moneyworks

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The future is unpredictable — protect yours

You can never predict what might be around the corner, so it's always a good idea to be prepared.

How to feel better about your financial future

These are challenging times for our personal finances, but a calm, long-term approach can take you a long way.

The big mortgage dilemma

Millions of borrowers are due to see their fixed-rate deal expire over the coming months, and they face some really tough choices.

The rising cost of retirement

If there's one stage of life where inflation is especially a worry, it's retirement.

Heaton Financial
Independent Financial Advisers Ltd

Welcome

A warm welcome to the latest edition of Moneyworks and as the cost-of-living crisis continues to rage, despite a recent dip in inflation levels, we address the impact it is having on not just your wallet but also your mental wellbeing.

According to latest research by NerdWallet nearly one in four UK adults are feeling anxious about their current financial situation every day, with 42% feeling more worried about money compared to a year ago.[1]

We look at the key steps to ease those worries and take greater control, of what you can control, by adopting a calm mindset when it comes to financial decisions. By building a long-term strategy with the help of a financial adviser, you can go a long way to prioritising your biggest concerns and start alleviating the small problems that, when left alone, can turn into big ones.

As the mortgage dilemma continues to dominate the headlines and millions of homeowners face a sharp rise in payments over the coming months, we look at the choices available and why, with so much at stake, choosing the most suitable option with the help of an adviser could save you thousands of pounds over the coming years.

The latest figures from the Financial Conduct Authority[2] show only 29% of Brits have life insurance in place, 13% have critical illness cover and a mere 6% have income protection. While we can never predict what is around the corner, it is always wise to be prepared and, in this issue, we also look at the importance of protecting your future with a plan that will help you and your loved ones should something unexpected happen to you.

Finally, we look at the rising cost of retirement, and the need to have strong provisions in place given the fact pensioners are now spending 19% more per week than they were two years ago.

In such difficult times, the importance of talking to an adviser has never been greater and by discussing your worries and objectives, they will help create a long-term plan that will best benefit you and your finances.

We look forward to bringing you more news and financial updates over the coming months.

The **moneyworks** team

Your home may be repossessed if you do not keep up repayments on your mortgage.

https://www.nerdwallet.com/uk/personal-finance/money-and-mental-health-study/
https://www.fca.org.uk/publication/financial-lives/fls-2022-general-insurance-protection.pdf

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The news in brief

A round up of the current financial stories

Are your financial concerns easing?

The cost-of-living squeeze has given us all plenty to think about, but July 2023 research by Nationwide Building Society suggests worries about our ability to cope are slowly beginning to ease.

According to the building society, overall spending was up 8% in June 2023 compared to June 2022, and 57% of consumers are worried about their personal finances.

Although this is still a high overall amount, it's the lowest level seen so far in 2023. For comparison, 67% of people were worried about their finances in May 2023.

After buying essential items, people have a monthly average of £289 left as 'spare' money.

https://www.nationwidemediacentre.co.uk/news/nationwide-spending-report-consumer-spending-rises-but-financial-worries-fall-to-lowest-level

More help needed making sense of workplace pensions

As the saying goes — you work to live, you don't live to work. No matter how much you might enjoy your job, being able to someday retire with confidence is a goal most of us share. And a June 2023 report from Aviva shows that 79% of employees would like more support from their employer on planning for a financially comfortable retirement.

Of those who say they'd like more guidance, 41% want more information on how to build up a pension pot. And 45% would like to know more about how to make a pension last throughout retirement. Only 20% of UK workers say their employer already provides enough support.

If you're still working and are unsure about your pension plans, there are alternative support options outside of your employer – such as a financial adviser.

https://static.aviva.io/content/dam/aviva-business/gb/PDFs/business-perspectives/working-lives/Working-lives-report.pdf

Bank of Mum and Dad feelS the strain

In these times of rising bills and soaring mortgage costs, parents are stepping in to support their adult children financially. But June 2023 research by Saltus shows that – for some older generations – helping loved ones is impacting their own financial future.

In a survey of UK people with assets worth £250,000 or more (including property), 79% are financially supporting their adult children in some way.

Yet 39% of all those surveyed admit rising mortgage rates are putting a strain on their cash flow. This has led to 22% reducing their own pension contributions, 20% tapping into housing equity, and 20% selling another asset in order to help their family.

https://moneyage.co.uk/Eight-in-10-parents-provide-bank-of-mum-and-dad-service-research-finds.php

Your home may be repossessed if you do not keep up repayments on your mortgage.

