moneyworks

The essential consumer guide to making your money work harder.

Spring 2019

Are you taking the right level of risk with your pension?

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Will you retire mortgage-free?

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Investing in Brexit

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Welcome

As the uncertainty surrounding Brexit continues to dominate the headlines and the country waits on tenterhooks for a decision, it is without doubt an anxious time for UK businesses and investors.

In this latest issue of **moneyworks** we look at the impact this momentous decision could have on your savings and investments and why, despite the outlook being clouded with ambiguity, your own financial future can still look bright if you seek the most suitable advice.

Staying on the subject of Brexit, we look at how confidence in the housing market has taken a hit over the past year with some experts predicting the lowest level of sales in the first quarter of 2019 for 20 years.

But while that may be potentially bad news for home owners looking to sell, it could be good news for those looking to get their foot on the property ladder and take advantage of the attractive mortgage deals currently available.

According to a new report by the Financial Conduct Authority, 40% of borrowers who took out a mortgage in 2017 will be over 65 when their mortgage matures which means three million people will still be paying for their home when they finish work. We look at the impact this could have on their long-term plans and the importance of budgeting for a mortgage-free retirement.

Elsewhere, after stock markets suffered their worst year since 2008, we look at the need to keep a close eye on your pension fund to ensure you are taking the right risk approach and it is line with your expectations, especially if you are nearing retirement.

We look forward to bringing you more financial news and views over the coming months and what impact the outcome of Brexit will have on you and your savings.

Best wishes

The **moneyworks** team

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

Contents

The News in Brief

A round up of the current financial stories.

A great time to remortgage

If you're coming to the end of a fixed rate mortgage – or are already on your lender's Standard Variable Rate (SVR) – remortgaging onto a new fixed rate deal could save you thousands of pounds.

That's according to December 2018 research by Moneyfacts, which found the cost-saving benefits of remortgaging is the highest it has been in 10 years. The gap between the average fixed rate deal borrowers are currently on, compared to the average SVR, was 2.59%. In other words, a borrower about to come off their mortgage term could face a rate hike of 2.59% if they reverted to their lender's SVR.

Although remortgaging could still lead to an increase in your payments, the favourable rates currently available would mean the difference should be much lower compared to the SVR.

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

No more pension cold calling

If you're contacted by a company or person you don't know regarding your pension, they're probably breaking the law. That's because following several delays, the government has finally implemented a ban on pension cold.

Although the cold calling ban effects legitimate companies, it has been introduced in response to a huge spike in scams that have been attempted since the 2015 pension freedoms came into force. According to figures from Action Fraud, in 2017 there were 253 victims of pension fraud – who lost a collective £23 million of their hard-earned savings.

Companies will no longer be able to make unsolicited calls to people about their pensions. Those who break the rules could face enforcement action from the Information Commissioner's Office, including fines of up to £500,000.

https://bit.ly/2TMRBRq (Action Fraud)

Savers still missing out

The post-referendum uncertainty of Brexit might have put some savers off investing in stocks and shares – but due to low interest rates and high inflation, you might still have lost money in real terms.

According to December 2018 research by Scottish Friendly, savers who deposited their full 2016/17 ISA allowance of £15,240 into a cash ISA would have seen their pot grow by just £225. But when factoring in the rate the cost of living has been rising by (inflation) the real value of their money has actually fallen to £14,620.

In contrast, savers willing to take more risk by placing their money in a stocks and shares ISA, tracking the FTSE All-Share would have gained £2,344 over the two years.

https://bit.ly/2zLsC8P (Scottish Friendly)

Frugality leads to more people saving

58% of UK adults reined in their spending over 2018 – saving an average of £125 per month.

The January 2019 findings from Lloyds Bank also revealed that younger people were especially changing their spending habits – with 61% of 18 to 34-year-olds spending less compared to 47% of over 55s.

The main areas where people are spending less include spontaneous purchases (64%), grocery shopping (62%) and leisure activities (59%).

