moneyworks

Winter 2022

Autumn statement: Preparing for stormy times

The new government has unveiled its plan to rebuild the economy, and we're all going to feel the pinch as the reality of the recession bites.

Making sense of investment uncertainty

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Protecting your future

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Fixing your future

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Welcome

As we near the end of another year, it will be one that many will be glad to see the back of. Amidst the current cost of living crisis, sky-high mortgage rates and inflation at an all-time high, 2022 will go down as the year when everything changed financially - and not for the better.

It was the year that saw three different Prime Ministers try to steady the ship in what are undoubtedly the choppiest waters many of us have sailed in. After Liz Truss's failed leadership, it was left to the new PM Rishi Sunak and his Chancellor Jeremy Hunt to take the reins and try to guide us through such uncertain times.

In this issue we address the main talking points of the Autumn statement, in which Hunt tore up the Kwasi Kwarteng Mini Budget that was announced less than two months earlier and replaced it with big changes, most noticeably on income tax and investments.

While there were some sweeping announcements and the realisation that we are in this for the long haul, it was a statement that may prove to be the first step on a long road to recovery.

But whatever your views on the tax changes to income and investments, plus the extension of the inheritance tax freeze, it will leave many with plenty to think about. If ever there was a time to speak to an adviser about the impact it will have on you and your finances, it is now.

With mortgage costs rising at an alarming rate, we address the need to get your house in order if your fixed rate deal is coming to an end, and again why seeking advice at such a critical stage is vital. We also look at investment uncertainty and why now might not be the time to cash in, and how riding out the storm could pay dividends in the long term.

We also look at the importance of having the right sort of protection in place - so if you should you fall ill, you are in the best possible position to cope with the financial burden this may put on you and your family.

By speaking to a financial adviser they can help you assess your current arrangements and look at ways you could make greater use of tax-efficient allowances, potentially putting you in a stronger position over the long-term.

Here's to hoping for a much brighter 2023 and we look forward to bringing you more news and views over the coming months.

The **moneyworks** team

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The Financial Conduct Authority does not regulate taxation advice.

The news in brief

A round up of the current financial stories

High inflation weighs on most people's minds

If you're feeling concerned about the rising cost of living, you're in good company. November 2022 research by Schroders found that 92% of us are worried about inflation and the impact it could have on our lives.

Just over half of us (51%) admit we're thinking about our finances more than we used to. And just short of a third (32%), feel stressed and anxious about money matters.

Whilst high inflation is being especially felt with our day to day spending and the bills we need to pay, the research also shows it's affecting our longer-term outlook, with a worrying 63% revealing they are not confident they will reach their financial goals for retirement.

https://bit.ly/3Xt75ew (Schroders)

Out of sight, out of mind

When most of us think back to previous jobs we've held, we picture the type of work we did, what the boss was like and the friends we made. However, what may have slipped our mind is the likelihood we were paying into some form of pension.

October research by the Pensions Policy Institute has found there are 2.8 million missing pension pots in the UK. That is, pensions that people have forgotten they paid into at some point. The research estimates the collective value of these missing pensions is a considerable £26.6 billion.

If you had previous jobs where you paid into a pension, these forgotten pots of money could add up to a decent amount – and boost your prospects in retirement. So, it's worth having a think and help is at hand, with the government operating a pension tracing service at **www.gov.uk/find-pension-contact-details**

https://bit.ly/3OtQHWW (Punter Southall)

Early starters

65 is widely seen as the age you retire, but October 2022 research of retirees by LV= shows that millions moved into retirement much earlier than they had planned.

Overall, 47% of those surveyed said they retired sooner than they had expected, with one in four saying they retired five years earlier than they had assumed would be the case. Although a third said they retired early because they could afford to, a similar amount revealed they were not in a good financial position when they did retire.

This trend of people retiring earlier than anticipated underlines the importance of not waiting too long to have strong financial plans in place for the future. You may need to rely on your retirement savings sooner than you might expect.

https://bit.ly/3VbPdmq (LV=)

Autumn statement: Preparing for stormy times

The new government has unveiled its plan to rebuild the economy, and we're all going to feel the pinch as the reality of the recession bites.

After weeks of doom-laden media speculation, in the middle of November the new chancellor Jeremy Hunt unveiled an Autumn Statement[1] of tax rises and spending cuts. We'd all being warned to brace ourselves for bad news, and for many – struggling already with the cost of living crisis – the anxiety must have felt huge. Now, at least, we know how we will be impacted.