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. Pension income could also be affected by interest rates at the time benefits are taken.

The tax treatment of pensions in general and tax implications of pension withdrawals will be based on individual circumstances, tax legislation and regulation, which are subject to change in the future.

The value of your investment can go down as well as up and you may not get back the full amount you invested.

The news in brief

A round up of the current financial stories

Are you missing out on a pension tax windfall?

Tax might be an inevitable part of life, but it doesn't need to fully dominate your retirement. That's because defined contribution pension holders have the option to take up to 25% of their savings as tax-free cash when they reach 55.

Yet despite this potentially brilliant benefit, June 2023 research by Standard Life highlights a lack of awareness among people who can access their pension in this way. 43% of over-55s do not know that they can take 25% tax-free, with 52% of those aged 50-54 similarly unaware.

A tax-free lump sum could be used to fund a big aspiration like a once-in-a-lifetime holiday. There are tax implications on using the other 75%, so financial advice is recommended.

https://www.standardlife.co.uk/about/press-releases/tax-free-cash-explained#:~:text=More%20than%20two%20in%20five%20(43%25)%20over%2055s%20are,they%20access%20their%20pension%20savings.

Cost of living hits savings and investing habits

With rising bills dominating the news of late, it's perhaps not surprising many of us have been focusing just on the short-term when it comes to managing our finances. But July 2023 research by the Financial Conduct Authority (FCA) suggests this might be having an unintended impact on our long-term futures.

The FCA's Financial Lives research, based on the six months up to January 2023, found 57% of UK adults had dipped into savings and investments — including pensions — or had stopped saving.

In May 2022, 46% of all UK adults were making pension contributions or their employer was contributing on their behalf. But by January 2023, 6% of these people said they had either stopped contributing entirely or reduced their contributions.

Meanwhile 6% of over-55s with a defined contribution pension, had either encashed their pension or taken a lump sum to cover day-to-day expenses.

Financial Lives 2022: Key findings from the FCA's Financial Lives May 2022 survey

Life expectancy higher than many people think

For retirees, one of the most important financial considerations is having enough money to last for the rest of your life. But June 2023 research by Canada Life suggests many people aged 50 and over are underestimating how long they'll live.

The survey found that, on average, people expect to live to the age of 80. Yet the Office for National Statistics life expectancy calculator shows a 50-year-old male will on average live to 84, and a 50-year-old female will on average live to 87.

The danger of underestimating your life expectancy is you might not have enough in retirement savings to last you — or spend your money too quickly. That's why it's always a good idea to save as much as you can — and to seek advice on mapping out your plans.

https://www.canadalife.co.uk/news/new-retirement-gap-looms-as-people-underestimate-life-expectancy/

Your home may be repossessed if you do not keep up repayments on your mortgage.

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The future is unpredictable — protect yours

You can never predict what might be around the corner, so it's always a good idea to be prepared.

Sound financial planning for the future is not just thinking about the exciting possibilities that might lie ahead — but considering any potential bumps in the road that life might throw at you.

Hopefully, right now, your health, career and overall situation are in a good pace. But unfortunately, that might not always be the case. Something unexpected may occur down the line that puts a strain on you and your loved ones' financial situation.

For these and other reasons, having the right type of protection plans in place could one day prove crucial. It means having financial provisions that kick in when you need it the most. Such as if you lost your job, or if you received a serious illness diagnosis. In such situations, the last think you'd want to be thinking about is the financial impact.

The hope is that these protection plans are something you'd never have to rely on. But having protection in place can give you peace of mind now that you're prepared for whatever the future holds.

Brits lacking protection plans

Yet despite the huge potential benefits of having protection cover in place, July 2023 research by the Financial Conduct Authority has found that the majority of UK adults haven't made any plans.

Its latest 'Financial Lives' survey, covering 2022, found only 29% of Brits have life insurance. Just 13% have critical illness cover, and a mere 6% income protection.[1]

There are many reasons why people might put off making these types of plans – and the cost -of -living crisis isn't helping. The FCA also found that

3.6 million UK adults cancelled at least one general insurance or protection policy during the second half of 2022[2] — specifically due to the rising cost of living.

This was a period where UK inflation was climbing to a 40-year high,[3] with mortgage and energy costs spiralling. Faced with some immediate financial headaches, it's perhaps understandable many people cancelled protection policies. But going without protection could mean you're storing up problems in the future.

There when you need it most

Protection plans typically come at a small monthly cost. They're there to support you in certain scenarios.

