BULLETIN

YOUR ESSENTIAL FINANCIAL BRIEFING

ISSUE THREE

Welcome to this series of topical articles to help you navigate your financial world

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SOVEREIGN WEALTH

Being cruel to be kind: what can the pandemic teach us about the need for protection?

Although it can be uncomfortable, people need to think about how they are protected against the worst-case scenarios, says Tony Müdd, Divisional Director for Development and Technical Consultancy at St. James's Place.

There are many examples of oxymorons in the English language, but one that has always divided opinion is that it's "cruel to be kind". Is it acceptable to cause someone pain for his or her own good? Is it ethical to make someone feel worse if this emotion is beneficial for them?

I think the answer is almost certainly yes – if done in the right way, with the best intentions or motivations. After all, most parents have almost certainly been cruel to be kind to their children at some point.

So, what relevance does this phrase have to our financial wellbeing?

Recently I came across a report compiled in 2007[1] which assessed the impact of the Avian Pandemic on the life assurance industry in South Africa (I really need lockdown to end).

I was struck by a section dealing with the importance of planning – in particular, why it is essential and the value it can add. It provided examples of what will go wrong in the future (note, not "may" but "will" go wrong) including:

- Healthcare systems will run beyond surge capacity and significant shortages in medical personnel, hospital space, equipment and medical products will occur.
- Hospital equipment such as dialysis and respiratory machines will be in such demand there will be increased mortality rates for those patients that would not otherwise be impacted by the pandemic.
- Borders, businesses, and schools may be closed, impacting the free flow of goods and services, jobs, and children's education.

To remind you, this was a report written in 2007. Does it sound familiar?

Despite the fact we knew these things would happen in the event of a pandemic, governments decided they couldn't afford to plan. As it turns out, they couldn't afford not to.

When it comes to building a protection plan for our own financial journey, individuals are no different.

Just as the ill-effects of a future pandemic were known back in 2007, people looking ahead now can predict some of the potential dangers should the worst-case scenario take place.

You can't afford not to plan for worst-case scenarios

For example, in the event of their death, people with a mortgage may see their family lose their home.

Similarly, people suffering from a long-term sickness could see a drastic reduction in their family's standard of living. They could find themselves reliant upon the state for the basics and charity from friends and family for everything else.

Likewise, a serious illness will have catastrophic and long-lasting impacts on both their and their family's mental health and financial wellbeing.

The death or serious illness of an individual who provides care or support within a family unit will have a drastic and long-term impact on all their lives.

And finally, serious illness or long-term sickness of adult children or an individual upon whom they are financially dependent may result in them being financially dependent upon their parents again.

There are many other risks just like these that people should think about when considering their financial futures.

It might be uncomfortable to think about these sorts of outcomes, but doing so for many people may be a case of being "cruel to be kind".

We can help you to build a protection plan that is individually tailored to meet your needs, and adapt it to your changing circumstances with regular reviews.

Please get in contact to find out more.

Source:

[1] Assessing the Impact of a Pandemic on the Life Insurance Industry of South Africa, RGA, 2007

What to consider when setting up a Junior ISA

A Junior ISA is a great way to give children a financial head start, but parents need to invest with a long-term view as well

The pandemic has impacted everyone's lives and turned plans upside down. Younger adults have had university education reduced to online learning, house purchases delayed, and perhaps weddings postponed, as the pandemic closed down society and the economy.

But normality will return, and those financial milestones will continue to be the life goals of many of today's and tomorrow's children. What will also remain is the need for families to save and invest to help their children achieve those goals.

For what was once a 'nice to do' is increasingly a financial necessity. The average house deposit put down by a first-time

buyer in 2020 was over £57,000[1]. The total cost of going to university is typically £56,000 for a three-year course[2].

Anyone looking for ways to help a child save for the future should consider a Junior ISA first. The tax-efficiency and simplicity of Junior ISAs have contributed to them becoming an increasingly popular way to save for young people.

In recognition of this popularity, and perhaps the importance of saving for children, the annual investment limit on a Junior ISA was more than doubled to £9,000 from April last year.

Anyone can contribute to a Junior ISA, although they must be opened and managed by a parent or guardian. All the funds within a Junior ISA belong to the child and are locked away until the child is 18. At 16, however, the child can take over control of the account, which can be a good way to learn more about savings and investment.

"For grandparents or family friends with estate planning needs, using lifetime gifting exemptions to contribute to a Junior ISA is a great way of passing wealth on to younger generations," suggests Joe Kavanagh, Investment Communications Consultant at St. James's Place. "Another advantage is that you may well live to see how your contributions have made a difference, when the child comes of age."

You can either pay a lump sum into a Junior ISA or set up regular contributions, which allows the flexibility to fit in with any other gifting arrangements you may have made. The money in a Junior ISA can be invested in cash, shares or both.

