moneyworks

Winter 2021

Five ways to beat inflation

From filling up your car to your weekly food shop, it's impossible to escape the effects of the rising cost of living.

What state is your pension in?

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Time to move?

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Avoid the inheritance tax trap

Inheritance tax revenue has reached record high levels in recent years, but with careful planning you can avoid a huge financial hit and pass on more of your wealth.

Welcome

It's hard to believe that this time last year we were in the midst of a second national lockdown, with a real fear about what the future would hold.

Hopefully, with things now back to some sort of normality, this Christmas should be a far more enjoyable time for all, but what has been the financial fall-out of such a disruptive year and what can savers and investors expect in 2022?

The global pandemic has made us all think even more about loved ones and how we can plan for their future. In this issue we look at the impact the past year has had on savings and the ways you can ease the burden and worry of what lays around the corner.

With inflation forecasted to rise to an average of 4% over the coming year, we look at five ways you can best beat the rising cost of living and consolidate your finances so you are in the best possible position over both the short and long term.

With interest rates also set to rise in the coming months, we address the issues for mortgage borrowers and why now is the time to act if you're coming to the end of a fixed-term mortgage as those ultra-low deals look likely to become a thing of the past.

With the government temporarily scrapping its popular triple lock pension policy, we also ask what this means to those about to retire and highlight the limitations of relying on the state pension to support you adequately.

In addition, we look at the importance of taking out life insurance and how through speaking to an adviser, you can best protect your finances and family should anything happen to you.

Finally, with inheritance tax revenue reaching record highs, we explain how with careful planning you can avoid a huge financial hit and ensure more of your hard-earned money is passed on to your family rather than to the treasury when you die.

As we approach this next financial junction, the fall-out from the pandemic is likely to be felt for many years to come but addressing your situation now with a financial adviser will ensure you are in the strongest position possible moving forward.

Here's wishing you a very Merry Christmas and a safe, peaceful and prosperous 2022.

The **moneyworks** team

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The News in Brief

A round up of the current financial stories.

Two-thirds of adults unaware what happens to their pension savings

Your pension is arguably the most important investment you will ever make – but most adults don't realise it is actually an investment.

November 2021 research by Hargreaves Lansdown found only 35% of pension savers knew their pension is invested in the stock market. A further 33% believe it isn't, and the remaining 32% admit they aren't sure.

If you have a defined contribution pension, your contributions are invested on your behalf with the aim of generating you higher returns for your retirement. But if you haven't ever checked how your pension is invested, you might not be taking the right approach for your needs.

https://bit.ly/3HflpPs (Pensions Age)

The cost of mortgage loyalty

It's easy to assume that the long-term commitment of taking out a mortgage with a lender means you have to stay with them for decades, but October 2021 research has highlighted the potential price of loyalty.

According to Barclays, 49% of UK homeowners have never remortgaged – that is moved to another lender – despite one in three admitting they know remortgaging could save money.

On average, UK homeowners have been on the mortgage payment ladder for 13 years and five months, typically moving from one fixed rate deal to another – always with the same provider. This is despite the fact there might be much better options available with other lenders, which could save them hundreds or even thousands of pounds a year.

https://bit.ly/3HgE0L5 (This is Money)

Self-employed? Why it's important to prioritise planning your retirement

Being your own boss might come with lots of perks – but being self-employed can also mean no one is helping you think about saving for retirement.

In October 2021, HMRC released figures that show the money self-employed workers are saving into a pension over 2019/20 fell to its lowest level. The total amount saved was £830 million, compared to £1 billion in 2018/19.

What makes this figure even more concerning is that the number of people declaring themselves self-employed is on the rise. So that's more people saving less overall.

With so much going on when you own a business, it can be difficult to look after your own financial future. But neglecting it could leave you struggling and possibly having to delay retiring when the time comes.

https://bit.ly/3ksqEBS (Moneyfacts)

Six billion regrets as one in 10 Brits suffer buyers' remorse

Lockdown life was not much fun for anyone, but the pandemic did at least see nine in 10 Brits treat themselves by spending money on significant purchases. However, nearly one in 10 of us admit we might have got our pandemic buys wrong, equating to more than £6 billion worth of regretted purchases.

These November findings from Aviva showed that people who splashed out spent an average of £1,205. Clothes and shoes were the most popular choice of items to splurge on. Smartphones, tablets, gaming and kitchen equipment were also widely favoured treats.

