moneyworks

SPRING
2020

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The essential consumer guide to making your money work harder.

Welcome

A very warm welcome to the latest issue of **moneyworks**, the first of the new decade and a time to look forward to a new chapter in our lives both personally and financially.

Following an extraordinary decade, where our lives changed in so many ways and Brexit finally became a reality, there is much to consider moving forward as the economic landscape prepares to shift in a way we have never experienced before.

In this issue, we reflect on the changing financial times and look at how our lives and spending may alter over the coming decade and why the value of a financial adviser to navigate the tricky waters ahead has never been greater than it is now.

With the recent emergency interest rate cut and the current coronavirus pandemic, the current financial landscape is changing by the day and shows no signs of slowing down. We take a look at what this could mean for your long-term plans.

Meanwhile, new FCA legislations aimed at prompting soon-to-be-retirees to start thinking about their future have been launched in a bid to encourage people to consider their retirement plans in greater detail. With 54% of UK workers unaware of what's in their pension pot, the new 'wake-up' packs are designed to highlight the need to be more pension savvy and we address the importance of speaking to a financial adviser as the clock ticks down on your retirement.

To help provide you with the most informed and beneficial articles, please get in touch if there is a subject you would like us to feature over the coming year and here's wishing you a new decade of financial prosperity and good health.

Best wishes

The **moneyworks** team

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The News in Brief

A round up of the current financial stories.

The value of financial advice

Almost half of UK adults (48%) have never taken any financial advice, according to a November 2019 study by Sanlam. 44% who haven't spoken to an adviser believe they can manage their finances themselves – a figure that rises to 57% amongst over 65s.

This is despite the fact those who have received advice are twice as confident about achieving their financial targets – 59% feel better about their financial future, compared to just 30% who've not had advice.

People who have spoken to an adviser are far more likely to have a target income for their retirement (27% compared to 19%). And to have allocated and passed on money to their loved ones whilst they're still alive (67% compared to 40%).

https://bit.ly/2HpPaj6 (Sanlam)

Funeral costs hit new record high

Losing a loved one is a hugely difficult experience to go through – and, unfortunately, it can also prove very expensive.

January 2020 research by Sun Life found the average cost of dying has climbed to a record high of £9,493 – a 42% rise compared to 2007. This figure is made up of funeral charges, professional fees and other send off costs. The average cost of a funeral alone is up 130% since 2004.

The report also found that, over 2019, 69% of families had to pay for some or all of their relative's funeral themselves. With costs likely to continue soaring, paying for your own funeral now – by taking out a funeral plan – could save your loved ones' money in the long run.

https://bit.ly/2uNduIN (Sunlife)

Time for new long-term savings ideas?

The Bank of England has cut interest rates to a record low of 0.1% to help the UK economy through the coronavirus crisis, meaning there is even less optimism for savers in these dark times.

February 2020 data from Moneyfacts shows average interest rates on instant access savings accounts have continued to fall, with some providers offering rates from as low as 0.05% per annum. On a £500 pot of money, that works out at just 25p interest per year and things don't look like improving for savers for some time to come.

Moneyfacts found that average rates on easy access accounts has fallen by 0.09% year-on-year. So if you have a large pot of savings stored in a low-paying savings account, ear-marked for the long-term, now might be the time to speak to your financial adviser and seriously consider your options.

https://bit.ly/2UndARC (Moneyfacts)

Third of over 55s spending more than their income

Millions of over 55s could be storing up financial issues later in life, thanks to their current spending habits.

November 2019 research by more2life discovered 35% of over 55s admit their expenditure is exceeding their income. And 68% of these people are using their savings to make up the shortfall.

In terms of covering the gap, 17% say they would dip into their bank overdraft and 16% would use a credit card. Yet with almost half of over 55s (48%), adding they wouldn't have enough cash savings to cover an unexpected bill of £5,000, their personal finance situation could become difficult.

https://bit.ly/2SF1yko (More2Life)

Making considered decisions in such uncertain times

The impact of the coronavirus pandemic is likely to have huge ramifications on the global economy for years to come. At the time of writing, the financial landscape is changing by the day and shows no signs of slowing down. We ask whether now is the time to assess your long-term plans.

