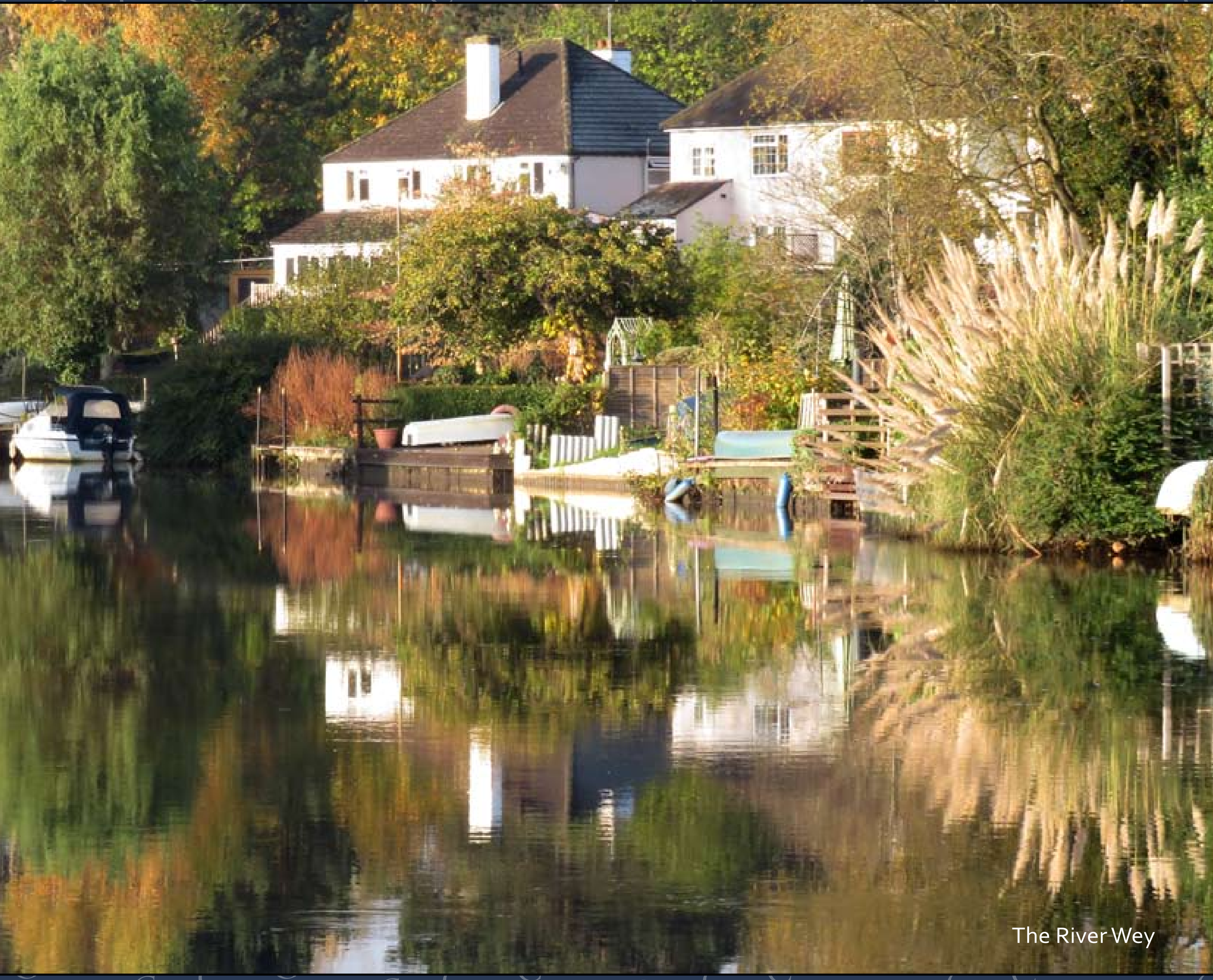
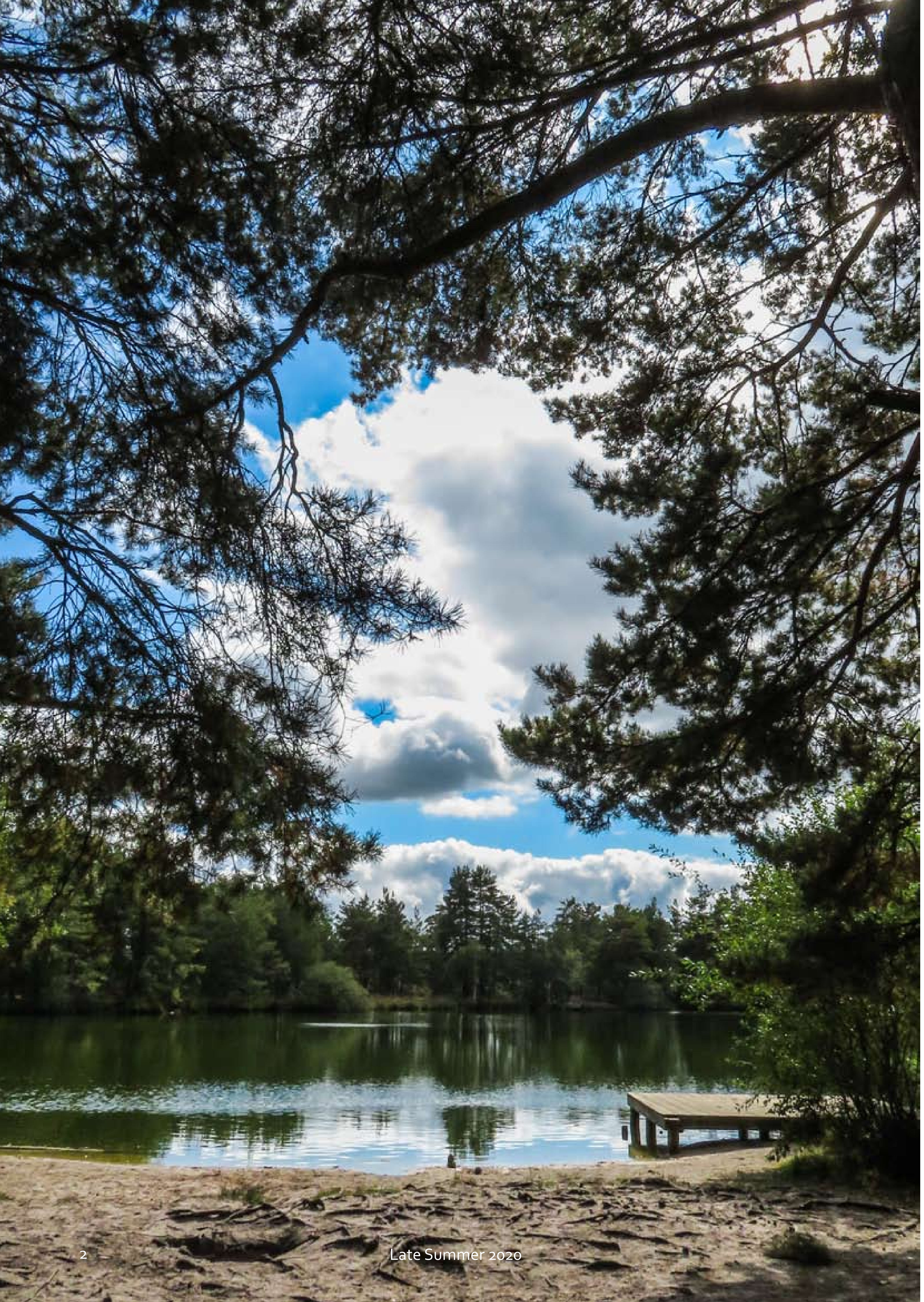
CHAPTERS FINANCIAL®