Yet whilst most of us are still enjoying our buys, 11% confessed they use these items much less than they expected – and 8% admitted they don't use them at all.

https://bit.ly/3kv5h2S (Aviva)

Five ways to beat inflation

From filling up your car to your weekly food shop, it's impossible to escape the effects of the rising cost of living. Inflation has shot up in the past year and in October the Office for Budget Responsibility forecast it will average 4% over 2022.[1]

Here's five ways you could protect your finances over the long-term.

1. Look for the most appropriate mortgage deal

With the Bank of England widely expected to increase interest rates over the coming months, mortgage rates are likely to rise.

If you're on a fixed rate mortgage that comes to an end soon, or on a standard variable rate, it might be worth acting quickly to secure an attractive fixed rate deal. That way you can enjoy the relative security of lower mortgage repayments, at a time when other costs in your life are likely to keep rising.

2. Prioritise any debts

The expected rise in interest rates will also make it more expensive to borrow money. So, if you have existing debts, like a sizeable credit card balance or loan, it's probably a good idea to pay them off as soon as possible.

Even if the terms of your loan mean the interest rate is fixed, getting this debt paid off quicker will free up more of your overall finances.

3. Review your savings

At the end of October, there wasn't a single savings account which could match or beat the rate of inflation.[2]

Savings accounts are a crucial part of financial planning. It's so important to have money for short-term needs in case of emergency. But if you have other savings you could tie up for five or more years, it might be worth investing them.

Investing doesn't come with any guarantees as you can lose money, but it does offer you a much better chance of beating the cost of living over the long-term.

4. Make the most of your tax allowances

If you've not yet retired, are you making the most of your annual pension allowances? We can each invest up to £40,000 each tax year (and carry forward any unused annual allowances from the last three tax years).

When you pay into a pension, you benefit from tax relief of 20%-45% – depending on your taxpayer status. This means you can receive a significant amount extra in your pension pot. There are tax considerations for withdrawing these savings, and you can't touch it until you reach 55.

Don't forget the ISA allowance too, worth £20,000 for the 2021/22 tax year. You can use it to save or invest into an ISA, with your capital – and the returns you make – free from tax.

5. Speak to a financial adviser

It's easy to focus on the immediate consequences of high inflation, but it's the potential damage it can do to your long-term financial plans that could prove more significant.

A financial adviser could help you assess your current arrangements and identify ways of making more from your money. That way, high inflation doesn't have to derail your 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. Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits. Accessing pension benefits is not suitable for everyone. You should seek advice to understand your options at retirement. Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. We recommend that the investor seeks professional advice on personal taxation matters.

[1] https://bbc.in/3c7oh2w (BBC)

[2] https://bit.ly/30h3Ii7 (Moneyfacts)

What state is your pension in?

The government has temporarily scrapped its popular triple lock policy, highlighting the limitations of relying on it to fund your future lifestyle, so how useful will the state pension really be in your retirement?

After a working career that's included paying plenty of tax, the state pension is one of the main financial rewards you get back during retirement. Unfortunately for UK retirees, the state pension in this country is amongst the worst in the world.

August 2021 research by Investing Reviews suggests only Mexico and South Africa offer a less rewarding state pension.[1] UK people receive, on average, just 28.5% of their pre-retirement earnings from the state pension. In contrast, Italy (92.8%) and India (93.3%) offer state pensions that almost fully cover their population's previous earnings.

More recently there has been a further blow for current UK retirees, after the government announced a one-year suspension to its popular triple lock policy.

What is triple lock?

Introduced back in 2010,[2] the pension triple lock is a guarantee that state pension will rise each year by either 2.5%, average earnings growth or the rate of inflation – whichever figure proves highest. It means that, each year, retirees receive a state pension pay rise designed to help them keep pace with the rising cost of living.

Despite a 2019 general election pledge[3] to keep the triple lock in place under a Conservative government, in September 2021 it was announced the agreement will be scrapped for a year. This is due to an 8% surge in average earnings, which – under triple lock rules – would have resulted in a bumper increase in state pension from next April.

The government argued, with some justification, that the 8% figure is a Covid-related anomaly. But such precedence casts a shadow over future state pension rises too. Some experts are already suggesting that[4] – because of the UK's recent high rate of inflation – the triple lock might be scrapped the following year.

The foundations to a solid retirement

The new state pension is set to rise by 3.1%, rather than 8%, next April – working out at a maximum of £185.15 a week. Over 12 months, this adds up to £9,627.80.

This is a decent amount of money and certainly worth having to help fund your retirement. But the reality is that it's not going to be enough, on its own, to pay for anything more than a basic lifestyle.

