Momentum Financial Solutions
For the financial future you deserve

VIEWPOINT

MOMENTUM FINANCIAL SOLUTIONS LTD

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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Happy 21st to the ISA

An Individual Savings Account (ISA) is a tax wrapper for your money. There are two main types available depending on the level of risk you're prepared to take:

— Cash ISA
— Stocks and shares ISA

If you're 16 or older you can have a Cash ISA, whereas Stocks and Shares ISAs are aimed at 18s and over. In both cases you'll need to be a UK resident to be eligible.

The ISA was launched by then-Chancellor, Gordon Brown, on 6 April 1999, as successor to the TESSA (Tax-Exempt Savings Account) and PEP (Personal Equity Plan) and has now reached the grand age of 21.

When the ISA was launched, the annual subscription allowance was £3,000 into a cash ISA or £7,000 into a stocks and shares ISA. The overall allowance has risen steadily over the years to reach a generous £20,000 in the 2020-21 tax year.

A first route into investment

Junior ISAs (JISAs) were introduced on 1 November 2011 and can be opened by parents or a guardian with parental responsibility, for a child from the minute they are born. Once opened, anyone can pay into the JISA, but a crucial point to note is that the child is not able to access the cash until they reach the age of 18. In the Budget earlier this year, the JISA annual allowance was increased by almost double to £9,000 per child per tax year.

Popularity

Over the 21 year timespan, ISAs have proved to be a popular investment choice for many; the most recently available government figures, which are for 2018-19, show that around 11.2 million adult ISA accounts and around 954,000 JISAs were subscribed to in the 2018-19 tax year, with new investments totalling around £67.6bn and £974m, respectively.

Long-term investing pays

Looking at some figures from a recent hypothetical example, **if you had been in a position to be able to invest your full ISA allowance for each of the past 21 years (a total of £226,560)** and this had been invested in the FTSE All-Share Index, **your total investment would be worth more than £307,000** as at 6 April 2020. However, you should be aware that this figure excludes any charges or fees and past performance is not a guide to the future.

Regular investing also pays

If you can't afford to invest the full £20,000, don't be deterred. Figures from the same hypothetical example, show that an investment of £100 a month invested in the FTSE All-Share Index over 21 years (a total of £25,200), would be worth over £39,000 at at 6 April 2020, before charges and fees, taking into account the large market-hit from the pandemic this spring.

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.

OW2990 Exp. 02/04/2021

Are you approaching retirement?

If you are nearing retirement, you may have been particularly worried about the impact of recent market volatility on your pension assets and perhaps you are reassessing your retirement plans. There are several things to consider if you are planning to retire, which will depend very much on your own circumstances.

Since pensions freedoms were introduced in 2015, there are many more options available to retirees. Sudden retirements used to be the norm. People would stop work completely one day and be fully retired the next, perhaps receiving a regular income from an annuity. It is now possible to take a more gradual journey into retirement - making use of this flexibility in how you draw funds could be sensible in times of uncertainty.

Consider your timescales

If your planned retirement is 5 to 10 years away, there is a reasonable time for your savings to recover from the recent market volatility, but you should still take action:

— Review your retirement age.

— Consider increasing your pension contributions.

— Talk to us about your attitude to risk and appropriate fund switches.

If you have less than five years to retirement, your pension pot may not have been exposed to market volatility as much as you think. You may have benefited from a lifestyle option on your pension which is designed to ‘lock in’ investment growth as you approach retirement, by switching funds to less risky assets. This option is not suitable for everyone, particularly if you intend to keep your pension pot invested and use income drawdown to give you an income in retirement.

If you are retiring this year and your pension pot has taken a hit, you could consider delaying retirement until markets recover, but this may not be an option for everyone.

Advice is key

One of the biggest risks in uncertain times is to act in haste and make rash decisions.

Getting financial advice is crucial in making the right decision. We can help you consider all your options, including reviewing whether any other assets could be used to provide an income, so that your pension stays untouched.

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.

OW2863 Exp.05/04/2021

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

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OW2980 Exp. 14/10/2021

It's time to think about life insurance

If you have dependents – people who rely on you financially – then you should have life insurance. In fact, if you have dependents and don't have life insurance, you are exposing them to grave financial risk. And who would want to do that?

