Financial Viewpoint

Momentum Financial Solutions

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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For the financial future you deserve

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2020/21
tax year know your numbers

Whilst we would all probably agree that paying tax goes towards providing the important services we all rely on, no one needs to end up paying more than their fair share. Each year, the government announces the tax allowances and exemptions that we are entitled to and it makes sense to maximise their use in meeting our individual financial goals.

Here are a few figures worth knowing:

Personal taxation

At the Budget, the Chancellor's main change to personal taxation was an increase in the National Insurance threshold to **£9,500**, which will save most workers around £100 each year. The Personal Allowance was frozen at **£12,500**, while the £50,000 higher-rate threshold remains unchanged in parts of the UK where Income Tax is not devolved.

Pensions

One of the key attractions of paying into a pension is the tax relief available, 20% for basic rate taxpayers, 40% for higher rate and 45% for additional rate taxpayers. The Annual Allowance for pensions in the 2020/21 tax year remains at **£40,000**.

From 6 April the Annual Allowance will begin to taper for those who have an income above **£240,000** – the £200,000 allowance plus the £40,000 you can save into a pension. It means that for every £2 of adjusted income that goes over £240,000, the Annual Allowance for that year reduces by £1. The minimum Annual Allowance reduced from £10,000 to £**4,000**, affecting those with an income over £300,000.

The Lifetime Allowance – the maximum amount you can have in a pension over a lifetime – increased on 6 April to **£1,073,100**. Increases to State Pensions since 6 April see the new single-tier State Pension rising to **£175.20** and the older basic State Pension increasing to **£134.25** per week.

Savings landscape

A major announcement for savers at the Budget was a substantial increase in the JISA (Junior Individual Savings Account) allowance and Child Trust Fund annual subscription limit from £4,368 to £9,000. The ISA (Individual Savings Account) allowance, including the Lifetime ISA allowance if used, was left unchanged at £20,000. ISAs represent a tax-efficient way of saving or investing and the JISA is a great way of building up funds for your child.

IHT thresholds

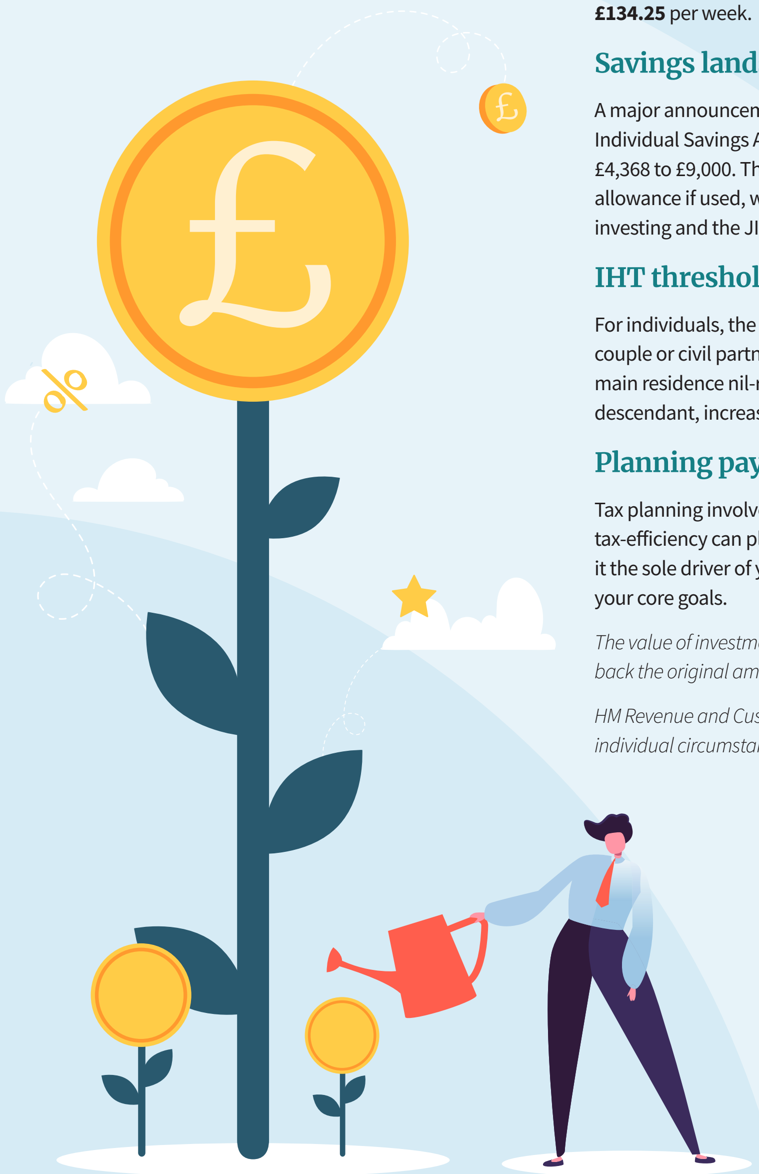
For individuals, the current IHT nil-rate threshold is **£325,000**, and **£650,000** for a married couple or civil partners. Beyond these thresholds, IHT is usually payable at a rate of **40%**. The main residence nil-rate band, which applies if you want to pass your main residence to a direct descendant, increased to **£175,000** on 6 April.