NEWSLETTER



The River Wey

LATE SUMMER 2020



Welcome

2020 has of course proved to be a challenging year for most so far. The personal situations we all faced at the start of the pandemic seem to persist at this time, and with the autumn ahead of us, I am sure the situation will continue to evolve. We of course hope you remain safe during this time.

Financial planning has not stood still since the beginning of the lockdown, and with approximately half of the tax year 2020-2021 nearly complete, reviewing your overall financial position and allowances, such as ISAs, may well be worthwhile as we head into the autumn. We look forward to helping you achieve this, noting that for some, their plans and priorities have changed over recent months. We have invariably aimed to build flexibility into the advice and implementation process we offer and this, we believe, will help for those who have changed their overall future objectives. There has been much to consider over the last six months.

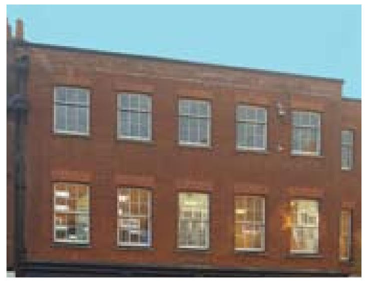
We hope that our Newsletter and other communications over the summer have been helpful, detailing our varying meeting facility options and our overall connectivity. Our effective use of technology has increased during the period, and we are pleased that this planning (in the shorter term and over the years as part of our standard recovery plan) when tested met our requirements in maintaining service to our clients.

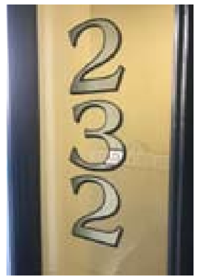
Indeed, we have been working on a new client portal facility for some time and plan to make this valuable opportunity available to clients in the shorter term. As noted in our last client letter communication in July, some connectivity with providers during the lock-down has proved challenging, with their online facilities falling short, and this online connectivity will be a focus for us over the next year to maintain and enhance service to our clients going forward. We are pleased that we can now offer safe face-to-face meeting facilities at our Guildford office, noting of course that the need from clients for online communication is only likely to grow into the future.