It's not just about cutting back - spending more wisely has also contributed to these savings. 43% of people who have spent less stated they collected and used vouchers from retailers, and 23% used savings websites to find cheaper products.

https://bit.ly/2F1flHm (Money Age)

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

Where will Brexit leave the property market?

The uncertainty of the UK's future relationship with the European Union has taken its toll on house prices, and it leaves borrowers with uncertainty over future mortgage rates.

Last September, the Bank of England caused a stir after suggesting UK house prices could fall by 35% in the event of a no deal Brexit.[1] In reality, the 35% figure was the result of the Bank's stress-testing exercise of the worst-case scenario, rather than a prediction.[2] But the negative newspaper headlines it generated reflected the jitters that have been prevalent around the housing market since the 2016 referendum result.

Whatever your views on Brexit, its widespread uncertainty has inevitably impacted on house prices, which in December fell at their fastest rate in six years. That was according to the Royal Institution of Chartered Surveyors (RICS), which also reported sales expectations for the first quarter of 2019 were the lowest since the survey began in 1999.[3] RICS data for November 2018 showed the average time it was taking to sell a home had increased to 19 weeks.[4]

With Your Move figures revealing some of the wealthiest parts of the UK saw a 25% fall in property values over 2018,[5] but Savills forecasting a 15% rise in house prices over the next five years,[6] these are confusing times. And if you're considering buying a house or remortgaging your home, this uncertain outlook could leave you wondering if this is the right moment.

A buyer's market?

The good news for borrowers is it continues to be a favourable backdrop for mortgage deals. Last August, the Bank of England raised interest rates to 0.75%. But that hasn't led to a rise in mortgage rates from lenders – they've remained broadly the same, with some deals even cheaper now than they were.[7]

Experts believe the Brexit uncertainty has kept mortgage rates lower for longer.[8] However, any greater clarity about the UK's future could lead to rates rising sooner than expected, possibly reaching 1.5% within three years.[9]

If house prices are stagnating, and mortgage rates remain favourable for the moment, this could be good news for potential home buyers. It's reflected in the number of people remortgaging their homes reaching a decade-high in October, according to UK Finance, as homeowners lock into lower rate loans.[10]

However, if the ultimate Brexit outcome leads to house prices and/or mortgage rates falling further, is now the right time to act?

Focusing on your goals

The reality of Brexit is the uncertainty is unlikely to significantly ease in the near future. It could be unwise to put your long-term plans on hold to see how it all pans out. The housing and mortgage market could change quickly, or barely at all – what should drive your actions is what's right for you.

With the stakes very high, it could really pay off to speak to an expert advisor. They can consider your situation and future goals, and use their extensive knowledge of the mortgage market to help you make informed decisions. This saves you from having to shop around yourself, and potentially remortgaging onto a product that isn't as suitable for your situation.

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

1 https://reut.rs/2TERUgJ (Reuters)
2 https://bit.ly/2PI0p8o (The Guardian)
3 https://bit.ly/2FFOhD7 (The Guardian)
4 https://bit.ly/2BuYaki (The Mirror)
5 https://bit.ly/2W7hJI8 (The Guardian)
6 https://bit.ly/2RUjbdz (Homes & Property)
7 https://bit.ly/2GBdK19 (This Is Money)
8 https://bit.ly/2RUkSb4 (Mortgage Introducer)
9 https://bbc.in/2P3ydkM (BBC)
10 https://on.ft.com/2I5c6ah (Financial Times)

Are you taking the right level of risk with your pension?

It has been a difficult period for stock markets, and that might affect your plans if you're aiming to retire soon.

While investors have enjoyed a healthy past decade with UK and global shares enjoying a boom period of gains[1] that upwards curve came to a halt over 2018, with the London Stock Exchange's FTSE100 Index and New York Stock Exchange's Dow Jones Index both suffering their worst year since 2008.

