moneyworks

The essential consumer guide to making your money work harder.

Winter Edition

Investing for growth or income?

Investing doesn't only have to be about growing the value of your money – income-generating investments could also assist with realising your goals.

Thinking about the unthinkable

Every year millions of people are hurt financially by unforeseen health issues, demonstrating the importance of having protection in place.

Is it time to review your funds?

It might have once been the right place to invest, but the volatility of fund performance means that may not always stay true.

Are you too reliant on the state pension?

For millions of today's retirees, state pension is their main if not sole source of income.

Heaton Financial
Independent Financial Advisers Ltd

Welcome

Welcome to your Winter edition of **moneyworks**. And as another year ends, many see this as the perfect time to reflect on their financial situation and address any shortcomings they may have.

In this issue we focus on four areas that may be of concern to you and highlight the importance of seeking financial advice to help ensure you are in the best possible financial position.

A new report from Aviva reveals how one in three of us have experienced long-term leave from work due to health issues and we look at the importance of having protection in place should the unthinkable happen and you are left unable to work.

We also look at whether we are becoming too reliant on the state pension and how following a Government decision to increase the pension age, you could be left out in the cold if you don't take steps to build up your own private pension fund now.

On the subject of saving for a rainy day, we look at how income-generated investments could also assist with realising your goals and how despite many being a long-term commitment, there is a way to benefit immediately.

Finally, we ask whether now is the time to review your funds? Looking at the results you are currently achieving will provide you with an opportunity to change your strategy and help ensure you are on track for a solid financial future.

Here's wishing you all a very prosperous New Year and we look forward to bringing you more regular updates in 2018.

Best wishes

The **moneyworks** team

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The News in Brief

A round-up of the current financial stories.

The true cost of buyer's remorse

We can all be guilty of making rash spending decisions we later regret, but September 2017 research by True Potential Investor has identified just how costly they can prove.

The study found the average UK person wastes £143 every month on purchases they come to rue. With age comes wisdom here though, as the average monthly total for under 35s is £173.80, compared to only £70.52 for over 55s.

Whilst we all deserve an indulgence every now and then, cutting out these unnecessary spends could make a huge difference if you're saving for retirement. The research concluded that a 30-year-old who invested that £143 a month into a pension would build up £320,000 extra. Based on taking a £23,000 annual income, this extra amount could fund 13 years' worth of your retirement.

Source:

https://moneyfacts.co.uk/news/money/brits-waste-470-every-day-on-unwanted-purchases/

Inheritance tax a taboo subject for Brits

Considering the devastating implications an inheritance tax bill can have on families, it's worrying that over half of Brits have never discussed the topic, according to an August 2017 survey by Brewin Dolphin.

More than a third of us admit we don't feel comfortable talking about a legacy. With 26% saying they haven't discussed it because they don't feel old enough – so it's not a priority. One in seven simply don't like talking death.

With inheritance tax revenue reaching a record high last year, it's not an issue to ignore and as it's a complex process, waiting too long to make plans could have negative consequences.

Source:

http://www.yourmoney.com/household-bills/49406/

http://www.telegraph.co.uk/business/2017/07/28/inheritance-tax-haul-hits-record-high-house-prices-climb/

The Financial Conduct Authority does not regulate Taxation and Trust advice.

The perils of exceeding your pension lifetime allowance

There is such a thing as paying too much into pension. Last year it landed nearly 2,600 people with a sizeable tax bill.

The pension lifetime allowance is the government's way of capping how much you can pay into a pension and still benefit from tax relief. From April 2016, this allowance was reduced to £1 million – with savings above it subject to 55% tax.

A freedom of information request from The Telegraph discovered a 33% increase in the number of people who received a tax bill for exceeding their lifetime allowance. The total amount raised over the 2016/17 tax year topped £120 million. That's an average tax bill of £46,332, based on the 2,590 people who paid this extra charge.

If you're currently or projected to exceed the lifetime allowance, there are types of protection available from the government to help you.