As you will read in the pages of this Newsletter, we have continued to experience market volatility over the summer months and one of our objectives has been to keep our website, and in particular our Investment House View, up to date to reflect our thinking on the current economic factors, such as the confirmation of the UK's recession, that can affect valuations. The Chancellor's Summer Statement of July 2020 made some changes to help our economy move forward, as the Government's borrowing position continues to rise dramatically. It is of note that the cost of this borrowing is near historic lows, and this is likely to be helpful to our economy in the shorter term. At the time of writing, the Bank of England maintained the base rate at 0.1%, which is likely to affect deposit returns. It was good to detail this topic on BBC Radio Surrey & BBC Radio Sussex on the same July afternoon as the Chancellor's Statement.

The team at Chapters Financial has remained safe during the lockdown period and has now largely returned to the Guildford office. With our new meeting room facility in place and our normal email connectivity, we look forward to helping you with your financial planning as we head towards the end of 2020.

Keith Churchouse





Hanging on to reality...and your tax return!

2020 has been surreal thus far, and with no real answers or vaccine in sight for the time being, the summer is now coming to an end and autumn is in sight. It's good to see that some lockdown measures are being eased, although great concern continues as the virus spread rate hovers around R1, with any real increase in infections likely to see further lockdown measures being imposed.

Return to work, phased or full time, is now in full swing for many people, with shops reopening with the correct distancing measures in place. Other points in many people's annual calendar also appear on the horizon, such as completing their annual tax return. With postal reminders now through the door and possibly added to the 'to-do' file, consolidated tax certificates, P11D documents and P60s should now be accumulating to be able to complete any return required, usually for higher rate tax payers and the self-employed.

Don't forget that banks and building societies will also be sending interest certificates through, sometimes tucked behind a normal monthly statement, so they may not be obvious. If you have been making pension contributions directly to a pension provider, you may need to add these to your return to reclaim higher rate tax relief if applicable. Tax relief on personal pension contributions is granted as standard at a level of 20%, and if you are a higher or additional rate tax payer, you may be able to reclaim higher rate tax relief through your tax return at a level of a further 20/25%, dependent on your individual circumstances. There are times when your tax office will grant you higher rate tax relief earlier in the tax year without waiting to complete an annual tax return.

The economic measures introduced by the Chancellor due to the COVID-19 pandemic include some deferral options for tax payment (Self-Assessment second payment on account) requirements normally due by the end of July 2020 and more on this can be found on the website:
https://www.gov.uk/guidance/defer-your-self-assessment-payment-on-account-due-to-coronavirus-covid-19

The need to complete a tax return for the last tax year 2019/2020 won't change, and it is important to read this link carefully, and take appropriate advice if required, if it affects you.

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However the autumn of 2020 evolves for you, and we of course hope this is safe and enjoyable, don't forget to prepare your tax return and submit it accordingly. The team would be happy to recommend a local accountant if this would be helpful.

Enjoy the autumn...and the tax return!

An Investment Update

Most investment markets have of course been highly volatile over 2020 as we have entered unprecedented times created by the real unknowns of the COVID-19 pandemic. It is also difficult to make comparisons from the past to the current global position, however, there are some grounds for looking to history to inform our current situation.

The team at Chapters Financial maintains an Investment Committee to review investment allocations and our investment 'house view' on a regular basis. Our virtual meeting in May 2020 was helpful in considering client portfolios, pensions and ISA positions, to maintain our advice service to our clients.

To maintain a healthy critique of our house view, we have for over a decade employed the services of Steve Williams, Director of Cormorant Capital Strategies, to provide additional experience and an external view of our ongoing asset allocation models and positions for clients. He has provided us with a helpful and forthright update for the beginning of June 2020, noting that past performance is not guaranteed, and that fund values can fall as well as rise, as we have certainly seen over the last few months.

The detailed update is below:

April and May 2020 were bad. June 2020 will be better. July and August 2020 will be good. That's my forecast for the virus, the policy response to the virus (the lockdown) and for economic activity.

It's not a place I occupy with regularity, but I find myself on the optimistic flank of the investment management herd. A great many of my fellow grazers are concerned that the lockdowns will stay in place for longer – spurred by a second wave of infections – and that ultra-low levels of economic activity will persist for longer too. They worry that things will not return to 'normal' for a very long time and that the post-March increase in equity prices is precipitated by a false hope.

I think the majority are wrong, though some are more wrong than others of course. Those that make particularly egregious errors of judgment are drawn to comparisons with the Spanish Flu or with the Great Depression.

