moneyworks

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Three ways interest rate rises could impact your finances

Interest rates are going up, so what does it mean for your mortgage, savings and investments?

The hidden cost of inflation

The cost of living has shot up over recent months – but it's the long-term implications that could have the biggest impact.

Protecting you and your family

A lack of understanding of protection cover could leave many people at risk of financial problems.

Is this the year to invest?

After two years of global uncertainty things are looking up again – and investors are feeling especially confident.

Heaton Financial
Independent Financial Advisers Ltd

Welcome

A very warm welcome to the first **moneyworks** issue of 2022.

While the world slowly returns to some sort of normality following a bleak two years under the shadow of coronavirus, the financial consequences it has left in its wake are now beginning to fully emerge.

With inflation now at a 30 year high after hitting 5.5% in January, the headlines are dominated by the rising cost of living and the financial shortfall it will leave households over the coming years. But it's not just your day-to-day bills that are impacted and, in this issue, we look at the hidden cost of inflation and the long-term implications it could have on your finances.

With continued interest rate hikes, the days of cheap borrowing may also soon be coming to an end and with that in mind we look at what this means for your mortgage, savings and investments.

But it is not all bad news and following two years of global uncertainty, a survey has revealed British investors are feeling especially confident as the markets rally and prompts us to ask the question: Is this the year to invest in the stock market?

Elsewhere we address the issue of protection cover and why a lack of understanding and preparation could leave many people and their loved ones with long-term financial problems.

Finally, as global demand for financial planning support is expecting to surge over the next coming years, we address the importance of making sure you speak to your financial adviser to ensure you are not left behind when it comes to getting your house in order.

After such a tough and testing period of time, the financial consequences of the pandemic were always inevitable but by seeking the right advice today, you can ensure you are in the best financial shape tomorrow.

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

The **moneyworks** team

Contents

This newsletter is for information purposes only and does not constitute advice or a personalised recommendation.

The News in Brief

A round up of the current financial stories.

A record year of house price growth

If you attempted to move home over 2021, you probably got a sense of just how frantic the housing market became.

With lockdown life seeing many people question if they had enough space for their needs, coupled with a surge in saving and the temporary stamp duty holiday, many of us spent last year on the move.

This all contributed to a record year for house price growth. According to Nationwide's House Price Index for December, the average UK house price climbed to its highest ever level of £254,822 at the end of 2021. That's a rise of £23,822 over the calendar year.

In January, the average UK house price hit another new record high of £255,556. The sixth month in a row average prices rose.

https://bit.ly/366KM85 (Moneyfacts)

https://bit.ly/33j4xbw (The Guardian)

Are you paying more tax than you need to?

Tax is an unavoidable part of life. And, without noticing, it can really add up.

January 2022 research from the Taxpayers Alliance suggests the average UK household pays a whopping £1.1 million tax in their lifetime. Based on average UK household incomes for the 2019/20 tax year, this means a household would need to work for 18 years just to pay the taxman.

There's not much we can do about most the tax contributions we make. But when it comes to growing and protecting your wealth, there are allowances and options available that can help you reduce the amount of tax you pay – and keep more of your money. This could be especially important in 2022, with income tax increases scheduled from April.

https://bit.ly/33neZPm (Tax Payers' Alliance)

https://bit.ly/3HRsgyu (Which?)

How much is your pension worth?

Your pension is one of the biggest investments you will ever make. But worrying January 2022 research by Aviva reveals only four in 10 UK adults think they understand enough about pensions.

This lack of knowledge comes at a time when the popularity of defined contribution pensions has surged. In 2012, when auto-enrolment was introduced, only 39% of private sector workers were actively saving for their retirement. This figure is now more than 70%.