Source:

https://www.lovemoney.com/news/68102/pension-lifetime-allowance-tax-bill-saving-too-much

The risk of taking no risk with your savings

Having savings for a rainy day is hugely important, but an August 2017 report from the Social Market Foundation has underlined the cost of being over-reliant on cash accounts.

6.8 million of us hold more money in cash assets than we require to cover our rainy-day needs, which is defined as three months' worth of income. This works out at £200 billion worth of savings, and it's not doing a great deal to support our long-term futures.

Due to inflation, money left in cash savings accounts over the last five years will have fallen in value by 4%. If we'd invested these excess savings instead, we'd now be much better off. Over the same period, money invested in the FTSE 100 would have increased in value by 47% in real terms.

Source:

http://www.smf.co.uk/wp-content/uploads/2017/08/Saving-Better-final-version.pdf

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

Investing for growth or income?

Investing doesn't only have to be about growing the value of your money – income-generating investments could also assist with realising your goals.

Although investing your money in stock market-based funds is always a long-term commitment, it doesn't mean you must wait to start benefiting from the rewards.

Many people place their money in growth funds, with the objective of increasing their capital. But others invest to achieve an income they can use now, to supplement their lifestyle.

Targeting an income

With interest rates on savings accounts at historic low levels, and UK government gilts paying low yields for the best part of a decade*, it's incredibly difficult to achieve an income from your savings through a low-risk approach.

The stock market is far riskier, but the rewards for UK-based income investors have been much stronger. The companies within the FTSE 100 paid out £33.3 billion in dividends over the second quarter of 2017, a record high.**

Dividends are distributed by companies to shareholders, the amount of which is usually connected to their business performance, future prospects and share price. Many companies seek to periodically increase their dividends, to make them more attractive to investors. Even during difficult market conditions, income-targeting investors can still receive a return.

The downside is the level of income is not guaranteed, meaning it's unwise to rely too heavily on these returns to cover your lifestyle. You should always ensure you have some form of guaranteed income from elsewhere.

You also need to consider how long you want your initial investment to last for. If you take more income from your investment fund than it's generating, the fund will fall in value and may run out sooner than you expect. Poor market conditions could also erode the value of the pot.

Targeting growth

A growth fund looks to build up your capital as much as possible, or at least to a specific target. To achieve this the fund manager is likely to focus on very different companies and assets compared to an income-focused fund manager. For example, they'll look for companies who reinvest their profits back into the business, rather than paying out large dividends to shareholders.

Growth-based fund managers seek to buy holdings relatively cheaply, judging them to offer the potential to rise in value over the long-term and so be sold for a profit. This approach is more closely linked to the share price of the company and stock markets, and in a downturn your money could lose value.

Therefore, it's so important to have a long-term mindset. With a growth-based fund you really are locking away your money for many years, rather than being able to use it to support the here and now.

Get advice on where to invest

With the pension freedoms of 2015 opening more choices for retirees, more people are keeping their savings invested through drawdown***, to provide an income over their retirement. This could be achieved through an income-producing fund (taking the income your fund produces) or a growth fund (selling units each year). If you have longer-term financial objectives for your money and don't require the capital right now, a growth-based investment approach might be suitable for you.

A financial adviser can explore the best route for your situation – be it income, growth or even a mixture.

* http://www.morningstar.co.uk/uk/news/159187/gilt-yields-will-not-rise-before-next-year.aspx
** https://www.theguardian.com/business/2017/jul/17/investors-received-record-breaking-dividends-in-2017-research-shows
*** http://www.cityam.com/271665/annuity-market-faces-extinction-more-and-more-people

Accessing pension benefits early may impact on levels of retirement income and is not suitable for everyone. You should seek advice to understand your options at retirement.

The value of your investment can go down as well as up and you may not get back the full amount invested. Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.

The Financial Conduct Authority does not regulate Taxation and Trust advice.

Thinking about the unthinkable

Every year millions of people are hurt financially by unforeseen health issues, demonstrating the importance of having protection in place.

There are not only emotional, but financial consequences from unexpected ill health, such as receiving a cancer diagnosis or a death within the family. And it's a more common occurrence than you might expect.

