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WEALTH MANAGEMENT

KEY GUIDE I OCTOBER 2020

Financial planning through Covid-19

Introduction

REVIEW, RETHINK, REGROUP

The long-term impact of the Covid-19 pandemic across every aspect of life is still unfolding. With additional government support and further restrictions announced in September and October, it is clear we are in for the long haul.

The crisis has also shone a light on the importance of resilient financial planning. A range of questions may have come into sharp focus in recent months. Is your budgeting realistic? What are your most pressing concerns? Do you need to manage your income? Or to review your longer-term pensions and investments? What can you do to protect yourself and your loved ones financially in light of the pandemic or potential job loss? Are your affairs in order?

Financial planners have adapted quickly and remote services, both online and over the phone, are now available, meaning social distancing and self-isolation do not have to be barriers to identifying and resolving your financial planning needs.

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Taking stock

Many people have seen their incomes affected in the short-term, although this has been mitigated for those who have benefited from government support.

- Almost 10 million workers and 1 million employers have benefited from the Coronavirus Job Retention Scheme, which subsidised 80% of individuals' salary, up to £2,500 a month. The furlough scheme was designed to prevent mass redundancies, but it ends in October. Under its replacement, the Job Support Scheme, from 1 November 2020 those working at least one third of their normal hours will receive 77% of full pay for six months. Additional support for those affected by local lockdowns or restrictions was announced in October.

- If you run your own business or are self-employed, your income may have suffered considerably. You may be eligible for a taxable grant through the Self-Employment Income Support Scheme or finance through the Coronavirus Business Interruption Loan Scheme or the Bounce Back Loan Scheme.

- If you are retired, you may have already started to draw on your pensions and may have concerns over how Covid-19 might be affecting them given its impact on global stock markets.

While you may have been fortunate enough not to have seen your day-to-day income affected during the Covid-19 crisis so far, the long-term picture is less than rosy. The UK economy suffered its biggest slump on record between April and June 2020, despite growth in June after lockdown was eased, pushing the country into its first recession since 2009. We are already seeing significant job losses with more predicted; planning ahead in case of redundancy is therefore strongly recommended.

Lockdown created the opportunity for many to take stock of their vulnerabilities and assess their financial resilience. The surge in demand for advice on will writing and life insurance is evidence of the desire to put our affairs in order. But most of us will outlive the pandemic and need to cope with the consequences on our long-term plans and needs.

SHORT-TERM CASH FLOW PLANNING

Short-term cash flow planning, more commonly known as budgeting, is the foundation of financial planning. Itemising your income and expenditure can quickly differentiate between your essential and discretionary expenditure and, in times of financial strain, identify where cutbacks or savings can be made.

- **Essential spending** Cutting back on essential expenditure is tricky. It includes mortgage or rental payments, household bills and day-to-day living costs. However, you may be able to shop around for a better deal. There are plenty of comparison websites promising savings on borrowings, utility bills and insurances. Companies rely on customer apathy not to change provider, so significant price reductions can be found.

- **Discretionary costs** It's easier to influence discretionary expenditure – what we spend on things that we want, but we don't necessarily need. For example, regular trips to the cinema, meals out or new clothes.

Lockdown put a temporary halt on the nation's discretionary expenditure. So much so that the population as a whole actually saved £16bn pounds during April 2020. This compares to a typical figure of £5bn. The lesson of the past few months is that even if your income has been adversely affected by Covid-19, there is scope to make savings by changing spending patterns.

While some of us can account for every penny we spend, others find it hard to keep track. A financial planner can prepare a current cash flow statement based on your existing income and expenditure. They can help you to assess the security (or otherwise) of the income that you have coming in, whether from employment, pensions or investments. They can then identify any areas of vulnerability and, potentially, any areas where you may be paying more tax than you should.

For example, if you'd previously stopped claiming child benefit because you or your partner were subject to the high income child benefit charge, you may wish to start claiming again if you're no longer liable for the charge due to being furloughed or made redundant.

Example

John and Sally both have full time jobs now that their two children are in school. Ordinarily, John earns £61,000 a year and Sally earns £45,000. Sally has not claimed child benefit since John's promotion two years ago as otherwise John would be subject to the high income child benefit charge.

