moneyworks

The essential consumer guide to making your money work harder.

Autumn Edition

Where do we go from here?

Negotiations over the UK's exit from the European Union are in full flow, but political events are adding to the uncertainty for businesses and investors.

Balancing your financial future

Why putting all your eggs in one basket isn't the best way to realise your financial goals.

The long path ahead

There is greater optimism for the first interest rate rise in a decade, but it's going to continue to be a challenge for savers to grow their money in real terms.

Are you on course for a happy retirement?

With fewer than half of UK workers confident they have enough savings to achieve their goals in retirement, it is important to make sure you have enough money saved to enjoy in later life.

LANGHAM
FINANCIAL MANAGEMENT

Welcome

Welcome to your Autumn edition of moneyworks. With talks over the UK's exit from the EU now fully underway, there is much uncertainty about what will happen next and it is a particularly curious time for investors who may be wondering what the future holds for their finances.

In this issue, we report on how Brexit is shaping up and the considerations investors need to make over the coming years.

We also look at the importance of balancing your financial future and why focussing all your hopes on the success of one investment is not always the best route to take.

With greater optimism for the first interest rate rise in a decade, savers have recently been given a glimmer of hope, but in this issue we reveal how it is still going to be a challenge for them to grow their money in real terms.

Finally, we look at the need for preparing early and adequately for retirement and why with life expectancy in the UK on the rise, it is important to make sure you have enough money put away to enjoy in later life.

In such uncertain and changing times, the importance of seeking financial advice is vital to ensure you and your finances are in the best possible shape and we hope this latest issue of moneyworks helps to address some of your concerns.

Best wishes

The moneyworks team

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The News in Brief

A round-up of the current financial stories.

Saving money goes out of fashion

The ratio of money that UK households are saving for the future, in relation to their disposable income, has fallen to its lowest level since the 1960s.

Between January and March this year, the amount being set aside as savings fell to just 1.7% of income – a sharp drop from 3.3% at the end of 2016. Just a year ago, we were putting away more than three times this rate.

Given StepChange Debt Charity found nearly one third of us don't have a rainy day fund, not having savings in place could cause issues if you receive a financial surprise like an unexpected bill.

Savings accounts rates are doing little to encourage good savings habits. Moneyfacts research found nine out of 10 easy access savings accounts pay interest below 1%.

Sources:

http://www.thisismoney.co.uk/money/saving/article-4654394/ONS-savings-ratio-hits-1-7-lowest-level-1960s.html

https://www.theguardian.com/business/2017/jun/30/britons-savings-at-record-low-as-household-incomes-drop-says-ons

http://www.express.co.uk/finance/personalfinance/762092/third-people-no-rainy-day-savings

Inheritance tax receipts soar to new record high

Annual inheritance tax revenue has smashed through £5 billion for the first time, with HMRC's receipts for the 2016/17 tax year totalling £5.1 billion. This is a 19.1% increase on the £4.7 billion raised in 2015/16 – and it's more than double the amount collected seven years ago.

With inheritance tax thresholds having been frozen since 2009/10 – and estate values climbing considerably due to rising house prices and positive stock markets – the number of people affected by inheritance tax is growing.

Even with the April introduction of favourable new rules, the Office for Budget Responsibility forecasts annual revenues will continue to rise annually and reach £6.2 billion by 2021/22.

Sources:

http://www.which.co.uk/news/2017/06/inheritance-tax-bills-top-5-billion-for-first-time/

http://www.telegraph.co.uk/news/2017/03/11/2bn-paid-inheritance-tax-previously-thought-house-prices-soar/

The Financial Conduct Authority does not regulate taxation and trust advice.

The grey workforce

Six years on from rule changes that mean workers no longer had to retire at 65, the trend of working for longer continues to grow.

Research by Prudential has found that – for the fifth year in a row – more than half of people planning to retire this year will consider working past state pension age. Around a third say this is because they enjoy working, and more than a quarter don't like the idea of being at home all the time.

That doesn't necessarily mean maintaining the status quo – more than nine in 10 say they wouldn't continue full time in their current job, with 28% preferring the idea of reducing their hours with their employer. Three in 10 believe they would look for a new employer.

Source:

https://www.pru.co.uk/press-centre/pretirement-is-the-new-reality-for-many-retirees/

The true value of financial advice

An in-depth study by the International Longevity Centre and Royal London has found that those who receive financial advice could end up nearly £40,000 better off compared to those who don't.

The study looked at people who received financial advice between 2001 and 2007, and those who didn't, by comparing their wealth between 2012 and 2014. It found that already wealthy people who received advice were an average of £12,363 better off in liquid financial assets, and had £30,882 more in a pension, compared to wealthy people who didn't get advice. This makes a total of £43,245.

Of those just getting by (less wealthy), the difference between getting advice or not doing so was equally stark. Advised people in this group had an average of £14,036 more in liquid assets and £25,859 more in pensions. A difference of £39,895.

Source:

https://www.ftadviser.com/your-industry/2017/07/13/financial-advice-leaves-people-40k-better-off/

Where do we go from here?