This all underlines the importance of any savings and investments you have, including pensions you're paying into. When you come to retire, you're going to need to rely on these pots of money to supplement your lifestyle. How hard those savings are working for you now could go a long way to determining your future.

For this reason, it's really important to think about your income needs in retirement now. Speaking to a financial adviser comes highly recommended. They can assess the strength of your plans and provide personalised recommendations to help you prepare with greater confidence.

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/3C6wwqd (Love Money)

[2] https://bit.ly/30gXKNw (The Times)

[3] https://bit.ly/3202ckZ (Sky)

[4] https://bit.ly/3kxqoBn (Express)

Time to move?

Interest rates are set to rise in the next few months, which could have implications for mortgage borrowers.

Nothing lasts forever. And for mortgage borrowers, the era of ultra-low interest rates could be coming to an end.

Ever since the onset of the Covid pandemic in early 2020, the Bank of England base rate has been kept at the record low level of 0.1%[1]. It was a drastic move to keep the cost of borrowing low during a period of huge uncertainty, which helped businesses and the government navigate the choppy waters.

Mortgage borrowers were another group to hugely benefit. Rates fell, and then fell again[2] and it has never been cheaper to take out a fixed rate mortgage[3], as lenders battled to offer the best deal.

However, the outlook is now changing.

All eyes on the Bank of England

With the steep rise in inflation over recent months, the Bank of England is facing pressure to start raising interest rates again. The central bank operates to a remit of keeping the Consumer Price Index at no more than 2%, so the forecasts that inflation will average 4% over 2022[4] highlights the growing expectation it will act.

In November, there was heavy speculation the Bank of England would increase base rate in an attempt to curb high inflation. In the end, it chose to stick with 0.1% for now[5]. But such was the uncertainty, many lenders began to increase mortgage rates anyway.[6]

Nevertheless, an interest rate rise now appears to be a matter of when, not if. And it probably won't be a one-off. Markets expect interest rates to increase to 1% by the end of 2022[7]. This will quickly feed into mortgage rates.

In November, Moneyfacts data showed two and five-year fixed rate mortgage rates had increased month on month for the first time since June 2021[8]. This trend is likely to continue. Research from AJ Bell suggests someone with a £250,000 borrowing, who fixed for two years earlier this year, could face a £600 annual increase when they come to renew in 2023[9].

What are your options?

If you're currently on a standard variable rate mortgage, the amount of interest you're repaying is closely linked to base rate movements. So, if the Bank of England acts in the next few weeks, you can expect to receive a letter from your lender with bad news. Fixed rate holders might be initially protected from a rate rise, but will see the impact when their deal ends.

With this in mind, it is an especially good time to think about your options, if you've a fixed rate term nearing its end, on a variable rate or looking to remortgage. The stakes are high, and finding the right option for your personal circumstances isn't easy. That's where speaking to an adviser can really help.

A financial adviser can assess your need and research the market to find the most suitable options for you, including the best rate. They can take the hard work away from having to search yourself, giving you greater confidence to make the right decision.

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 remortgage.

[1] https://bit.ly/3qvQW9T (The Guardian)

[2] https://bit.ly/3ogvVNG (BSA)

[3] https://bit.ly/3c5DDVp (Money Saving Expert)

[4] https://bit.ly/3n9Qa0i (Independent)

[5] https://bit.ly/3qyk8NE (The Guardian)

[6] https://bit.ly/3CaHY4n (The Guardian)

[7] https://bit.ly/3wENZF3 (The Guardian)

[8] https://bit.ly/3c6yEUk (Independent)

[9] https://bit.ly/3oq5UeW (AJ Bell)

Avoid the inheritance tax trap

Inheritance tax revenue has reached record high levels in recent years, but with careful planning you can avoid a huge financial hit and pass on more of your wealth.

Inheritance tax is often seen as something that only affects the very rich – but a wide range of factors mean that this is no longer the case. What's more, recent forecasts suggest a growing number of people will be affected in future.

According to the Office for Budget Responsibility (OBR), the number of estates likely to pay inheritance tax will double in the next five years. It comes at a time when inheritance tax revenue is already at a record high level[1], and is expected to rise even further over the coming years.[2]

If you die with an inheritance tax liability, it means up to 40% of everything you own above your personal threshold could be taxed. Average bills can run into thousands of pounds[3], and it's often down to family members to find the money to pay it.

What is inheritance tax?

Inheritance tax has been around for 225 years[4], and was originally designed to be a way of taxing only the very wealthy. However, over recent times especially, it's become an issue that could affect a wider range of people.

