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COVID-19 effects on retirement planning

Remember that pension savings are for the long term

The coronavirus (COVID-19) is having a widespread impact across all aspects of financial life, including retirement plans. The current global stock market turbulence, as a consequence of COVID-19, will no doubt be concerning for individuals whose pension savings are invested partly or fully during these volatile market conditions.

However, making decisions based on what's happening in the short term can be a risky thing to do. It might be tempting, for example, to move all your investments into cash or other lower-risk investments for a while – but in doing that, you might miss out on the point when the value goes back up, so you could lose out in the long term.

TIME FOR MARKETS TO RECOVER

It's really important to remember that pension savings are for the long term. If you're young and currently paying into a workplace pension, then there is time for your pension pot to achieve growth over the long term and recover from the fluctuations currently being experienced in the stock markets. You shouldn't be too concerned, as you have many years ahead of you, and this will provide time for markets to recover before you take your pension income.

If you're older and closer to retirement, you may have seen your funds 'lifestyled'. This means your pension will have been moved into predominantly less risky funds and invested in 'safer' places such as in cash, gilts or bonds, which are lower risk and usually offer a fixed rate of return. The older you get, the more schemes tend to choose to invest in such assets to limit investment risk. However, not all pension schemes offer automatic lifestyling.

ANNUITIES

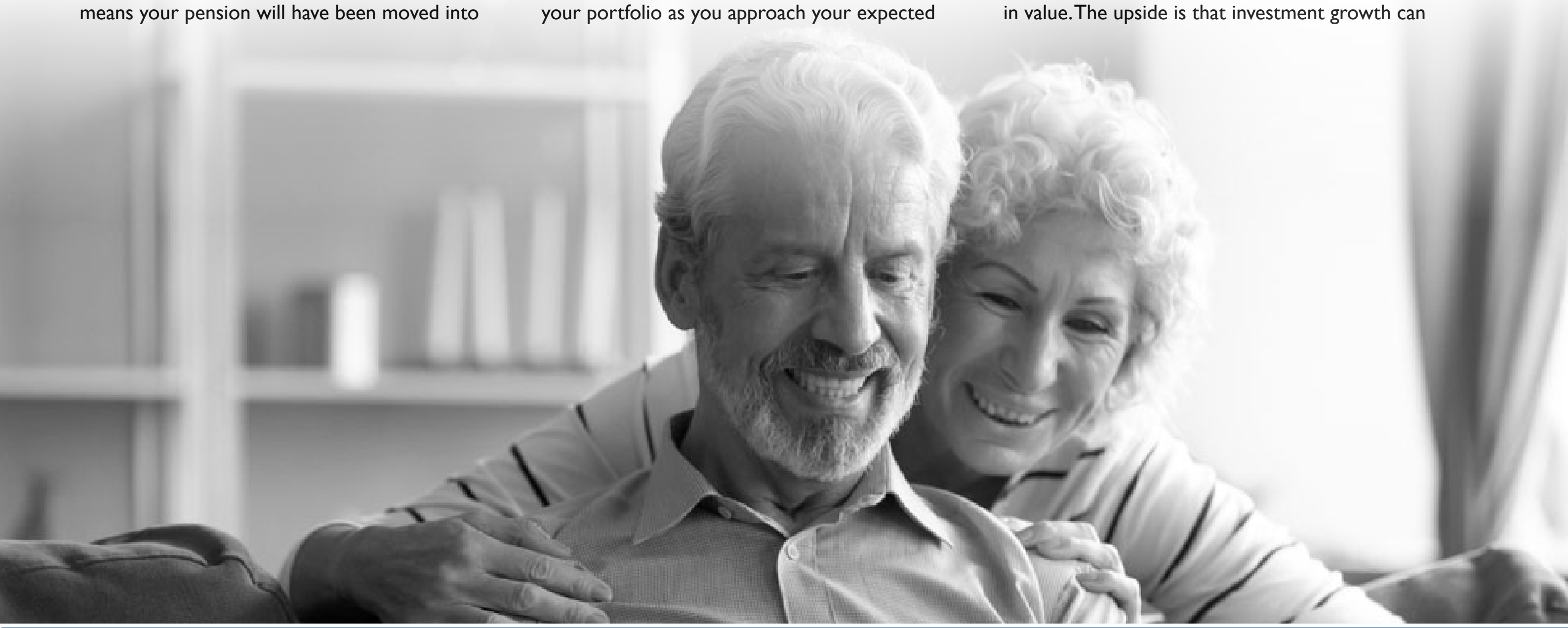
If you're about to retire and were planning to buy an annuity, in March, the Bank of England cut the base rate twice in just over a week in a further emergency response to the coronavirus pandemic, reducing it from 0.25% to 0.1%. This has meant annuity rates have also fallen. An annuity is a type of retirement income product that you buy with some or all of your pension pot. It pays a regular retirement income either for life or for a set period.