Planning pays

Tax planning involves taking sensible steps to reduce the amount of tax you pay. Whilst tax-efficiency can play a vital part in successful saving and investing, it's important not to make it the sole driver of your savings or investment decisions, or to steer you away from achieving your core goals.

The value of investments and any income from them can go down as well as up and you may not get back the original amount invested.

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



OW2772 Exp. 05/04/2021

Keep your pension planning on track

The coronavirus outbreak is having a widespread impact across all aspects of our financial life, with many people finding their income reduced. At times like this it can be challenging to stay focused. No matter what age you are, now is not the time to neglect your pension. Try your very best to keep your pension planning and contributions on track – don't allow the pandemic to cast a cloud over your long-term plans.

It's never too early to start saving into a pension...

You should start saving for retirement as soon as possible, as the sooner you begin, the longer your savings have to grow. Other financial challenges can make this difficult but investing regular amounts in a pension throughout your working life gives you the best chance of enjoying a prosperous retirement.

...but better late than never

Don't think it's too late to start saving for your retirement. The favourable tax treatment pensions enjoy and their potential for investment growth, means any contributions you make later in life can still make a huge difference to your standard of living in retirement.

Take control of your retirement

When you reach 55, it's important to carefully consider what you can do with your pension pot. For instance, you could keep your savings invested, take a cash lump sum, draw a flexible income (drawdown), buy a fixed income (an annuity), or a combination of these. While this flexibility may enable you to retire earlier or semi-retire, it's vital you take full control of your retirement options at this stage. This should include seeking advice to discuss the pros and cons of the different avenues available to you.

Know your numbers

You can contribute as much as you like into your pension, but there is a limit on the amount of tax relief you will receive each year. The Annual Allowance is currently £40,000, or 100% of your earnings, whichever is lower. You can, however, carry forward unused allowances from the past three years, provided you were a pension scheme member during those years.

For the 2020-21 tax year the Tapered Annual Allowance limits altered. The Threshold Adjusted Income limit is £200,000 and the Adjusted Income Limit is £240,000. If your income plus pension contributions exceeds the Adjusted Income Limit, your Annual Allowance is reduced by £1 of every £2 you are over the Adjusted Income Limit. A Lifetime Allowance also places a limit on the amount you can hold across all your pension funds without having to pay extra tax when you withdraw money. This limit is currently £1,073,100.

Get good advice

Retirement planning is never a case of 'one size fits all'. It is vital you obtain sound financial advice tailored to your individual needs. We offer advice and help with all aspects of pensions and retirement planning, whether you're just starting out and want help choosing the most appropriate pension products, or you're approaching the stage of life when you need to utilise your pension pot and want to know the most efficient way to access your funds. We are here to help.

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.

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OW2805 Exp. 02/04/21

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

Protecting you and your family

Losing your partner at any stage in life can be devastating, but it may be particularly devastating when children are involved because of the financial pressures of raising a family.

Ensuring your children and other dependants are provided for in case you die should be a top priority but less than a third of people in the UK have life insurance.

Keep it simple

Many products are available but a simple level-term policy, where a pre-decided lump sum is paid out should you die within a stated period, is among the simplest to arrange and is typically not very expensive. As a rule of thumb, life cover should provide ten times the main breadwinner's income. The amount should cover any outstanding debts, including mortgage, regular outgoings, potential university fees and so on. The term should reflect the needs of your dependants; Children will probably need support until they leave education and a partner may need it until pensionable age.

Joint or single cover?

A joint policy will cover you and your partner, paying out on the first death within the term. Alternatively, you can have separate single-life policies; a little more expensive but potentially two payments. A young, fit individual should find life cover affordable. Be open about your lifestyle, especially if you have existing medical issues. Premiums rise with age, lifestyle factors, such as smoking and other factors that affect your life expectancy.

Keep under regular review

Reviewing your protection needs helps make sure you have the right cover in place for your financial circumstances, giving you the peace of mind that you've got things covered.

As with all insurance policies, conditions and exclusions will apply.