moneyworks

Summer
2022

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Staying the course

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The human touch

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Warning for borrowers

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Heaton Financial
Independent Financial Advisers Ltd

Welcome

Just when it looked like 2022 would mark the start of a more positive year, the atrocities in Ukraine coupled with the cost of living reaching a record 30 year high has sent confidence across the world tumbling again.

Given such global uncertainties, it is little wonder more people than ever have been thrust into financial turmoil and are worried about their long-term security.

But while the financial market and the road ahead may look particularly challenging, in this edition, we address a number of key issues across the market and, explain how to ease the financial anxieties many of us are facing.

Following a turbulent six months on the stock market, we look at the need to keep a level head and highlight how history shows it is still one of the more robust forms of investments available. Over the past 25 years, despite some monumental crashes, your savings would still have grown at a greater rate than in a cash savings account and staying the course will often pay dividends[1].

We also look at retirement worries and how you can ease those fears by speaking to a financial adviser. With a staggering 78% of retirees in the UK not having not sought any professional advice on their plans, now is the time to start speaking to ensure you can enjoy the retirement you always dreamed of[2].

In a recent study, it was reported that only a quarter of self-employed people have enough money to cover three months of costs if they were unable to work. With this in mind, we look at the importance of protection for this sector and how getting a plan in place will provide valuable peace of mind.

Elsewhere, we look at the repercussions of the Chancellor's Spring Statement and the impact his changes might have on you and your finances. We also include a feature on why, despite a growing number of robo-financial advisers springing up, there are still huge benefits in meeting a real person to guide you through your financial complexities and how best to navigate them.

As the summer approaches, here's hoping the clouds of uncertainty that hang over the financial landscape will slowly start to lift.

The **moneyworks** team

[1] https://bit.ly/3sM1Ato (Brewin Dolphin)

[2] https://bit.ly/3PAsLBu (City AM)

Contents

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The News in Brief

A round up of the current financial stories.

Family obligations continue in retirement

Many people in retirement like to spend their money on a hobby or on more holidays. But for some retirees, financially supporting loved ones remains a high priority.

Research by Key Later Life Finance discovered that over a third of newly retired people are still providing financial assistance to their family, averaging £3,700 a year. With 10% of these retireees contributing more than £6,000 annually.

The average annual income in retirement works out at £21,663, giving £3,700 a year to loved ones would work out at one-sixth of your overall income. If you were in this position, this could be a significant drain on your retirement income – and perhaps limit your ability to do the things you want to do.

https://bit.ly/3yr8Cre (Money Age)

A new worry

Ever since the pandemic first gripped the world in March 2020, catching Covid has topped the list of people's greatest worries in the UK. But with pandemic concerns easing, Covid has been knocked off the top spot, according to the April 2022 edition of University College London's Covid-19 Social Study.

Instead, worries about finances are now Brits' biggest concern. Against the backdrop of rising inflation and higher energy bills, 38% of us are anxious about our finances, up from 32% in January. Meanwhile, the number of people concerned about contracting Covid fell from 40% to 33% over the same period.

56% of us feel in control of our finances, a fall from 63% in October 2021. Budgeting stress is also said to be impacting our wellbeing, with 49% saying they feel in control of their mental health compared to 54% six months ago.

https://bit.ly/3wiRWiV (Money Expert)

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

House prices continue to defy predictions with a new record high

Six months on from the closing of the government's stamp duty holiday, UK house prices continue to rise. In March, average prices grew by 1.4% – the biggest increase in six months. It stood at £282,753 – another new record.

Many experts had forecasted the end of the stamp duty holiday would lead to a slowdown in house prices. Especially as in recent months the base rate has been increased three times – as pushing up mortgage rates.

Indeed, average two and five-year fixed-rate mortgages have in the main now surpassed the level they were at when the pandemic began in March 2020, which at the time saw rates drastically reduced.