If you are thinking of securing an income by purchasing an annuity, the recent volatility shows the importance of gradually reducing the risk in your portfolio as you approach your expected annuity purchase date. Doing this provides greater certainty over the secured income you can expect to generate from your fund.

DRAWDOWN

If we continue to see a protracted period of negative investment returns, and you're already using drawdown or plan to move into drawdown soon, you might also want to avoid taking out any more than you need to while fund values remain depressed. The more you can leave invested, the more you will benefit over time once there is a recovery.

Drawdown is a way of taking money out of your pension to live on during retirement. You have to be aged 55 or over and have a defined contribution pension to access your money in this way. You keep your pension savings invested when you reach retirement and take money out of (or 'drawdown' from) your pension pot. Since your money stays invested – and it's usually in the stock market – there is the risk that your fund may fall in value. The upside is that investment growth can



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provide higher returns and see your pot continue to increase in value.

CONTRIBUTIONS

If you are still in the process of saving for your retirement (and if appropriate), now might be a good time to consider increasing your pension contributions if you can. Even though your strategy may depend on the movement of the markets, increases in contributions over the long term can make a difference to your eventual retirement pot value, if it coincides with the market recovery.

Again, there is no need to panic – at this stage, we do not know what the long-term implications of coronavirus will be. We can help you see the bigger picture, weigh all your options and take a balanced assessment of your risks.

STAGGERED

New research[1] has revealed how many pensioners are opting for a staggered retirement and working part-time before giving up work completely to make sure their pensions last the rest of their lives. With people living longer, and with the added prospect of health care costs in later life, retirees increasingly understand the benefits of having a larger pension pot in later life.

Of those who haven't accessed their pension pot, half (51%) say it is because they are still working, while more than a quarter (25%) of people in their 60s say it is because they want their pensions to last as long as possible.

Of course, retirees who haven't accessed their pension pot must have alternative sources of income. When asked about their income, nearly half (47%) said they take an income from cash savings (47%), others rely on their spouse or partner's income (35%) or the State Pension (22%), while 12% rely on income from property investments (12%). ■

PROFESSIONAL FINANCIAL ADVICE COUNTS

If you're about to retire, the amount of exposure you have will reflect both your attitude to investment risk and the time you have until retirement. Most importantly, before taking any major decisions relating to your pension, take the time to get professional financial advice.

Source data:
[1] LV= survey of more than 1,000 adults aged over 50 with defined contributions – 25 February 2020

