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In the current climate, there is uncertainty in all of our lives with both health and financial concerns. However, while we are all understandably focusing on the here and now, it might be worth using this time to take a step back and review your long-term financial wellbeing as well. This newsletter takes a look at some of the areas you might want to consider. Of course, we are on hand to support you through any challenges ahead.

DIVIDEND GROWTH REACHES HIGHS

UK companies paid out a record £110.5bn in dividends in 2019, which was 10.7% up on 2018[1]. This may be good news for income investors, although higher payouts will mean more investors are subject to Dividend Tax, unless investments are held in tax efficient wrappers.

Ongoing uncertainty around Brexit throughout the year, which resulted in comparative sterling weakness against the dollar, meant that dividend returns were boosted due to many UK dividends being declared in US dollars. The record figure was also artificially increased by an exceptionally large £12bn of 'special dividends' – particularly from the banking, mining and IT sectors.

NO REPEAT IN 2020

Once currency factors and special dividends have been taken out of the equation, underlying dividends saw a modest rise of just 2.8% in 2019, which is the slowest growth since 2014. So, experts were already warning investors not to expect the same in 2020, even before the COVID-19 outbreak.

[1]Link Assets, 2019

ARE YOU READY FOR 'THE GREAT WEALTH TRANSFER'?

Over the next three decades, the asset-rich 'Baby Boomer' generation is expected to pass down a record-breaking amount of wealth to their often debt-saddled and rent-paying Millennial and Generation Z offspring. Money matters are never the easiest topic, but if this intergenerational wealth transfer is to be handled successfully, families need to start discussing it.

PASSING ON THE POUNDS

Baby Boomers, the wealthiest generation in history, are ageing. This will mean substantial growth in the yearly number of inheritances and financial gifts to offspring. Economists and financial observers have dubbed this intergenerational movement of money 'The Great Wealth Transfer'. Estimates[2] suggest that, over the next 30 years, an unprecedented £5.5tn could pass between generations in the UK and the average value of inheritances is set to grow from £62,000 in 2017 to £91,000 in 2027.

TACKLING THE TABOO

The importance of the wealth transfer process is unquestionable, but most families remain uncomfortable when talking about money – with finance among the few remaining taboo topics. However, it is vitally important that retirees involve their offspring in financial planning decisions if the wealth transfer process is ultimately to be successful.

INHERITANCE DILEMMAS

Planning for inheritance, unsurprisingly, raises a number of concerns for parents. How do they help their children financially without damaging their work ethic or their relationship with their partner? In addition, parents need to balance the emotional desire to leave significant sums to heirs with the need to ensure their own financial wellbeing, particularly in an era of spiralling long-term care costs.

TALK ABOUT FINANCE

Arguably, the key inheritance challenge is one of ensuring that children are ready to take on financial responsibility for family assets. Encouraging their involvement in your financial planning decisions now is a particularly good way to boost their financial literacy and ensure they are ready when the time comes. We have experience in instigating and assisting these conversations.

[2]Kings Court Trust, 2017

KEY POINTS FROM THE SPRING BUDGET

THE ECONOMY

- Economy predicted to grow by 1.1% in 2020-21, revised down from 1.4% forecast a year ago (this figure does not take into account the impact of COVID-19)
- Growth predicted to rebound to 1.8% in 2021-22, easing back to 1.5% in 2022-23
- Inflation forecast of 1.4% this year, increasing to 1.8% in 2021-2022

PUBLIC SERVICES AND CORONAVIRUS

- £5bn emergency response fund to support the NHS and other public services in England
- All those advised to self-isolate will be entitled to Statutory Sick Pay, even if they have not presented with symptoms
- Self-employed workers who are not eligible will be able to claim contributory Employment and Support Allowance (available from day one)
- £500m hardship fund for councils in England to help the most vulnerable in their areas
- Firms with fewer than 250 staff will be refunded for sick pay payments for two weeks
- Small firms will be able to access business interruption loans
- Business rates in England will be suspended for firms in the retail, leisure and hospitality sectors with a rateable value below £51,000
- £6bn in extra NHS funding over five years to pay for staff recruitment and start of hospital upgrades

PERSONAL TAXATION, WAGES AND PENSIONS

- Tax paid on the pensions of high earners, including NHS consultants, to be recalculated to address staffing issues
- The two tapered Annual Allowance thresholds for pensions will each be raised by £90,000
- The minimum level to which the Annual Allowance can taper down will reduce from £10,000 to £4,000 from April 2020
- Annual Capital Gains Tax exemption increased to £12,300 from 2020-21
- The Lifetime Allowance for pensions will increase in line with the Consumer Prices Index, to £1,073,100 for 2020-21
- From 11 March 2020 the Lifetime Allowance on gains eligible for Entrepreneurs' Relief reduced from £10m to £1m.