In addition to not being sure how our pensions work, only 39% of us say we could confidently estimate the current value of our pension pot. Yet 69% of us could confidently estimate the value of our cash savings, and 53% the value of our property.

https://bit.ly/3rWncU8 (Aviva)

Good news for retirees seeking a guaranteed income

For many of us, stability is an attractive quality to have in retirement. We want to be confident we have enough money to maintain our lifestyle, without the worry we might run out of cash.

The most effective way of using your pension to achieve this is by purchasing an annuity – which provides a guaranteed income for life. But over recent years, average rates have continued to fall – making it harder to get a good deal.

The good news is 2021 saw a reversal of this trend. Average income increased by 3.9% last year, according to January 2022 research by Moneyfacts. Further research by Canada Life confirms retirees could get an extra £950 income a year from an annuity, compared to a year ago.

https://bit.ly/33ndsc6 (Moneyfacts)

https://bit.ly/3I58mAt (Express)

Three ways interest rate rises could impact your finances

Interest rates are going up, so what does it mean for your mortgage, savings and investments?

It's just short of 13 years since the Bank of England did something it had never done before in its long history – it pushed base rate below 1%. Historic low interest rates have since become the norm. But we're starting to see signs the era of cheap borrowing is coming to an end.

Since December 2021, the Bank of England has increased interest rates twice. What's more, the central bank has warned it may need to raise base rate even further in the near future.[1]

Here's three ways it could impact your financial plans.

1) Your mortgage payments will go up

Interest rate rises are bad news for borrowers, who in recent years have benefited from record low deals.[2]

If you're on a variable rate mortgage, your lender has probably already confirmed your repayments are going up. It also means fixed rate mortgage deals are becoming more expensive.

This all underlines the need to think about your arrangements. Research shows you might be able to save a sizeable £200 a month by switching deals.[3] If you're on a variable rate, or a fixed rate due to expire soon, it's definitely worth looking at your options and speaking to an adviser.

With Moneyfacts research suggesting there is less choice for borrowers,[4] it's even more important to make a considered decision.

2) You can get a better return on your savings

The increase in base rate means average savings rates are finally on the up, though increases have been slow and modest.[5]

This means you might be able to find a more rewarding home for your savings if you shop around and look at your options. However, as we report elsewhere in this edition of Moneyworks, high inflation will limit what you can achieve.

Savings accounts are important for keeping money for emergency needs, but they're not ideal for long-term goals.

3) Your investments won't see much impact over the long-term

There are all sorts of economic factors that can affect the performance of any investments you hold, including a pension. Interest rate rises are one of them, but it's unlikely to make much long-term difference if you have a balanced portfolio of assets.

What this means is having a range of different investments, usually within a fund, that aim to provide a smoother overall performance. So, if some of your assets struggle for a period – perhaps because of news of an interest rate rise – other investments can still perform well to potentially balance it out.

If you have investments and aren't sure how they're performing, it might be a good idea to have them reviewed by an adviser. As the UK begins to move on from the pandemic and higher interest rates return, it's worth making sure you have the most suitable long-term plans in place to benefit.

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

[1] https://bit.ly/362WJM0 (Bank of England)

[2] https://bit.ly/3BitWP2 (Money Saving Expert)

[3] https://bit.ly/36eW1eP (The Guardian)

[4] https://bit.ly/3gMOA0i (Moneyfacts)

[5] https://bit.ly/3JsqpRb (Which?)

The hidden cost of inflation

The cost of living has shot up over recent months – but it's the long-term implications that could have the biggest impact.

You can't escape talk about the rising cost of living right now. In recent months, inflation has dominated the news and politics. We have to deal with the effects of high inflation when paying utility bills, undertaking the food shop and even with larger expenses, like buying a used car or a new piece of furniture.[1]

At the end of January, inflation – as measured by the Consumer Price Index – reached a 30-year high of 5.5% - up a further 0.5% on the previous month.[2] The Bank of England is forecasting it will climb even higher over the coming months, rising to 7% by Spring.[3] Households are therefore likely to feel the squeeze even more.