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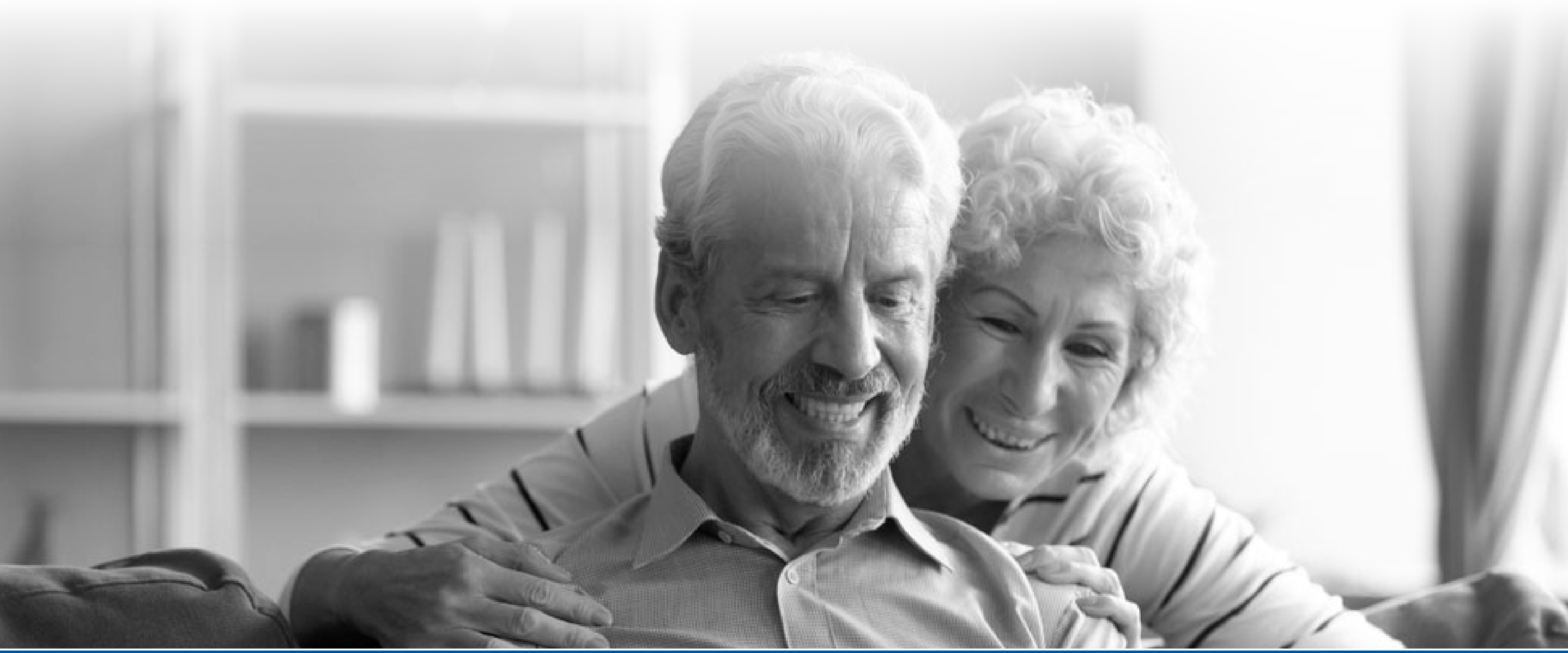

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Focus on long-term horizons

Time in the market, not timing the market

During this difficult time, fear and worry are understandable, particularly as the coronavirus (COVID-19) outbreak led to the biggest daily drop in the FTSE 100 since the financial crisis of 1987. Trying to second-guess the impact of events such as the coronavirus or the recent stock market volatility – or even attempting to make a bet on them – rarely pays off. Instead, investors who focus on long-term horizons – at least five to ten years – have historically fared much better.

We all have different objectives in life and need different strategies to help achieve them. Sensible diversification – owning a mix of assets, including shares, bonds and alternative investments such as property – can help protect investors over the long term. When one area of a portfolio underperforms, another part should provide important protection.

RISK TOLERANCE AND TIME HORIZON

If you have a well-diversified portfolio, then it's more important than ever to stay the course. You have a strategy in place that reflects your risk tolerance and time horizon, so remain committed. This will help you navigate through periods of uncertainty when some investors are panicking or acting out of fear. Volatility is not all bad, as long as you are prepared to take advantage of the unique opportunities it brings.

In volatile markets, it is perfectly normal for investors to become nervous, question their investment approach and concentrate on the potential for short-term losses over their longer-term investment strategy. Be aware of the psychological effect this type of volatility has on you as an investor, and resist the urge to be reactive.

PROPER DIVERSIFICATION AND PERSEVERANCE

It's important to understand that this movement is not all bad for investors. Some commentators may talk about volatility as detrimental to markets and investors, but fail to mention the opportunities that arise for investors during periods of market volatility.

No one knows how severe any market turbulence will be or what the markets will do next. It could be over quickly or become more protracted. However, no matter what lies ahead, proper diversification and perseverance over the long term are very important.

UPS AND DOWNS OF DIFFERENT TYPES OF MARKET CONDITIONS

It's likely that the coronavirus will continue to have an impact on markets over the coming months and even years. However, major events causing markets to fall, particularly in the short term, is something we've seen time and time again. And it doesn't mean that markets won't recover. History shows again and again that the ups and downs of different types of market conditions are part and parcel of investing.

The key is to remain calm when stock markets fall. Don't panic. Don't frantically sell. If you can avoid it, don't even log into your investment account. At moments like this, the skills and experience of professional financial advisers come into their own. Not only do we have the experience of dealing with different types of market conditions, but we can also help to take the emotion out of your decisions. ■

LIFE'S FULL OF SURPRISES

Whatever your level of confidence, we could help you make better-informed investment decisions. If you would like to find out more or require any further information, please contact us.

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Coronavirus impact on the global economy

It's more important than ever to stay the course

The coronavirus (COVID-19) outbreak is first and foremost a human tragedy, affecting hundreds of thousands of people. Moreover, it is also having a growing impact on the global economy. The markets have been extremely volatile as investors weigh the effect of the coronavirus against measures aimed at easing its economic impact. Therefore, it's hard to say how this will affect investments in the short term.