THE FIRST BUDGET OF THE DECADE – UNDER THE SPOTLIGHT

Rishi Sunak, the Chancellor of the Exchequer, delivered his maiden Budget on 11 March, unleashing the largest increase in public investment for generations, in a bid to boost the economy and see the country through the COVID-19 crisis.

RATE REDUCTION

An intense Budget day kicked off with the Bank of England sanctioning an emergency half-point interest rate reduction amid growing concerns about the economic impact of the outbreak. A further cut to 0.1% was announced on 19 March. Later, the Chancellor announced updated GDP projections which, excluding an inevitable but incalculable coronavirus impact, suggested the UK economy would grow by 1.1% in 2020-21, revised from a previous forecast of 1.4%.

PERSONAL TAXATION

The Chancellor's foremost change in relation to personal taxation was to increase the National Insurance threshold to £9,500, saving most workers around £100 annually from April. Income Tax bands, however, including the Personal Allowance above which people start paying tax, and higher-rate thresholds were maintained at current levels.

PENSIONS

As previously outlined, the new single-tier State Pension will increase to £175.20 in April, while the older basic State Pension will rise to £134.25 per week. Among other pension changes, Mr Sunak announced a £90,000 increase in the tapered Annual Allowance thresholds.

SAVINGS AND INVESTMENTS

The main savings-related announcement 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 this April. The ISA (Individual Savings Account) allowance, including the £4,000 Lifetime ISA allowance if used, remains unchanged at £20,000.

ENTREPRENEURS' RELIEF

It was also announced that the lifetime limit on gains eligible for Entrepreneurs' Relief has been reduced from £10m to £1m, reflecting a belief that the concession has not provided a major boost to entrepreneurial activity.

WOMEN FACE 'GENDER PENSION GAP'

The latest 'Women and Retirement' report[3] reveals an increasing proportion of women are prepared for retirement. Unsurprisingly, it also shows that the historic gender pay gap translates into a gender pension savings gap.

RECORD CONTRIBUTION LEVELS

The number of women contributing to a pension has risen by 15% in the last 15 years, with the proportion considered to be saving enough for retirement at 57%. In addition, the average level of savings amongst women has increased over that period.

MEN SAVING MORE

These days, addressing the gender pay gap is a priority for employers, but its legacy means men are still saving far more in pensions than their female counterparts. Indeed, at the point of retirement, men typically benefit from an additional £78,000 in their pension pots, equivalent to 2.5 times the average UK household disposable income.

MANY REMAIN UNDER-PREPARED

According to Scottish Widows, several groups of women remain under-prepared for retirement, reflecting the extra financial pressures they face. Female lower and middle earners are amongst the least prepared. Additionally, over a third of women entrepreneurs were found to be saving nothing for retirement.

Given that women typically earn less than men, a larger proportion of their income will inevitably be directed towards essentials such as property or childcare costs.

CONSULT AN EXPERT

The increasing number of women who are now saving adequately for pensions is encouraging, but the proportion with little or no pension provision remains high. If you're concerned about your retirement prospects, then get in touch with us. It's never too late to get your retirement plans on track.

[3]Scottish Widows, 2019

RIDING OUT THE STORM TOGETHER

Global stock markets are suffering a period of volatility as a result of the COVID-19 outbreak. Markets do not respond well to uncertainty, but what is certain is that volatility is synonymous with stock market investment; and although market movements can be concerning, we have all become much better at expecting the unexpected. On Budget day, the Chancellor, Rishi Sunak, and the outgoing Governor of the Bank of England, Mark Carney, were keen to emphasise the temporary nature of the economic impact of COVID-19.

IN IT FOR THE LONG HAUL

Even though it can be difficult to ignore daily market movements, it is vital to focus on the long term and remember that volatility also presents investment opportunities. To navigate market volatility, stick to your plan, diversify your holdings and very importantly, expect and accept volatility. Investors with diversified portfolios, who stay in the market, have historically and consistently experienced steady gains over time.