The slow rise in income tax payments

Perhaps the biggest change to note is that some things won't change. With the exception of additional rate taxpayers, Hunt's big approach to raising taxes is to keep existing income tax bands frozen for an extra two years, taking them to 2028.

That means there is no overnight increase in most people's taxes, but it will be felt over time. For example, as wages naturally rise in the coming years, more people are likely to move into a higher tax bracket, resulting in the payment of more tax.

Additional rate taxpayers will experience a real change of fortunes from next April, with the bigger earners hit hard following a reduction in the threshold (when 45% tax applies from £150,000 a year to £125,140 from April 2023).

For investors there was some disappointing news

Starting next April, the annual tax-free allowance for dividend income will lower from £2,000 to £1,000, and then reduce further to £500 in April 2024. Depending on your income tax status, this means any dividend payments above the allowance will be taxed at 8.75% (basic rate taxpayers), 23.75% (higher rate taxpayers) and 39.35% (additional rate taxpayers).

Meanwhile, the annual capital gains tax exemption will fall from £12,300 to £6,000 in April, and then to £3,000 from the April after. Above these amounts, any profits you make when you sell an asset are taxed at 10% (basic rate taxpayers) and 20% (higher rate taxpayers). If the gains are on residential property, in addition to your primary residence, the tax rate is 18% and 28% respectively.

What these developments underline is the importance of making use of your ISA and pension allowances; something a financial adviser can support you with.

Better news for retirees

There's been heavy speculation the pension triple lock would be abandoned and tax relief would be tweaked to become less advantageous. None of this came to pass, boosting people planning for retirement, and for those who have already made the leap.

Triple lock is the guarantee that state pension will rise each year by either the rate of inflation or average wage rises or 2.5% – whichever figure is higher. Hunt has confirmed that the state pension will go up 10.1% next April.

Meanwhile tax relief – which you receive when you pay into a pension – remains as attractive as before. And in view of the dividend allowance and capital gains tax changes, pensions are an even more appealing way to build and grow your money for the future.

The country has a new financial plan, how's yours looking?

Compared to the tone of the media's build up coverage, the Autumn statement itself hopefully wasn't as bad as you might have feared. But with changes to taxes on income and investments ahead, there might be good reasons to look at your own financial plans now.

Speaking to a financial adviser can help you to assess your current arrangements and how well they stack up for the future. They can look at ways you could make greater use of tax-efficient allowances, to put you in a stronger position over the long-term.

The Financial Conduct Authority does not regulate taxation advice.

[1] https://bit.ly/3XvpVl5 (GOV UK)

Making sense of investment uncertainty

There's been a great deal of media coverage devoted to stock market falls, but short-term bumps in the road are part of the journey for successful investing.

There's a saying in the newspaper industry that bad news sells, and nowhere is this better illustrated than when it comes to media coverage of stock markets.

When markets fall, it's usually front page news. When they're ticking along in an upwards direction, you'll rarely see it reported outside of the business section. It is the difference in the level of exposure between good and bad news that can have a real impact on investors, especially during periods as unsettling as the last 12 months.

The chances are you'll be well aware stock markets have not had a positive 2022 so far. There's been a great deal of media coverage devoted to falls in the likes of FTSE 100[1].

So – beyond the negative headlines – what exactly is happening and what might it mean for your financial future?

A challenging period

It's fair to say 2022 has seen a whirlwind of events. Go back to January, and the main concerns for markets were COVID 19 (and the threat of the Omicron variant) and the rising level of inflation. The latter has continued to be a theme throughout the year, but other factors have come along to play their part.

In February, Russia's invasion of Ukraine had a ripple effect globally. In this highly connected world we live in, the effects of Russia's actions – and the sanctions other nations placed on them – were felt by markets.

The other big factor has been the response to inflation from central banks. The likes of the Bank of England and US Federal Reserve have significantly increased interest rates in an effort to curb inflation. This leads into higher borrowing costs that impact businesses and consumers alike.

Closer to home, the UK political turmoil has proved another unwelcome factor. Liz Truss' reign as prime minister proved brief, as markets were spooked by the Mini Budget.

With Rishi Sunak now prime minister and all those Mini Budget plans cancelled, we've seen a more stable time for markets which, of late, have quietly crept up. But with inflation still high and the UK on the brink of recession, this remains a challenging period.

What does this mean for your investments?

As tough as things have been for investments over the last few months, it's not an unusual situation.

The reality is that markets are prone to periods of short-term volatility, where they might fall quickly and sharply. We've seen it many times in history. But what we've also seen is that markets have ultimately gone onto recover.