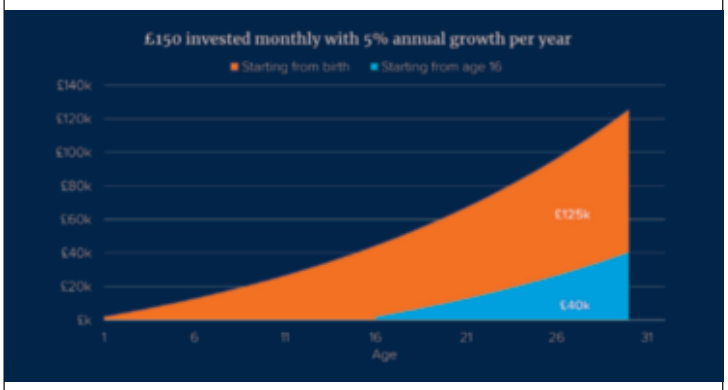
Despite the disruption caused by the pandemic, families still need to save and invest for their children's financial milestones

TAKE THE LONG-TERM VIEW

Over £3.2 billion of Junior ISA funds are sitting in cash – that's 61% of the total[3]. With interest rates at new lows, these savings are almost certainly generating negative real returns after taking into account the corrosive effect of inflation.

Making an early start with a Junior ISA means that money could be invested tax-efficiently for 18 years; and for much longer given the high proportion of funds rolling over into a standard ISA on maturity. That makes it a real long-term opportunity to accumulate wealth.

The graph below illustrates what you could achieve by starting to save early and giving your money time to compound returns. It compares the returns that could be achieved by the age of 30 if you start a regular investment from birth, with those for a child who starts saving into a standard ISA, when allowed, from the age of 16.



For illustrative purposes only, assumes all income reinvested, actual investment may incur higher or lower growth rates and charges. These figures are examples and they are not guaranteed – they are not minimum and maximum amounts. What you get back depends on how your investment grows and the tax treatment of the investment. You could get back more or less than this.

FUTURE-PROOFING

In these challenging times, the long-term financial future of our children might not feel like an immediate priority. But what the pandemic has illustrated starkly are the consequences of failing to plan, either collectively or as individuals and families. Investing some time now could be worth a lot more to our children in the decades to come. Making the most of their Junior ISA opportunity is one way to do it. Please get in contact for help with setting up investments for your children.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

The favourable tax treatment of Junior ISAs may be subject to changes in legislation in the future.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are dependent on individual circumstances.

Sources:

[1] Halifax, January 2021

[2] Save the Student, National Student Money Survey 2020, September 2020

[3] HMRC, Individual Savings Account (ISA) Statistics, June 2020

Helping women improve their financial confidence

Some women say they don't understand money. We look at why – and how they can empower themselves to make informed decisions for a more secure future

How would you describe your relationship with money, the habits that determine the ways you spend or save your cash?

Some women lavish it on family and friends, others love the rush of a bargain outfit, while a good number prefer to save it, safe in the knowledge that if disaster strikes, there's always money in the bank.

I talk to a lot of women in my work, and irrespective of household budgets managed, insurance policies purchased or savings plans contributed to, few describe themselves as financially confident. How often do you hear your own friends confess "I'm not good with money"?

But while that phrase might roll off our tongues without much thought, its impact can take a real toll on our financial and emotional wellbeing. It is preventing us from having financial independence and hindering our ability to plan for the future.

As with everything else in life, many of our traits are heavily influenced by our own upbringing – and lots of us have inherited our view of money from our parents.

In the UK, women were, after all, only allowed to open their own bank accounts in 1975 after the introduction of the Sex Discrimination Act. When I was growing up, my father was always the money man in the house; I know that I have to be better with finances than my mother was, but subconsciously, we often carry on these traditions down through the generations.

Our response to money can be wrapped up in emotion, too. But for all these negative responses, financial security – rather than wealth and the accrual of money per se – can also bring about much more positive feelings of wellbeing, independence, freedom and control.

According to research from the WealthiHer Network[1], men are roughly twice as likely to have high self-esteem than women; those women who did describe themselves as having high self-esteem had earned wealth through their career. Close to half (46%) also said that financial autonomy was a key driver of self-esteem.

Olga Miler, co-founder of SmartPurse, a financial education platform for women, agrees. "Our relationship with money has a huge influence on our lives, far beyond covering costs of everyday life and providing financial security," she says. "It impacts our physical wellbeing, our stress levels and our relationships. That's why one in two women in our research report an increase in their overall confidence as a result of sorting out their financial affairs."