Negotiations over the UK's exit from the European Union are in full flow, but political events are adding to the uncertainty for businesses and investors.

If anyone went into the summer break in need of a holiday, it was Theresa May. The Prime Minister had expected to begin the crucial Brexit negotiations with a stronger government majority, but her plan backfired after a snap general election left her with a weaker hand.

Back at the start of this year, May had agreed MPs could vote on any proposed Brexit deal agreed with the EU. A parliamentary majority of only 17 seats left the risk of a deal being defeated by members of her own party – plus opposition benches – voting against her, so she went to the polls.

Yet rather than increasing her majority, the election resulted in fewer seats and meant May had to strike up a formal arrangement with the Democratic Unionist Party (DUP), who have agreed to back the Conservatives on key commons votes like Brexit. Not the outcome she expected, placing her under considerable pressure.

At the negotiating table

This backdrop of political unrest is taking place just as Brexit negotiations formally begin. Between now and March 2019, the Government and the EU must agree the terms for leaving. On the table are the rights of EU citizens living in the UK (and British people living in Europe), cross-border security and trade. A deal has to be finalised between all 28 current EU members – even if one or two go against the proposal, it will stall. Headaches lie ahead.

For markets, trade deals are the key focus. From whether the UK can retain access to the EU single market – allowing British businesses to import and export goods and services, without paying tax – to the future of trade deals with other countries.

The EU gives UK businesses preferential treatment in over 50 countries outside the EU, which has enormous economic advantages.

There is fierce debate about whether the UK should look for a Soft Brexit (keeping some form of membership with the single market), or a Hard Brexit (leaving the EU with no single market access). There are varying shades in-between these extremes, and that's a key part of these lengthy talks. Consequently, there is much at stake.

Market impact

The PM's weaker negotiating position could prove significant. Within the Conservatives and DUP, there's a wide range of views about what Brexit should look like. May will have to work closely with everyone to find common ground. The positive is this should result in a clearer path of what the UK is looking to achieve. Nevertheless, uncertainty is going to reign for some time – and this could impact on markets.

For investors, Brexit highlights the value of building a diversified portfolio of assets from around the world. Doing so can help you benefit from positive performance in other countries to boost your overall returns. In contrast, having investments tied only to the UK means your holdings will more closely mirror its ups and downs.

Financial advice can help you to determine the right portfolio for your personal needs.

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.

Balancing your financial future

Why focusing all your hopes on the success of one investment area isn't always the best way to realise your financial goals.

We all learned from a young age the saying 'don't put all your eggs in one basket', and for investors it remains one of the golden rules.

With market conditions changing so often over the last few years, a balanced investment approach offers a smoother ride and a potentially greater chance of succeeding with your objectives.

That's why smart investors won't just limit themselves to stock market assets. Within your portfolio you could have investments in property, corporate and government bonds, cash and other commodities. Geographically, the spread of investments within asset classes can stretch beyond the UK and other parts of the world like Europe, the US and emerging markets such as China.

If you go with an active fund manager, you can benefit from their expertise making day-to-day decisions over where to invest your money.

The advantage of diversifying is that, when one part of your portfolio isn't performing well, another might be producing higher returns to provide balance. This means your overall returns might be more consistent, as they're not as closely linked to just one investment area.

Finding the right fund

There are thousands of investment funds available for UK investors, so it's a challenge to find the right approach for your circumstances, goals and appetite for taking risk.

Many funds are single-asset, which involves placing your money with a fund manager who can invest into one asset class (such as shares). You could benefit to a greater extent when the asset class has a strong period; although if the asset class falls in value, you'll incur losses to a larger degree.

In contrast, multi-asset funds are where your money is placed with a fund manager who invests into a range of different asset classes, changing the amounts placed in each type depending on markets and the fund's overall strategy.

When an asset class is under-performing, the manager can protect your capital to a greater level by investing elsewhere. You wouldn't benefit from rallies in one asset class to the same extent as a single-asset fund, but you are less exposed to the downsides.

Developing your approach

Although putting your eggs in a range of baskets is a sensible approach, it doesn't mean you should exclude single-asset funds from your thinking. It's all down to your situation and feelings on risk, which a financial adviser can support you in establishing.

For example, you could place your money into a range of single-asset funds, so you have a portfolio with access to a range of asset classes. The performance of each single-asset fund will be different, but the overall returns more consistent with a multi-asset fund.

Ultimately, your adviser can help you to build a strategy that's right for you. There are never any guarantees with investing, but a balanced approach could offer a more settled investment journey and provide more protection from the risks of stock markets.

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.
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As property is a specialist sector it can be volatile in adverse market conditions. It may be difficult to sell or realise property investments, or obtain information about their value, or to the extent of the risks to which they are exposed.

The long path ahead for interest rates

There is greater optimism for the first interest rate rise in a decade, but it's going to continue to be a challenge for savers to grow their money in real terms.

Careful savers were given an unexpected glimmer of light in June, after the Bank of England came surprisingly close to increasing interest rates.

