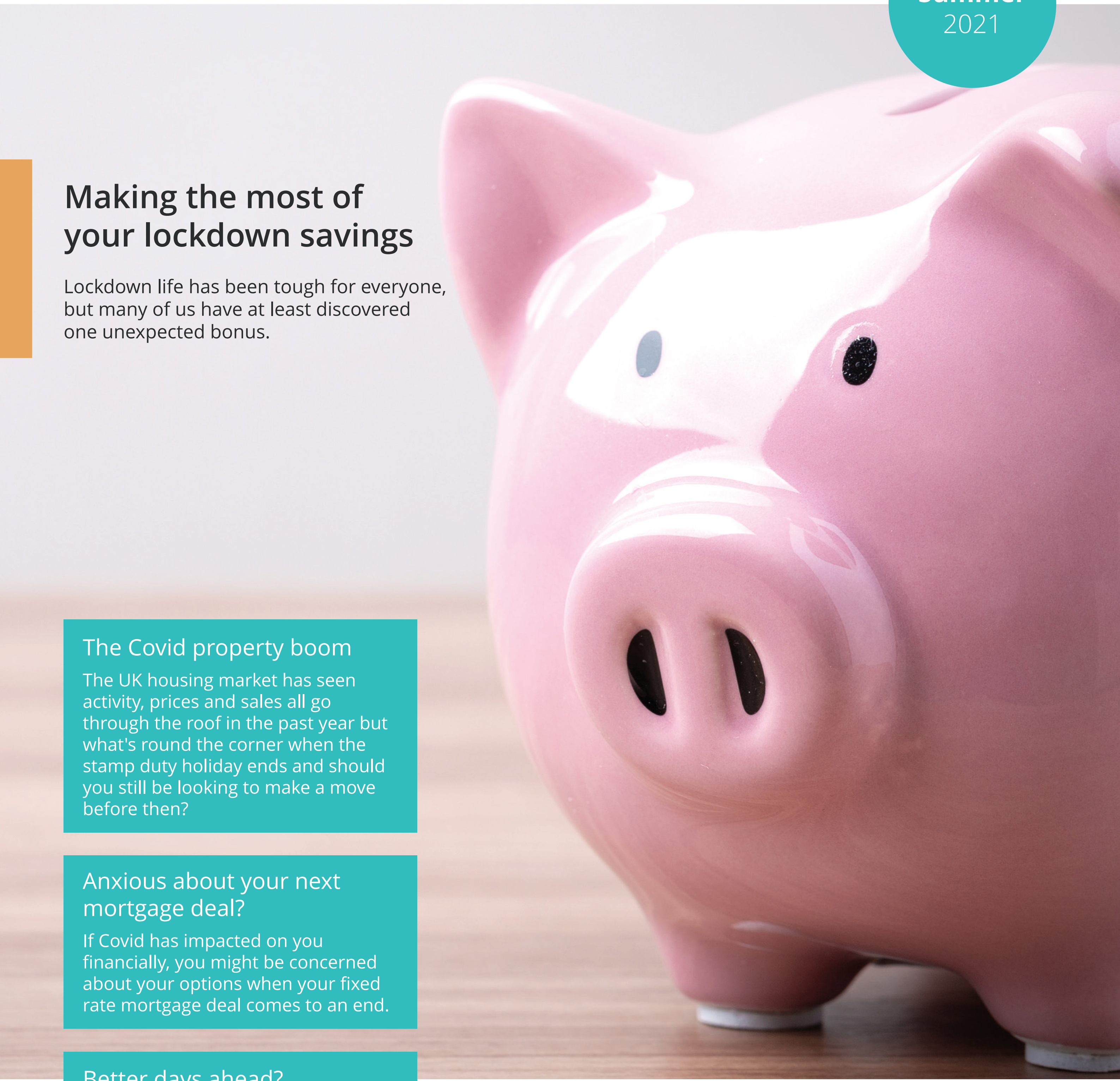
moneyworks

Summer 2021



Making the most of your lockdown savings

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The Covid property boom

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Heaton Financial
Independent Financial Advisers Ltd

Welcome

As the clouds slowly begin to lift and lockdown restrictions ease, the country is now looking forward to slowly getting back on its feet after a year like no other.

