



HILLS-HOWSON

FINANCIAL SERVICES

GUIDE TO

GETTING MY FINANCES IN ORDER

WHEN IT COMES TO MAKING FINANCIAL
DECISIONS, YOU DON'T HAVE TO GO IT ALONE

SEPTEMBER 2020



Hills-Howson Financial Services, The Old Post Office, 53 High Street, Clophill, Beds, MK45 4BE

Tel: 01525-861803 **Web:** www.hills-howson.co.uk

Hills - Howson Financial Services is a trading style of John Howson who is an appointed representative of Quilter Financial Services Limited and Quilter Mortgage Planning Limited who are authorised and regulated by the Financial Conduct Authority.

GUIDE TO

GETTING MY FINANCES IN ORDER

When it comes to making financial decisions, you don't have to go it alone

The coronavirus (COVID-19) pandemic outbreak has affected people in various ways. However, this has undoubtedly been a time for contemplation surrounding our personal finances. Many have taken the new-found time at home to conduct a review of their finances, to assess necessary and unnecessary expenditure. While uncertainty with the job market continues, a tighter grip on finances is key.

Even if you have a solid financial plan in place, it still needs to be updated regularly to ensure it reflects any life changes. But what should your priorities focus on now? Is it time to turn your attention to your pension, ISA or your mortgage, or something else?

Should you be thinking about investing more for your children's education or putting an estate plan in place? And then there are those previous company pension schemes to review – is it three, four...or was it five?

If you're unsure what diagnosis to give your current money situation, maybe it's time to consider a financial health check. But where do you start?

1. Consolidate and manage debt

You need to know exactly how much you owe, how much interest you are paying, and to whom. Once you have added up all the debt, work out how much you can reasonably afford to pay off each month. A debt consolidation loan could be a way to lower your monthly payments, reduce the number of creditors you owe and shorten the time it takes to pay off your debt.

Debt consolidation is a method of taking out a new loan to pay off the high-interest debt in an effort to streamline monthly payments and save money over time. Personal loans, low-interest credit card balance transfers, or debt management plans are just a few of the different options to consider and will depend on your specific situation.

If your finances have been impacted by the coronavirus (COVID-19) outbreak don't forget you can apply for up to a six month payment holiday on your mortgage. If you haven't yet applied you have until 31 October 2020 to do so.

The same applies to credit and store cards and personal loans. You can also ask your bank to make the first £500 of your overdraft interest-free for at least three months. If your overdraft limit is less than £500, you can ask for the whole of your overdraft to be interest-free. You have until 31 October to ask.

Up to a three-month payment holiday can be requested on car finance, but this must be requested by 31 October and if you're already on a car finance payment holiday, you can ask for an extension of up to six months.

“

Tracking your finances gives you a baseline to help track your progress and helps you to see spending mistakes before they become disastrous personal finance problems

”



2. Track your spending

Without a budget to monitor your spending, you won't be able to track where your money is going. When you feel financially out of control, the knee-jerk reaction is to cut back. Your budget will make sure that your money is doing what you're telling it to do. Tracking your finances gives you a baseline to help track your progress and helps you to see spending mistakes before they become disastrous personal finance problems. Once you get into the habit of tracking your expenses, you'll find that the process makes you more mindful of the spending choices you make throughout the day.

One of the biggest sources of financial stress for some people is the eternal question of where all of the money went. By tracking all of your expenses rather than feeling like everything is out of control, it transforms the question into one of personal decision-making – something that's far less stressful. In short, tracking your expenses returns the sense of control over your finances to you. You're no longer just along for the ride on a financial roller coaster. Budgeting apps on iOS and Android are available help you keep track of your finances from your phone.

3. Use tax allowances

For the 2020/21 tax year, there are a number of allowances to make use of – the tax year runs from 6 April to 5 April. The Income Tax personal allowance, which is the amount you can earn tax-free before you start paying Income Tax, is £12,500.

The tax-free dividend allowance is £2,000 for the 2020/21 tax year. On dividends received above the £2,000 threshold, basic-rate taxpayers pay 7.5% tax and higher-rate taxpayers pay 32.5%. Additional-rate taxpayers will be charged 38.1% tax on dividend income over the allowance. The dividend tax does not apply to investments held in an Individual Savings Account (ISA) or a pension.