Take critical illness cover. If you were to suffer from any of a range of medical conditions, critical illness cover would pay out a lump sum of money to financially support you. It means you don't have to fret over bills when you should be focused on your health and family.

Income protection is another type of protection to consider. If you were unable to work because of illness or an accident, this type of cover would pay you a regular income until you retire or are able to return to work.

Life insurance is there to financially look after your dependants — such as your partner or children — in the event of your death. It would typically mean paying out a lump sum –, or regular income, to support those you leave behind.

It's never a good idea to delay making — or cancel — crucial protection plans. Things can change very quickly, and at a time when there's a lot of uncertainty about the economy and personal finances, you never know if and when you might need to rely on a protection plan.

That's why it's recommended you speak to a financial adviser. With lots of different types of protection available, an adviser can help you make informed decisions. They can look at your circumstances and financial provisions, to help you see if there are any 'what ifs?' that might be worth making plans for.

Insurance which is based on an assessment of health of the applicant is unlikely to cover the applicant for previous or existing conditions. The applicant should refer to policy documentation and seek advice in order to understand what the policy does and does not cover before making an application.

[1]https://www.fca.org.uk/publication/financial-lives/fls-2022-general-insurance-protection.pdf

2 https://www.fca.org.uk/publication/financial-lives/financial-lives-survey-2022-key-findings.pdf

3 https://www.retailgazette.co.uk/blog/2022/11/uk-inflation-hits-40-year-high/#:~:text=%2F%2F%20Surging%20household%20energy%20bills,energy%20bills%20and%20food%20prices.

How to feel better about your financial future

These are challenging times for our personal finances, but a calm, long-term approach can take you a long way.

The struggle goes on. Although inflation is starting to come down in the UK, the cost of living continues to climb at a higher than typical rate. It all means our everyday bills are still going up, albeit at a slightly slower pace than before[1].

For nearly one in four UK adults,[2] the impact of the cost-of-living crisis isn't just being felt in their wallets – it's also having a mental toll. May 2023 research by NerdWallet found 23% of us feel anxious about our current financial situation at least once a day. And 42% say we feel more worried about money compared to a year ago.

This is having a damaging impact on wellbeing. A considerable 51% of us admit our financial situation has affected our mental health in some way, with 18% adding it has been affected "significantly" or "a lot".

With inflation set to remain well above the Bank of England's 2% target for some time,[3] many of the triggers for financial anxiety are probably going to linger. So what can you do if you're feeling worried about your financial situation?

Controlling what you can control

The first important point to consider is there are some things you can manage, and other financial considerations you can't influence. For example, there's only so much you can do to limit the effects of inflation on your spending. And though there might be little things you can do to curb your expenses – such as shopping around or cutting back – the rising cost of living is not something any of us can avoid.

What you can take more control of is your own financial future by thinking beyond your immediate

priorities – and towards your short, medium and long-term plans. That way, you can feel more confident overall, knowing you're more prepared for whatever tomorrow might bring.

It can seem hard to think long-term when you have day-to-day financial concerns dominating your thoughts. But often a trigger for financial anxiety is fretting about your ability to achieve more distant, major goals. From affording a big event on the horizon like funding a family wedding, to far away aspirations such as experiencing a comfortable retirement.

For your current savings, investments and pension pot to truly grow in value over the long-term, they need to be earning returns higher than the rate of inflation. Otherwise, you're affectively losing money in real terms. The time to plan for your long-term is not when everything in the short-term seems more settled and normal – it's right now.

Planning for the long-term takes a calm mindset

The key point about anxiety is that it can affect everyone, no matter what your financial circumstances are. So even if you feel like you're in a more fortunate position and have a decent level of wealth, you might still be prone to bouts of worry about your financial situation.

This can lead to emotional decisions that might make sense in the heat of the moment, but which could prove harmful to your long-term future. If you have investments – including paying into a pension – it's something to be especially wary of.

Investing should always be about setting a long-term timeframe. As the renowned investor, Warren Buffett, famously said, "Someone is sitting in the shade today because someone planted a tree a long ago."[4] But many investors can be guilty of letting their emotions take over. Of chopping down that tree before it's grown. Especially if they're making important financial decisions by themselves.

NerdWallet's research[5] also found that only 31% of us would seek professional advice if we felt our mental health is suffering because of our financial situation. Yet it's at these moments especially where the calm, cool-headed outlook of an expert could make all the difference.