Yet even with the cost of borrowing rising, house prices continue to climb. Overall, average house prices have increased by 18.2% since the start of the pandemic.

https://bit.ly/3NlwbWX (Money Facts)

An un-will-ing legacy

No one wants to spend too much time contemplating what happens after they go. But it can be a comfort to know that your wishes are clear when your time comes.

Yet despite the clear benefits of having a Will, March 2022 research by Canada Life has found that over half of UK adults (56%) don't have one in place. This equates to around 29.6 million people. Furthermore, 36% of people aged 55 or over don't have a Will.

There are signs that some Brits are thinking more about their legacy. 8% of adults have written a Will since the first pandemic lockdown in March 2020, and a further 14% have changed or updated their Will over the last two years.

https://bit.ly/3we3zb7 (Canada Life)

The importance of protection for self-employed

Only a quarter of self-employed people have enough money to cover three months of costs if they were unable to work.

Being self-employed has lots of perks. As your own boss, no one is telling you what to do. You have the creative freedom to make the decisions and the opportunity to build something you can be truly proud of.

But if you're self-employed, there are also drawbacks. The hours can be longer, the stress higher and your finances more unpredictable.

The last point is especially important. People who are employed by others typically have the security of a guaranteed wage and employee benefits like sick and holiday pay. Very often self-employed people don't have employee benefits to help them.

Research by Scottish Widows[1] in April 2022 found more than two-thirds of self-employed Britons do not have a regular income. And that could put them in a difficult position.

Uncertain times add to the strain for self-employed people

The last two years have underlined the financial risks of being self-employed. As the pandemic hit the UK shores, the government introduced the furlough scheme to help protect employed workers. For the self-employed, it was not so simple. The government did eventually introduce support packages for self-employed people unable to operate because of lockdown, but they were more complicated – adding to the uncertainty and exacerbating the hardship many experienced[2].

The number of UK people self-employed[3] had reached an all-time high just before the pandemic. But since then, it's fallen by one-fifth[4].

And even with the lockdown periods seemingly behind us, the uncertainty remains. The rising cost of living is hurting everyone, but it leaves self-employed people especially vulnerable. Research by Superscript[5] in February 2022 found four out of five self-employed people have increased prices for their services and products because of rising costs.

A price rise is never popular with customers, so this unavoidable action could have an impact on a self-employed person's revenue.

No wonder, then, that so many self-employed people do not have a regular income.

The 'what-if' test

A reliable way of checking the financial strength of your personal finances is to look at how you would cope if, for any reason, you were unable to work for three months. This means having enough savings to cover your regular costs.

That same research by Scottish Widows found that only a quarter of people would pass the three-month test.

This, tied with the lack of a regular income and employee benefits, puts a lot of self-employed people in a vulnerable position. Yet despite this, 81% of those surveyed said they aren't seeking financial advice.

Speaking to a professional could make a real difference to your financial future. For example, an adviser can help you put protection plans in place to support you if you're unable to work. 13% of self-employed UK workers don't have critical illness cover or life insurance in place, according to Scottish Widows.

If you are self-employed and are concerned you might be vulnerable to future financial shocks, speaking to a financial adviser about your plans could help you achieve greater financial security – and give you valuable peace of mind.

[1] https://bit.ly/37v4VWq (Scottish Widows)

[2] https://bit.ly/3spkGWf (IFS)

[3] https://bit.ly/3ynVcfK (Statista)

[4] https://bit.ly/3wo9Ukq (Small Business)

[5] https://bit.ly/3LdZWrf (iNews)

Staying the course

Recent global events have triggered some stock market uncertainty – but history suggests it doesn't need to prevent you from achieving your financial goals.

After the difficulties of the pandemic, we all hoped that 2022 would prove to be a more positive year. But a range of events are impacting on everyone's finances. The cost of living is rising at its fastest rate in 30 years[1], energy bills are soaring[2], and interest rates[3] are going up.

