CHAPTERS FINANCIAL®

NEWSLETTER

Photo by Andrew Spybey @theGuildfordian

EARLY SUMMER 2021

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Welcome

It feels quite a revelation to be writing the welcome page of this, our latest newsletter, with such an optimistic outlook. As I write, the lockdown has been partially lifted and we are eagerly awaiting the full planned release of the UK on 21 June 2021. This is obviously subject to the medical facts and data at that time, and we know that we are not out of the woods yet. Indeed, the overall view now seems to be that we will live alongside COVID-19 and its ever-evolving variants into the future, rather than see its real end. The continued roll-out of the vaccination programme, now entering the second phase, seems to have been a welcome success.

Looking back, it has been over a year since the pandemic took hold and the first of the three (thus far) required lockdowns occurred. For some, panic set in, with the hoarding of toilet rolls, rice and pasta, to name a few. Some clients are also aware that many global markets saw significant falls by the third week in March 2020, although many indices have largely recovered since this time. More on this positive news later in this newsletter.

We have now moved into a new tax year, 2021-2022, and we hope that the Chapters Financial tax cards distributed in the March newsletter were informative. These confirmed little change to personal allowances for this new tax year. If you need any more copies, for either your personal use, or to pass on, then please let us know. We are always pleased to receive referrals to new contacts and connections.

Chapters Financial has remained on target during the last year, with all of the team now fully returned to the Guildford office. We are still encountering delays with providers as they engage in new ways of working, including in some cases permanent working from home options. We hope that any future transition to full operation within the providers we work with will not see too many delays to our overall administration.

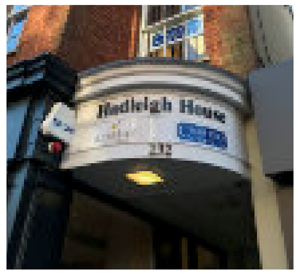
We are pleased that we have been able to maintain significant connectivity during the challenges of the last months. We appreciate that the effects of the pandemic have been very difficult for many clients and that it will take time to return to normality. If there is any more information that you need from us with regards to your own arrangements, then please do contact the team.

Other financial news sees the start of the repayment plans of the business Bounce Back Loans, which might sadly prove difficult for some, and also the malaise around State Pension benefits for some 200,000 women which might see substantial payouts to correct years of underpayments. More on this topic at the end of this newsletter.

Summer is ahead, along with the deferred Olympics in Tokyo, and with many other large scale sporting, cultural and pastime events now planning to go ahead, there may be more to enjoy this year. As we head towards the new freedoms indicated to us all by the summer, we send our thanks to you for your continued support over 2020, 2021 and into the future.

Speak to you soon.

Keith Churchouse



The 'I' word!

As far as global economics go, it has been a very strange year. Indeed, it has been a strange year in every aspect of life as the pandemic has accelerated, and the wonders of medical science have resulted in the numerous vaccines being rolled out.

With the panic now under control, or perhaps controlled, many nations are looking forward in both economic terms and again in medical science. Evolutions of nasal sprays, pills and booster vaccines are now being trialled as we start to live alongside COVID-19 and its variants, as we do with the influenza virus. Future annual booster jabs, I would anticipate, will be a combined two-in-one solution.

As we also start to see road-maps to civil freedoms being detailed, it is anticipated that consumer spending will return as society begins to be restored. And spending is the lifeblood of any economy. To some extent, it is not the amount that something costs, it's the fact that we are putting cash-flow into the monetary system that creates further spending, jobs, business growth and of course taxes.

Importantly though, this flow of money can also have the effect of creating inflation, the 'I' word. It is easy to think that the last decade or so has been 'normal', with inflation rates at ultra-low levels. This has meant that bank base rates have bumbled along the bottom because these are one major tool used to control inflation. And if there's no inflation to control, you don't need high interest rates. Most economies have liked low inflation for years now.