There is no denying what an incredibly tough 12 months it has been for so many but there is now cautious optimism that things may soon be returning to some sort of normality.

But what of your finances and the repercussions the pandemic has had on them?

In this issue we look at a number of key talking points and why you should be addressing these areas to ensure you are in the best possible financial state as we move forwards.

While lockdown life has been tough for everyone, one unexpected bonus is that with nowhere to go and less to spend money on, many UK adults have built up their savings during lockdown. We look at how this cash reserve could be best served in terms of paying off debts or investing into your pension pot.

We also address the state of the stock markets and why despite the UK FTSE 100 posting its biggest quarterly fall for more than three decades last year, there are now signs it is bouncing back and why it is important to look at the long-term picture when it comes to your investments.

If Covid has impacted on you financially, you might be concerned about your options when your fixed rate mortgage deal comes to an end. In this issue we look at what routes you can take and the importance of getting mortgage advice to find the best possible deals available.

Remaining on the property ladder, the past year has seen activity in the UK housing market go through the roof but with the stamp duty holiday soon to end, we take a look at what could be around the corner and whether you should still be looking to make a move before then.

And finally, we address the importance of protection plans and why putting cover in place to lessen the financial risk of losing your job - or not being able to work for health reasons - are now more important than ever.

Here's hoping the coming months will continue to bring an end to the pandemic and life, along with your finances, can slowly get back on track.

The **moneyworks** team

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The News in Brief

A round up of the current financial stories.

Will you have enough savings to fund your retirement lifestyle?

After decades of working hard, we all deserve the opportunity to enjoy a contented, happy retirement. But will we have enough pension savings for that to prove the case?

According to research by Standard Life Aberdeen, the average person retiring in 2021 expects to spend £21,000 a year. However, when looking at the size of their pension pots and factoring in state pension, two-thirds of 2021 retirees risk running out of money later in life.

This potentially huge gap between expectations and reality might not be immediately evident. Meaning retirees in 2021 might unknowingly spend their pension pot too quickly. It all underlines the importance of seeking financial advice to develop a sustainable retirement income strategy.

https://bit.ly/3txxwQ4

Working for your lockdown pocket money

The tumultuous events of lockdown have seen children work harder for their pocket money, according to the latest annual Halifax Pocket Money survey.

The research found 28% of British kids took on new household chores over the past 12 months to earn pocket money – with 25% of these children gardening during lockdown, 15% looking after siblings and 10% going shopping for a vulnerable person.

The average amount of pocket money that kids receive actually fell, from £7.55 in 2020 to £6.48 in 2021. Although 24% of parents said they pay their children £20 or more weekly pocket money.

44% of kids also regularly receive money from grandparents – but 8% of parents think the grandparents should open the purse strings a little more.

https://bit.ly/2Q46DW6

The savings struggle during Covid

It's now over a year since the Covid crisis first took hold in the UK – which was also when the Bank of England took the drastic step of reducing base rate to the historic low of 0.1%.

Such low rates have been good news for mortgage borrowers and for people paying off debts, but it has spelt more gloom for savers – due to the inevitable further fall in savings account rates.

Analysis from Moneyfacts illustrates the scale of the impact. It found the average interest rate on an easy access account fell from 0.57% in March 2020 to 0.22% by September 2020 – and it has reduced even further to just 0.17% by March 2021. That means rates are less than half of what they were before the pandemic.

https://bit.ly/3o4iIXY

Retirement savings concerns for women

The gender pay gap has rightly become a hugely topical issue in the UK over recent years and the consequences of women earning significantly less than men over their career could also have a major impact in retirement.

Research by Barnett Waddingham has found that, on average, women are saving less for retirement compared to men – with the difference ranging from 25% to a considerable 45% fewer savings in their pension. This is despite the fact women and men generally contribute the same percentage amount from their pay into a pension.