Then there's the awful events in Ukraine. Where millions of innocent people are dealing with unimaginable horror.

Everyone's thoughts are with the Ukrainian people, and beyond the human tragedy, the financial effects of the conflict are beginning to show. With countries around the world implementing heavy trade sanctions on Russia, we're all seeing some sort of impact.

Not surprisingly, stock markets have also taken a hit. The early months of 2022 have seen some heavy volatility[4], and as fears grew, high inflation pushed central banks to raise rates faster. The prospect of war in Ukraine added to this uncertainty over February[5] and it has continued to be a turbulent period since the invasion began.

Keeping sight of your long-term goals

If you have investments, including pensions, stock market falls can naturally feel unsettling. Equally, if you're considering your options which could help grow your money, you might view the current uncertainty as a reason to hold off making financial decisions.

Yet the reality of investing is that certainty is a rare thing, especially over the last 25 years. Even over a period that has seen some huge global events, investing could be an effective way of growing your money over the long-term.

Let's say you could go back in time to 1997 and invest £100 in the FTSE All-Share Index. According to research by Brewin[6], by January 2022 that £100 would have grown to £278.

Over the same 25 years, keeping that money in a cash savings account, based on Bank of England base rates, would have seen your £100 grow to just £120. Please remember that past performance is not a guide to future returns.

A long-term mindset

Over the past 25 years (1997 to 2022) it has certainly not been all plain sailing for the FTSE All-Share Index. There was the dot.com bubble burst, the global financial crisis, the vote for Brexit and of course Covid. At times markets fell sharply. But by sticking to the path, many investors would still have made a lot of money.

That's why, when it comes to investing, it's important to maintain a long-term mindset, being clear about your financial goals, and investing in a way that suits your circumstances.

Uncertainty will always exist in markets. So, when it comes to your long-term goals, there is no time like the present. A financial adviser can help you to review your current plans – including any investments and pensions you already have – and advise you on building a long-term strategy that suits your needs.

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

[1] https://bit.ly/3kWOCVB (Daily Mail)

[2] https://bit.ly/3P9XqVQ (Which?)

[3] https://bit.ly/3wiSmpv (The Bank of England)

[4] https://bit.ly/39a7jCk (The Guardian)

[5] https://bit.ly/3L41CDk (The Guardian)

[6] https://bit.ly/3L01y7C (Brewin Dolphin)

Ease retirement anxiety

The majority of UK adults have worries about affording their current lifestyle in retirement – can you feel more confident about your plans?

Your retirement should be a source of happiness. After decades of working hard, it's the opportunity to put you and your loved ones first. Do the things that mean the most to you, and perhaps accomplish a few bucket-list goals.

However, a big factor in how much you can enjoy retirement is the strength of your financial plans, and it is something leaving many feeling very anxious. February 2022 research by NerdWallet[1] has revealed that 52% of UK adults are worried they've not saved enough money to sustain their current lifestyle in retirement.

While 34% of people who are still working say the state of their retirement finances is causing them significant stress, almost one in ten added they doubt they would be able to fully retire.

The COVID effect

The last two years have turned a lot of people's lives upside down. With COVID having such a wide range of financial repercussions, it is perhaps understandable many UK adults pushed saving for retirement down their priority list.

The same research found around one in four UK workers have reduced their pension contributions since the start of the pandemic. Overall, only 37% say they have a clear retirement savings strategy.

It all suggests millions of us could be storing up future problems. We might have to settle for a scaled down lifestyle in retirement, delay when we'd hoped to retire, or continue to work in some capacity.

With the average UK life expectancy for 65-year-old males being 18.5 years and females 21.0 years[2], it's also important to make sure you have enough funds to last for years to come. Separate research by Abrdn shows that 48% of retirees[3] are worried about running out of money in old age.

But here's the thing. The same research found that 78% of retirees have not sought professional advice on their plans.