There's not a lot any of us can do about rising bills. But high inflation is not just about the here and now. The long-term consequences to our financial situation are also something worth considering.

Are you playing it too safe with your savings?

To stay ahead of the cost of living rises, you need an income that goes up at the same rate as inflation. Otherwise your expenses start to take up a higher amount of your overall budget.

Over the longer-term, this could be a real problem. Especially with areas like retirement. Once you stop working and largely rely on your savings and pension for an income, high inflation can bite especially hard.

Research carried out by LCP partner Steve Webb shows retirees are especially vulnerable to the problem of high inflation. Webb found there are three million pensioners who hold all their ISA savings in cash.[4] Over the next year alone, they could collectively see some £3 billion wiped off their ISA savings in terms of future spending power. And that could really affect their future standard of living.

We might be seeing savings rates creep up of late, but not by nearly enough to match the rise in the cost of living. In fact, January 2022 research by Moneyfacts found there isn't a single standard savings account available that can currently better the rate of inflation.[5]

So, if you have money ear-marked for the long-term, currently sat in savings accounts, you really need to think about the impact it might have on your future.

Investing could offer you the potential of growing your money above inflation

Investing your money for the long-term could be worth considering. It means taking risk with your money, and you need to be willing to tie up your money for at least five years. But doing so gives you a better chance of achieving higher returns on your savings. And growing your money by a rate that out-paces inflation.

Investing is complex, but don't let that put you off. By speaking with a financial adviser, you can benefit from an expert assessing your situation and providing recommendations tailored to your circumstances.

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://bbc.in/3oO8ufL (BBC News)

[2] https://bit.ly/3oMXDTE (Bank of England)

[3] https://bit.ly/3JlVYfo (IFA Magazine)

[4] https://bit.ly/3uOB3gV (Moneyfacts)

Protecting you and your family

A lack of understanding of protection cover could leave many people at risk of financial problems

There are some things that are worth owning even though you hope you never need to use it. When it comes to your personal finances, protection products are one such area.

It's all about having plans in place for what-ifs and scenarios you understandably hope you never have to encounter. Having protection in place can mean that – if you were to experience a significant life setback – your personal finances don't have to top your list of concerns.

Financial protection products cover all sorts of scenarios and yet November 2021 research by MetLife[1] reveals a sizeable number of adults don't understand the value they can offer. For example, nearly one in five of us have never heard of income protection. 17% are unaware of what mortgage payment cover protection is, and 16% don't know anything about critical illness cover.

One in six adults said they have previously needed a protection policy; but did not have one in place.

Protecting against the what-ifs

It's understandable why so many of us don't know much about protection. After all, in most cases they are needed if something awful was to happen like losing your job, experiencing serious illness, suffering an accident or passing away. They are difficult situations to imagine, and not something anyone wants to spend time thinking about.

Yet the benefits of having such plans in place is that, if the worst occurs, you'll have financial protection in place to support your lifestyle, and/or your family. It's peace of mind that whatever bad luck might fall upon you, there's contingency plans in place.

And if you never have to use it, well that's good news too. As it means you've not experienced a significant set-back.

It's not all about the difficult moments either

There are other reasons why you might want to have protection plans in place – such as inflation.

As we cover elsewhere in Moneyworks, inflation is a real issue right now and could have a detrimental impact on your wealth. The good news is there are ways to protect against it.

For example, there's been a surge in demand for inflation-linked investments, such as government bonds, commodity funds and real estate investment[2] trusts. These are investments whose prospects and performance are closely linked to inflation movements, giving your money more chance to keep pace with the cost of living. As with all investments, there is risk to your money as its value can fall as well as rise.

Speak to an expert

Whatever your situation, having protection plans in place is a sensible approach. There's a lot to consider and getting the most appropriate cover is important, so speaking to an adviser is strongly recommended.

An adviser can explain how potential options work and present the most suitable solutions for your circumstances. With the most suitable protection plans in place, you can feel more confident about your financial capacity to cope with whatever life might throw at you.