When they get into their 50s, women generally increase their contribution rate higher than men do, but that typically isn't enough to make up the gender gap.

https://bit.ly/2R0crk8

Making the most of your lockdown savings

Lockdown life has been tough for everyone, but many of us have at least discovered one unexpected bonus.

Without being able to go out to restaurants, venture on holiday or even commute to work, a lot of UK adults have built up a large amount of savings during lockdown.

According to the Bank of England, a considerable £150bn has been collectively saved up since the pandemic began.[1] Fidelity estimates that each of us will, on average, come out of lockdown £1,744 better off[2], with one woman even managing to save a five-figure amount.[3]

The big question many will now be able to ask though is, what to do with this surprise windfall of money?

Spending spree?

Given the blows the UK economy has withstood over the past 12 months, it's perhaps understandable the government wants you to get spending your savings – and fast.

Back in December 2020, the chancellor Rishi Sunak urged people who have saved heavily to splash their cash this year[4]. This instant gratification approach even has a nickname – revenge buying.

From hot tubs to spa days, we've surely all earned the right to have a treat or two after the past year. And if it's good for the economy, there shouldn't even be a need to feel guilty about indulging in a shopping spree.

The longer game

For many people though, this unanticipated financial boost could make a deeper, longer-term difference to their future. An opportunity to revamp your financial plans, and perhaps dream bigger.

Many have already put their extra savings to good use by reducing or paying off debts – from mortgages[5] to credit cards[6] – so they're in a better overall financial position. Others are bringing forward plans to move home and moving up the property ladder quicker than expected. UK house prices have consequently soared by 7.1% over the past year[7], due to such high demand.[8]

There's also the opportunity to put your lockdown savings towards boosting your lifestyle in the long-term. For example, March 2021 research by Legal & General[9] shows there are 1.3 million over-50s who now plan to retire early due to the pandemic. By using this money wisely in pensions or other long-term investments, these savings could really enhance your future. Especially at a time when interest rates on savings accounts are at record low levels[10].

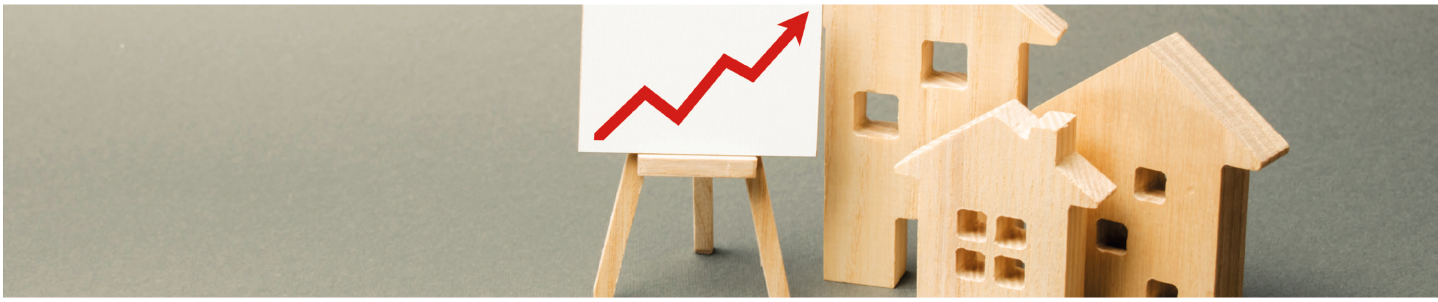
Making considered decisions

As we begin to look forward to emerging from lockdown, this is really good time to think about any savings you've been able to build up over the past 12 months – and how they could play a big part in your future. It's tempting to go on a spending splurge; but using all this money frivolously could be an opportunity missed.

Before making any decisions, it might be worth speaking to a financial adviser – to talk through your needs and hear personalised recommendations for putting your savings to work towards a brighter financial future.