I'll leave the pathological comparisons between the Spanish Flu and Covid-19 to others better qualified but I think those that believe the comparison to be a valid one have a lot of work to do to substantiate those claims.

Those drawing on the Great Depression for their model are fooled by the numbers. It's true, if we squint our eyes, the dramatic declines in economic output, falls in stock prices and huge run up in the unemployment count do look a little like those associated with the Great Depression. But that is where the comparison ends.

The Great Depression in the 1930s and the Great Recession in 2008 have their similarities. They were both precipitated by failing financial markets. Failed financial markets don't just see large declines in asset prices, the real damage is the sustained impediment in the flow of credit with banking crises being one of the more visible aspects. Aside from the immediate economic impact, dysfunctional financial systems are a serious impediment to recovery. The Great Depression was almost inescapable for that reason and policy mistakes encouraged setback after setback.

The 2008 Great Recession was associated with far fewer policy errors but still, a failed financial system saw the British economy shrink by 6.0 percent over the course of 15 months and it took another 60 months, or 5 years, to recover the lost output.

It looks likely we will lose in the region of 9.0 or 10.0 percent of output this year. Even more

stunning is that almost all of that loss will have occurred during April. The Office for National Statistics estimates that gross domestic product (GDP) declined by 20.4 percent during the second quarter with the three months that make up the quarter registering the following changes: April fell 25 percent, May gained 2.4 percent and June gained 8.7 percent. I am guessing that the third quarter delivers an increase of around 12 percent with further gains in the fourth quarter to cut the full year loss back to the 9.0 or 10.0 percent decline I mentioned earlier.

As big as those numbers are, though, what nourishes my optimism an awareness that the financial system has weathered this storm. Markets have remained functional throughout; largely owed to a competent policy response from both the Bank of England and HM Treasury at home and other central banks abroad. That being the case, we have all that we need in place for a vigorous recovery as and when the time is right. And in that regard, my position is not so different from those in the herd forming the centre ground. I expect it will take not much more, if indeed it is more, than two years for us to recover to pre-pandemic levels of output. As far as I can tell, those in the centre ground are beginning to gather somewhere between there and the 3 year mark.

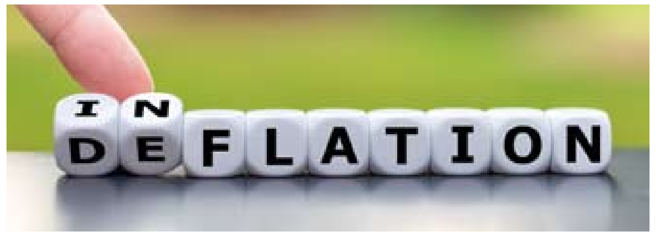
My beef is not with them. It is with those that think what we are facing today is as damaging as the Great Depression. It is not.

Steve Williams
Director
Cormorant Capital Strategies

If you would like to consider your investment and pension planning a stage further, then please contact the team at Chapters Financial Limited for our latest views and comment.

Inflation, stagflation & deflation as reminders

We are all acutely aware that the nations of the world have hit a big 'stop' button at varying times over the course of 2020. With lockdowns continuing, and easing in some cases, it may be many months before we reach any form of normality...whatever that will now look like.



Of course, this has had a dramatic effect on most global economies, with a range of significant effects being predicted, and in some cases already witnessed as the fallout begins to take its toll. Sharp rises in unemployment, talk of deep recession, significant falls in production, and government borrowing in many cases going through the roof. The UK government issued a Bond on 20 May at, for the first time ever, a negative yield of 0.0003%, which in principle means you are paying for the pleasure of owning this new Bond (noting the Bond has a coupon of 0.75%).

On the same day, the Office for National Statistics noted a sharp fall in the Consumer Prices Index including owner occupiers' housing costs (CPIH) from 1.5% in March 2020 to 0.9% in April 2020. The Bank of England's target for inflation remains at 2.0%, although this may now vary once reviewed in light of the effects of the pandemic, and perhaps under the newly appointed Governor.

With this note to inflation, it is some years since we have considered alternatives to inflation, such as stagflation, and even deflation.

Stagflation is normally a situation in which the inflation rate is high, the economic growth rate slows, and unemployment remains steadily high. We have some of these economic factors now applying, although inflation rates are low and falling.

Deflation usually means a general decline in prices for goods and services, which can be experienced with a contraction in the supply of money and credit in the economy. Demand has fallen, although it will take a few more months to define a trend.

It will be interesting to see if inflation, deflation, or some form of stagflation come into play in the UK in the next few months. In principle, inflation is good because it can drive economic demand. As you may guess, the other two options are not so good for an economy, with deflation having (from past experience and not a guarantee of future performance) a reverse effect.

Is there a conflict between Long Term Care and Inheritance Tax Planning?

