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Parent

Financial education for children in lockdown

Getting teenagers to think about saving for their old age is a mammoth task at the best of times, and with the stresses of the coronavirus health crisis it may now seem impossible. But as the effects of lockdown are felt in the economy and people's livelihoods, now is actually a really good opportunity to discuss the value of money. Ease your teenagers into the world of finances gently, by getting them to complete the Bank Statement Challenge. Devised by Sian Bentley, a teacher from Leicester, all you need is a bank statement from a few months ago and one from during the lockdown period. Go through the statements with your kids and compare your spending then and now. This is a simple way to talk about the family's finances, and in real-terms, can show the effect coronavirus is having on your budget, especially if, like many families right now, your household income has taken a hit. With a concrete example of the value of money in their minds, you can introduce other concepts, like the power of investing to grow their savings. Stock markets have been put in turmoil by coronavirus, but savvy investors are picking up bargains. Some families may have spare cash to do just that. The Centre for Economics and Business Research has found average households are spending 30% less than pre-lockdown. Unable to go out and spend as freely as they may have done previously, young adults may also have healthier wallets. Point out to them that as well as having a rainy day fund, investing can make their money grow, and discuss the positive impact time can have on investing.

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Property Owner / Retired

Equity release versus advice rules change

Many people are looking for ways to supplement their incomes at the moment, with the ongoing lockdown having a knock-on effect on the money coming in. And if you're over the age of 55, you have a couple of extra options in the forms of equity release and pension withdrawals. But what are the pros and cons of each? And which is going to be best for you? Equity release is a type of mortgage product, which allows you to unlock some of the equity you have built up in your property. You borrow against the value of your property, with the loan – and the interest charged – paid off once the property is sold off when you pass away or move into care. Of course, the lockdown has impacted the way these lenders offer their deals – they cannot conduct physical valuations for example, while many of those who would borrow are self-isolating so cannot enjoy the face-to-face advice from independent advisers that is part and parcel of the equity release process. What's more, early indications are that the rates on equity release products are increasing. One attractive option for some borrowers, particularly at the moment, is that you can go for a drawdown lifetime mortgage rather than a lump sum. Effectively you arrange a 'cash facility' that you can tap into as and when you need it. This flexibility may be particularly valuable if you're just looking to supplement an income that's taken a temporary hit, and it also tends to cost less than releasing a lump sum in one go. There are of course plenty of downsides to equity release. There's no getting away from the fact that it is going to work out more expensive than a traditional re-mortgage, for example. Part of this is the fact that the interest rates are higher, but as you aren't making repayments as you go that interest is then charged on the entire loan, meaning it can ramp up significantly. That doesn't mean it's the wrong choice for you – you may not be able to get a traditional re-mortgage anyway – but it should be considered carefully before you sign up. One important thing to bear in mind is that come what may, your loved ones will at least not be left owing money should you live for longer than expected after taking out an equity release deal, as lenders have adopted a 'no negative equity pledge'.

All

Coronavirus and the property market

One of the best ways to judge how much a property is worth is to see what is being asked for similar homes, or how much they have sold for recently. Monthly house price reports from such data sources as the Land Registry and Rightmove are the best tools for this, offering an overview of thousands of homes for sale. However, with the market on hold for the foreseeable future, these indices will take months to offer enough data again. Commentators believe it’s particularly difficult to predict whether house prices will fall and by how much because the nature of the current crisis is different to previous downturns we’ve seen, being caused by global health, rather than economic circumstances. The 2008 house price crash was in part caused by tough restrictions on borrowing: One of the reasons it was called a credit crunch was because it was hard to get credit, you needed a 40 or 50% deposit to get approved for a mortgage. Combined with higher interest rates, this meant there was more negative equity and a greater number of repossessions, causing house prices to fall, along with a steep rise in unemployment and wage stagnation, leaving many would-be buyers unable to capitalise on cheaper house prices. By comparison, a combination of pent-up demand, which has been building for the four years since the EU referendum, and freely available mortgages at low rates, as well as a fairly even balance between supply and demand are likely to see house price growth settle before potentially returning to the gentle increases seen since December’s resounding Tory general election victory.

