FINANCE UPDATES
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FINANCIAL PLANNING

WHAT TO DO WITH SPARE CASH AFTER COVID-19

Ways to release some of that pent-up demand.

Since the start of the COVID-19 pandemic in March 2020, official statistics show that total household savings have increased pretty much across the board.

That's not much of a surprise considering most people have been saving cash working from home, while the three lockdowns we've had in the UK removed spending options to eat out, go to a pub, or holiday abroad.

There's clearly pent-up demand across the entire economy over the last 16 months as people have extra cash to spend, but not a lot of options to spend it on.

The Government's traffic-light system has many popular holiday destinations on its lists this summer, with a worst-case scenario requiring holidaymakers to quarantine for 10 days if they're returning from a country on the red list.

Here are some options to consider if you have a clear idea of what's coming in and what's going out of your bank account each month, and you're debt-free.

SAVINGS OR INVESTMENTS?

Believe it or not, savings were the foundation of good financial management for many years prior to the 2008 financial crisis, when interest rates of 10% or more were on offer.

Those came crashing down when the banking system flirted with collapse, and the Bank of England has dropped the base rate of interest so much that it currently stands at a paltry 0.1%.

Other than holding cash as an emergency reserve, most people know that saving in cash while interest rates are at record lows can be an unwise move and the threat of rising inflation compounds that.

Lockdowns over the past 16 months kept inflation at bay, with excess demand and external costs remaining low. The economic recovery is already driving up demand, making inflation almost inevitable.

The Bank of England could try to counterbalance that by increasing interest rates, but in doing so they would risk stopping the recovery from the deepest recession in recent history.

As a result, savers are in a chicken-and-egg situation. On one hand, low interest rates offer poor returns for saving in cash. On the other hand, inflation will drive up costs of essential goods and chip away at those savings.

There is an alternative. If you put your money into investments, rather than keeping it as cash savings, you might be able to avoid its value being eroded away and get better returns.

Be aware, though, investment means being comfortable with a degree of risk. The value of your investment can go up or down, and you might not get back the money you invest.

Never assume the value of an investment always rises. You should ensure you have the financial capacity to bear the risk and only invest an amount you are willing to lose.

But in return for the risk, it's possible to make much more than savings will offer and with professional advice, it should be possible to keep any risks under control.

PROPERTY

The housing market in England and Northern Ireland has been in a frenzied state ever since the stamp duty land tax holiday was first announced on 8 July 2020.

Raising the stamp duty land tax nil-rate band from £125,000 to £500,000 enabled some people to save up to £15,000 if they completed their onward purchase of a main residence on or before 30 June 2021.

Another temporary stamp duty regime is in place until 30 September 2021, during which the first £250,000 of a residential property price is tax-free in England and Northern Ireland.

If you're considering buying an additional property that won't be your main residence, perhaps a second home in Devon or a buy-to-let, be aware that the 3% surcharge will apply on top of the stamp duty land tax rates.

From 1 October 2021, the tax-free stamp duty threshold in England and Northern Ireland will revert back to £125,000 until 31 March 2022 at the earliest.

Mortgages

While there are signs of that particular frenzy dying down after the stamp duty cliff edge came and went, low interest rates mean it's still a good time to borrow.

Competition is fierce among lenders, with a number offering rates of less than 1% for those with hefty deposits. For those with inconsistent incomes, notably the self-employed, and those with low deposits, largely first-time-buyers, providers are generally more cautious.

For those with a mortgage, for example, now might be a good time to renegotiate and possibly switch to a cheaper deal, instead of being trapped into paying your lender's standard variable rate when your existing deal expires.

Using a mortgage broker can take the hassle out of applying, as they often have access to the whole market, rather than just a handful of lenders. Some brokers charge an upfront fee, but many are paid directly by the lender.

A good broker should also have access to specialist mortgage lenders that might consider recently self-employed borrowers or those who don't possess the perfect credit file.

PENSIONS

For those who have a significant amount of spare cash kicking around after lockdown, another option could be to consider topping up your pension contributions.

Doing this can be extremely tax-efficient as the income you receive when you retire will be taxed at your marginal rate, and won't form part of the value of your estate.

Everyone except very high-earners and those who have already taken some pension benefits can put up to £40,000 into their pension pot in 2021/22, and it's even possible to triple that annual allowance to £120,000 if you have not made any contributions into your pot over the last three years.

Whether you have a workplace pension or a personal pension, your pension funds are usually invested on the stock market. The impacts of the pandemic will have been felt on most people's pension pots, but the recovery is already under way.

This provides reasons for optimism as businesses get busier and the stock markets recover, along with the value of the investments that make up your pension pot.

But the world continues to change since the pandemic. Some sectors, such as high street retail and travel, have been hit worse than others.

On the other hand, there will be some sectors and some businesses that are benefiting as the recovery gathers speed, with eCommerce and logistics firms showing the green shoots of recovery.

It might be time to look again at how your pension plans are reflecting the current opportunities on the market.

We can help with your financial planning.

IMPORTANT INFORMATION