If you're currently saving into a pension, this about-turn in fortunes is likely to have impacted on the value of your pot. According to Moneyfacts figures, the average pension fund fell 6.2% over 2018 – and 9% of the pension funds they analysed made positive returns.[2]

If you're many years away from retirement, this short-term dip in performance is unlikely to have a major impact on the future – past performance is never a guide to future returns, but typically markets recover from falls over the long-term. However, if you're expecting to retire in the near future, this difficult spell for markets underlines the importance of reviewing your savings.

One key question to ask yourself is – are you taking the right risk approach?

The importance of your pension

A pension is likely to be the biggest financial commitment you ever undertake. Typically, you will start saving into one when you begin your career, and keep paying in until you retire. At that point, it's highly likely you'll need to rely on what you've invested to fund your lifestyle. There is the state pension to support you, but on its own it's highly unlikely to provide you with enough.

Your pension contributions aren't just stored away until you need them, but pooled together with other savers and invested on your behalf. This means your money is exposed to the risk of falling as well as rising in value. You may have selected a particular pension investment fund because its level of risk matches your outlook, or you might be invested in your provider's default scheme, which will still involve risk.

When you're younger and many years away from needing your pension, it might be suitable to adopt a relatively higher level of risk. This would give your savings a better chance of substantially growing in value, with time for your money to potentially recover from any market falls.

However, as you get closer to needing your pension fund, a higher risk outlook might be less appropriate. You'd have less time to recover from any market falls, meaning you could end up with a reduced pension – and a potentially weaker standard of living. You also need to consider how you plan to fund retirement, as you might wish to keep your pension invested.

Review – and keep reviewing

For this reason, regular reviews of your pension are important during your final few years of working life. By speaking to an expert adviser, you can discover whether you're on track to achieve your retirement objectives, or if there is more you need to be doing.

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/2DrwVHz (Investor's Business Daily)
1 https://bbc.in/2E4Cmh4 (BBC)
1 https://bit.ly/2OZoDux (The Guardian)
1 https://yhoo.it/2tjeKiK (Yahoo! Finance)
1 https://bit.ly/2Vk9wz1 (The Guardian)
2 https://bit.ly/2EcHyhV (Moneyfacts)
2 https://bit.ly/2GKinGX (What Investment)

Will you retire mortgage-free?

Millions of people will be repaying their mortgage when they reach retirement age, which might have unintended long-term consequences.

No one enjoys paying large monthly bills. So, when it comes to the mortgage on a home, the option to go for a longer-term deal – thereby reducing how much you pay each month – can be very tempting. However, having a mortgage lasting 30 or more years could inadvertently mean building up financial headaches later in life.

According to a January 2019 report from the Financial Conduct Authority, 40% of borrowers who took out a mortgage in 2017 will be over 65 when their mortgage term matures.[1] This is a significant increase on five years earlier, when only 22% of mortgages were expected to last into the borrower's retirement.

These figures are backed up by November 2018 research from L&C Mortgages, who found three million people now expect to be repaying their mortgage after 65.[2] With Prudential's Class of 2018 survey[3] forecasting one in five people who retired in 2018 still carried some form of debt – an average of £33,900 – there's an increasing trend of workers coming to the end of their career with sizeable outgoings.

And that could have a big impact on their future.

Clashing priorities

The first issue of having a long-term mortgage is it's likely to hinder you from saving for retirement. That might not seem like a pressing issue if you're currently in your 30s or 40s, with more immediate priorities like raising a family. But waiting too long to adequately save for retirement will make it difficult to build up a large pension pot.

When it comes to retiring, you'll need to largely rely on your own pension – plus other savings and investments – to fund your lifestyle. If paying off debts like a mortgage have severely limited your pension contributions, you may have to accept a reduced standard of living in retirement – or even continue to work for longer.

Even if you do retire around 65 – should you still have a mortgage to pay – you might find your outgoings take up too large a portion of your overall budget. That could mean lifestyle cut-backs, at least until your mortgage is finally paid off.

