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PLANNING

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Universal reality check

The challenging reality for many people of having to make ends meet on benefits during the pandemic was further underlined by the widespread calls ahead of the Budget for the government to retain the 'temporary' £20 uplift to universal credit. This has now been extended for another six months and will be paid to the end of September.

It has become clear that the lowest monthly standard allowance of £342.72 for single claimants under 25 provides a minimal amount to live on. With unemployment continuing to rise and given the precarious state of the economy, it is now more important than ever to build your own financial safety net against illness, accident or redundancy.

> *For families, life insurance is the most basic financial building block, paying out a lump sum which can help to pay off a mortgage and other debts.*

Save for a rainy day

The Covid-19 crisis has highlighted how 'safe' jobs and incomes can disappear with little or no warning when economic conditions change. Emergency 'rainy day' savings can help cover mortgage payments and other bills. How much you set aside will depend on individual circumstances, but a good rule of thumb is to have enough savings to cover three months of essential bills as a financial buffer. The best savings account for this purpose is likely to be the one that gives you easy access.

Insure your life and income

While savings can provide a short-term stop gap, insurance provides a more effective safety net against the financial consequences of death or serious illness. For families, life insurance is the most basic financial building block, paying out a lump sum on death, which can help to pay off a mortgage and other debts and also set up a fund to provide a replacement income. Life cover is relatively cheap and will be especially beneficial compared to the very minimal benefits that the state provides.

Income protection insurance can provide valuable support if you find yourself unable to work because of ill health. The typical payout is two-thirds of your income, although there is usually a 'deferral period' of three or six months before benefits are paid. These payments are more generous than statutory sick pay, which pays just £95.85 a week for up to 28 weeks.

TAX

Going electric: the changing face of company cars

The UK's best-selling car for three months in 2020 did not even have an engine.

The top-selling car in the UK for the months of April, May and December last year was a Tesla Model 3, a car that currently costs just over £43,000. One major reason for Tesla's popularity is tax. For 2020/21, the employee who chose a zero-emission company car like the electric Tesla paid no company car tax. A BMW 3 series of the same value would have cost a higher rate taxpayer up to £5,200 in tax.

The company car scales have been revised for the tax year 2021/22, but the Tesla is still only taxable on 1% of its value – meaning a bill of about £175 for a higher rate taxpayer. The tax on the BMW is increasing by the same amount.

The tax benefits of going electric extend to fuelling the car, too. There is no tax to pay for electric car charging at the workplace. If the employer fuelled the BMW 3 series, then in 2020/21 the higher rate taxpayer would have up to an additional £2,940 tax to pay – and would probably have been advised to pay for their own petrol.

If you are due to change your company car soon, be sure to consider the electric option.

✢ *The Financial Conduct Authority does not regulate tax (or motoring) advice, and levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances.*

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PLANNING

What can we learn from the Covid-19 pandemic?

As we pass the various one-year anniversaries around the Covid-19 pandemic, there are some useful lessons to draw for your financial planning.

On the same day that Chancellor Rishi Sunak announced Covid-19 support measures in his first Budget, the World Health Organisation declared a pandemic. Since then, Mr Sunak has regularly returned to Parliament to announce further support schemes.

If you take a step back, the pandemic experience has offered some important financial lessons.

The value of an up-to-date will

Over half the adult population does not have a will, and Covid-19 had many scrambling to put something in place, or make changes to an existing will that was no longer relevant. This urgency came at a time when there were many

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obstacles to writing or updating a will. These difficulties have since eased, but the importance of having an up-to-date will remains.

Stay calm

Both the UK and US stock markets fell by about one third between 19 February and 23 March 2020, the date the first UK lockdown started. Any investor who took fright on 23 March and sold up would have chosen the worst time to do so. More stoic investors were rewarded with a recovery. For example, from 23 March 2020 to the end of the year, the FTSE 100 rose by 24.5%.

Your retirement plans can shift

The pandemic has had a major impact on working patterns. Research by the Institute for Fiscal Studies revealed that many people have revised their retirement plans. As a response to the pandemic, one in eight workers aged 54 and over changed their planned retirement age, with most opting to retire later, not earlier.

✢ The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

The Financial Conduct Authority does not regulate will writing and some forms of estate planning.

INVESTMENT

Intergenerational appeal of ESG investing

Renewed interest since the outbreak of Covid-19 in more responsible and sustainable investment products has seen a significant increase in the amount flowing into funds that explicitly take account of environmental, social and governance (ESG) criteria, alongside conventional financial metrics.

This trend has been on the back of a relatively strong performance from the ESG sector when compared with more traditional non-ESG funds. This shift of ESG factors into mainstream investing is set to be supported by legislative changes. Financial advisers will soon be required to ask clients about their attitudes towards ESG when advising on suitable investments.

Younger investors are often seen as driving demand for 'greener' products. But these changes will mean investors of all ages will be asked to consider how their money is invested, and whether they want to bring ESG factors into the investment mix.

Across families, older investors may want to revisit their portfolios and consider what kind of legacy their investment history may leave the next generations. Grandparents are increasingly asking whether it makes sense to invest successfully for profit if the environment suffers in the long term.

Oil companies, mining giants and airlines, for example, may have delivered good profits for their investors in previous decades. The question for maintaining a healthy portfolio, however, is whether their business models remain as profitable as the world transitions to a low carbon economy, or are there new growth opportunities for companies devising, for example, renewable energy solutions?

ESG funds also consider 'social' issues as well as environmental factors, which might include a company's track record on executive pay, boardroom diversity, tax policies and transparent supply chains. They don't, however, automatically exclude certain sectors or companies, unlike some 'ethical' funds. ESG analysis is designed to identify potential risks and opportunities, although like all investment judgements, these may not always turn out to be correct in retrospect.

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PENSIONS

Pension contributions fall in 2020

UK employees contributed less to workplace pensions last year, as the financial effects of the coronavirus pandemic hit.

Employee contributions into pension plans fell by 11% from April to June 2020 compared with the previous three months, according to Office of National Statistics (ONS) data. Over the same period, which coincides with the first Covid-19 lockdown, employer contributions also fell by 5%. During this time, many people's pension contributions were maintained by the government's furlough scheme.

This temporary fall in overall contribution rates is against a backdrop of significant growth in recent years, with 10 million people having joined a workplace pension through auto-enrolment by 2019.

Membership of pension schemes remains stable, despite these dipping contribution levels, says the ONS, which has not released data on contribution levels for the rest of 2020. We have yet to see the effect of rising unemployment and ongoing economic difficulties on these figures.