Life insurance tends not to feature on 'to do' lists because it makes us confront uncomfortable questions, such as what would happen to our loved ones if we were to die unexpectedly in the next few years.

However, we all carry a deep responsibility to ensure those we leave behind at least have sufficient funds to carry on with life if we're no longer around. That means putting plans in place to address unpleasant possibilities.

Types of life insurance

There are two main types of life insurance. The one most people need is 'term' insurance. This pays out if the policyholder dies within a stated period – the 'term'.

The other type – 'whole of life' insurance – pays out on your death, whenever that occurs. This is more of an investment vehicle than a financial protection plan and is typically used for estate planning.

Dealing with debt

Term insurance pays out money that can be used to clear debts such as a mortgage, lifting a huge financial burden and enabling your loved ones to stay in the family home.

It can also provide for day-to-day living expenses – everything from groceries to utility bills, and from school and university fees to family holidays.

Key points

GET ENOUGH COVER
Buy sufficient insurance to take care of your family until the youngest is financially self-sufficient.

YOU BOTH NEED IT
If you're in a couple, you both need cover, even if one of you stays at home. The proceeds can pay for services such as childcare and keeping up the house.

BUY SEPARATE POLICIES
Joint life insurance covers you both under one policy, but separate policies are more flexible and provide greater protection, although they cost a bit more.

WORK COVER ISN'T ENOUGH
Many firms offer 'death in service' life insurance. However, once you've worked out how much cover you need, you'll probably realise this isn't enough and you'll need a policy of your own.

THE SOONER THE BETTER
The older you are, the more expensive life insurance is, so bite the bullet and buy young.

PUT YOUR POLICY 'IN TRUST'
Doing so places the proceeds outside your estate so it can be paid to your beneficiaries without any delay associated with probate. It also keeps the money from the clutches of the tax man.

REVIEW REGULARLY
Monitor your life insurance coverage to make sure it keeps pace with your circumstances. Events such as marriage, the birth of children and moving home might prompt you to increase the amount of insurance you have.

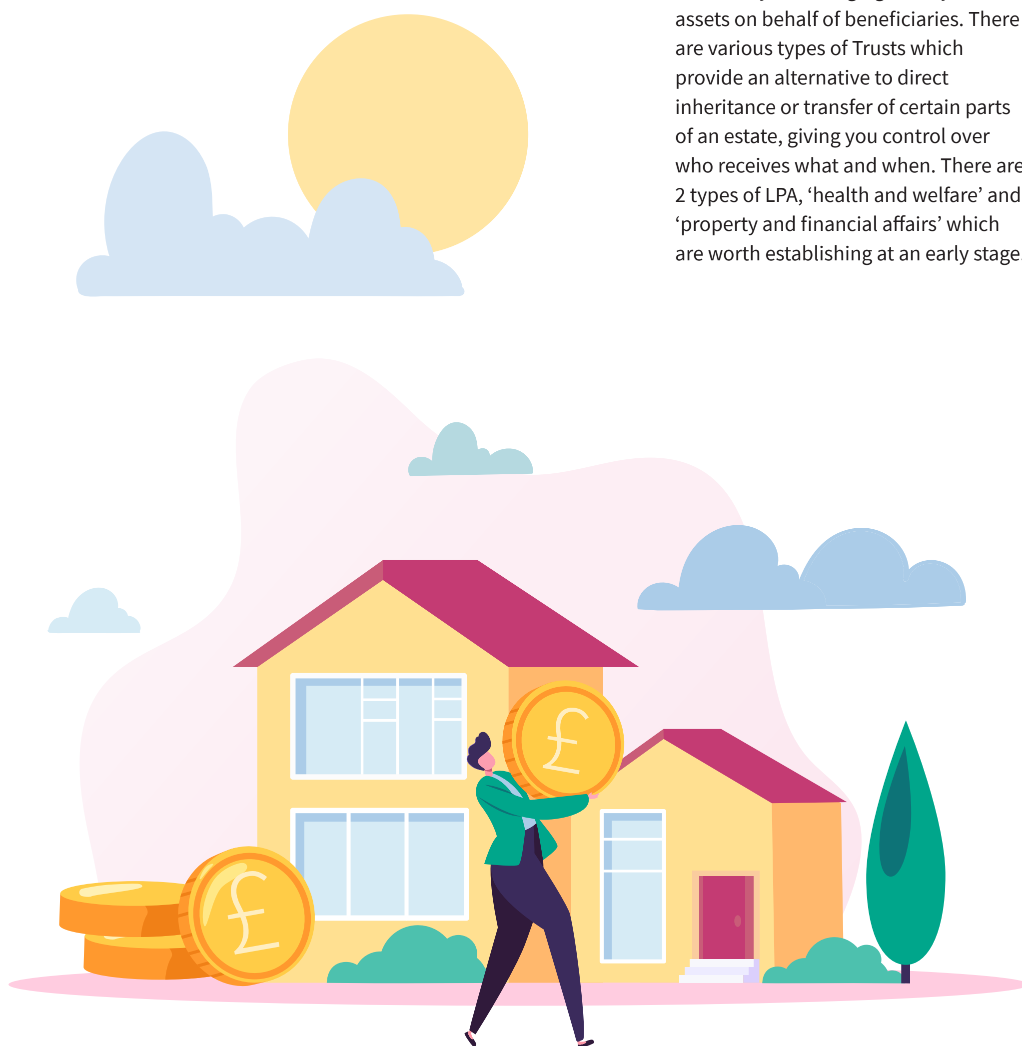
It is important to take professional advice before making any decision relating to your personal finances.