Every year, you can take advantage of your Capital Gains Tax allowance. In this current 2020/21 tax year, you can make gains of £12,300 before you start paying Capital Gains Tax. Lower-rate taxpayers pay 10% tax on capital gains, and higher and additional-rate taxpayers pay 20%. The only exception is for second properties, including buy-to-let investments. Capital gains on these investments will be taxed at 18% for basic-rate taxpayers and 28% for higher and additional-rate taxpayers.

Pension contributions receive full Income Tax relief; this means it costs basic-rate (20%)

taxpayers £80 to save £100 into their pension, while higher-rate (40%) taxpayers only need to pay £60 to save £100. The lifetime pensions allowance for the 2020/21 tax year, in line with inflation (consumer price index), now stands at £1,073,100.

Most people are allowed to contribute up to £40,000 into their pension in 2020/21, known as the 'annual allowance'. For the ultra-high earners who earn an 'adjusted income' of over £240,000, the annual allowance tapers by £1 for every £2 of income, to a minimum of £4,000 per year – the taper threshold is currently £240,000.

You can save a total of £20,000 in an Individual Savings Account (ISA) this tax year, where all your earnings will be tax-efficient. You won't pay Income Tax, dividend tax or Capital Gains Tax on any investments you hold in an ISA. The limit applies to Cash ISAs, Stocks & Shares ISAs and Innovative Finance ISAs, and the allowance can be spread between the three types.

You can save £4,000 a year into a Lifetime ISA, and this can be used towards the cost of buying a first home or for retirement. If you're looking to buy a home, there's also the Help to Buy: ISA, but this is no longer available for new savers. Those who opened a Help to Buy: ISA before the ISA closed to new savers in December 2019 can save up to £3,400 in the first year and then £2,400 each year afterwards.

The Junior ISA allowance for the 2020/21 tax year is £9,000. This same limit applies to Child Trust Funds (CTFs). It has previously risen every year in line with inflation.

Basic-rate taxpayers can now earn £1,000 from savings before they start paying Income Tax on savings income. Higher-rate taxpayers start paying tax on savings income over £500. There is no savings allowance for additional-rate taxpayers.

4. Start a new habit

Regular monthly investing promotes the discipline of saving, whereby a small amount invested every month over several years can build into a sizeable nest egg. Regular contributions are generally the route taken by people who don't have a large amount to invest at one time, or by those who are more cautious about investing a lump sum and prefer to drip feed their money into the markets.

Investing monthly can also be a particularly effective way of investing through times of volatile markets, as we've been experiencing this year. A monthly direct debit takes the emotion out of investing, which can be invaluable at times of extreme volatility. Investing monthly also means that you don't

see the value of your investment change so dramatically, which can help you stay focused on your long-term goals.

When there is a market correction, your regular payment will acquire more units. And when the market rises, you will acquire fewer units, but the units you bought in previous months will be worth more. This smoothing out of investment returns is known as 'pound-cost averaging'. As your circumstances change, you can adjust the amount of your regular savings. Ideally, you should look to increase the amount as your salary increases, but you have the flexibility to reduce it should your income fall.

5. Top up your pension

To get the income you want during retirement, it's important to regularly review the amount you're contributing towards your pension savings. However, you need to be aware that over time, inflation can steadily erode the value of your contributions, so it's important to review them regularly.

“

You won't pay Income Tax, dividend tax or Capital Gains Tax on any investments you hold in an ISA

”



“

Setting goals helps trigger new behaviours, helps guide your focus, and helps you sustain that momentum in life

”

Pensions are one of the most tax-efficient ways to save. Topping up your pension will help towards improving your financial security in retirement, and saving a bit more now could make a big difference to your future. The way in which the tax relief is given will depend on the type of pension scheme you're in, and also whether or not you use salary sacrifice.

Many pensions allow you to choose to automatically increase your payments each year, say by 3–5%. It's likely that they'll stay in line with inflation without you having to worry about it. You should consider a larger increase if you receive a pay rise.