August 2017 research from Aviva* found nearly one in three of us have experienced long-term leave from work due to significant health reasons. And of these people, 77% have seen their finances suffer consequently.

The effects can be severe. Nearly a third saw their income drop by a quarter. On average, having to dip into savings and investments ate up 40% of people's overall provisions. One in six had to take the more drastic step of downsizing their home or – in extreme cases – became homeless. Nearly two million people don't think they'll ever financially recover.

No one ever knows what's around the corner, and ill health can happen to anyone. But at what would already be an emotional time, experiencing financial concerns would only increase the stress and anxiety.

That's why it's so important to have plans in place for the unexpected – and to keep making sure those provisions reflect any changes in your family's circumstances.

Protect your future

The most obvious place to start is to have some form of protection in place. Income protection, for example, is a type of insurance that kicks in should your main source of income unexpectedly stop.

If you were to have to take long-term leave due to illness or an accident – or even if you were made redundant – you'll have a back-up source of income to cover your lifestyle.

For many people, repaying a mortgage is the biggest monthly outgoing – and certainly the longest-lasting commitment. By arranging to have mortgage protection, your repayments can be covered, for a period, if something unexpected happens. This can give you time and breathing space in difficult circumstances, and reduce the risk of losing your home.

Emergency funds

In terms of your savings and investments, every financial adviser will highlight the importance of having emergency funds in place for unexpected events. It reduces the need to dip into your investments, which have been positioned for the long-term and might not be as accessible.

With your pension, for example, there could be unintentional consequences should you unexpectedly have to access it to cover an income shortfall. It could trigger a large tax bill, and reduce how much money you have to fund retirement.

Other types of insurance can also help you. For example, life insurance will support your family if you were to pass away by paying out a lump sum.

Speak to an expert

As part of any considered financial strategy, it pays to look at all eventualities and to plan for the unthinkable. A financial adviser will be able to help you develop your finances, putting in place protection arrangements and ensuring you have emergency funds.

With their advice, any bumps on the road don't have to adversely derail you and your family's financial future.

*https://www.aviva.co.uk/media-centre/story/17814/12-million-uk-adults-suffer-financial-hardship-due/

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Is it time to review your funds?

It might have once been the right place to invest, but the volatility of fund performance means that may not always stay true

Sir Winston Churchill once said: "However beautiful the strategy, you should occasionally look at the results."

It is a quote that is still pertinent, especially to the modern-day investor.

A golden rule of investing is to retain a long-term mindset. But it's a good idea to periodically review whether the funds your money is placed into are on course to deliver what you need. Looking closely at the results you're achieving, so far, offers you the opportunity to consider if you should make changes to your strategy.

Is your fund operating how you expect?

All investment funds have particular objectives they're working towards, which influences where your money is placed and the risk taken.

Let's say you're invested in a relatively cautious fund. During periods of strong markets, you'd expect its performance to trail behind many of its peers. Conversely when markets fall, the fund should protect your capital to a greater extent.

If your fund's returns aren't aligned to its objectives, there's a possibility your money isn't being managed in the way you were expecting.

How is your fund performing?

The next area to assess is how your funds are performing, and the reasons behind it. During periods where markets are rising, it can be easy for funds to look good in terms of the level of return they're generating. But is it performing well due to the skill of the fund manager, or because of the positive backdrop?

Similarly, if your fund is under-performing, it's helpful to find out the reasons why this might be the case – and how returns compare. In a market downturn, you might experience a period of losses. But the rest of the fund's sector could be faring much worse, and your fund manager is actually doing a good job in difficult circumstances.

Is the fund manager still in place?

In active managed funds especially, the fund manager is a huge factor in how it operates. Just like in every other walk in life, people leave jobs. A change of fund manager might well impact on your returns, as the new person could introduce a different strategy.

Are you getting value for money?

The level of charges you're paying to be invested into the fund is also worth checking, in terms of whether you're getting value for money.

That doesn't mean you should be looking for the cheapest funds possible, as more expensive funds might generate stronger returns to justify their higher charges.

Do you need to speak to a financial adviser?