The current crisis reported in UK care homes has been tragic as the COVID-19 pandemic has taken hold over the last few months. Unforgiving in its grip, the older generations seem to have suffered significantly from the effects of the virus. However, as you might anticipate, the costs of providing long term care have not reduced.

Conflicts of interest within financial planning don't come up very often for an individual; however, one area that does engender concern is the issue of providing for the potential need for long-term care, whilst also looking at ways to reduce the effects of inheritance tax.

On the one hand, the need to cater for the costs of long-term care (as a rough estimate, around £1,250 per week in the South East / £65,000 pa – and that's out of net income) really does focus the mind on financial planning. On the other hand, the objective of reducing any liability to inheritance tax, charged at 40% above the nil rate band (and now with the residence nil rate band if applicable), possibly by gifting money away in good time, usually seven years to fall outside the estate, does not normally combine well with long-term care cost planning. Gifting assets away to save inheritance tax is common. However, if financial support is then sought from the local authority for care costs, the gifting can be seen as 'deliberate deprivation of assets', a specific term, and the gifting can be (and is likely to be) challenged by councils to cover their costs.

For reference on what to consider when paying for care costs, Age UK has produced various fact sheets. Two produced in April and May 2020 (Factsheet 10 and Factsheet 46) are very helpful in looking at the issues of paying for care, either at home or in a residential care facility. A link to these can be found on the website: https://www.ageuk.org.uk/globalassets/age-uk/documents/factsheets/fs10_paying_for_permanent_residential_care_fcs.pdf

And May 2020 here:
https://www.ageuk.org.uk/globalassets/age-uk/documents/factsheets/fs46_paying_for_care_and_support_at_home_fcs.pdf

It is important to assess the assets and income available, both now and into the future. Circumstances can and do change, and this may affect allowances available, such as Attendance Allowance. Attendance Allowance is paid at two different levels (lower and higher rate) and how much you get depends on the level of care that you need because of your disability. Attendance Allowance currently offers £59.70 or £89.15 a week to help with personal support and more can be found on the website: https://www.gov.uk/attendance-allowance/what-youll-get

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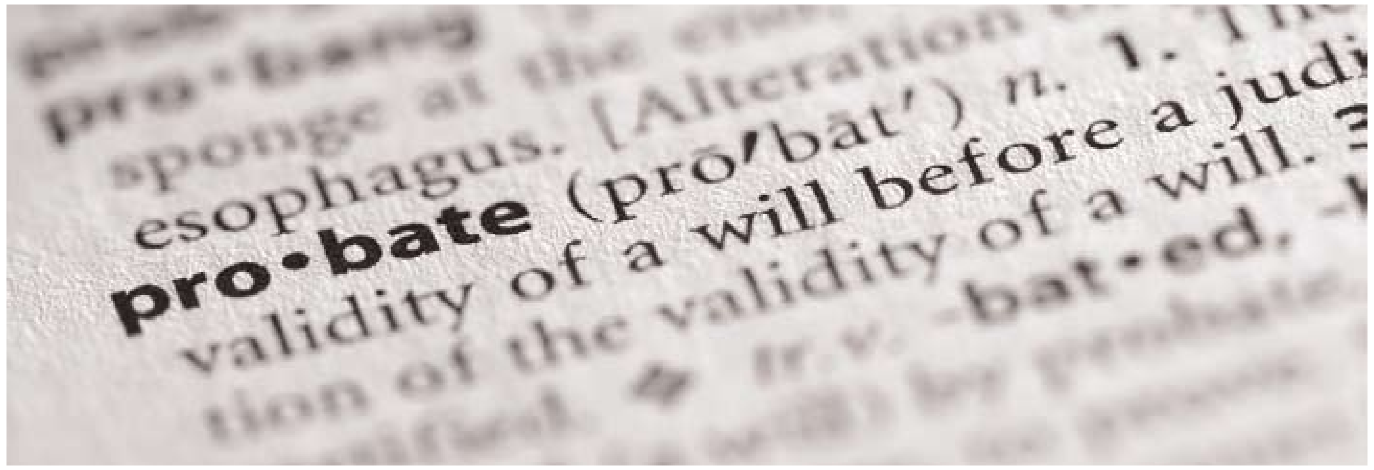
Taking advice on the issues at hand from an adviser qualified to deal with the issues above is important with the aim of achieving all that is possible, particularly with the emotional issues that are long-term care and inheritance tax planning. Both Keith Churchouse and Vicky Fulcher hold suitable qualifications to help with both issues.



Do I need Probate on first death?

Probate in the UK is a legal authority granted by the UK Probate Office, a Government department, to the executors on their application for the legal right to deal with someone's property, money and possessions (their 'estate').