There is no denying that this is a very difficult time for everyone. As the spread of the coronavirus grows and the full realisation of its impact takes hold, our health and wellbeing are being tested to the limits. In short, our lives have been put on hold and beyond the tragic human impact of COVID-19, a dark cloud hangs over the economy and our personal finances.

As February turned to March, global markets experienced huge levels of volatility as the virus began to take hold. Initially and in the short-term, this would have had an impact on our pensions and any other investments we hold. The Bank of England quickly reacted by reducing interest rates from 0.75% to 0.25% before slashing it to a record low of 0.1% on March 19th, in a desperate bid to support the economy.

While low interest rates are nothing new in the UK, given they've remained below 1% for more than 11 years now, this current situation means it will become an even more challenging environment for savers, who simply wont be able to enjoy the same rates on savings accounts that were once available.

Planning for the long-term

Whilst the news headlines of late over stock market falls are unsettling for investors, it's really important to avoid making rash decisions. Investing towards goals like retirement always requires a long-term outlook.

Along the way, markets will inevitably experience periods of volatility. Some investors can panic when markets fall and encash their investments. But this only crystallises the losses – and deprives you of the opportunity to benefit when markets recover. These are the times when it's especially important to keep a cool head and wherever possible stay the course.

The recent falls in markets might make this a good time to consider investing,[1] whilst stocks and other assets are cheaper. If you have money stored in savings accounts ear-marked for the long-term, the recent reduction to base rate could mean it's worth considering alternatives.

Speaking to an expert

At times like this, speaking to a professional can help you to make considered decisions. When planning your long-term goals, an adviser will have the experience and insight to assist you looking beyond the here and now. It will also give you the reassurance of knowing you take the most suitable option for your individual needs and circumstances in such uncertain times.

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 savings account.

[1] https://bit.ly/33PEfJE (The Motley Fool)

Wake up call

New FCA legislation is aimed at prompting soon-to-be-retirees to start thinking about their future, so what do you need to consider?

If you're celebrating your 50th, 55th, 60th or 65th birthday this year, you're likely to receive more in the post than birthday cards. The FCA has introduced new rules[1] that require your pension provider to get in touch, to help you consider your retirement plans.

They're known as 'wake up' packs, and with good reason. Within the pack you'll be provided details of how much you've saved into a pension – and what it's projected to be worth when you reach retirement age. Based on these forecasts, you'll also get an indication of how much income it might generate in retirement.

Hopefully it will make encouraging reading, but there might also be some surprises. After all, February 2020 research by the Pension and Lifetime Savings Association[2] (PLSA) found 54% of UK workers are unaware of the current size of their pension pots. And 41% admit they should be saving more for their retirement.

A crucial period

The FCA's aim is to encourage you to push retirement planning up your financial priority list, whilst there is still time.

The PLSA has published guidance[3] on how much annual income you'd need to achieve minimum, moderate or comfortable levels of retirement lifestyle – based on a basket of goods and services, from food and drink to holidays.

A minimum lifestyle needs £10,000 a year for a single retiree, but that won't get you much in the way of treats or holidays. A moderate lifestyle needs £20,000 a year, and a comfortable lifestyle – with more regular holidays abroad, for example – would need £33,000.

If you receive a wake up pack this year, it's worth looking at how your projected income measures up to these lifestyle tiers.

A lot to consider

The packs also include details of how your pension is being invested. It's important to consider if your current provisions are invested in the right way for you. For example, if you're still many years away from expecting to retire, you might be willing to take more investment risk now – for the opportunity of higher returns.

Other key considerations include if you have old pension pots from previous employers, which aren't necessarily working hard towards your future. And of course, it's worth questioning if you can afford to put more away – either by paying in more to your current pension, or even investing into a new pension on top.

There's a lot to consider, and it's not easy to make these decisions by yourself. That's why your wake up pack will also highlight the potential value of speaking to a financial adviser. They can help you to review and strengthen your retirement plans, so you can start to feel more prepared and confident about your future.

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

[1] https://bit.ly/31TNFTy (This is Money)
[2] https://bit.ly/37n6qzP (PLSA)
[3] https://bit.ly/39CRDCW (PLSA)

Changing times

The decade ahead appears to be full of technological, ethical and attitude changes – but some principles won't alter.