During periods like now, it's incredibly important to keep sight of your original reasons for investing. Some investors do make the mistake of panicking and encashing their holdings[2]. But in doing so they're taking a loss on their money, whilst depriving themselves of the chance to benefit from market recoveries.

Equally, you might be tempted to withdraw your money and reinvest when markets look more settled. But that carries the real risk of missing out. Research suggests some of the best days for markets follow some of the biggest dips[3].

Holding your nerve

There are no guarantees, and past performance is not a guide to future returns. Generally, the longer you can leave your investment where it is, the higher the potential return.

That said, if you're feeling unsure there is always help available. If you've not reviewed your plans for a few years, meeting with a financial adviser can help you discover if your arrangements remain correct for your goals, or if it might be worth making changes.

An adviser can use their expertise to review your investments – and offer recommendations that suit your circumstances.

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/3GCRUJJ https://bit.ly/3Ep2am4 https://bit.ly/3XqiziG (The Guardian)

[2] https://bit.ly/3Ovr6Nv (Financial News)

[3] https://bit.ly/3XqRjkh (CNBC)

Protecting your future

You can't predict what might lie ahead, but it pays to be financially ready for whatever life throws at you.

When it comes to planning your financial future, two of the most important words you can ask yourself are 'what if'? Your health, career and overall situation might be fine now, but there may be things that occur down the line which tests your financial resilience. If you have the right type of protection in place, you can gain greater peace of mind that you've prepared for the unknowns.

Serious illness, such as cancer, is one such potential scenario. It's not a nice thing to think about, and hopefully you'll never experience it. However, research suggests around 3.5 million people will be living with cancer in the UK by 2025[1]. If you or a loved one were unfortunate to receive a diagnosis, the last thing you'd want to be thinking about is the financial impact.

November 2022[2] research by Zurich discovered four in five people diagnosed with cancer face unexpected costs, averaging £541 a month more than they would normally spend. 39% say they are forced to draw on savings to cover cancer costs, and 34% are just about managing to pay essential bills.

It might have been different had these unfortunate people had some form of protection plan in place. However, 74% of those surveyed did not receive financial support from a critical illness or income protection policy to help cover costs.

What protection could do for you

There's a range of different protection plans you could put in place, typically for a small monthly cost, that could support you in certain scenarios. Critical illness cover is one example. It means if you were to suffer from any of a range of medical conditions, it would pay out a lump sum of money to help you financially.

If you and your family depend heavily on your income, or you don't have enough savings to tide you over if you were unable to work for health reasons, critical illness cover could prove essential. It's just one less thing to worry about, at a time when your focus should rightly be on your health.

In that same survey, more than half (57%) of people with cancer, with a policy in place, said this financial pay out eased the burden of the diagnosis.

There's a range of reasons to protect your future

Illness can take many different forms, and over the last couple of years mental illness has become a prominent reason to consider having protection cover in place. 18 months ago, and with COVID 19 still such a big impact on our lives, Zurich was reporting that the number of mental health protection claims had doubled over 12 months[3]. A more recent report by Global Data, looking at the UK protection market over 2021, found that mental health accounted for the largest portion of all claims[4].

We have a greater awareness – and understanding – of mental health illness in recent years. In some cases, it can really impact your ability to work. That's where income protection can be so valuable. It replaces part of your income if you suffer a loss of earnings due to illness or injury leaving you unable to work. It will cover you either until you can return to work, or until retirement or death.

There's never a good time to put this off

Given there will be monthly premiums to pay and with the current cost of living crisis, it can be tempting to delay making protection plans. If you don't have cover already in place, it's another small cost to add to your range of expenses right now.

Equally, you may have plans in place and, as you look to make cost savings, decide to cancel them now to save money.

But it's never a good idea to delay or cancel such crucial plans. Things can change very quickly, and at a time when there's a lot of uncertainty about the economy and personal finances, you never know if and when you might need to rely on a protection plan.

For this and many other reasons, it's a good idea to check your arrangements. Speaking to an adviser is recommended if you're unsure as to whether you have sufficient protection plans in place. They can look at your circumstances and financial provisions, and help you see if there are any 'what ifs' that might be worth making plans for.

[1] https://bit.ly/3gsa2vd (Macmillan)
[2] https://bit.ly/3tX2qUB (Zurich)
[3] https://bit.ly/3GFwBr1 (Zurich)
[4] https://bit.ly/3goq4X2 (Global Data)

Fixing your future

Mortgage costs are rising considerably of late, presenting some tricky dilemmas for those on a fixed rate deal.