If there is a will document, this should make the process easier to administer. The Executors will receive a Grant of Probate. If not, and the deceased died with no will, called intestate, the process may be more complicated. Executors will receive Letters of Administration in this situation.

One question that has been asked about needing Probate is when a spouse/ civil partner dies leaving a spouse/ civil partner. If a legal will leaves everything to the surviving spouse/ civil partner, it can seem strange to need Probate on the first death. Indeed, on contact with some financial providers, such as Banks, the messages that can be received can be conflicting.

If assets are owned jointly, they can normally be transferred to the surviving spouse/ civil partner without probate. If assets are held in the sole name of the deceased and were small (under £5,000), probate may not be required. However, if assets were held in a sole name and were significant (over £5,000) probate is likely to be required. To make an application for Probate, you will need the Will (if there is one), a Death Certificate, and a value of the estate. Please note that it can take a few months in current times for Probate to be granted.

It is interesting to note how some financial institutions deal with the situation.

As an example, and based on their current rules, National Savings Premium Bonds, have a form for a surviving spouse/ civil partner to complete and they will decide if they require sight of Probate. The money invested in the Premium Bonds can stay invested for up to 1 year from the date of death and winnings can be rolled up. More can be found on the website: https://www.nsandi.com/files/asset/pdf/death-claims-form.pdf

You can apply for Probate directly or through a solicitor and helpful details of the form or online application for Probate if required, and any costs of application (£215.00 for an estate value over £5,000 if applying direct/ £155 through a Solicitor), can be found here: https://www.gov.uk/applying-for-probate

Bereavement Support Payment

With the loss of your spouse or civil partner, it would also be sensible to see if you are eligible for a Bereavement Support Payment. More detail and how to claim can be found on the website:

https://www.gov.uk/bereavement-support-payment

Starting the process of tidying up a loved one's estate after their passing can be a daunting and frustrating process, especially if it was not the area you dealt with in the relationship. With some mixed messages coming through, it can be a very troubling time.

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Redundancy & Early Retirement

Having been made redundant twice in my working life, I know that being made redundant can be a turbulent and emotional time for most. Sadly, with the current pandemic position and the lockdown easing in the UK as a backdrop, the fear for many is that after the furlough position ends, redundancies and job losses may be widespread.

If you find yourself in this position, then it might be worth taking some financial planning measures early to ensure that you try and get the best from the situation.

First of all, you may receive a redundancy payment. The first £30,000 of this should be paid tax free, as long as it is a true redundancy situation. If your departure from work is not deemed to be a redundancy, such as a severance agreement, then the tax situation may be different. Please check this point before agreeing to leave an employer. Any balance above £30,000 will be taxed at your highest marginal income tax rate. As tax years start in April, and if we think that we are now into the summer, then we are four months into a tax year, as of early July. Therefore, if you add the potential payment above £30,000 to your earned income so far, you may well find that you will be taxed at 40%; however check this with an accountant or tax adviser because all of our circumstances will be different.

Dependent on your situation, you may want to offset part of the tax on any excess redundancy payment by contributing to a pension. If you have an employer / workplace pension scheme, then you may need to arrange this before you leave service. Therefore, some early planning in the negotiation phase may well be worthwhile. Although this may be tax efficient, take account of your cash flow situation. Planning for your immediate future is usually vital.

With the potential of no income coming in for the short term, you will still need to meet the cost of your liabilities and this has to come first. You may want to check any policies that may pay out in the event of redundancy. Some of these plans require you to apply for State benefits and you may plan to arrange this anyway. Also remember that you may be losing other benefits by leaving your employer, such as death in service and ill health / medical insurance cover. You should check this to ensure that the protection levels you require are maintained.

Others may have reached an age where drawing pension benefits may be an option. Seeking good financial advice at an early stage is important to make sure that this planning is arranged correctly. You may want to use tax free cash and income to replace the income lost from employment. If you are looking at this, then it may well be worth your while checking your state pension benefits, and that of your partner/spouse if you have one, to ensure that you know what these can offer. You can do this by using a BR19 State Pension Forecast form and this can be found on the website: https://www.gov.uk/check-state-pension

Early Retirement

With the minimum age to access pension benefits being age 55, the aim of continuing to work to 65, or the slightly higher age of 66/67 to reach State Pension age, may still be the plan. However, the pandemic and its economic effects have been a real 'game-changer' for many, with the original life plans now back on the drawing board to be re-assessed. If redundancy has happened at an unexpected time (it usually is!), then this in itself may be the signal to look forward and recalibrate what you want to do. The thought of going back into what might be a crowded job market may not appeal, and we have already experienced some individuals who would prefer not to return to work, re-focusing instead on life goals, family and alternatives to the pre-COVID lifestyle of 2019 and before.