6. Focus on your goals

Failing to plan is planning to fail. How often do you set goals? How often do you revisit your list of goals? We all know that setting goals is important, but we often don't realise how important they are as we continue to move through life. Focusing on these can help ensure you aren't distracted by current daily events, so that they don't prompt you to veer off course.

Financial planning is essentially about setting short, medium and long-term financial goals and putting together a plan to meet them. It's important to have a solid understanding of your finances and how to reach your goals. Setting goals helps trigger new behaviours, helps guide your focus, and helps you sustain that momentum in life.

How will your life be different in a year? Do you have the security of knowing where you're heading financially? Are you going to be able to maintain your current lifestyle once

you stop working? Have you made sufficient financial plans to live the life you want and not run out of money? Do you have a complete understanding of your financial position? What is 'your number' to make your current and future lifestyle secure? When you bring your focus to achieve something in life, you are much more likely to reach your goals.

7. Stick it out

Don't let the coronavirus pandemic derail your financial plans. There will always be some bumps along the way as you invest for your future, but as volatility emerges and emotional anxiety sets in, this can lead you to veer towards 'flight' instead of 'fight'.

Now is the time to take steps to improve your relationship with money and the role it plays in your life, with a view to seeking a happier, more fulfilled existence. Instead of making knee-jerk reactions, it's important to take time to consider your long-term plans and take deliberate steps that can further your long-term goals.

8. Broaden your investments

Take the time to review your investments, and look for opportunities to diversify. Your investment strategy now could determine your financial success for years to come, which is why it's important to have a broad diversified spread of investments. Diversification can be neatly summed up as: 'Don't put all your eggs in one basket.' The idea is that if one investment loses money, the other investments will make up for those losses.

You diversify by investing your money across different asset classes, such as equities,

bonds (also referred to as 'fixed income'), property and cash. Then, you diversify across the different options within each asset class. Diversification lowers your portfolio's risk because different asset classes do well at different times. It is your best defence against a single investment failing or one asset class performing poorly. Having a variety of investments with different risks will balance out the overall risk of a portfolio.

9. Keep emotions in check

Remember, as the old investment adage goes, it is 'time in the market, not timing the market' which is typically key to long-term gains. Shock events such as the COVID-19 outbreak and related stock market volatility can cause investors to act on their emotions.

Putting a plan in place when markets turn south and reviewing that plan when emotions are running high can temper this impulse. Although short-term volatility swings can be difficult to stomach, it's important for long-term investors to persevere.

While it may be tempting to pull out of investment markets, you may miss out on a potential market rebound and opportunity for gains while you're on the sidelines. During any period of volatility, thinking about your reasons for investing and what you ultimately plan to do with your money is important.

10. Reinvest dividends

Reinvesting dividends is one of the most powerful tools available for boosting returns over time. When you reinvest dividends,



“
Diversification lowers
your portfolio’s risk
because different
asset classes do well
at different times
”

“
It is ‘time in the market,
not timing the market’
which is typically key
to long-term gains
”

you can dramatically increase your annual returns and total wealth. At the point an investment you own pays dividends, you have two options: either take the money and use it as you would any other income, or reinvest it.

Although having the extra money on hand may be appealing, reinvesting your dividends can really pay off in the long run. When you eventually reach the stage where you’d prefer to use your dividends to supplement your income, you can simply stop reinvesting the dividends and start spending them! ■

MAKE INFORMED AND CONFIDENT DECISIONS

Depending on your age, stage in life, current circumstances and your future plans, everybody has different needs. Some people have plans already in place, some don’t. For more information, or to discuss your situation, please contact us to discuss how we can help.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND YOUR ENTITLEMENT TO CERTAIN MEANS TESTED BENEFITS AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

TAX RULES ARE COMPLICATED, SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

TIME TO START A CONVERSATION ABOUT HOW TO GET MORE FROM YOUR MONEY?

You will almost certainly have plans of one kind or another. We can guide you to make informed financial decisions and implement strategies throughout all the stages of your life, keeping you focused and on track to achieve your goals.

Whatever your financial objectives, we'll deliver a plan to help you achieve them. For more information, or to discuss your situation, please contact us - we look forward to hearing from you.

This guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. All figures relate to the 2020/21 tax year, unless otherwise stated.