Newsletter

Pensions & Investments

Thank you for reading our newsletter, if you would like to discuss any of the articles further, please do not hesitate to contact us

S&S Tait Financial Services

GMT Mortgage Bureau and Financial Consultancy, 8 High Street, Coleford, Gloucestershire, GL16 8HF

stuart1.tait@openwork.uk.com | 01594 835999 / 07900 908325 | www.sstait.co.uk

How has COVID-19 affected your retirement?

2.6%
the average pension fund is 2.6% lower than at the start of year

1.5 million
people over the age of 50 are planning to delay their retirement

15%
plan to delay retirement by an average of three years

26%
say they plan on working indefinitely

The coronavirus pandemic has not been kind to older generations. As well as having a greatly increased risk of serious health complications from the virus itself, older people have suffered a serious blow to their retirement plans.

Data from Legal & General shows that 1.5m people over the age of 50 are planning to delay their retirement in some way as a direct result of COVID-19. Fifteen percent say they plan to delay retirement by an average of three years, while 26% say they plan on working indefinitely.

Pension funds fall...

Pensions savers initially saw the value of their pension pots fall in response to the stock market slump, which impacted the retirement income available for those on the verge of retirement. This is the main reason why so many are planning to delay their retirement. The average pension fund fell by 15.2% in Q1 2020 – an even worse performance than that observed at the height of the global financial crisis. Despite recovering losses in Q2 2020 the average pension fund is still 2.6% lower than at the start of the year.

... but flexible withdrawals decrease

Many savers have not panicked but taken a sensible approach to the crisis, with data showing that less money was flexibly withdrawn from pensions in the second quarter of this year. Savers withdrew £2.3bn during this period, down 17% on the £2.8bn withdrawn in Q2 2019. This suggests that in the face of challenging circumstances, savers have been able to use their common sense, resist temptation and keep their retirement plans on track.

Onwards and upwards

In a press release, a group of regulatory bodies including The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) have urged consumers to keep a level head. They advise pension savers to be wary of scams and to seek professional advice before acting. TPR's chief executive, Charles Counsell, said: "Pensions remain a safe long-term investment for your retirement and it's important to avoid hasty decisions about cash that's taken a lifetime to build."

Financial advice pays

If you're worried about your retirement, we can help. As your trusted financial adviser will be able to evaluate your situation and offer guidance based on your own personal circumstances.

The value of your investments and any income from them can fall as well as rise and you may not get back the original amount invested.

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.

Retirement and risk – striking a balance

The impact of COVID-19 caused extreme stock market volatility, with the average pension fund falling over 15% in Q1. While some of that value may have been regained over the last few months, pension savers remain understandably cautious.

In the past, the level of risk to which pension funds were exposed would reduce on the approach to retirement – a strategy called 'pension lifestyling'. This approach involves adjusting your portfolio to replace riskier assets with lower risk (although usually lower returning) options such as bonds.

In the current climate, with 1.5m workers planning to delay their retirement as a result of the pandemic and many more concerned about the continuing impact of stock market volatility, is pension lifestyling relevant at the moment?

Greater income needs

Just a few decades ago, the average pension pot would probably have needed to last for 20 years of retirement. As life expectancy increases, however, that period has stretched to 30 or even 40 years in some cases. As a result, it's likely you'll need to maintain some level of investment risk in order to generate the income required to live in comfort for the duration of your retirement – however long that may be.

The average pension fund fell over 15% in Q1 of this year

Keeping up with inflation

Even if you have enough in your pension pot now to keep you comfortable, inflation has the potential to erode the purchasing power of your savings over the passage of time. Therefore, lowering risk as you approach retirement, may not always be a suitable course of action, depending on your circumstances.

Risk and reward

The pandemic may have made you reflect on your attitude to investment risk but accepting a certain level of risk could ensure that your pension pot keeps up with, or even beats inflation. It could also help you save additional income for potential extra costs, such as long-term care fees. It's important to balance risk by diversifying your portfolio and perhaps setting aside some readily available cash in low-risk bonds or a savings account, to act as a buffer.

Financial advice is vital

In today's uncertain environment, taking financial advice can make the difference between a comfortable retirement and living in reduced circumstances. We can assess your personal situation and work with you to create a tailored plan for your pension that is aligned with your objectives, time frame and attitude to risk. If you'd like to understand how your approach to your pension should change in the run up to retirement, please get in touch.

A pension is a long-term investment. The fund value may fluctuate and can go down.

Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

The value of investments and income from them may go down. You may not get back the original amount invested.

OW2993 Exp. 31/12/20