The cost of emotional decision making

In May 2023, the Embark Investor Confidence

Barometer[6] published the results of a survey of financial advisers. It showed that 47% of advisers say their clients' biggest mistake is to be too influenced by the news, while nearly two-thirds (61%) added their clients had discussed market volatility in the past 12 months. 63% of advisers they are "frequently" or "regularly" surprised by the decisions or proposals their clients make about investments.

An emotional reaction to market volatility is very understandable. When stock markets go down, it tends to be major news. When they're going up, you'll rarely find much media comment outside the financial pages. This can create panic and fear. After all, people usually invest a lot of money and naturally don't like the thought of losing it.

Over the past 12 months of cost-of-living-dominated media gloom, there have been moments of market volatility that have attracted attention, from the infamous Liz Truss 'Mini Budget' last autumn, to worries about US banks in early 2023. Panic has been loudly reported. And in 2022, UK investors pulled money out at a record level.[7]

But here's the key point. The same survey of advisers found that the emotional decisions of their clients was costing them at least 2% a year in returns. And 48% of advisers believe their average client has lost out on between 4-5% because of rash decisions.

At a time where so many of us are already feeling anxious about financial matters, it's understandable that investors would feel concerned by periods of market volatility. But although past performance is not a guide to future returns, history has regularly shown that markets recover from dips.

Staying calm and patient is often the best decision you can make.

Building a long-term strategy

So how do you keep a calm mindset in these uncertain times? Having a financial adviser is one answer. The Embark research found that almost two in three clients (64%) agree their adviser helps them avoid emotional decision-making.

This is just one reason why speaking to a financial adviser right now could be the first step to easing any concerns you have about your financial future. The great thing about an adviser is they can review your existing plans and check how well they are set up towards achieving your long-term goals.

They can use their expertise to provide recommendations that are tailored to your situation, which you'd be comfortable considering. This includes your personal feelings towards taking risk. 44% of advisers say their clients make the mistake of taking too little risk, and that's an especially easy trap to fall into if you try to plan your future on your own.

With an adviser's help, you can truly find out how much risk you'd be willing to take – and the potential higher returns you could achieve as a result.

Regular support

Beyond those initial conversations, having a financial adviser can help you through the ups and downs of life. Because if the last few years have taught us anything at all, it's that things can quickly change and you can't predict the future.

Having strong, carefully considered plans can set you up better for whatever lies ahead, and if and when something happens that leaves you feeling worried, your adviser can be there to talk it through and check the impact on your plans. This is especially important right now, with the May 2023 NerdWallet survey finding 20% of us admit the cost-of-living crisis has made us feel less comfortable talking about money.[8]

Back in January,[9] Royal London research found that 34% of customers who have access to financial expertise feel more confident about their plans. If you're keen to feel more positive about your financial situation, speaking to an adviser you can trust could help you plan for a stronger financial future and go a long way to easing anxiety.

The value of your investment can go down as well as up and you may not get back the full amount invested. Investments do not include the same security of capital which is afforded with a deposit account.

[1] https://tradingeconomics.com/united-kingdom/inflation-cpi#:~:text=Inflation%20Rate%20in%20the%20United,percent%20in%20April%20of%202015.

[2] https://www.nerdwallet.com/uk/personal-finance/money-and-mental-health-study/

[3] https://www.reuters.com/world/uk/uk-inflation-exceed-boe-target-next-4-years-niesr-2023-08-08/#:~:text=The%20National%20Institute%20of%20Economic,in%202025%2C%202026%20and%202027.

[4] https://www.brainyquote.com/quotes/warren_buffett_409214

[5] https://www.nerdwallet.com/uk/personal-finance/money-and-mental-health-study/

[6] https://professionalparaplanner.co.uk/emotional-decision-making-affecting-clients-returns/?dm_i=1VAB,8B3BM,ABERHL,Y6GH4,1

[7] https://portfolio-adviser.com/unprecedented-year-of-redemptions-sees-54bn-gush-out-of-uk-funds/

[8] https://www.nerdwallet.com/uk/personal-finance/financial-anxiety/

[9] https://www.royallondon.com/articles-guides/your-money/is-financial-advice-the-secret-to-feeling-good-about-your-money-and-yourself/#:~:text=Customers%20who%20receive%20financial%20advice%20feel%20more%20confident%20about%20their,not%20just%20any%20finan.

The big mortgage dilemma

Millions of borrowers are due to see their fixed-rate deal expire over the coming months, and they face some really tough choices.

If you arranged a fixed- rate mortgage back in September 2021, your timing was fantastic. The average mortgage interest rate then was at its lowest level in the last 25 years, coming in at 3.59%.[1] 96% of all new homeowner mortgages were taken out on a fixed- rate.[2] Just over a decade earlier, fewer than 50% took that route.