KEEP A CLEAR HEAD

Rudyard Kipling wrote, it's important to "*keep your head when all about you are losing theirs*". Investment requires a degree of holding your nerve if markets fall. Investment professionals know that markets can be volatile and will go down as well as up from time to time. The worst investment strategy you can adopt is to jump in and out of the stock market, panic when prices fall and sell investments at the bottom of the market.

Instead of being worried by volatility, the best strategy is to be prepared. A well-defined investment plan, tailored to your objectives, in line with your attitude to risk, that takes into account your financial situation, can help you weather short-term market fluctuations. Market volatility is a timely reminder to keep your investments under regular review – that's our job.

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

PHILANTHROPY AND ME

Defining exactly who qualifies as a philanthropist is a complicated business. Essentially, the term refers to somebody who actively seeks to help those in need, most commonly through generous donations to charities and other worthy causes. But does the scale of generosity determine who is or isn't a philanthropist? Or can anyone who occasionally drops change into a collection box put a claim on the title?

To qualify as a true philanthropist, the amount and regularity of giving is probably of some significance. At the top end of the scale, billionaire couple Bill and Melinda Gates work to reduce poverty and improve healthcare internationally through their charitable foundation. But what if philanthropy were measured in terms of self-sacrifice? Could some coins in a charity pot, or a small monthly donation offered by somebody with little of their own to spare, be called philanthropy?

THE PHILANTHROPIC SPECTRUM

Between the two extremes of billionaires' charities and the public's spare change exist a broad spectrum of philanthropists supporting a multitude of charitable concerns. To assist philanthropists in reaching those in need, community foundations have sprung up in some UK counties. For example, the work of the Essex Community Foundation involves *"identifying common interests and developing strategies designed to bring philanthropists closer to the work of recipients."*

Those hoping to emulate the altruism of history's famous philanthropic families, including Rowntree, Rathbone and Cadbury, should carefully plan their acts of kindness and take financial advice on the effect their benevolence could have on their wealth. For example, philanthropists might be able to benefit from tax advantages (subject to current HMRC rules) such as Gift Aid on taxpayers' donations or Inheritance Tax rate cuts, which could reduce your IHT liability from 40% to 36% if you leave at least 10% of your estate to charity.

THE UNDULATION OF ECONOMIC HOPES

The most recent raft of gross domestic product (GDP) figures confirm the global economy wavered at the end of last year. Although decisive policy action is focused at supporting growth, it's likely the economic fallout from the coronavirus outbreak will dent hopes of an imminent recovery.

At the turn of the year, fourth quarter GDP data painted a sombre picture of the global economy. In the UK, the economy stagnated with no growth at all, while the German economy barely registered any growth and the Italian and French economies both shrank. While in Japan the economy contracted sharply in the fourth quarter. China and the US performed more strongly, posting identical growth rates during the final quarter of last year to those recorded during Q3. However, even in these two countries, the data confirmed a broader overall trend towards decelerating growth rates.

GROWTH SUPPORTED BY POLICY ACTION

A number of central banks and the US Federal Reserve cut interest rates during the second half of last year and this monetary stimulus has provided some support to the global economy. Policymakers are also introducing other measures designed to promote recovery; in December, Japan announced a $120bn stimulus package to shore up its ailing economy.

CORONAVIRUS WILL HINDER RECOVERY

The economic problems caused by the coronavirus outbreak, however, look set to impede efforts to boost growth. While producing reliable estimates of the likely impact of the COVID-19 outbreak is challenging, economists suggest China is facing a short-lived but potentially sharp economic shock. Given China's significance on the global economic stage, this, in addition to the continuing spread of the disease, will undoubtedly have implications for growth across the world.

SPOTLIGHT ON 'MEGATRENDS'

'Megatrend' describes a set of changes in our world that are huge in their impact, unprecedented and unstoppable. The interconnectivity of our world means that trends overlay one another and investment themes present themselves.

DEFINING OUR FUTURE

Global megatrends are sustained, macroeconomic, transformative developments, set to alter the course of the economy, society, business, and our personal lives, which will define and shape our future world. The implications of these trends are diverse, presenting both opportunities and risks.

A series of megatrends expected to shape our lives in the next 20 years or so, include climate change, technological breakthroughs, shifts in global economic power, rapid urbanisation and demographic and social change[4].

[4]PwC and BlackRock/iShares, 2020

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