Start feeling better

If you're in a position where the idea of retirement causes apprehension rather than excitement, it's worth taking some time now to explore your plans. The sooner you look into it, the more time there is to make stronger arrangements and get on track.

There's no doubt it's complicated, which can be off-putting. That's why many people turn to a financial adviser for help when preparing for retirement. Not only can advisers look at your current plans, they can also use their expertise to look at how much money it's likely to provide once retired.

If you discover there's a gap between your retirement goals and how much money you're on track to have. An adviser can present personalised recommendations for you to consider. This can leave you feeling confident about your prospects for a more contented, fulfilling retirement.

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[1] https://bit.ly/3N6qdZw (FT Adviser)

[2] https://bit.ly/3FE9dYf (Office for National Statistics)

[3] https://bit.ly/3weQsWZ (City AM)

The human touch

There's nothing quite like meeting with an expert to guide you through the complexities of financial planning.

Everywhere you look it seems, that technology is enhancing our lives. This is also the case when it comes to money matters, with a range of apps, digital services and other websites springing up, designed to help you look after your finances.

When it comes to planning for the long-term, recent years have seen a steady rise in the popularity of robo advice. In a nutshell, robo advice means inputting some details into a piece of software which uses algorithms to provide you with a personalised investment portfolio.

According to research by BDO[1], in 2020, some of the UK's largest-robo advisers showed £4.9 billion in assets under management, up from £2.9 billion in 2019. The pandemic seemingly accelerated the popularity of robo advice, with research suggesting[2] it's especially popular with younger people.

Traditional forms of financial advice can be a lengthy – and more expensive – process. Robo advice gives you decisions within seconds, and it's cheaper because you're not paying someone to research and prepare advice.

But is it the best approach for planning your financial future?

The value of face-to-face

In February this year, Vanguard unveiled surprising research about the experience of those who have used robo advice[3]. It found that 88% of investors who have a digital adviser are willing to switch to a human one. Meanwhile, 76% of people with a human adviser said that – if they had to leave their current adviser – they would look for another human adviser rather than turning to robo advice.

When investors were asked about the respective benefits they would get from a robo or a human adviser, the biggest difference was the emotional value of speaking to a real person. Digital advisers, were deemed to offer better portfolio value.

In other words, investors believe robo advice might be more cost-effective, but they place a lot of importance on the emotional value of a human adviser. From providing trust and confidence in making the right choices to offering reassurance in times of market volatility.

Making the best decisions

When it comes to your overall long-term financial plans, there is a lot to be said for meeting with a human adviser. Yes, it will take longer. It might involve a bit more preparation getting all the information needed in place. And the cost of the advice will be higher.

But what you can get in return is advice more tailored to you and your circumstances. A human financial adviser will take the time to truly understand your financial needs, the people you want to support and your feelings towards risk and reward. This allows them to research and present advice that's personalised to your situation.

Investing is always a big decision, and your financial future is too important. So if you want the reassurance of hearing recommendations from an expert who fully understands you as a person, a human financial adviser could be the best option for making stronger financial 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/3KUmrRP (Money Marketing)

[2] https://bit.ly/3N2FACy (eMarketer)

[3] https://bit.ly/3L0tKXW (Vanguard)

And finally...

Warning for borrowers

The chancellor's mini-budget was unveiled in March, at a time when we're all feeling the financial squeeze.

If you're a fixed rate mortgage borrower, the chances are you were able to take advantage of favourable rates over recent years. But that's starting to change. And that could mean a surprise when you look for your next fixed-rate deal.

March 2022 research by L&C suggests a homeowner looking to remortgage could potentially end up paying around £800 a year more, compared to the rates on offer just five months earlier.

These calculations are based on someone with 40% equity in their home, looking for a two-year fixed rate deal and paying a £150,000 loan back over 25 years. In October 2021, you could have found a deal for £557 a month. But by March 2022, this was £627 a month – adding up to around £840 more a year.

[1] https://bit.ly/3P7vHFo (Independent)

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