Dandelion
Making money make sense for you

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Registered in England and Wales number 08625116.
Authorised and Regulated by the Financial Conduct Authority.

Your Window on
Money

SUMMER 2020

Building financial resilience

One notable theme evident throughout the coronavirus lockdown has been 'back to basics' with people displaying an increased appetite for the simpler things in life. While not everyone has fully embraced Tom and Barbara's 'Good Life' philosophy, home baking, gardening and knitting have all enjoyed a notable renaissance.

Lockdown lessons

Back to basics has also become a key personal finance theme. The economic impact of the pandemic has clearly resulted in many people's finances becoming severely stretched. As a result, a significant proportion of consumers have sought to change their financial habits by reducing expenses and becoming more mindful spenders.

Dealing with debt

While good budgeting skills have become a necessity, it's also important not to ignore debt. Many have benefited from mortgage and other debt payment breaks, but these will not last forever. Going forward it's vital to keep up with repayments or, if you are struggling, consult a debt adviser. When it comes to lingering debt, the worst thing anyone can do is nothing.

Financial fragility

Sadly, for some people, the pandemic has highlighted the fragile nature of their financial safety net. The last few decades have seen the burden of responsibility increasingly shift from state to individual, which has increased the importance of protection products in order to maintain both your and your family's financial security in uncertain times.

Rainy day funds

The pandemic has also highlighted the need for emergency savings. If you don't have any, regular savings schemes can be a particularly good way to accumulate rainy day funds. If you do have savings, make sure you shop around for the best available rates rather than leaving funds stagnating in poorly paying accounts.

Long-term goals

Although it's extremely easy to focus solely on short-term financial needs, it's also important not to lose sight of other financial goals. While finding money to fund longer-term plans such as retirement savings can be difficult, the cost of delay can ultimately prove even more expensive.

Help at hand

The last few months have shown we never really know what's around the corner and also demonstrated the importance of being financially prepared for what may lie ahead. If you need assistance strengthening your financial resilience, please get in touch.

MAINTAINING YOUR PROTECTION COVER IS VITALLY IMPORTANT

Financial hardship can strike when we least expect it, showing the importance of having protection cover in place as a safety net.

A recent YouGov[1] survey about the pandemic revealed that nearly a third (32%) of Britons fear for their future. Payouts from life insurance, critical illness and income protection can help lessen the blow of unexpected events. Data from the Association of British Insurers shows that more than £5.7bn was paid out in protection claims in 2019.

If you are reviewing your finances to try and reduce outgoings, think twice before cancelling any existing protection policies – this could prove to be a false economy. Critical illness and income protection policies can be a lifeline if you were to lose your job or become ill for an extended period, so should certainly not be on the list of expenditure to cut.

Rest assured we are here to help. If you have any questions about existing protection policies or you are considering new ones – please get in touch, we can help ensure your protection needs are covered.

[1]YouGov, 2020

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INSIDE THIS ISSUE:

CONTACTLESS PAYMENTS THE NEW NORM

According to research[2], the pandemic has accelerated the transition to contactless payments, with two thirds (66%) of card transactions in the UK now contactless. The contactless limit was increased from £30 to £45 on 1 April. Almost half (45%) of UK adults – surveyed between 10-12 April – admit their use of cash has decreased throughout the pandemic and 76% of respondents say they will continue using contactless payments after the crisis.

THE £20 WORTH £7.5K

A new polymer £20 note, featuring artist JMW Turner, with the serial number AA01 000010 recently sold for £7,500 at auction, with proceeds going to charity. Listed with a guide price of between £3,000 and £4,000, the note sold for 375 times its face value. When a new note enters circulation, the Queen is gifted the first one, which contains the AA01 000001 serial number. The note ending 000010 is likely to be the lowest numbered note which enters circulation.

LISA WITHDRAWAL RULES

The government have announced temporary changes to the Lifetime ISA (LISA) withdrawal rules if people want to access their funds earlier. The LISA allows holders to save up to £4,000 a year towards their first home or retirement and provides a 25% cash bonus of up to £1,000 a year on top. Previously, holders were charged 25% of the amount withdrawn if they took cash out before turning 60 or if they were not buying a property. The withdrawal charge has been reduced to 20% between 6 March 2020 and 5 April 2021.