Assessing your options

If you're currently on a long-term mortgage with a term that lasts into your 60s, it might be wise to check how it's impacting on other financial priorities. Although it might be the most suitable option for your needs – if it limits your ability to plan for other long-term goals, such as retirement – you could be storing up issues.

For this reason, it can help to speak to an adviser to assess if your mortgage is suitable for you, or if you need to consider alternative remortgage options. An adviser can also help you to review your plans for retirement and check how your current pension provisions measure up to your future lifestyle expectations.

The value of your investment can go down as well as up and you may not get back the full amount invested. Your home may be repossessed if you do not keep up the repayments on your mortgage.

1 https://bit.ly/2AlugJ4 (The Guardian)
2 https://bit.ly/2BxiCAW (London & Country)
3 https://bit.ly/2N3YJGw (Prudential)

Investing in Brexit

Brexit remains the number one talking point in the UK, but the market uncertainty shouldn't hold you back from planning your financial goals.

We're living through a momentous period in the UK's history. The process of leaving the European Union (EU) has dominated the media and every day conversations for months – and the outcome will affect the way we live our lives for years to come.

The huge ambiguity surrounding Brexit has had a major impact on UK businesses and markets. For investors, it presents significant challenges – but also opportunities. And even with the outlook clouded with uncertainty, your own financial future can still prove bright.

Navigating the crossroads

The twists and turns of the UK's negotiations with the EU continue to be covered extensively in the media. Such unprecedented times underline how much markets hate uncertainty, with volatility intensifying over the final quarter of 2018, when the Brexit negotiations reached a crucial phase.

Trade is the key factor for UK businesses, many of whom rely on importing and exporting goods and services with the EU – tariff-free, as part of the single market access. According to 2016 figures from the Office for National Statistics[1] - the latest available - 48% of UK exports (£235 billion) and 43% of UK imports (£318 billion) are with the EU. Leaving the single market will see tariffs applied on these imports and exports. But it goes beyond even that. The UK largely trades with the rest of the world through EU-made trade deals. After leaving the EU, the UK will need to negotiate new trade deals with these other nations.

It all makes for a challenging backdrop. In the short-term at least, the gaining of greater clarity over the UK's future relationship with the EU can only help investors. It's also likely to boost the value of the Pound, which has taken a significant hit since the EU Referendum result.[2]

Whilst the falling Pound hasn't helped Brits travelling abroad on holiday, it has actually benefited investors with global assets in their portfolio. However, those gains might be eroded if the Pound starts to rise again.

A balanced approach can help investors

It's easy to use the uncertainty of Brexit as a reason to delay planning your own financial future. But given it might take years to truly settle down, can you afford to wait? What really matters are your personal objectives and ability to achieve them.

The Brexit drama emphasises the value of holding a balanced portfolio of assets. If you have investments exposed to a range of asset types and different parts of the world, you could potentially experience a less bumpy ride.

If you've not had a review of your portfolio for some time, now might be the ideal time to discover if they're still suitably positioned towards achieving your goals. A financial adviser will help you check the performance of your current savings and investments, and how they measure up to achieving your goals.

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/2ImbVX3 (Office for National Statistics)
2 https://bit.ly/2I7xmMR (IG)

And finally...

The price of happiness

44% of British people believe they work too much – and nearly half of us (48%) claim we'd be willing to sacrifice 5-10% of our salary for a better work-life balance.

The November 2018 research from LifeSearch also found that, on average, we value our free time at £61,829 a year. Women place a significantly higher value on their own time (£64,020 a year) compared to men (£59,533).

With the UK's mean average income at £25,417, that means 48% of us would be willing to give up as much as £2,000 a year in salary to spend more time with our loved ones and on our hobbies.

https://ind.pn/2CILQxY (Independent)
https://bit.ly/2Glruhd (Your Money)

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