If you're a mortgage borrower on a two, three or five-year fixed rate deal, the chances are you got yourself a bargain. Mortgage rates have been relatively cheap for more than a decade and they hit record lows in both 2020[1] and 2021[2]. But if you're one of the estimated 1.8 million people with a fixed rate deal that's set to expire in 2023[3], you will unfortunately find it's a very different climate.

Over the past 12 months, Bank of England base rate has been steadily climbing from a historic low of 0.1%. Base rate currently stands at 3% and it's widely expected to continue going up over the coming months[4].

Every time the MPC has met over the past 12 months, they've opted to increase rates and the bad news is that we've not yet hit the peak. With the cost of living[5] at a 41-year[6], raising interest rates is the biggest weapon the bank has to curb inflation.

But the consequences are unfortunately being sharply felt by mortgage borrowers.

Tough choices ahead

Around 6.3 million households – three quarters of all mortgage borrowers – are on a fixed rate mortgage deal[7]. They are a great option for fixing your monthly costs for a set period, meaning you're protected from movements in interest rates.

When your term comes to an end, you'll either move onto your lender's standard variable rate – usually higher than your fixed rate mortgage – or you'll need to arrange a new fix, either with your current lender or elsewhere if there's a better deal. And that's the big dilemma facing many of us over the coming months.

On 9 November 2022[8] the best two-year fixed rate deal was 5.35% (75% LTV). Yet as recently as September 2021, the average rate on a 75% LTV two-year fixed rate mortgage stood at just 1.20%[9].

It's not all bad news. When the short-lived Liz Truss government unveiled the now-infamous Mini Budget, the Bank of England indicated it would have to raise interest rates at a much sharper rate. It led to most lenders quickly withdrawing deals[10] in anticipation of having to significantly reprice them. It was strongly suggested base rate would get to 6% in a matter of months, and that an average mortgage repayment would leap from £863 a month to £1,490[11].

But, with the Mini Budget consigned to history, next year's interest rates are now projected to peak at a lower level of 4.5%[12]. Lenders have also re-entered the market, which means the situation isn't as grim as it appeared in late September - although it's still a very different outlook to a year ago.

Big decisions call for expert advice

If you're on a fixed rate mortgage due to expire on the next 12 months, there's clearly some tough choices ahead, especially with the future of interest rates feeling uncertain and the fact the number of available mortgage products is expected to reduce[13].

With so much at stake, getting advice is strongly recommended. An adviser can look at your situation and use their expert insight to research the best product for your current circumstances. Some advisers can even get you a more favourable deal from a lender compared to approaching them yourself[14].

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

[1] https://bit.ly/3XqPG69 (Housing Wire)
[2] https://bit.ly/3i6pL3w (Money Saving Expert)
[3] https://bit.ly/3OzgL2T (Financial Times)
[4] https://bit.ly/3VDeiHh (Capital)
[5] https://cnn.it/3i94JkR (CNN)
[6] https://cnn.it/3OxJS6J (CNN)
[7] https://bit.ly/3VpGTQ9 (The Guardian)
[8] https://bit.ly/3U62Jaa (Moneyfacts)
[9] https://bit.ly/3TZhfQT (Twindig)
[10] https://bit.ly/3U2LLcT (Housing Today)
[11] https://bit.ly/3GGazo6 (Axios)
[12] https://bit.ly/3EXYQju (This is Money)
[13] https://bit.ly/3ESBvj1 (Independent)
[14] https://bit.ly/3ETtgmQ (Online Mortgage Advisor)

And finally...

The hidden cost of long-term care

There may come a time when a family member needs extra care and attention – meaning they may need to move to a nursing home. It's already expensive, and November research by the UK Care Guide suggests it could soon get worse.

The organisation is forecasting annual fees could be about to rise by 40%, from £25,000 to £35,000 (outside of London) and £28,575 to £40,000 within the capital. The government does have plans to help – with a social care cap scheduled, and the threshold level for people to be eligible to receive support rising. However, in the Autumn Statement it was announced the government will delay the cap for two years.

According to calculations from Aegon, this delay in legislation could add £26,000 to the average cost of long-term care, meaning the average cost of a 130-week care home stay rises to £104,280.

This potential issue highlights the need to have strong long-term financial plans for whatever the future might hold.

https://bit.ly/3GDDQ2w (This is Money) https://bbc.in/3Vic9QU (BBC)

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