The value of investments can fall as well as rise and past performance is not a guide to the future. It may be difficult or impossible to realise an investment in the fund because the underlying property concerned may not be readily saleable.

[1] https://bit.ly/3gMLOZc (FT Adviser)

[2] https://on.ft.com/3oJTSxV (Financial Times)

Is this the year to invest?

After two years of global uncertainty things are looking up again – and investors are feeling especially confident

It's not over yet. But after such a challenging couple of years, the worst of the global pandemic appears to be behind us. Normal life has returned in the UK, and the managing of the Omicron variant suggests the prospects of future lockdowns look less likely.

Against this backdrop of growing positivity, British investors are feeling particularly buoyant. A January 2022 survey by Barclays Smart Investor found 62% are confident their portfolio will perform[1] well this year. 49% add they are more likely to invest further in the stock market over 2022 – a significant increase on the 24% who planned to 12 months ago.

A further demonstration of the rise in optimism is that 49% say they have become more engaged with their portfolio as a result of the past 12 months. A year ago, only 12% felt this way.

Reasons to be optimistic

Like all areas of life, Covid wasn't easy for investors. In the first few weeks of the crisis in February and March 2020, global markets fell sharply as panic set in over just how businesses and economies would cope with the effects of the virus.

But one of the reasons why investors feel buoyant now is how quickly markets recovered. Thanks to a mixture of unprecedented central bank and government support to businesses that had to close during lockdown – plus the technological progress that meant others could continue operating with measures like home working – the economic world kept turning.

Markets recouped the majority of their early Covid losses, rewarding investors who stayed calm and patient.

It hasn't always been a smooth path, and investors did experience some volatile market conditions at times over 2021. But the long-term prospects look especially strong, now the world is finding ways to manage the threat of the virus.

With the storm having passed and the sun appearing to be shining on the horizon, there's a big reason why investors are feeling so positive.

What about you?

The key investment lesson of the past couple of years is that maintaining a long-term mindset can deliver rewards. Investing does come with risk, as the value of your money can fall as well as rise. But if you can afford to tie up money for at least five years, investing offers you the potential to achieve stronger returns. Especially compared to savings rates.

If you're not sure how investing works, a financial adviser can help. They will be able to review your current plans and check if you could benefit from investing. This includes helping you to work out your personal feelings to risk and reward.

With an adviser taking the time to understand your goals and future needs, you can be confident the recommendations they provide will be tailored to your situation. So you're in a position to make informed decisions.

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://bit.ly/3gOa9O1 (Barclays)

Growing need for financial help

Global demand for financial planning support is expecting to surge over the next few years – make sure you're not left behind

You only live once. And, to make the most of it, you only get the one chance to get your finances right.

The decisions you take – or put off taking – have the potential to shape your future lifestyle. It is the reason why making the best choices with your money is so essential and why so many people put their trust in an expert financial adviser to plan their long-term finances.

And it is a trend that is only going to grow further over the coming years.

A global survey[1] of more than 4,200 certified financial planners has revealed 82% expect there will be a greater demand for their services over the next five years. 69% anticipate retirement security will be the main reason people approach them for advice, closely followed by investment planning (64%) and managing an inheritance (61%).

Not surprisingly, the pandemic was cited as one of the key reasons why financial planners expect to be busier. But there's also the rising number of people approaching retirement. We're living longer, and so can typically look forward to a longer retirement than the generations before us. That means being even more shrewd about managing our money.

If you have long-term ambitions like a happy retirement, it's worth thinking about what a financial adviser could do for you. With tailored recommendations for making the most of your money, financial advice could put you in a stronger position to achieve your future goals.

That's why it could pay to consider seeking help now and avoid getting left behind in the rush for financial advice that's predicted over the next few years.

[1] https://bit.ly/3oK5i56 (FT Adviser)

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