[2]Mastercard, 2020

Protecting your investment portfolio

The pandemic has placed immense pressure on financial markets across the globe. Markets hate uncertainty and, in recent months, that has been one commodity not in short supply. Heightened volatility, however, does always demonstrate one investment certainty – the importance of portfolio diversification as a means of guarding against market turbulence.

Time to take stock

In uncertain times like these, it's always good to revisit your investment objectives and review your long-term financial goals. In particular, it's worth considering your attitude to risk and whether your current strategy provides sufficient protection to your portfolio. The key is generally to ensure you hold a diverse portfolio with a mix of investments suited to your particular risk appetite.

Benefits of diversification

A balanced portfolio is generally one containing a combination of asset classes, which typically includes equities, bonds, property and cash. Each of these provides differing degrees of risk. So, while equities have the potential to deliver higher returns than bonds, the latter can provide an element of capital preservation when investors turn anxious and become risk averse. Adopting a diversification strategy essentially ensures investors do not put all their eggs in one basket.

Beware over-diversifying

While building diversity into an investment portfolio is undoubtedly important, investors must also guard against over-diversification. This is because holding too many assets can spread your money too thinly and thereby have a detrimental impact on potential returns.

Accept volatility

The coronavirus outbreak has also highlighted another key lesson for investors: acceptance of market volatility. Most people invest for the long term and so need to look beyond short-term volatility. As a result, investors' best policy at the moment might simply be to sit tight, if advised to do so in their specific circumstances.

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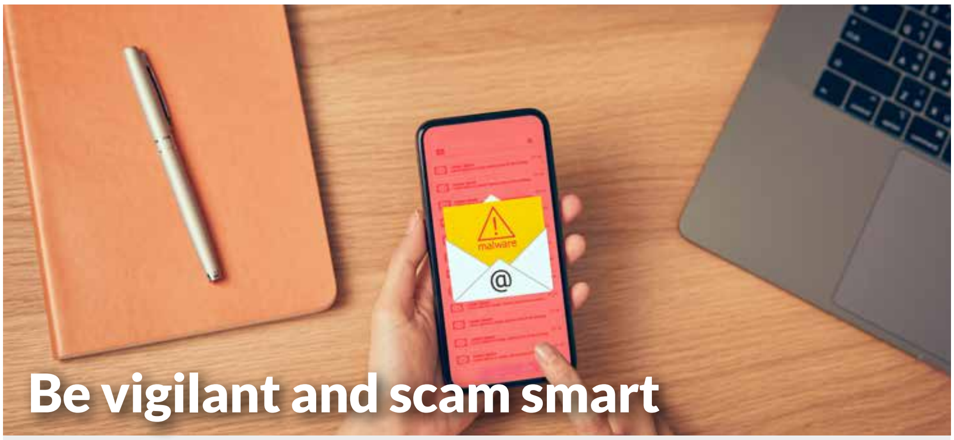

Be vigilant and scam smart

There have been warnings from several UK bodies, including the Bank of England, National Crime Agency, and the Financial Conduct Authority (FCA) urging people to be vigilant. The warnings are aimed, in particular, at those who may have lost their jobs or are under financial pressure and may be tempted by scammers.

Millions affected

Over five million people in the UK have fallen victim to, or know someone who has been duped by, a financial scam since the beginning of the virus outbreak.

The most common financial scams relate to banking, accounting for 60% of victims, followed by 35% being targeted by an insurance scam. One in five reported having been targeted by a pension scam amid an increase in fraudsters offering free pension reviews.

Be a ScamSmart investor

The FCA has an online scam checker where you can check an investment or pension opportunity which can be found here: www.fca.org.uk/scamsmart

Government advice

Government advice to protect yourself from fraud includes checking the company's credentials via a reliable source such as the FCA's Financial Services Register, being wary of deals that sound too good to be true, not clicking on links from unknown senders, not giving out personal details and seeking professional financial advice before making any decisions. The official advice can be found here: www.gov.uk/government/news/be-vigilant-against-coronavirus-scams

Guidance in uncertain times

Anxiety and financial pressure can make us more vulnerable to fraud, so if you are unsure about any financial opportunities, please contact us. We're here to keep you and your finances safe during this period of uncertainty.