At the Monetary Policy Committee (MPC) committee meeting – which sets interest rates – the vote to remain at the historic low of 0.25% was just 5-3 in favour. It is six years since the vote came this close to a rate rise, and has prompted speculation interest rates might be increased in the very near future.

Bank of England chief economist Andy Haldane – who voted to keep rates unchanged – spoke of his belief that interest rates should start to be increased soon because, "if policy tightened 'too late', this could result in a much steeper path of rate rises later on."

Mark Carney, the Governor of the Bank of England, said he would need to see continued growth in the UK economy before personally voting to raise rates.

Given the UK's rate of economic growth has slowed - average earnings are rising at their slowest annual pace for more than two years, and inflation has fallen - there is some doubt as to whether an interest rate rise will occur this year. But the prospect of moving upwards for the first time since 2007 now feels closer than it has for some time.

The challenge for savers

Hard-working savers have been penalised by historically low interest rates for over 100 months now. Last August, following the EU Referendum vote to Leave, the Bank of England pushed interest rates down from 0.5% to the current 0.25% level.

The impact is obvious. Back in October 2007 – when interest rates were 5.75% – the average one-year fixed rate bond offered by banks and building societies was 6.08%. In May this year, it was just 0.73%. Instant access account average rates are down to a dismal 0.15%, even with a bonus. A poor reward for those putting money away for the future.

But that's not even the full impact of how damaging this is for savers. With inflation rising significantly over the last 12 months, growing your money in real terms has become impossible with savings accounts. Rates have recently improved, and inflation has fallen, but there are no accounts available on the market that can beat inflation.

Even when the Bank of England starts to raise interest rates again, it's going to take years to return to the pre-2008 levels.

Widening your options

If you have short-term financial goals coming up in the next couple of years, there's not much you can do about low interest rates beyond finding the best deals on the market.

However, for longer-term needs, investing your money could open up the possibility of achieving higher returns. You'll need to be prepared to accept risks with your money, and tying it up for five or more years, but by speaking to a financial adviser you could be presented with options that suit your circumstances and aspirations.

The value of your investment can go down as well as up and you may not get back the full amount invested. The Financial Conduct Authority does not regulate Taxation and Trust advice.

Investments do not include the same security of capital which is afforded with a savings account.

Are you on course for a happy retirement?

Fewer than half of UK workers are confident of having enough savings to achieve their goals in retirement.

Life expectancy in the UK has never been higher. Back in 1926, only a third of men and 40% of women were expected to live to 65. But now, babies born between 2012 and 2014 can on average expect to live to 80, according to the office of national statistics (ONS).

And that is feeding into longer retirements for most of us. A 65-year-old man will on average live to the age of 83, and a woman 86. If you've worked hard all your life, some two decades worth of retirement relaxation should be a fitting reward – but there are no guarantees you'll actually achieve this.

Head in the sand

Around 27 million workers have not given due consideration to how many years they'll need to fund their retirement. More than half admit they don't know enough about pensions to make decisions on saving for retirement.

This lack of understanding about how well people are preparing is unsurprisingly fuelling pessimism. Almost half of UK workers don't feel confident they're going to have a big enough pension to achieve their desired retirement standard of living.

If you're due to retire within the next decade, it's incredibly important you focus on the financial implications. Stopping working means no longer having a regular wage coming in, so you'll need to have savings to provide you with an income for not only major ambitions, but to cover your day-to-day spending.

The state pension can support you, but it only pays £159.55 a week at the moment. The amount you have saved up into a pension – plus other savings and investments – needs to make up the rest. If it's not strong enough, that means making cut backs and downgrading your aspirations.

This is also why life expectancy is such an important point. It's not just about being able to afford the first few years of retirement, but having money in place for priorities down the line. The unfortunate reality is your health could suffer as you get older, causing you a need for long term care. This can come at a considerable cost.

Facing reality

If you're one of the 27 million people who haven't thought about how many years they'll need to fund retirement, it's important you take action.

Meeting with a financial adviser gives you the opportunity to have your pension provisions reviewed. They can look at how much money you're on course to have in retirement, and if it will be enough to meet your requirements. This includes thinking about unexpected financial needs later in retirement, and the risk of running out of money.

Armed with a clearer picture about what your retirement might look like, you can then take steps to address any gaps between your hopes and reality. For example, paying more into a pension, or looking at if your savings are invested in a way that suits your circumstances.

Speaking to an adviser might give you some unwelcome shocks; but it will at least give you the chance to put things right and make stronger plans – before it's too late.

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

And finally....

It pays to shop around

Worrying figures show some retirees could be missing out on making the most of their hard-earned retirement savings – by failing to consider their options.

If you want the security of a guaranteed income in retirement, purchasing an annuity remains a popular option. But Retirement Advantage research found that 'over the two years since the pension freedoms came into effect' 50% of people who bought an annuity used their existing pension provider. This is despite the likelihood of more favourable deals from other providers.

Of the 90,450 people who failed to shop around for an annuity over these two years, Retirement Advantage calculated they collectively missed out on £765 million worth of income over the course of their retirement.

Source:
http://newsroom.retirementadvantage.com/pension-freedom-costs-annuitants-765m/

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