FINANCIAL SAFEGUARDS

Many people have already felt the financial impact of the pandemic and want reassurance that any savings they have will be protected.

If your savings are in an account with a UK-authorised bank, building society or credit union that fails, the Financial Services Compensation Scheme (FSCS) provides a safeguard adding a valuable level of reassurance. The FSCS pays compensation for the following:

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

The FSCS will automatically compensate you if the institution goes bust, meaning you do not need to take any action yourself. It's a good idea to spread your savings across a number of financial institutions, so that you don't hold any more than £85,000 with one. This is because the FSCS will only cover £85,000 per person, per FCA authorised institution. Accounts held with deposit-takers that operate under a shared FCA licence will be aggregated for the purposes of the scheme.

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

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

PROTECTING YOUR PENSIONS AND INVESTMENTS

Stock markets do not react well in times of uncertainty and the pandemic has piled pressure on financial markets worldwide. During periods of increased volatility, the importance of portfolio diversification, as a means of guarding against market turbulence, remains a constant investment principle.

It is advisable to revisit your investment objectives, review your long-term financial goals and reassess your attitude to risk, to ensure your current investment strategy provides sufficient protection from market volatility. Holding a diverse portfolio with a mix of investments suited to your particular risk appetite is key.

DIVERSIFICATION BENEFITS

A balanced portfolio contains a combination of different asset classes, such as equities, bonds, property and cash. Each asset class has a different degree of risk; while equities have the potential to deliver higher returns than bonds, the latter can provide an element of capital preservation for times when you require a more risk-averse approach. Adopting portfolio diversification means you do not put all your eggs in one basket.

AVOID OVER-DIVERSIFICATION

While building diversity into an investment portfolio is undoubtedly important, try to guard against over-diversification. If you hold too many assets, you run the risk of spreading your money too thinly and this could have a detrimental impact on potential returns.

VOLATILITY WILL HAPPEN

The pandemic has rattled markets, but stock market volatility is normal and markets often rebound quickly once immediate issues are resolved. If you are investing for the long term, try to look beyond the short-term volatility. At the moment, it may be best policy to sit tight; you should discuss your own specific circumstances with your adviser before taking any action.

TAXED PENSION WITHDRAWALS

Since pension freedoms were introduced in April 2015, people over the age of 55 have been able to cash in their entire pension as an alternative to taking it in regular instalments. Research[6] has revealed that one in five over-55s withdrew taxed lump sums from private pensions during 2019. The top three priorities for the money were saving, putting it into the bank or investing in home improvements.

CONSIDER TAX IMPLICATIONS

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

PROFESSIONAL ADVICE

Taking professional advice before making any pension-related decisions is vitally important, 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.

[6]Canada Life, 2020

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.