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/3uArZJM (BBC)
[2] https://bit.ly/3uw8YrQ (Fidelity)
[3] https://yhoo.it/3o4oB7w (Yahoo)
[4] https://bit.ly/3uCgJfQ (Express)
[5] https://bit.ly/33wMYRW (This is money)
[6] https://bit.ly/2RbBlwW (Your money)
[7] https://bit.ly/2RDOOOe (Fool)
[8] https://bit.ly/3obE8m8 (Buy Association)
[9] https://bit.ly/2QZv47P (Legal & General)
[10] https://bit.ly/3o0Dw2A (This is money)



The Covid property boom

The UK housing market has seen activity, prices and sales all go through the roof in the past year but what's round the corner when the stamp duty holiday ends and should you still be looking to make a move before then?

One thing we have all done this past year is spend considerably more time at home but as the saying goes, familiarity breeds contempt. During lockdown, many of us might have found that our homes don't quite offer what we wanted – or that we needed something bigger.

The result has been an explosion in the housing market that has become frantic with activity[1] and seen UK house prices increase at the fastest rate since 2004.[2]

The perfect storm?

There are plenty of factors driving the housing market boom right now, beyond a simple desire to have a bit more garden space.

One of the biggest influencers is the government's stamp duty holiday. Originally introduced in 2020, it has had a huge impact on market activity, proving so popular that the government extended it until 30 June and, for homes worth less than £250,000, until 30 September.

In addition, the government has launched a 95% mortgage scheme[3] to help first time buyers or current homeowners secure a mortgage with just a 5% deposit. At the start of the pandemic, 90% of low deposit mortgages were withdrawn by lenders[4], making it difficult for many people to climb up the property ladder, but the 95% scheme should help reverse that.

With thousands of people saving a lot more money during lockdown, there are plenty of financial reasons why this might be a good time to move home and that is fuelling heavy demand. In March, two out of every three properties listed on Rightmove[5] had been sold subject to contract.

The long-term impact

As much as this is a buoyant period for the housing market, questions remain over how long it will last.

The stamp duty holiday extension was welcome news but adds to a potential cliff edge moment, as demand could significantly fall after September.

Some experts predict house price growth will slow over the second half of the year.[6] So, if you wait, you could buy your next home for a cheaper amount than what you might have to pay right now. Plus, you'd face less competition.

But equally, there might be less people interested in buying your property if you wait to put it on the market – and there could be fewer suitable options for you to buy and so limiting your choices.

A good time to assess your options

If the last year has altered your perspective and priorities, it might be worth at least exploring your options now by speaking to an expert adviser.

They can help you consider if you could afford to borrow more money towards a bigger home or even remortgage to fund home improvements, if you'd prefer to renovate what you have.

An adviser can use their extensive knowledge of the mortgage market to present you with suitable options. So you can plan your next steps with greater confidence.

Your home may be repossessed if you do not keep up repayments on your mortgage. You may have to pay an early repayment charge to your existing lender if you re-mortgage.

[1] https://bit.ly/3eviFBf (Cornwall Live)
[2] https://bit.ly/3tCeoAl (The Guardian)
[3] https://bit.ly/2RAAOVj (Gov)
[4] https://bit.ly/3hhhlUy (Which)
[5] https://bit.ly/3y0t9Ao (Buy Association)
[6] https://bit.ly/3hf5x4Z (Which)

Anxious about your next mortgage deal?

If Covid has impacted on you financially, you might be concerned about your options when your fixed rate mortgage deal comes to an end.

For many, just keeping your head above water, financially, has not been easy during the pandemic. The economic consequences of Covid include a rise in UK unemployment[1] and a furlough scheme that provides a reduced income. To help them get through these difficult times, millions of people have successfully applied for a mortgage holiday,[2] potentially lasting up to six months.

Measures like the mortgage holiday scheme and a repossession ban[3] have helped people to keep a roof over their heads. But as we start to move forwards, many homeowners might still be feeling anxious about their future.

The SVR trap?

Research from Legal & General[4] found that a third of borrowers, who have seen their income fall as a result of the pandemic, fear they may not be able to remortgage. 50% of borrowers who took a payment holiday are also concerned it will affect their future ability to borrow.

Instead, when their fixed rate term comes to an end, these people expect to be left with no option other than to move onto their lender's standard variable rate (SVR). This could result in an annual increase in their repayments by as much as £2,500.