Reviewing your investments can be difficult. With your long-term financial future at stake, it makes sense to sit down with a financial adviser. They'll dig deeper into the reasons behind your fund's recent returns, and assess if it's meeting its objectives.

With a deep understanding of your objectives and attitude to risk, a financial adviser can provide an expert opinion over whether your current plans leave you on track, or if you need to consider making changes.

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Are you too reliant on the state pension?

For millions of today's retirees, state pension is their main, if not sole, source of income.
But recent developments highlight the risks this could have on your future financial wellbeing.

Six million UK workers were dealt an unexpected blow over the summer, after the Government announced the state pension age will increase for those currently aged between 39 and 47.*

Previously, people within this age range were scheduled to start receiving the state pension on and around their 67th birthday, but that's now been pushed back to 68. Based on the current state pension rate, that means missing out on up to £8,000 income – and potentially having to delay the start of your retirement.

Those aged over 47 have already seen their state pension age rise from what they would have expected 20 years ago, when the government first decided to make changes to the system where women received it from 60, and men 65.

From 2019, the age you can start claiming state pension is 66 for both men and women. For women, especially, this has represented a significant change.

Currently the state pension pays a maximum income of £159.55 a week, depending on how many years' worth of National Insurance contributions you've made. But an annual income of £8,296.60 isn't going to get you very far.

And regardless of whether state pension is your sole, main or partial source of income in retirement, it's future value may diminish.

The triple-lock debate

For the moment, state pension is protected by a triple-lock agreement. It means the annual amount you receive will either rise by the UK's average earnings growth, the rate of inflation or 2.5% – whichever figure is highest.

This is a very valuable feature that helps pensioners keep pace with the rising cost of living. Between April 2010 and April 2016,** Institute for Fiscal Studies figures show state pension increased by 22.2% because of the triple lock – almost double the rate of inflation over the same period.

However, in the general election earlier this year, the Conservatives pledged to scrap the triple lock from 2020.

They intended to replace it with a double-lock guarantee, where state pension amount will either rise in line with average earnings or rate of inflation. This could reduce retirees' future income levels.

Given the Conservatives election underperformance, this pledge had to be scrapped. However, there have been plenty of warnings that retaining the triple-lock is too expensive. The Department for Work and Pensions estimates it will increase the cost of basic state pension to £5 billion a year by 2020/21.***

With the government reviewing state pension age every five years, the viability of the triple-lock is likely to come back under scrutiny in time.

Don't put all your eggs in one basket

The state pension is a valuable source of income for millions of retirees, but can you risk being over-reliant on it? You don't want to be in the middle of retirement and discover it won't be able to support you as much as it has in the past, particularly if you have few alternative options.

It's important to have your own retirement income plans in place for funding your lifestyle. If you've yet to retire but hope to do so within the next decade, or are in retirement but not sure you're using your savings and investments wisely, it could really pay off to speak to a financial adviser.

*http://www.dailymail.co.uk/news/article-4419944/State-pension-income-millions-retirees.html

**https://www.ifs.org.uk/publications/8942

***http://www.thisismoney.co.uk/money/pensions/article-3717965/Are-state-pension-triple-lock-s-days-numbered-PM-says-guarantee-isn-t-threat-despite experts-saying-s-not-sustainable.html#ixzz4u67QLCAc

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And finally....

For richer or poorer

Weddings are never cheap affairs, and that financial squeeze is felt by guests as well as those footing the bill for the big day.

September 2017 research by Policy Expert found we spend an average of £644 celebrating someone else's wedding. The costs range from buying an outfit (£150), travel and accommodation (£202), food and drinks (£130) and giving a present (£44). If you attend the stag or hen do, an average of £118 is also committed to these festivities.

A 2012 Debenhams survey found we attend an average of 15 weddings in our lifetime – they estimate a total outlay of £7,500. No one wants to miss out on celebrating with the happy couple, and these figures illustrate the importance of having enough reserves to enjoy these big occasions.

Source:
https://www.policyexpert.co.uk/insurance-blog/house-home/your-wedding-will-cost-me-how-much/
http://www.thisismoney.co.uk/money/news/article-2120080/7-500-lifetime-spend-wedding-guest.html

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