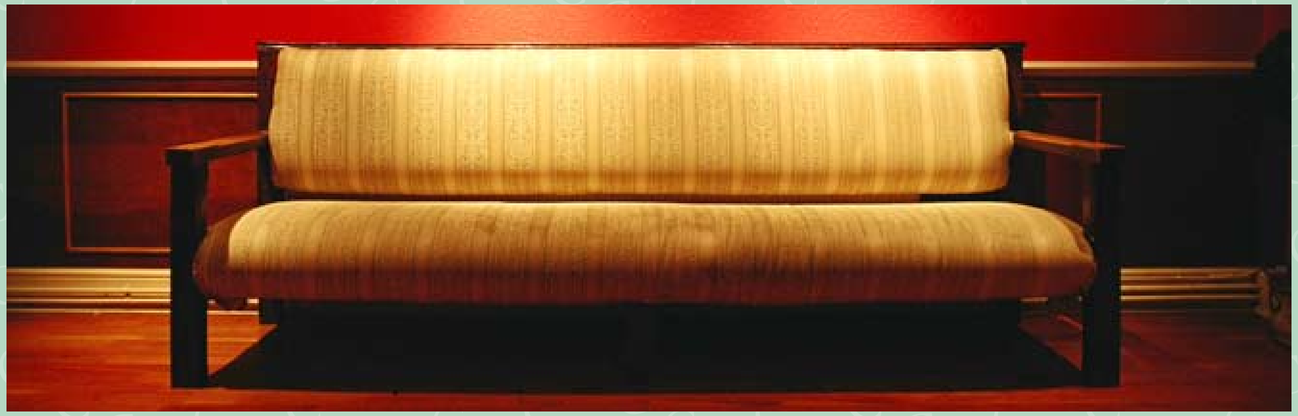
When looking at retirement income planning, there are usually many ways that financial objectives can be mapped and met, in whole or in part. Tax free cash can usually be released, and perhaps when combined with a redundancy payment, might repay mortgages or debt, or provide a source of tax efficient income.

The way pension funds can be used to provide future income can also vary, and these current options are detailed in our Retirement Options Schedule on the website: https://www.chaptersfinancial.com/private-clients/pension-retirement-planning.

At the time of writing this article (July 2020), it is important to remember that an individual is part way through a tax year from an employed income perspective, and this will have to be accounted for in drawing pension benefits to reduce the possibility of paying unnecessary levels of higher rate tax. As noted above, a payment in lieu of notice is taxable and may also have an effect on your overall financial and retirement income planning in the first tax year. Making a final payment to a pension before drawing benefits can sometimes also be an option.

However the next few months of 2020 and 2021 affect you and your plans, the team at Chapters Financial is on hand to guide clients and enquirers on the financial aspects of redundancy and the opportunity to take early retirement, if that proves to be the preference selected.

And finally...



Down the back of the virtual sofa perhaps?

It's interesting to note that more than £24.5 billion in old fivers, tenners and twenty-pound paper notes are still in circulation, according to the Bank of England, as reported by the BBC at the end of July 2020.

The Bank of England says 115 million paper £5 notes, 83 million £10 paper notes and 1,157 million £20 paper notes have still not been returned. And in some cases, the rate of return of these old notes has slowed due to impact on spending, due to COVID-19.

The £5 notes were withdrawn in May 2017 and the £10 notes in March 2018, since when they have not been a legally accepted means of payment. The date that paper £20 notes cease to be legal tender has not been decided.

Are they lost perhaps down the back of the sofa, or perhaps being held on to, to sell in the future for greater than face value?

More on this article can be found on the website: https://www.bbc.co.uk/news/uk-53578897

In the Spotlight

STEP BY STEP
Young People. Hard Times. Bright Futures.

Step by Step passionately believes in supporting local young people who are going through hard times, including homelessness. Last year, Step by Step services gave the chance of a brighter future to 1,091 vulnerable young people in the South of England.

It's estimated that 110,000 young people aged between 16-24 years old, were homeless or at risk of homelessness in the UK. This statistic however doesn't account for the thousands of young people who go undetected, this is also known as 'hidden homelessness'.

Jenna Grant, Corporate Partnerships Officer, says: *"Our mission is empowering young people and preventing homelessness. We take a unique stepped approach, providing accommodation, personal development opportunities and specialist support services to empower young people and break the cycle of homelessness for good. Step by Step further believes young people should not be defined by their circumstances and should not have to sacrifice their aspirations and life chances because they find themselves homeless."*