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Timing pays off for the early bird ISA investor

Early tax year ISA investors could be thousands of pounds better off, according to research[3] looking at the investing habits of hypothetical ISA investors over the last 10 and 20 years.

The study concludes that if you were an 'Early Shirley' and invested your full ISA allowance on 6 April for the past 20 tax years, you would be nearly £12,000 better off now than 'Last Minute Lara' - someone who had waited to invest on the last day of each tax year.

With not everyone able to afford the full ISA investment in one lump sum, investing like 'Monthly Monty', who drip-feeds money into an ISA with a monthly savings plan, would achieve better returns than investing it all at the last minute. By splitting your annual ISA allowance into 12 monthly investments your investment would have grown to £296,247 - still £7,496 more than if you had waited until the last minute.

[3] Fidelity International, April 2020

Making sense of pension withdrawals

Research[4] has revealed that one in five over-55s with a private pension withdrew a lump sum during 2019, although the study does suggest that, for many, this was probably not a financially sensible course of action.

'Stash the cash'

The most popular reason for accessing pension wealth was to put the money into a savings account, with one in four respondents doing so. Around one in five people who withdrew money from their pension, spent the proceeds on home improvements.

Tax implications

At first glance, the research appears to imply a sensible approach to pension withdrawals. However, in reality, shifting a taxed lump sum from a tax-efficient pension simply to place the proceeds on deposit makes little financial sense. This is partly due to potential tax bills, but also relates to inheritance rules which mean most people would be better off leaving money in a pension until they need the cash for income or specific spending requirements.

Seek advice

It's clearly always essential to take professional advice before making any pension-related decisions, particularly in the current economic climate. So, if you are considering accessing your pension soon, get in touch – we will help you make the best decision for you.

[4] Canada Life, 2020

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Know your numbers this tax year

It's well worth being aware of the tax allowances and exemptions available in 2020–21 to be able to maximise them for your own individual financial planning. Here are a few figures worth knowing:

Personal taxation

The National Insurance threshold is now £9,500. The Personal Allowance remains at £12,500, while the £50,000 higher-rate threshold remains unchanged in parts of the UK where Income Tax is not devolved.

Pensions

A major attraction 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 remains at £40,000. It 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). This means that for every £2 of adjusted income above £240,000, the Annual Allowance for that year reduces by £1. The minimum Annual Allowance has reduced from £10,000 to £4,000.

The Lifetime Allowance – the maximum amount you can have in a pension over a lifetime – has increased to £1,073,100.

Since 6 April, the new single-tier State Pension has risen to £175.20 per week and the older basic State Pension increased to £134.25 per week.

Savings landscape

The annual amount you can save into a JISA (Junior Individual Savings Account) or Child Trust Fund has increased substantially, from £4,368 to £9,000. The ISA (Individual Savings Account) allowance, including the Lifetime ISA allowance if used, remains 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.

Inheritance Tax (IHT)

The current IHT nil-rate threshold is £325,000 for individuals 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, has increased to £175,000 for individuals and £350,000 for a married couple or civil partners.

Planning pays

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.

We can advise you on the sensible steps to reduce the amount of tax you pay, safeguarding your wealth for the future.

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PROTECTION FOR YOUR MONEY

With the outbreak shocking nations around the world and impacting people's finances, savers understandably want protection for any savings they may have.

For UK savers, the Financial Services Compensation Scheme (FSCS) can provide a safeguard adding a valuable level of reassurance. If you have any money in an account with a UK-authorised bank, building society or credit union that fails, the FSCS will compensate you:

- up to £85,000 per eligible person, per bank, building society or credit union
- up to £170,000 for joint accounts.

You do not need to take any action, the FSCS will automatically compensate you. The cover applies to the total sum of money held but because some banks share a banking licence, this will affect how much of your money is protected. If you hold over £85,000, it needs to be spread across different banks that don't share a licence to benefit from full FSCS protection. If you hold multiple accounts with banks that share the same banking licence, anything you hold over £85,000 will not be protected.

We can help you keep on top of your cash balances.

IF YOU WOULD LIKE ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.