"While being confident with money might not come as naturally as we might think to many people, given history, societal norms and inherited values, adopting a positive mindset and getting a grip on your money is easier than one might think. It all starts with simple things. Look at it this way: you can't dress well if you have a big mess in your closet. Same goes for money."

HOW CAN YOU IMPROVE YOUR FINANCIAL CONFIDENCE?

To get this sense of control and to find more financial confidence, it's vital that we recognise and acknowledge our current relationship with money and understand why we do the things that we do.

You can also improve your confidence by talking; park the embarrassment and start having frank and open conversations with your friends about money. What are they doing with their savings? Are they putting money into a pension? You will probably find the conversation, however uncomfortable it might initially feel, empowers and inspires you both.

Talking to a financial adviser can also help. Our own research with ILC[2] shows that people – irrespective of gender – felt that taking financial advice made them more confident about their finances and better prepared, with women in particular saying that it improved their financial literacy and made them feel more empowered to make informed decisions.

It's vital that we recognise and acknowledge our current relationship with money and understand why we do the things that we do

Many women tell us that they are too ashamed to admit that they have not made good financial plans; they want to ask lots of questions and really need to understand the pros and cons before making decisions. A good adviser will be non-judgemental and prepared to answer any question you can throw at them, creating the perfect environment for you to learn and gain confidence.

And once you've gained confidence, security, wellbeing and resilience won't be far behind.

To find out more about how to boost your financial confidence, please get in touch.

Source:

[1] WealthiHer Network, The Changing Faces of Women's Wealth, 2021, total number surveyed 2239

[2] ILC and St. James's Place Wealth Management, Peace of Mind: Understanding the non-financial benefits of financial advice, 2020

How investing responsibly supports long-term returns

The old myth that investors need to sacrifice some returns if they want to consider environmental, social, and governance (ESG) factors in their investment strategy has rapidly gone out of fashion. There's now plenty of evidence that shows how a company approaches these issues plays a significant role in long-term performance.

The COVID-19 pandemic, and its impact on businesses, has helped demonstrate the importance of considering more than a company's balance sheet when it comes to investing your money.

That's why the world's leading investors are increasingly focused on environmental, social and governance factors when they weigh up which companies to invest in. ESG factors are a set of measures to determine how a company behaves and manages its impact on people and the planet.

The coronavirus pandemic hasn't been the only recent event to have pushed investors towards a greater consideration of ESG factors. A price war between oil producing regions, combined with renewable energy becoming more affordable, has led to increased investment in green energy production.

The election of Joe Biden in the US marked a departure from the previous administration's attitude to climate change, and under new administration the US has already re-joined the Paris Agreement and pledged new emissions targets for 2030. In addition, a number of commentators expect the US to introduce mandatory ESG reporting in the near future[1].

Other countries have also indicated shifting attitudes towards the environment. The UK government's Spring Budget included a number of initiatives aimed at promoting the 'Green Economy', including an infrastructure bank and grants to fund research and development in areas such as carbon capture and offshore windfarms.

At the same time, consumers are increasingly considering environmental and social factors in their decision-making processes. Companies seen to 'give something back' win more customers and, in turn, improve their bottom line.

All this suggests the global economy is creating a more investor-friendly landscape for socially and environmentally conscious companies.

While the environmental component of ESG tends to hog the headlines, the 'G' – Governance – is often overlooked when, in fact, it is just as important for investors.

A look over recent years shows a litany of companies suffering due to poor governance. The 2018 collapse of UK company Carillion, the largest ever trade liquidation in the UK, is perhaps an extreme example of what poor governance can lead to, but it helps shows the perils of chasing short-term growth at the expense of longer-term thinking and strong leadership.

HAVING YOUR CAKE AND EATING IT TOO?

While all of this theoretically means that investing in line with ESG principles should lead to better returns, does this bear out in reality? An increasing amount of evidence suggests it does.

First and foremost, this belief is shared by most fund managers. A survey of 104 fund managers by the investment consultancy firm, Redington, revealed that 73% of managers believed ESG integration adds positively to financial performance.

Likewise, data from MSCI found that, in the seven years leading up to 2020, the top third of companies ranked by ESG ratings outperformed the bottom third by 2.56% per year[2].

The pandemic is also accelerating trends that were already well underway, such as the move towards green energy and electric vehicles. These trends are part of the reason why studies also suggest that improved performance from ESG practices is more evident in the long run[3]. Embedding ESG into the investment process is not a 'quick win'. Instead, it requires extensive engagement between investors and company management.

Evidence suggests that investing in line with ESG principles should lead to better returns

THE NEED FOR ADVICE

Whilst considering ESG principles when investing has become more popular, challenges remain for individual investors looking to incorporate these into their own investment strategy.