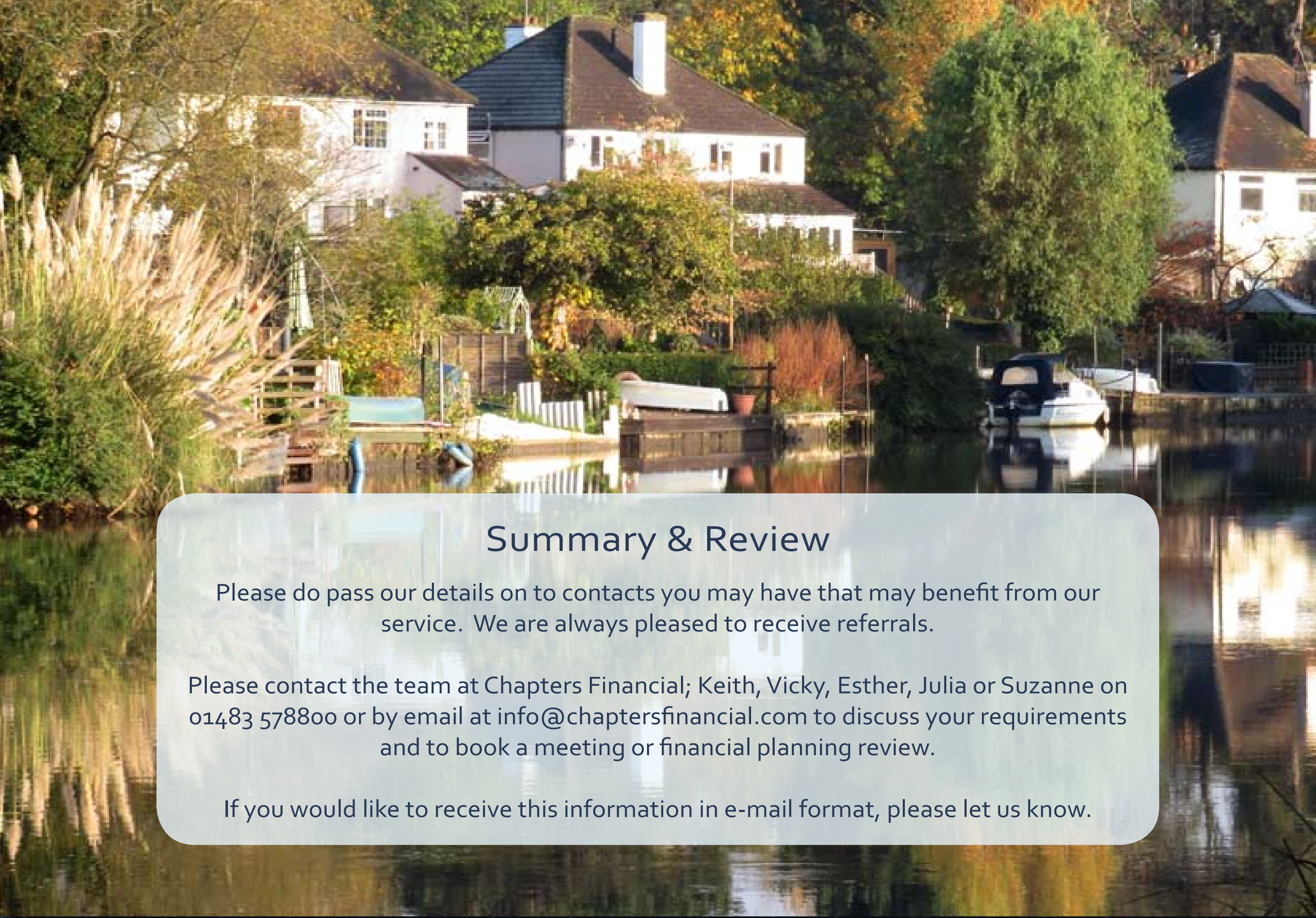
Last year, Step by Step prevented homelessness for over 460 young people last year, 96% of whom made a positive progression towards independent living, breaking the cycle of homelessness for good. We delivered free counselling sessions to 1,200 young people and continue to offer a drop-in advice service. Step by Step are proud to say that young people get the support they need from a trained professional within 2 weeks of referral, versus a 6+ week wait on other service providers. Finally, over 350 young people received training and development and a drop-in advice service to work towards their aspirations and assist with the journey into education, employment or training.

There are many ways in which you can support Step by Step! For more information, please visit our website: www.stepbystep.org.uk.

Lastly, if you're organisation would like to find out more about Corporate Fundraising or Partnerships, please contact Jenna Grant – jenna.grant@stepbystep.org.uk.

For further information please contact Jenna Grant – Corporate Partnerships Officer – jenna.grant@stepbystep.org.uk – 07856552430.

If you would like to be in our spotlight in our next edition please let us know by emailing Suzanne@chaptersfinancial.com



Summary & Review

Please do pass our details on to contacts you may have that may benefit from our service. We are always pleased to receive referrals.

Please contact the team at Chapters Financial; Keith, Vicky, Esther, Julia or Suzanne on 01483 578800 or by email at info@chaptersfinancial.com to discuss your requirements and to book a meeting or financial planning review.

If you would like to receive this information in e-mail format, please let us know.

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