Since the Covid-19 lockdown, however, John has been furloughed. This has brought his annual income to below the £50,000 threshold and Sally has reapplied for child benefit.

Surplus and deficit

If, following analysis of your cash flow, you have surplus income, you may wish to make best use of identified cash reserves. Some key questions might be:

- Do your reserves need to be topped up if you've recently started to rely on them more heavily than usual?
- Should you actually be drawing more heavily on them so as to not deplete pensions or investments if they are subject to the current volatilities of the stockmarket?
- Should you consider moving excess cash into an ISA for tax-free returns?
- Could you increase regular contributions into your pension or make the most of other tax-efficient savings vehicles?
- Are there debts you should pay off to reduce interest payments?

In contrast, if your income is insufficient to cover your outgoings, the chances are you could be accumulating debt. A financial planner can recommend organisations, such as Citizens Advice or StepChange, who can help you get on top of this situation to try and prevent it from worsening.

While temporary measures, including mortgage payment deferrals and a pause on repossessions and evictions were introduced earlier in the year, these are now coming to an end. If you've taken a payment holiday, try and resume repayments as soon as you can to minimise the amount of additional interest you will be charged. If you deferred making your

self-assessment payment in July and owe £30,000 or less, you can now use HMRC's Time to Pay facility to pay over an additional 12 months (with final settlement in January 2022).

> **Planning point**
> If you think you may be at risk of redundancy, now would be a good time to consider how you would manage financially. Saving as much as you can while you can and budgeting are essential first steps.

LOOKING TO THE FUTURE – RETIREMENT PLANNING

While short-term cash flow planning creates a snapshot of where you are right now, a lifetime cash flow plan takes into account your income and expenditure both now and in the future, as well as the long-term impact of any savings or debt that you have. It can therefore be particularly helpful when looking at retirement planning. For many, the impact of Covid-19 on the economy and on global stock markets has led to a reduction in the value of their pensions and investments.

Pension saving

If you're still building up funds for retirement, take some time to assess your current position. Are you still on track to retire when you had hoped? If not, you may need to rethink and re-plan, including exploring your potential future income and expenditure patterns in more detail. You may find you will not need as much income in retirement as you thought. Alternatively, you may need to adjust your spending expectations to manage on a smaller income, or plan for a later retirement age.

However, if you've identified surplus income as part of your short-term cash flow planning exercise, for example from lockdown savings, you might consider increasing your pension contributions to help keep your plans on track. Regardless, tackling any shortfall sooner rather than later is key. The longer your pension fund is invested, the greater the opportunity it has to grow in value and overcome short-term stock market volatility.

If your earnings have been adversely affected by Covid-19, then day-to-day living costs may well need to take precedence over retirement planning for the time being. You may feel unable to continue pension contributions for now, but this is where short-term cash flow planning can help. Decisions with long-term impacts are better made after thorough analysis of your financial circumstances. The exercise can be repeated every few months with a view to identifying the right time to restart and possibly even increase your contributions later to make up for the time missed.

Example

Prior to Covid-19, Nichola had been drawing down £1,250 per month from her pension fund. In March 2020, the value of her pension fund fell by 30%. After a discussion with her financial planner, rather than continue to draw the same amount and deplete the value of her fund further, Nichola pauses her withdrawals.

After analysing her spending she decides instead to take £800 a month from her cash savings. Nichola's financial planner forecasts that she can proceed on this basis for two to three years, allowing her pension fund time to recover from its recent fall before restarting withdrawals.

Drawing your pension

If you're already retired, then the focus shifts to making the most of the funds that you have available to you. A short-term cash flow planning exercise can help you identify whether your income is enough to sustain your expenditure or whether changes need to be made.

If your pension income is not guaranteed, for example if you take a certain amount of income from your pension fund and the rest of the fund remains invested in the stock market, then you may want to make temporary or more permanent adjustments. For example, you could reduce the drawdown amount and top up your income from other sources to allow your pension fund time to recover from recent stock market falls.