It relates to the value of your estate. When you die, the value of everything you own is calculated – from your home and car, to savings and investments, even items like jewellery. If it works out more than your basic threshold of £325,000 per person or £650,000 for married couples/civil partnerships, 40% inheritance tax is applied.

There is also an additional residence nil rate band worth £175,000 per person, which you can use to pass on your main home to a direct descendent. A useful feature for some, but not everyone. The main £325,000/£650,000 thresholds are unchanged since 2009.[5]

When you add up everything you own, it can come as a surprise just how much your estate is worth. And it's not a fixed amount either – future price rises, such as property valuations, could push you above your threshold if you aren't already.

Thresholds frozen for five years

Inheritance tax thresholds are supposed to rise annually in line with inflation, but earlier this year the government announced they would be frozen until at least April 2026. This is another reason why more people are expected to have an inheritance tax liability when they die – their estate's value is likely to rise, but their threshold won't. Just look at how much property prices have risen over the past year, for example.[6]

The good news is there are ways to address inheritance tax. So, if you think you might be affected, it's worth speaking to a financial adviser to assess your options. They can help you calculate if you have a potential liability, and offer personalised recommendations to address it – so your loved ones ultimately get to inherit more of your hard-earned wealth.

That said, it's important to plan sooner rather than later. Some of the potential solutions require you to live for at least seven more years to be fully effective. Other options could prove more expensive, the longer you wait.

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. We recommend that the investor seeks professional advice on personal taxation matters. The Financial Conduct Authority doers not regulate taxation and trust advice.

[1] https://bit.ly/3kwfiwp (This is Money)

[2] https://bit.ly/3c4fwWW (Page 102, GOV UK), https://bit.ly/30iq7ed (Page 180, GOV UK)

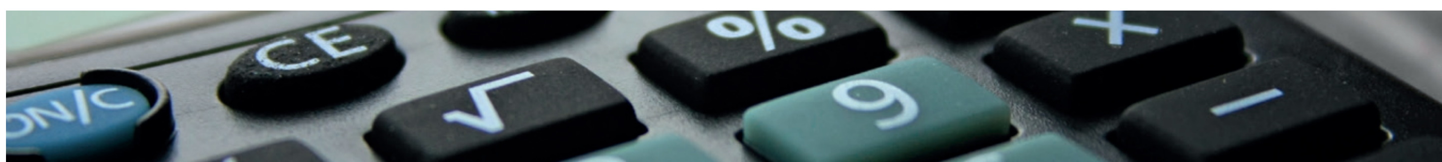
[3] https://bit.ly/30h9yA3 (FT Adviser)

[4] https://bit.ly/3Dbso9S (The Guardian)

[5] https://bbc.in/3HfSs67 (BBC)

[6] https://bloom.bg/31V1yoK (Bloomberg)

https://bit.ly/3Dq6OP7 (Office for Budget Responsibility, October 2021 economic and fiscal outlook – supplementary fiscal tables: receipts and other)



A valuable protection

Having the right insurance cover not only gives you peace of mind, it has many practical benefits.

One of the many things that makes humans unique is the self-awareness of our own mortality. And that can produce some powerful emotions. Knowing we will one day die means most of us understandably worry about whether our loved ones will be okay. And it's not just the emotional impact they'd endure, but the financial implications of no longer being able to rely on you.

It's for these reasons that having life insurance in place makes good sense. It's a policy that provides your loved ones with financial protection and support when you die, by providing them with a sizeable chunk of money. It typically covers everyday expenses like household bills and mortgage payments. Meaning your family aren't faced with the extra financial burden.

There's plenty of life insurance options out there, but that level of choice can also be confusing. Some policies might start with low premiums that increase over time. Others might have a 'reviewable' term that means they are later increased. It's important you get the right cover for your needs – if you're a couple, there's a range of important considerations over whether it's better to take out two separate policies or go for a joint one.

Get the decision wrong, and you might pay more in premiums than you need to – or may not have the level of cover you think. For these and other reasons, it's important to do your research and think about asking an adviser to help you. Life insurance is confusing, and an adviser can help you to work out exactly what you need, what you can afford to pay and the best options for your circumstances. With an adviser's help, you could have greater assurance that your family will have adequate financial support for whatever the future holds.

Chase Buckingham

John Ravenscroft & Jackie Miles

Long Close Farm, Wimborne Road, Walford, Wimborne, Dorset, BH21 1NR

01202 848123

jm@chasebuckingham.com

www.chasebuckingham.com

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