Even with events like the coronavirus and global market volatility dominating the headlines, the key is to keep calm and remember that ups and downs are a normal function of markets, and part and parcel of investing. Bear markets are a fact of any investor's life. Single-day volatility will continue to be common, and we can expect choppy markets as investors and firms react to the ongoing pandemic.

RECALIBRATING THE MARKETS' OUTLOOK

If the markets follow the pattern established over the past few months, sudden market drops have been followed by similarly acute intra-day upswings as the markets absorb the news and recalibrate their outlook.

What we've recently been experiencing is global stock market lows not seen since the 1987 market crash – and as a consequence, many hard-hit companies have laid thousands of employees off. However, it's important not to let global uncertainties affect your financial planning for the years ahead.

'PREPARE, DON'T PREDICT' APPROACH

When markets look worrying, a 'prepare, don't predict' approach can often be the best strategy. Understandably, market falls can be unnerving and make you question your investments. A few months in, it is still hard to grasp the scale and scope of COVID-19's global impact. A third of the world population has been under some sort of 'lockdown'. Over 200 countries have been affected, and the number of new cases and deaths in many places has grown exponentially. All the while, a second crisis in the form of an economic recession is underway.

The increasing concerns surrounding the coronavirus outbreak pandemic have had a significant impact on markets around the world. However, performance chasing can be a costly mistake not only due to the narrow investment choices it encourages, but also due to the higher costs and taxes incurred. Overall, investors can end up selling low, buying high and, importantly, missing out on creating long-term value.

FINANCIAL PLANNING FOR THE YEARS AHEAD

Remember that the overall direction of developed stock markets is a relentless and continual rise in value over the very long term, punctuated by falls. It's important not to let global uncertainties affect your financial planning for the years ahead. Individuals who curtail their investment planning, particularly during market downturns, often miss out on opportunities to invest at lower prices.

Such volatility is less worrying if you take a longer-term view. It's important to stick to your strategy and keep moving ahead consistently by spreading risk and growing your wealth. Volatility in stock markets understandably makes investors nervous. However, on the flipside, not all volatility is bad – without volatility, stock prices would never rise. ■

TRY TO THINK LONG TERM

Even during this pandemic crisis, our financial solutions and expertise to clients still remains the same, to actively grow and protect their wealth over the long term. If you would like to find out more or discuss your situation, please contact us.

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Beware of pension fraudsters

Safeguard your hard-earned retirement savings from COVID-19 scammers

Fraudsters are exploiting fears over the COVID-19 pandemic to target pension savers and investors. The Pensions Regulator, the Financial Conduct Authority (FCA) and the Money and Pensions Service have issued a joint statement urging people not to make rash pension decisions in the wake of the global pandemic, as criminals try to exploit public fears over the market turmoil to dupe victims out of their cash.

Nearly one in ten over-55s fear they have been targeted by suspected scammers since the launch of Pension Freedoms, new research shows[1]. The study found 9% of over-55s say they have been approached about their pension funds by people they now believe to be scammers since the rules came into effect from April 2015.

MOST RECENT PENSION FRAUD DATA CASES

Offers to unlock or transfer funds are tactics commonly used to defraud people of their retirement savings. Most recent pension fraud data from ActionFraud, the national fraud and cybercrime reporting service, shows 991 cases have been reported since the launch of Pension Freedoms, involving losses of more than £22.687 million.

Some scammers have very convincing websites and other online presence, which make them look like a legitimate company. Always check with the FCA to make sure they're registered. Pension scam victims lose an average of £91,000, according to the FCA and the Pensions Regulator.

PERSUADING YOU TO TRANSFER YOUR PENSION POT

Scammers will make false claims to gain your trust – for example, claiming they are authorised by the FCA or that they don't have to be FCA-authorised because they aren't providing the advice themselves, or claiming to be acting on the behalf of the FCA or the government service Pension Wise.

Scammers also design attractive offers to persuade you to transfer your pension pot to them (or to release funds from it). It is then often invested in unusual and high-risk investments such as overseas property, renewable energy bonds, forestry or storage units. Alternatively, it could be invested in more conventional products but within an unnecessarily complex structure that hides multiple fees and high charges, or it might even be stolen outright. ■

DON'T LET A SCAMMER ENJOY YOUR RETIREMENT

If you're contacted out of the blue about your pension, chances are it's high risk or a scam. Be wary of free pension review offers. A free offer out of the blue from a company you have not dealt with before is probably a scam. Should this happen to you, please contact us.