Separate research by Comparethemarket.com[5] showed that 19% of UK homeowners have been unable to remortgage their home since the pandemic started. Of this group, 41% said their application was rejected because they had lost their job, 32% because they had been furloughed, and 26% thought their application was turned down because of a salary cut. Unless they successfully apply for a new fixed rate deal, borrowers are automatically moved onto their lender's SVR. The difference in mortgage payments can be considerable, with the Guardian[6] reporting in March that the average bank and building society SVR charge was 4.51%, compared to the best buy fixed-rate loans of 1.15%-1.29% available on the market. UK Finance product maturity figures suggest some 700,000 homeowners will see their two or five-year fixed rate deal come to an end this year meaning many are understandably concerned that their monthly mortgage outgoings could rise significantly in the next few months.

Don't assume you have no choices

If you're in a position where your fixed rate term is coming to an end soon and worry you will have to move to your lender's SVR, it's worth first exploring your options. It can really help to speak to a mortgage adviser for expert support. Research by Boon Brokers[7] has found that one in seven borrowers have never switched mortgages – this could be the perfect opportunity for you to change to a different lender, with an adviser's help.

An adviser can help you analyse your own situation and future income expectations, to present a stronger case for qualifying for a new mortgage deal. They can also research the market on your behalf, to find potential options for you to consider.

Your home may be repossessed if you do not keep up repayments on your mortgage. You may have to pay an early repayment charge to your existing lender if you re-mortgage.

[1] https://bit.ly/2RbLARU (Ons)
[2] https://bbc.in/3tzlqpE (BBC)
[3] https://bit.ly/3bcl6Xm (Financial Reporter)
[4] https://bit.ly/3y2kPjG (Legal & General)
[5] https://bit.ly/3vXAvmy (Compare The Market)
[6] https://bit.ly/3hgWeBt (The Guardian)

Better days ahead?

After a year of hardship, the end for lockdowns appears to be in sight – something the markets are already optimistic about.

For investors, including people saving for retirement, the initial weeks of the Covid pandemic were a worrying time financially. It culminated in the UK FTSE 100 posting its biggest quarterly fall for more than three decades.[1]

But since that point, investors have actually experienced a positive 12 months. Markets aren't quite back at the level they were before the pandemic began, but investment and pension funds have largely seen a recovery in their value.[2]

Given the rollercoaster lockdown ride of Covid, this quick upturn is no mean feat.

Why investors have benefitted despite the pandemic

Even with the UK spending the first quarter of 2021 back in a full lockdown, the FTSE still had a good period – gaining 4.3% over the three months.[3] There was no repeat of the stock market falls of a year earlier, as short-term gloom was overlooked for long-term optimism.

A key part of that brighter outlook is the fact there is a plan to address Covid, in the shape of a vaccine rollout that has proved especially effective in the UK. The government has also shown it will continue to do whatever it takes to help the economy through lockdowns. For example, the furlough scheme – which was initially set up to run for three months – has been continually extended.[4] That has given markets confidence in the future of the economy.

The other boost has been the way in which many businesses adapted to lockdown, either from quickly relocating staff to working from home or finding ways to continue delivering products and services online. To date, the worst case predictions of sky-high unemployment have not come to fruition.
There is no question it has been an incredibly tough year for businesses and employees, but there has been plenty of resilience displayed by so many and that has fuelled optimism in markets, boosting patient investors.

Is this a good time to invest?