OW2493 Exp. 09/03/21

Estate Planning

Estate planning encompasses not only preparing your finances to ensure your assets are protected for your loved ones once you are gone, but it's also about ensuring you have enough money to live on.

It starts with obtaining a comprehensive view of your assets. Assessing the value of your estate and ensuring the right documentation is in place is a first port of call (such as Wills, Lasting Powers of Attorney (LPA), and the formation of any relevant Trusts).



Valuing your estate

In order to establish the value of your estate, first calculate the total worth of all your assets, including your home, any other property, money and savings, shares and investments, business equity, cars, jewellery and other personal possessions. Determine the value of non-monetary assets, by applying a realistic market value. Any gifts which incur Inheritance Tax (IHT) should be added to the value of assets. Then deduct debts and liabilities from this amount to establish the total value of the estate. Deductions include any outstanding bills, mortgage debt, loans, credit cards, overdrafts, and funeral expenses.

Wills*, Trusts and LPA

Putting together a clear plan, that details your wishes regarding how you'd like your estate to be managed upon your death, will ensure when the person looking after your estate applies for probate they will know what your wishes were. A vital part of successful estate planning is ensuring you have a valid Will in place. Trusts are also a useful way of managing money or other assets on behalf of beneficiaries. There are various types of Trusts which provide an alternative to direct inheritance or transfer of certain parts of an estate, giving you control over who receives what and when. There are 2 types of LPA, 'health and welfare' and 'property and financial affairs' which are worth establishing at an early stage.

IHT

Estate planning can also help you reduce the amount of IHT payable. With expert planning, you can legitimately reduce the amount of IHT payable and pass on assets to your family as intended. For individuals, the current IHT nil-rate threshold is **£325,000**, and **£650,000** for a married couple or civil partners. Any unused portion of the nil-rate band can be passed to a surviving spouse or civil partner on death. Beyond these thresholds, IHT is usually payable at a rate of 40%.

Since April 2017, there has also been a main residence nil-rate band, which applies if you want to pass your main residence to a direct descendant (e.g. child or grandchild). For the 2020-21 tax year, this allowance is **£175,000**. Added to the existing threshold of £325,000 this could potentially give rise to an overall IHT allowance of **£500,000** for individuals, or £1m for those who are married or in civil partnerships. It is important to note larger estates will find residence relief is tapered, reducing by £1 for every £2 by which the net estate's value exceeds £2m.

There is another simple way of passing money to the next generation which allows for gifts to be made from surplus income. Conditions apply, and advice would be needed to ensure the gifts are made in the right way. We can talk you through the options and help you to find the most appropriate choice.

We can help

We can give you advice to ensure your money ends up with the people you want, for the reasons you choose. We can show you how much money you will need, help you to pass on assets in the most effective way, and work with you to reduce or manage an Inheritance Tax bill.

***Will writing and LPAs are not a part of the Openwork offering. Openwork Limited accepts no responsibility of this aspect of our business. These products are not regulated by the Financial Conduct Authority.**

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

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