play in balancing the books.

The changes that came into effect last year covering the treatment of pensions on death allow the fund to be passed on tax-free when death occurs before age 75, and taxed at the beneficiary's marginal rate post age 75. The removal or reduction of tax concessions like these would save the Exchequer considerable sums of money.

In addition, the introduction of the secondary annuity market was originally set for April 2016 but is now due to take effect in April 2017. The Lifetime ISA is also due to launch in April 2017 but similarly could be set to change, especially as key details surrounding the account are yet to be announced.

WHAT THE FUTURE MIGHT HOLD

Former Pensions Minister, Baroness Ros Altmann, has expressed the hope that whatever the economy has in store, we shouldn't lose sight of the long-term need for pensions, especially for future generations.

The new Chancellor, Philip Hammond has made it clear that he intends to abandon the previous goal of eliminating the deficit by 2020, giving considerable support to the view that pension freedoms may not need to be changed, at least in the short term.

Whilst the economic landscape looks set to face change and upheaval, the key message remains clear; we all need to ensure we're making adequate pension provision by taking advantage of each year's tax relief on contributions while we can. It could be a case of 'use it or lose it'.

ANNUITIES –WHERE ARE WE NOW?

When the ground-breaking pension changes were introduced in April 2015, many experts believed that they signalled the demise of the annuity. Media attention focused on the fact that under the changes no-one would be forced to buy an annuity. So it was hardly surprising that sales of annuities fell markedly in the following months.

However, since then the economic scene has changed. Volatility in stock markets convinced some retirees that the certainty of income an annuity provides can be a good way to ensure that they had sufficient secure income to cover their basic living costs.

WHAT ANNUITIES OFFER

One of the main benefits that annuities provide is security. What you get in exchange for the purchase price is a pre-agreed, fixed payment for life. As long as you live, you will still receive an income.

On the downside, should you die early, the residual value of the annuity dies with you, there is usually no return of capital to your estate, unless a capital protection option is chosen.

WHY IT PAYS TO SHOP AROUND

Seven out of ten people accessing their pension cash since the new pension freedoms came into force, who decided to take an annuity did so with their existing pension provider. This statistic reinforces the belief that consumers aren't sufficiently aware of the options open to them at retirement. Many pensioners simply opt for the annuity offered to them by their provider, without realising that they are within their rights to shop around amongst other companies and compare deals, enabling them to make an informed choice.

Whilst staying with your existing provider might well represent a reasonable deal for your financial circumstances, taking advice may well throw up alternative options better suited to your needs.

THE SECONDARY MARKET FOR ANNUITIES

In March 2015, in a further move designed to give pensioners more choice as to how they manage their money in retirement, the government announced plans to allow people who already had an annuity to sell it for a cash lump sum. The introduction of the secondary annuity market was originally set for April 2016, but is now due to take effect in April 2017.

Following the formal industry consultation period, the Financial Conduct Authority (FCA) started the process of defining the standards for the market, including the requirement that sellers must seek proper professional advice before a sale can be made.

However, following the Brexit vote, there have been calls from the financial services industry for the launch to be put on hold in the face of future economic uncertainty. The view has also been expressed that there is currently a lack of clarity from the FCA over details such as suitability requirements.

Now that the UK has a new government team in place, including a new pensions minister, Richard Harrington, we may have to wait until the Autumn Statement before we have a definitive answer as to whether or not this initiative will go ahead, and if so what the fine detail will be.

The outcome of the EU referendum has not been good news for annuity rates. Falling interest rates and thus gilt yields have seen annuity providers reducing rates even further.

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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. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency. Taxation depends on individual circumstances as well as tax law and HMRC practice which can change.

The information contained within this newsletter is for information only purposes and does not constitute financial advice.

NEWS IN BRIEF

Around a third of UK adults are stressed about money

Recent surveys have found that financial anxiety affects many adults in the UK today. Money worries are cited as the main cause by those suffering from depression (28%) or anxiety (27%). 26% of those surveyed said that worrying about their finances stopped them from getting a good night's sleep.

The Money Advice Service reports that one in six adults in the UK is living with debt worries. Their findings reveal that those renting a property are twice as likely as those who own their own homes to feel that their debts are a heavy burden. Around 16 million people in the UK rent their homes with one in four having debts. Those most affected are likely to be aged between 25 and 34.

With mortgage rates remaining low, in many instances the average mortgage payment can be less than the average cost of renting. Anyone renting would be advised to think seriously about the possibility of finding a property to buy. Taking professional mortgage advice would help clarify the position.