MANAGING YOUR PORTFOLIO

Right now, markets seem to be up one day and down the next and so, almost certainly, is the value of your investment portfolio. However, for most, an investment portfolio is a long-term commitment and should be managed accordingly. If you sell during a crisis you could turn something that is initially a loss on paper into an actual loss. You will then have to work out when to reinvest and potentially miss out on the eventual upswing in the markets which, as history has demonstrated, will recover.

Volatility is part and parcel of stock market investing. When a financial planner makes a recommendation regarding an investment portfolio, they take into account:

- your financial circumstances;
- your risk profile; and
- what you want to achieve.

Both your capacity for, and attitudes towards, investment may have altered in the last few months. The asset allocation model used to determine your investment assets and proportions based on this information may need to be adjusted if your situation and requirements have changed.

Your adviser will make sure that your portfolio is diversified so that when shares, for example, aren't performing well or dividends are being cut, other aspects of your portfolio such as cash or fixed-interest should provide an element of protection.

They will also monitor the portfolio for you and will regularly advise you on the actions that you should (or indeed should not) take as the investment landscape shifts. If your portfolio drifts away from its original asset allocation, as it may well do in times of market volatility, they can bring it back in line during your regular review.

Alternatively, if your financial needs, attitudes or risk profile have changed, they can rebalance to a different asset allocation. If, for example, you have become interested in companies engaged with environmental, social and governance factors (ESG), you may wish to investigate investing in relevant funds.

Planning point

Making snap decisions on your investments is not advisable, regardless of market activity. You should always seek professional advice before making portfolio alterations.

USING FINANCIAL PROTECTION

Covid-19 has focused many people's minds on the need for financial protection, particularly in light of greater awareness of the meagre nature of state support. Now that so many people have received Statutory Sick Pay for the first time, for example, there is a much wider understanding of its weekly value. The small size of the sum was a surprise for many, as were the values of other benefits that came under the spotlight because of the pandemic, such as Universal Credit and Employment and Support Allowance.

Life and health insurance protection underpins most good financial planning. While they cannot ease the emotional distress of the impact of serious illness or loss, creating your own safety net can lessen its financial impact on loved ones.

Life insurance

It is sometimes hard to work out how much life cover you would need for yourself and your family, for example to pay off a mortgage or funeral, to help with the costs of bringing up children or running a business. A financial planner can use a long-term cash flow plan to determine the correct amount of cover required and for how long.

Over time, your circumstances will change, so you should review the amount of cover you have on a regular basis to ensure it is still at the appropriate level and that you are not under or over-insured.

Health insurance

The purpose of health insurance, such as income protection insurance and personal, accident and sickness cover, is to provide some money if you fall seriously ill or have an accident, potentially affecting you for many years. A rainy-day fund can help in the short term here, but it's not a complete solution. There are many health insurance products available, and an adviser can help to recommend the right product for you.

> **Planning point**
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> You should check the conditions and exclusions on income protection insurance policies in relation to Covid-19. Generally people who are self-isolating are unlikely to be covered. However, a small number of providers will consider claims for self-isolation where it is medically advised. Those with severe coronavirus symptoms that continue beyond the waiting period will start to receive their monthly payout if those symptoms mean they meet their insurer's definition of incapacity (e.g. they are unable to work at their own occupation). However, some providers are restricting cover for respiratory conditions for new customers.

Protecting your mortgage

If you already have a mortgage and you've suffered a drop in income as a result of Covid-19, you should contact your lender as soon as possible if you're going to have difficulty in making your mortgage repayments. If you take advantage of a mortgage repayment holiday, you should contact your financial planner and review any financial protection cover that you have in place as it may no longer be sufficient unless you subsequently make overpayments.

Taking out a mortgage at any time is a big commitment, but with uncertainty in the job market, talking to a financial planner can ensure that if you do go ahead, your repayments are protected in the event of sickness, accident and (potentially) redundancy and that the mortgage itself will be paid off in the event of your early death. A specialist mortgage adviser should be able to help you find the best mortgage deal given your particular set of circumstances.

A SOBER REMINDER – PUT YOUR AFFAIRS IN ORDER

Covid-19 has certainly focused the mind, with an increasing number of people seeking to make wills over the last few months. However, during full lockdown, and for those shielding or self-isolating, this has been difficult as a valid will generally requires the physical presence of two witnesses (one person in Scotland). To overcome this, temporary legislation has been put in place permitting witnessing via video-link in England, Wales and Scotland. This has not yet been extended to Northern Ireland.