However, is there a change coming? Many think so. Let's head back to the pandemic (sorry!), and the mountains of debt that governments across the globe have taken on. It's a bit quiet on that front, but whilst borrowing costs are so low, piling on debt for many nations has been cheap, and if it keeps the all-important cashflow going then most have considered it a price worth paying. But this does not mean that the debt is under control, or that a planned pay-down process is in place. Some major economists have indicated their approval of additional national borrowing to get their respective economies going first, and then worry about it later.

Inflation is not a bad thing; indeed stagnation and deflation are worse. High inflation can be difficult, but it has its advantages, especially if you have high debt levels, simply because inflation has the effect of eroding debt. Some people think that a healthy bout of inflation might erode the debt that governments have amassed. There is nothing new in this thinking - just look back to the UK economy of the 1970s and 1980s.

Looking forward, from a personal financial planning perspective, we have not really had to deal with high inflation rates for over a decade. If base rates rise to control inflation if and when it increases, this might mean higher deposit returns, increased annuity and mortgage / loan rates and higher costs in the shops. Equities may gain as the spending filters through, but they might need to, to pay for higher price goods.

We know that the world has changed and will evolve post-pandemic. But in the same way we might need to take on different booster jabs, we also might need to be ready for another economic variant, not really seen for years, called inflation.

What happens next?

Market recovery 2020/2021

Just over a year ago, when the pandemic took hold and we entered the first of the now familiar lockdowns, many global markets took fright as a reaction to the news. For most, the bottom of the market occurred on 23 March 2020 as indices largely reached their maximum falls.

In the autumn of 2020, we reflected on the return of the markets in our blogs, with many clients enquiring about fund values and being surprised that the anticipated plunge in values was not as severe as they first thought. Many global stock markets became undervalued by the falls (i.e. not a reflection of true values) and this has been reflected in the subsequent rises largely noted across the board.

As we would always maintain, past performance is not a guarantee of future performance, and fund values can fall as well as rise. However, in these notes, I wanted to look at the situation a full year on (plus a bit) to see where we were and where we are now. I have detailed some thoughts below which I hope are helpful and give an indication of progress.

With the outlook a lot brighter for global markets, confirmed recently by the IMF in their April 2021 outlook (more can be found at their website www.imf.org), we believe that markets are still slightly undervalued, although time will tell if this is true.

However, since the bottom of the market at about 23 March last year, we have seen the following examples, using a range of indices to potentially demonstrate an overall view (approximate):

Market Index	*Value on 23 March 2020*	*Start value 04 May 2021*	*Percentage change*
FTSE 100 (UK)	4993	7012	40.4%
FTSE 250 (UK)	13078	22599	72.8%
Dow Jones (US)	19173	34113 (03 May)	77.9%
Gold ($/Oz)	$1567	$1768	12.8%
Brent Crude (Oil) $	$23.75	$67.69	185%

This is not a guide to future performance, but these are notable changes nonetheless. The last entry might be the one that you actually experience the most, when trying to fill up at the petrol pumps, especially now you can actually use your car! This might also be reflected in the inflation figures, which is a future concern to many economists at the current time.

There is no guarantee that the trajectories seen above will continue. Some of the increases are very high and unlikely to be repeated in their magnitude, especially as they mainly replace the value that was lost in the first place, but they are positive none the less.

No individual advice is provided during the course of this article. If you would like to know more about investing into pensions, ISA and investments overall, then please contact the team at Chapters Financial in Guildford.

How will the increase in minimum pension age affect you?

We are all getting older, and more importantly living longer (on average). For those in reasonable health, non-smoker, living in a standard postcode (no additional risks) and with pension assets, we might find a man living on average to age 85/87 and a woman to age 87/90, if not longer.

This might mean that our pensions have to last longer than in the past, and this also applies to the State Pension, where the minimum age to draw this benefit has increased from age 65 (or lower) in the past to age 67 now.

To reflect this increased longevity further, from April 2028, the normal minimum age at which pension benefits can be drawn is expected to rise from 55 to 57. This is not a gradual increase in minimum pension age – it will take place overnight and once put into legislation, it will come into effect on 06 April 2028. The proposal is still at the consultation stage, although it has been the government's intention for quite some time and is likely to proceed as planned.