For a start, companies have been known to exaggerate their ESG credentials to appeal to investors, more commonly known as 'greenwashing'. Furthermore, the process for disclosing ESG practice is not yet subject to the same reporting standards and external auditing as financial accounts. This can make it challenging for a fund manager to form a clear picture of a company, but also raises the question of the subjective nature of ESG integration in investment decisions.

"We know there is still progress needed in the industry to better standardise ESG reporting." says Sam Turner, Responsible Investment Consultant at St. James's Place. "Since 2014, we have assessed all our fund managers on how they identify ESG issues in the companies in which they invest in, evaluating the data inputs they use and how they engage with companies to better understand their business practice."

All of St. James's Place's external fund managers are signatories to the Principles for Responsible Investment, and are required to integrate ESG factors into their investment process.

"We believe integrating ESG factors into investment decisions plays a crucial role in effectively mitigating risk and finding new opportunities. in turn, this provides the foundation to provide sustainable long-term performance for our clients." adds Turner.

Please get in contact to see how we can help you include responsible investing in your investment strategy.

The value of an investment with St. James's Place will be directly linked to the performance of the funds you select and the value can therefore go down as well as up. You may get back less than you invested.

Sources:

[1] Harvard Law School Forum on Corporate Governance, Biden's "Money Cop" to Shine a Light on ESG Disclosure, March 2021

[2] MSCI ESG Research LLC, 2021 ESG Trends to Watch, December 2020

[3] New York University Stern Center for Sustainable Business, ESG and Financial Performance, 2021

How much does social care actually cost?

The cost of care varies significantly depending on the level of care needed, so how you pay for these options may need to be considered

We all hope to remain healthy and independent but, unfortunately, this isn't always the case.

Few people plan for how they will meet the cost of paying for care should the need arise. Decisions about care are often made at a time of crisis and navigating the social care system can feel overwhelming and complex.

Whatever your current position, it will always pay to be prepared. Having a good understanding of options, benefits and support that are available to you (regardless of your financial situation), and costs involved with these services, as well as ensuring some simple planning is done in advance, can help you and your loved ones save a lot of time and expense.

HOW MUCH DO CARE HOMES COST?

Costs in many premium-priced homes will be in excess of £1,000 per week, and over the last ten years the average cost of residential care has increased by 50%[1].

If fees continue to increase at the same rate, in ten years the current average costs of £32,344[1] will become £48,516 per annum – a figure that is generally much higher than what people spend when they are fit, healthy and live in their own homes. However, the cost of care varies throughout the UK.

COST OF IN-HOME CARE

Also referred to as 'domiciliary care', this is what most of us would choose as a first option. Care at home does not have to mean personal care, such as help and support with washing, dressing, feeding or mobility, it could mean a hot meal, a laundry service, help with cleaning or even keeping the garden tidy.

Not only is it a realistic alternative for most, but local authorities try to support this for as long as possible if you are eligible.

Even if you choose to receive care in your own home, this will come with significant cost. The average cost of care from an independent provider is £15.52 per hour[1], so if you need care just three hours a day, seven days a week, this will cost £326 per week, or £16,948 per year.

RESIDENTIAL CARE

If you need help with day-to-day personal care, with 24-hour support staff, this might be the right option. Some residential homes may have a registered nurse on their staff, but this is not the same as being a registered nursing home.

Some homes provide residential and nursing beds. These are often referred to as 'dual registered homes' and are often suitable for people whose needs are likely to increase or change in the future.

NURSING CARE

If you have been assessed as needing care from a registered nurse, then a nursing home is likely to be more suitable for you. It provides support similar to that provided in a residential home, but with provision of care by registered nurses and a higher staff-to-resident ratio.

If you are assessed as needing nursing care, you should be eligible for NHS continuing healthcare or NHS-funded nursing care benefit, so it's important to make sure you are assessed for the support.

FUNDING OPTIONS

Looking after your finances can have a dramatic effect on your ability to pay for the type of care or care home that you require. The problem is that nobody can predict how long care will be required and therefore how long it will have to be paid for, so it's essential to ensure that the care home you choose is affordable in the longer term.

Unfortunately, one in four people who fund their own care run out of money[1]. Most commonly, this is because they don't consider all the options or take proper advice. For most people, paying for care means creating income from the capital and assets that are available. There are a number of ways to do this, each has its own advantages and disadvantages and not all of the options will suit everyone, so it's important to understand how each fits your own circumstances.

Navigating the social care system can feel overwhelming and complex – we're here to help

Each case must be considered on its own merits, so it is vital to take professional advice. We are committed to helping people meet their financial needs throughout their lifetime, and long-term care planning is no exception. Even if you have sufficient income to cover your care fees, there may be other benefits or support available to help you. Please get in touch to discuss the options available to you and your family.

Source:

[1] LaingBuisson, Care of Homes for Older People UK Market Report, 2019