Your will

More than half of adults in England do not have a valid will, suggesting most of us prefer not to think about it. But a will has many benefits, not least of which is that your assets will go where you want them to go. Intestacy rules do not necessarily operate in the ways many people expect.

In a will, you can name guardians for young children and ensure that they are provided for financially. If you and your partner are not married and not in a civil partnership, then normally your partner would not be entitled to anything from your estate, unless you specifically make a gift to them in your will.

Similarly, if you own the property that you live in with your partner and their children, and you pre-decease them but have not named them as the beneficiary of your property, then they may no longer be able to live there as it will belong to someone else following your death.

If you already have a will, check that it still meets your needs and arrange to make any necessary changes if your circumstances have altered. This is particularly important if your relationship status has changed, as this may affect the validity of your will. For example, marriage or entering into a

civil partnership automatically cancels any previous will that you have made, unless you made the will in anticipation of your marriage or civil partnership. If you divorce, your existing will is not cancelled, but your ex-spouse or civil partner can no longer inherit from your will nor act as your executor.

Powers of attorney

Making and registering a lasting power of attorney (LPA) or its equivalent in Scotland or Northern Ireland should also be part of you and your family's financial planning. This can be a difficult discussion to have with elderly relatives, but it is worth it. Covid-19 may mean it takes a little longer than usual for your documents to be processed, so the sooner this is done, the better.

In England and Wales, there are two types of LPA: a health and welfare LPA and a property and financial affairs LPA:

- A **health and welfare LPA** gives your attorney the power to make decisions regarding your day-to-day care and treatment, in the event that you are unable to.
- A **property and financial affairs LPA** enables you to nominate someone else (your attorney) to make decisions on your behalf in relation to your finances and to your property. You can elect for them to be able to make these decisions as soon as the LPA is registered, or only once you're unable to make your own decisions, should that occur in the future.

Many people take out both types of LPA for peace of mind.

The Scottish equivalents are a continuing power of attorney, which relates to your financial affairs and a welfare power of attorney, which allows someone you have appointed to make personal welfare decisions for you.

In Northern Ireland there are general or ordinary powers of attorney, covering your financial affairs if you become unwell temporarily, have an accident or go abroad, as well as enduring powers of attorney which cover your property and financial affairs and can continue should you become mentally incapacitated.

Inheritance tax

Finally, Covid-19 has brought home the rather precarious nature of mortality to many of us. Inheritance tax (IHT) may become payable if the value of your estate on death exceeds £325,000. This figure increases to £500,000 where you leave your home to your children or grandchildren. Couples who are either married or in a civil partnership have a combined allowance of £1m.

Having a valid will is the first step in IHT planning. A financial planner can establish the value of your estate for you, and take steps to help you either reduce and/or provide for the amount of IHT potentially payable by ensuring that you take advantage of the exemptions and reliefs available and have the correct financial protection cover in place.

The value of your investments and income from them may go down and you may not get back the original amount invested. Past performance is not a reliable indicator of future performance.

Investing in stocks and shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and your financial circumstances.

The Financial Conduct Authority does not regulate will writing, tax and trust advice and certain forms of estate planning.

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HOW WE CAN HELP

The rapid changes brought about during the Covid-19 pandemic have had an impact on nearly every area of our lives. Wherever you are in your financial planning journey, you will need to revise, and probably adapt, your assumptions about your financial future.

We can help you review your options with objective and expert guidance and keep you up to date with additional changes that may affect your planning. Our role is to do four things:

- **Know enough about you to make the right recommendations.** We take the time to understand your financial situation, your needs, preferences and views.
- **Help you to identify priorities.** If affordability is an issue right now, we can help you consider what your priorities are and how things might change in the future.
- **Recommend solutions to meet your needs.** The right policy or savings vehicle is important, but a will or writing policies in trust could be too.
- **Review your requirements.** Your needs will change over time. Regular reviews are essential to ensure your financial plans continue to meet your needs.

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