Business Owner

Support for the self employed

HM Revenue and Customs (HMRC) has begun contacting customers who may be eligible for the government's Self-Employment Income Support Scheme (SEISS), recently announced by Chancellor Rishi Sunak as part of the Coronavirus Job Retention Scheme. Those who are eligible will be able to claim a taxable grant worth 80% of their average trading profits up to a maximum of £7,500 (equivalent to three months' profits), paid in a single instalment. HMRC is also inviting customers, or their agents, to go online and check their eligibility for SEISS. In order to receive quick confirmation from the eligibility checker, the government said individuals should have their unique taxpayer reference (UTR) and their national insurance number ready, and make sure their details are up-to-date in their ‘government gateway' account. Individuals are eligible if their business has been adversely affected by coronavirus, if they traded in the tax year 2019 to 2020 and intend to continue trading. They need to earn at least half of their income through self-employment; have trading profits of no more than £50,000 per year; traded in the tax year 2018 to 2019 and submitted their self-assessment tax return on or before 23 April 2020 for that year. HMRC is using information that customers have provided in their 2018 to 2019 tax return - and returns for 2016 to 2017 and 2017 to 2018 where needed - to determine their eligibility and is contacting customers who may be eligible via email, text message or letter.

Investor / Saver

ESG investment popularity increases

Investment decisions based on environmental, social and governance (ESG) factors are growing in popularity among investors, despite a limited understanding of what they entail, research has found. The 2020 Financial Adviser survey, conducted by fund data and technology company FE fundinfo, reveals that while 56% of advisers have increased the amount of client money they have invested in ESG funds over the past year, 62% believe that their clients don't understand what ESG investing involves. Among ESG factors, the research also reveals that investors primarily favour funds that have limited or zero impact on the environment. A quarter of financial advisors listed environmentally-friendly investments as their clients' preferred ESG consideration, followed by ethical investments (e.g. avoiding certain companies, sectors or industries) at 24%. Companies with strong corporate governance, or focus on social impact or Islamic finance seem to be less of a concern for investors, with 8%, 4% and 3% of advisers saying this would be their clients' primary ESG motivation. The research also found that advisers believe that the growing demand for ESG investments is mostly coming from investors themselves. Over a third of advisers (36%) believe the growth in ESG is primarily investor led, while just 7% say it is being driven by institutional pressure alone. Around 38% said it was primarily a mixture of investor demand and institutional offerings.

Business Owner

Furlough and tax bills

Many SMEs are making errors on their applications for the Government's furlough scheme, meaning they will have to repay thousands of pounds back to HMRC later. Many small business applications for the furlough grant include the cost of their Employer's National Insurance Contributions (NICs) for furloughed employees. However, for many SMEs that cost is already being covered by the Government. Under the existing Employment Allowance, businesses that pay less than £100,000 in NICs each year can apply for up to £4,000 of tax relief on that bill. This relief is used by many micro-businesses to reduce their National Insurance bills to zero. HMRC is currently paying furlough scheme claims to businesses as quickly as possible – but those who over claim by mistake will have to pay that money back to HMRC later. This is an unexpected cost that they are unlikely to have budgeted for. An unexpected bill of several thousand pounds from HMRC is the last thing small businesses will want to see as they fight to recover from the economic shock of coronavirus. If they are not very careful with their furlough scheme applications, they are putting themselves at risk of just that.

Investor / Saver / Retired

Protect your pension pot pandemic

Pension savers and investors have seen the value of their pots tumble due to the coronavirus epidemic - but there are ways to mitigate against future falls. March saw the FTSE100 plunge 11% - its worst day since Black Monday in 1987 as £160billion was wiped off shares. The market, which tracks the fortunes of the UK's 100 biggest firms, fell below 5,000 although it has since recovered to almost 6,000 at the time of writing. But in uncertain times, how can we ensure our pensions are protected?

1. **If you're a long way from retirement - spread your risk:** If you're young and you know retirement is a long way off, the best thing to do is to check what your pension is invested in, and ensure you're comfortable with it. Many of us will have been automatically-enrolled into our workplace pension's default fund but you usually have the option to switch away from this and pick your own investments. If you do this, don't put all your eggs in one basket - ensure you invest in a range of different assets.
2. **If you're nearing retirement - think about the end goal:** If you're within five years of retirement and are planning to use your pension pot to buy an annuity - an insurance product that provides a guaranteed income for life - you should first reduce your exposure to potentially volatile equities so your returns are more predictable. Also ensure you shop around for the best annuity deal and tell your insurer about any health conditions as this could boost your rate. If you're planning to stay invested through drawdown your investment time horizon might be longer, meaning you can potentially ride out short-term fluctuations in performance. You might want to consider delaying retirement, if possible, until we have more certainty. Also bear in mind if you start accessing your pension the amount you can save tax-free each year falls from £40,000 to £4,000.
3. **If you're in retirement - monitor your investments regularly:** If you're already drawing from your pension but you've kept some of it invested, regularly review your pot and consider withdrawing any cash investments first to allow your investments the opportunity to recover. Alternatively, you could just withdraw the dividends or income earned from your investments leaving your capital untouched, although paying an income could be particularly challenging right now with many companies suspending dividend payments.

Past performance is not a guarantee to future performance. You may get back less than invested.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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