Source data:

[1] Consumer Intelligence conducted an independent online survey for Prudential between 23 and 25 February 2018 among 1,000 UK adults aged 55+, including those who are working and retired

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Managing volatility

Diversification is paramount in uncertain times

The outbreak of coronavirus (COVID-19) has understandably been dominating the news headlines. Market fear over the escalating global spread of coronavirus has seen a sell-off across many asset classes. This period of market stress further emphasises the importance of diversification within portfolios. Investors' objectives can rarely be met by investing in a single asset class.

Diversification means making sure your portfolio has varied investments: investing in stocks and bonds, in different industries, and in large and small companies. While 'don't put all your eggs in one basket' is a well-used adage, it is still relevant today and means: don't have all your money in one place, as you could lose it all in one go.

SMOOTHER RETURN PROFILE

By holding well-diversified assets at both a geographical and asset-class level, our portfolios experience a (relatively) smoother return profile because risk exposure is less concentrated.

Investment options span every sector of the stock, bond and property markets, but allocating your assets based on performance alone is often ill-advised because the market is a moving target. One year, a particular type of security can be a star performer, only to severely underperform the very next year.

RANGE OF ASSETS

During the early weeks of the coronavirus outbreak, the response from financial markets was somewhat muted. However, as the virus has continued to spread, markets have reacted in a more pronounced way to the impact on supply chains, tourism and global demand.

This further strengthens the case to invest across several asset classes to provide greater diversification potential. Therefore, if one asset class performs favourably, it can potentially offset another that is performing less favourably, providing more balance to your portfolio when market shifts occur. Investment returns vary significantly between different investment 'baskets', or asset classes, year-to-year.

ASSET CLASSES	MAIN ADVANTAGES	MAIN RISKS
Cash	Relatively secure	May lose value if the interest rate doesn't keep up with inflation.
Bonds	Regular income	The bond issuer is sometimes unable to repay in full.
Shares	Regular income and opportunity to grow over time	Share prices can go up and down. A fall in share price will reduce the value of your investment
Property	Stable and regular income, potential to grow over time	Property prices can fall reducing the value of your investment. Property transaction take a long time, so your money may be tied up for longer than you want it to be.

DIFFERENT LIFE STAGES

Different investors are at different stages in their lives. Younger investors may have a longer time horizon for their investing than older investors. Risk tolerance is a personal choice, but it's good to keep perspective on personal time horizons and manage risk according to when access to funds from different assets is needed. If cash is needed in the near term, it is better to sell an asset when you want to sell it rather than when you have to sell it.

Under normal market conditions, diversification is an effective way to reduce risk. If you hold just one investment and it performs badly, you could lose all of your money. If you hold a diversified portfolio with a variety of different investments, it's much less likely that all of your investments will perform badly at the same time. The profits you earn on the investments that perform well offset the losses on those that perform poorly.

MINIMISING RISK

While it cannot guarantee against losses, diversifying your portfolio effectively – holding a blend of assets to help you navigate the volatility of markets – is vital to achieving your long-term financial goals while minimising risk.

As well as investing across asset classes, you can further diversify by spreading your investments within asset classes. For instance, corporate bonds and government bonds can offer very different propositions, with the former tending to offer higher possible returns but with a higher risk of defaults, or bond repayments not being met by the issuer.

But although you can diversify within one asset class – for instance, by holding shares (or equities)

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in several companies that operate in different sectors – this will fail to insulate you from systemic risks, such as international stock market volatility.

ASSET CLASSES

There are four main types of investment, known as 'asset classes'. Each asset class has different characteristics and advantages and disadvantages for investors.

MARKET TIMING

Resist the temptation to change your portfolio in response to short-term market movement. 'Timing' the markets seldom works in practice and can make it too easy to miss out on any gains. The golden rule to investing is allowing your investments sufficient time to achieve their potential. Warren Buffett, the American investor and philanthropist, puts it very succinctly: 'Our favourite holding period is forever.'

Over the long term, investors will experience market falls, which happen periodically. Generally, the wrong thing to do when markets fall by a reasonable margin is to panic and sell out of the market – this just means you have taken the loss. It's important to remember why you're invested in the first place and make sure that rationale hasn't changed. ■

OPTIMAL BALANCE OF RISK AND RETURN

Whatever your approach to not 'putting your eggs in one basket' is, diversification can help manage your investment risk. If you would like further information or to discuss your requirements, please contact us.

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