The prime minister of Canada, Justin Trudeau, perfectly summarised these modern times when he reflected in 2018 that: "The pace of change has never been this fast, yet it will never be this slow again."

The landmark of a new decade is always a moment for looking forwards and back. The 2010s was an extraordinary period, where our lives have changed in so many ways. Who knows what's ahead this decade? Expect society, technology and our behaviours to continue evolving.

And when it comes to your personal finances, our expectations and ways of doing things will also keep transforming.

Buying with a conscience

There is no doubt that issues surrounding climate change[1] and sustainable eating[2] have grown more in the public's conscience. Yet at the moment, matters like cost and convenience can hold us back from taking the ethical buying option.[3]

At the end of the decade, ethical consumer spending hit a record high.[4] Should awareness and case about these causes continue to increase – and prices edge downwards – this trend is likely to continue.

It's already clearly influencing investors, with the end of the 2010s seeing a significant increase of inflows into environmental, social and governance funds.[5] Investors and consumers are more conscious about where their money is going. There is evidence that companies who attract controversy for such issues significantly under-perform.[6]

The easier life

Another trend driving our money behaviour is convenience. It's a big reason why the high street is struggling so badly.

You can now manage your money – and buy just about anything – through your smartphone. And when we do need to call someone, organisations are increasingly using artificial intelligence to interact.[7]

As digital technology continues to change the way we live our lives, our love of convenience will only grow.

But so too, will our expectations. In particular, there's a rising demand for services and products that are matched to the person[8] – not one-size-fits all.

Meeting our growing expectations is a challenge that organisations will need to meet if they're to remain relevant. For example, it's been reported that some clients are now asking their mortgage adviser other types of questions beyond the most suitable mortgage deal for their circumstances, such as what type of boiler to install in their property.

Even though a mortgage adviser wouldn't be an expert on such matters, the trust the customer has in them – coupled with rising expectations over their level of knowledge on property – means they respect and value the adviser's opinion.

The value of expertise

The world will continue to change around us, but certain principles – it seems – are here to stay. One of these is the value of speaking to a true expert when making major financial decisions.

A good adviser will take you through the process step-by-step, always focusing on your ultimate goals. They will be able to answer all your questions and put you in a position to make informed, meaningful long-term decisions.

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

1 https://bit.ly/38qyrI8 (Carbon Brief)
2 https://bit.ly/2Su74Ym (Talking Retail)
3 https://bit.ly/2vwB1Oo (The Guardian)
4 https://bit.ly/31S0zkW (The Guardian)
5 https://bit.ly/2vud4r0 (FT Adviser)
6 https://cnb.cx/2P9v9Sf (CNBC)
7 https://bit.ly/37s68YC (Silicon)
8 https://bit.ly/38EdxFq (Ground Truth)

Protecting your future

Taking on a mortgage is probably the biggest financial commitment you'll ever make and as no one can predict the future, having protection in place can give peace of mind of being able to keep paying the mortgage – no matter what life might throw at us.

Yet a study published by Aviva in November 2019 discovered just 58% of mortgage holders have life insurance, meaning their family could be left without financial support paying the mortgage if they were to pass away. According to the LV= risk reality calculator, a 40-year-old non-smoker male with 20 years left until retirement, has a 17% risk of being unable to work for two months or more, an 8% chance of suffering a serious illness, a 3% risk of death and a 22% chance of any of the above happening. Try it yourself at https://riskreality.co.uk/gen. Given that barely one in four of us (28%) has critical illness cover and just 12% have income protection, these types of cover could be valuable if you were to experience a serious illness or were unable to work.

That's why, when speaking to their clients, financial advisers are placing a greater emphasis on the importance of protecting people in life and not just death.

Jeff Woods, Campaigns & Propositions Director at Bankhall, said: "There's room for improvement when it comes to the take-up of life cover, but the low number of people taking out critical illness and income protection is even more concerning. This imbalance doesn't reflect the reality of how people live and work today. It's important for people to protect their wider needs and not just the mortgage. Financial advisers can help people to understand the risks they face and how this can be protected."

https://bit.ly/2tXKwWp (Aviva)

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