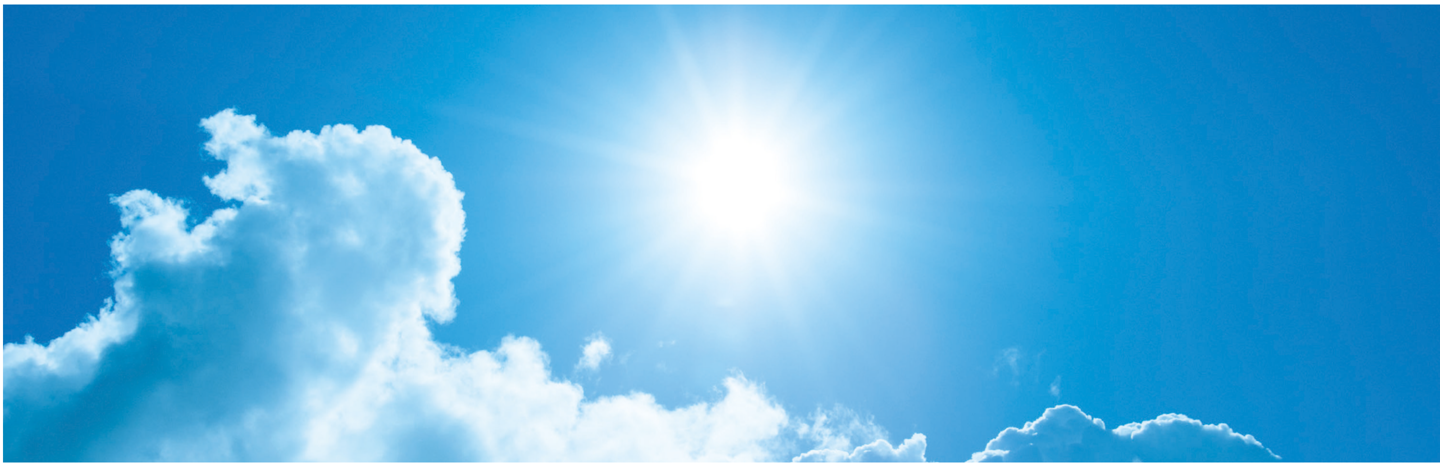
The biggest lesson of the Covid pandemic for investors is the importance of focusing on the long-term. When markets fell at first, many people might have panicked and enchased their holdings, taking the loss before it potentially got worst. But by doing so they missed out on the market recovery gains that followed.

There might be some set-backs ahead that cause markets to fall back. But when it comes to investing, it's all about your long-term goals. The last 12 months have shown the value of sticking to a plan.

There are reasons to feel optimistic about the long-term outlook in a world that is slowly getting to grips with Covid. So, if you've not reviewed your investments and pensions lately, or are looking to invest for the first time, this could be a really good time to sit down with a financial adviser and make plans.

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/2Swvrqy (The Guardian)
[2] http://bitly.ws/dkQX (Google)
[3] http://bitly.ws/dmti (Fool)
[4] http://bitly.ws/dmtk (CBI)



And finally...

[1] https://bit.ly/3bW6ADk (FCA, p61, 62)
[2] https://bit.ly/34hZgxX (Royal London)
[3] https://bit.ly/3bStMCr (Citywire)

What about the what ifs?

Reality can bite hard, as the last 12 months have unfortunately shown. What if? has become what now? for many people, as the pandemic has seen them face tough situations. And without having just-in-case protection plans in place, the difficulties can prove even more considerable.

2020 research by the Financial Conduct Authority found 53% of UK adults don't hold any protection products[1]. Yet 27% of us have low financial resilience, which means we would find themselves in difficulty if we were to suffer a financial shock. Have you made a Will? A 2019 survey from Royal London found 57% of UK adults don't have one[2]. Without a valid Will, your assets and wealth might not be passed onto the people who you want to inherit them.

Putting cover in place to cover the financial risk of losing your job, or not being able to work for health reasons – plus having plans that would help loved ones after you're gone – can seem time consuming. But they can also prove very worth it.

There are signs Covid is changing our attitudes towards having adequate protection plans in place. For example, February 2021 research by Schroders Personal Wealth[3] found that while only 28% of UK adults have some sort of personal protection insurance, three in 10 are now more likely to consider protection. Meanwhile May 2021 research by LifeSearch shows there has been a 250% rise in life enquiries since March 2020, and a 400% increase in enquiries about protection products.

If you're not sure if you have enough – or indeed, any – plans in place, it's not something to keep putting off. Talk to a financial adviser to find out how to give you and your family valuable peace of mind.

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