There is intended to be some protection to allow some individuals to draw pension benefits at the old minimum age of 55. However, this protection will not be widely available and may also be lost if a pension is transferred.

This is an important change that could have significant effects for many individuals, and we outline below the anticipated rules.

Who will be affected?

As noted above, the normal minimum pension age will increase to age 57 on 06 April 2028. However, as with most pension details, there are some variants to consider.

- Individuals born before 06 April 1971 will not be affected and will still be allowed to access their pension at age 55.
- Individuals born after 05 April 1973 will only be able to access their pension benefits from age 57 under normal circumstances.
- Those born between 05 April 1971 and 05 April 1973 will have a period between their 55th birthday and 06 April 2028 during which they can draw benefits, before the minimum pension age is raised to 57.
- If pensions are not accessed during this period, these individuals will need to wait until the age of 57 to draw benefits.

Protected pension ages

Those with existing protected pension ages will not be affected. This would include as an example those who maintain occupation-related early retirement ages. In addition, it is intended that further protection will be available for those who maintain benefits within schemes that give members the unqualified right to take benefits at age 55, although this is to be finalised and ultimately will depend on the scheme rules.

Transferring out of a scheme

An individual transferring away from a scheme with a protected pension age would lose the right to take benefits at age 55. This will be an important point to consider and check before any individual transfers away are made.

It is intended that block transfers will allow a protected pension age to remain. A block transfer is where two or more members of a scheme transfer into the same receiving scheme at the same time.

Summary

As a first point, protected pension ages are the exception rather than the rule; however, it will continue to be vital to check for any protections on each of a client's pension arrangements before any changes are made.

As noted above, the change in minimum pension age is still at the consultation stage – however, we do anticipate that it will proceed to legislation. It is therefore important to ensure that client expectations are managed in terms of when they may be able to access their pension savings. The rise in minimum age could have a significant effect on retirement plans, particularly as it is intended to be immediately effective in April 2028, rather than phased to that date.

Women retirees and underpaid State Pension of £2.7bn

You will probably have seen in the news over the start of 2021 that tens of thousands of women are likely to have been underpaid the State Pension for quite some time. Many could be due repayments amounting to thousands, possibly tens of thousands of pounds.

About 200,000 women could be in line for pay-outs averaging £13,500 to top-up the underpayment of their state pension for up to two decades, according to the Department for Work and Pensions (DWP).

In an updated report on the BBC in mid-April 2021, a woman in Surrey has challenged her position with regards to her State Pension and discovered that she was due £61,000 and a full State Pension of £82.45 per week (rather than the £1 per week she was receiving). The DWP estimates the bill for tackling the shortfalls to be about £2.7bn.

The errors focus on automatic cash increases for certain married women, widows and over-80s dating back to 1992 with "enhanced" pensions. This relates to the 'old' state pension system, so it affects those who reached state pension age before 06 April 2016. The old system had special provisions for married women.

Under these old rules, married women who had a poor pension in their own right could claim a 60% basic state pension based on their husband's record of contributions. However, some of these pensions were not automatically increased when they should have been.

You should receive a top-up automatically if you are:

- A woman whose husband reached the age of 65 on or after 17 March 2008 and who is being paid less than 60% of your husband's basic state pension
- A widow whose husband died after April 2008 and who was being paid less than 60% of his state pension during his lifetime
- A widow whose state pension didn't increase when their husband passed away
- A woman who's aged 80 or over and is not being paid at least £80.45 per week in state pension

If you fall into one or more of these categories, you will be contacted by the Department for Work and Pensions (the DWP) over the coming months if you are due a pension uplift. Importantly, please do take care against fraudsters taking advantage of these expected contacts from the DWP.

"The action we are taking now will correct the historical underpayments that have been made by successive governments, and anyone impacted will be contacted by us to ensure they receive all that they are owed," a spokesman for the DWP told the BBC.

A review will now take place to assess hundreds of thousands of cases, which could take many months to complete. It will include cases where the underpaid retiree has since passed away.

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. We have full Zoom and MS Teams facilities for virtual meetings.

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

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