But how things have changed.

If you arranged a two-year fixed rate mortgage over the second half of 2021, you've got a bit of a shock coming. As your deal expires in the coming months, mortgage rates are in a very different place. The Bank of England began to raise rates at the end of 2021, and at the start of August 2023 increased base rate for the 14th time in a row.[3] In the same month, the average two-year fixed rate mortgage stood at around 6.84%.[4]

There's no getting away from the fact a big rise in monthly payments is coming.

Tough choices

According to August 2023 figures from UK Finance, there are 2.4 million homeowners on a fixed- rate mortgage[5] deal that expires by the end of 2024. When their term ends, these borrowers will need to decide between finding a new fixed- rate deal or going onto a variable- rate mortgage.

Compared to what these borrowers are paying right now, neither route will look especially attractive. June 2023 research by the Resolution Foundation points to an average rise of £2,900 a year for households remortgaging in 2024.[6] That's just over £241 per month.

In August, the Bank of England governor Andrew Bailey[7] said there would not be any cut to the base rate until there was solid evidence prices are slowing. At least one more rate rise is expected in September, according to Capital Economics, before the base rate stays at 5.5% for a year.[8]

What to do next?

If you're in a position where your fixed-rate deal is coming to an end soon, or you're on a variable rate mortgage that keeps going up, you might be wondering what to do next. It's not just about finding the most suitable rate right now, but whether to lock in on a fixed- rate deal for at least two years, or be on a variable rate.

Each route has its advantages and disadvantages. If you take up another fixed- rate mortgage, you at least have the certainty of knowing what your monthly repayments will be for the period of the deal. It protects you from any further rate hikes, as the costs won't be passed onto you.

But if, over the duration of your fixed- rate deal, the base rate goes down, you might be stuck paying a higher rate than you needed to.

A variable rate means your payments are closely aligned to interest rate movements, and it gives you the flexibility to move around. So if the base rate goes down, you will have lower repayments. And even if the base rate goes up, you could quickly decide to lock into a fixed rate. One disadvantage, however, is that variable rates are typically higher than fixed- rate deals.

With so much at stake, getting advice is strongly recommended

You might not be able to avoid a hike in your mortgage payments when your fixed- rate deal expires, but an adviser can help you to minimise the impact.

They can look at your situation and research all your options — something that's even more important at times like this. Some advisers may be able to get you a more favourable deal from a lender compared to approaching them yourself.

This is a volatile market for mortgages, with prices changing very quickly. Against such a backdrop, using the services of an adviser — with a close knowledge of the marketplace —could allow you to take the next step of your homeownership journey with greater confidence.

[1] https://www.mortgageable.co.uk/mortgages/history-of-mortgage-interest-rates/#:~:text=When%20were%20mortgage%20rates%20at%20their%20lowest%3F,point%20it%20was%203.59%20percent.

[2] https://www.ukfinance.org.uk/news-and-insight/blogs/how-the-bank-rate-affects-mortgage-rates

[3] https://news.sky.com/story/bank-of-england-increases-interest-rate-for-14th-time-in-a-row-to-5-25-12932441

[4] https://oportfolio.co.uk/advice/average-uk-mortgage-rates-august-2023/

[5] https://www.theguardian.com/money/2023/jun/17/uk-homeowners-face-huge-rise-in-payments-when-fixed-rate-mortgages-expire

[6] https://news.sky.com/story/annual-mortgage-repayments-set-to-rise-by-2-900-on-average-next-year-says-think-tank-12904111

[7] https://www.bbc.co.uk/news/business-66384289

[8] https://www.bbc.co.uk/news/business-66384289

And finally...

The rising cost of retirement

If there's one stage of life where inflation is especially a worry, it's retirement. Having given up work, and now relying on your savings and the state pension for an income, the rising cost of living can really eat into your financial plans — possibly changing a comfortable lifestyle into one of struggle.

July 2023 research by iSIPP emphatically makes this point. It found people aged between 65 and 74 are currently spending an average of £455.30 a week — adding up to £23,675 a year. That's a 19% rise on what retired households were spending in 2021.

Typically, your spending needs do start to go down after you reach 75. But the same research found an 18% rise in what over 75s are spending now, compared to 2021.

This steep rise in retirees' cost of living underlines the need to have strong provisions in your retirement — and flexible plans if your circumstances change. Financial advice is a good way of helping you make suitable preparations.

https://isipp.co.uk/pensioner-household-spending-increases/

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