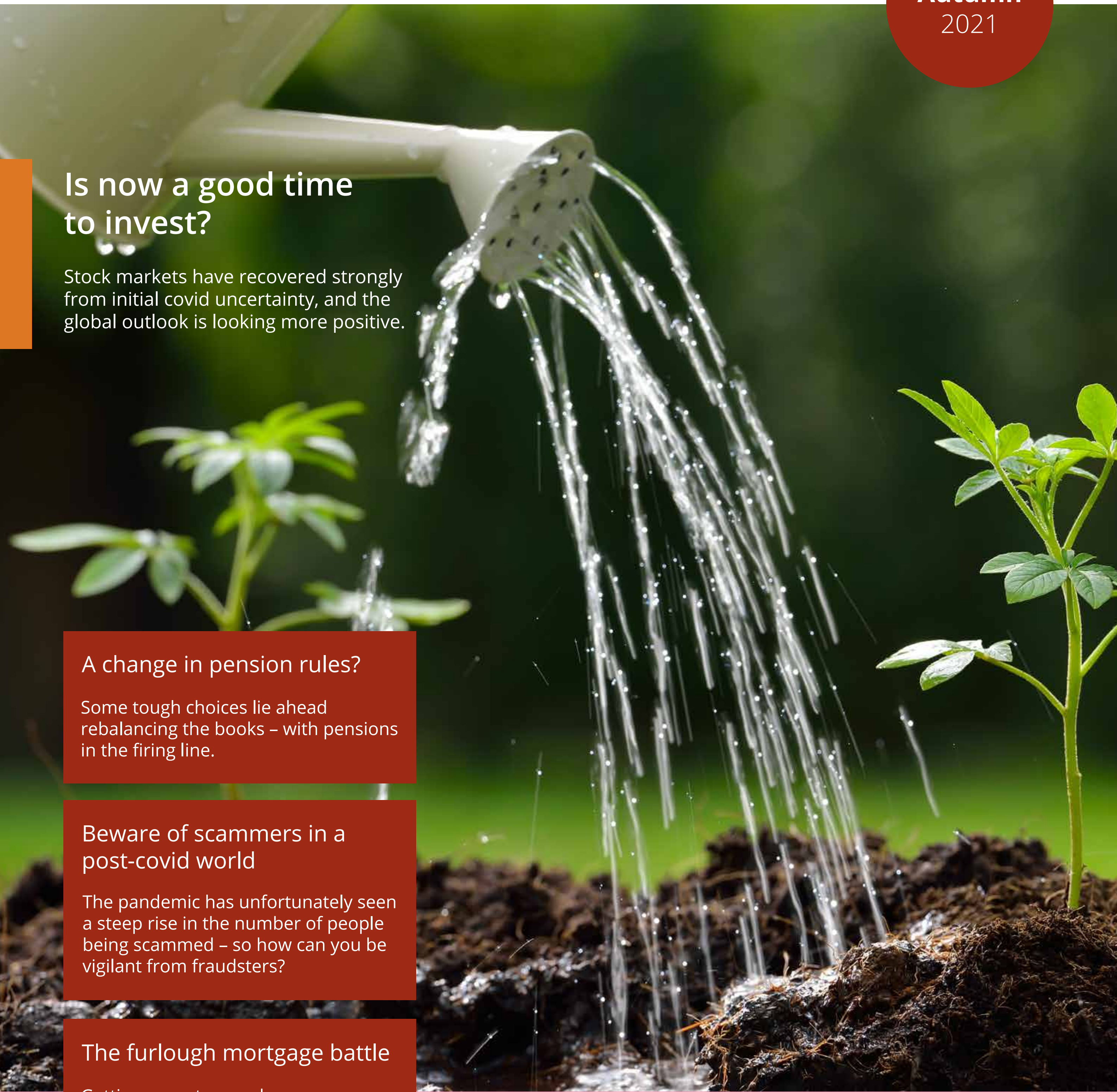
moneyworks

Autumn 2021



Is now a good time to invest?

Stock markets have recovered strongly from initial covid uncertainty, and the global outlook is looking more positive.

A change in pension rules?

Some tough choices lie ahead rebalancing the books – with pensions in the firing line.

Beware of scammers in a post-covid world

The pandemic has unfortunately seen a steep rise in the number of people being scammed – so how can you be vigilant from fraudsters?

The furlough mortgage battle

Getting a mortgage when furloughed is difficult, so how can you be confident of moving up the property ladder or arranging your next deal?

thomascarroll WEALTH MANAGEMENT

The essential consumer guide to making your money work harder.

Welcome

The full cost to individuals, businesses, and the economy as a whole is still hanging in the balance as we navigate our way through the chaos of the past year.

With stock markets having recovered well from initial covid uncertainty, the global outlook is looking more positive but is now the right time to invest?

We look at the current market trends and why such a buoyant market is appealing to so many investors to help grow their money compared to keeping it in low-interest savings accounts.

Another unfortunate downside of the pandemic has been the steep rise in the number of innocent people being scammed. We address the growing number of scammers who are operating and how you can be vigilant against fraudsters.

If the past year has taught us anything, it is just how vulnerable we are to death, and with so many lives lost, there has been a sharp uptake in the number of people seeking life insurance and protection for their families.

Yet despite figures now showing 5.8 million people have now bought, or are considering buying, life insurance, that still leaves 63% of UK adults with no active life insurance policy in place. We look at the options available and why it is a consideration you should not ignore.

Here's hoping the coming months will continue to bring an end to the pandemic and the crippling effect it has had on all our lives and finances, and we can start to come out the other side stronger.

The **moneyworks** team

Contents

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

The News in Brief

A round up of the current financial stories.

Pension freedoms lead to savers losing out on £2 billion

The introduction of pension freedoms six years ago has opened up a whole new range of possibilities for funding your retirement – but millions are losing out by playing it too safe.

In July 2021 Lane Clark & Peacock (LCP) published research based on analysing figures from the Financial Conduct Authority between April 2015 and March 2020. It showed one in three adults, who have taken advantage of the pension freedoms, are believed to have transferred money from their pension pot into cash accounts.

The LCP calculates this flight to so-called safety means these savers might be losing out on an average of 3.9% investment growth a year – or a collective £2 billion.

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The fastest growth in house prices since 2004, and rents reach record levels

Thanks in part to the stamp duty holiday and the rise of lockdown savings, more people were looking to move home over the first half of 2021. This growth in house buying has had a significant impact on house prices, which are growing at their fastest rate in nearly 17 years.

According to June's Nationwide House Price Index, the average UK home stands at £245,432 – a 13.4% rise compared to a year ago.

Meanwhile, a further incentive for first-time buyers, in particular, to climb onto the property ladder is that average rents across the UK have reached a record high of £1,007, data from Homelet shows.

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Inflation's on the rise

As the UK has gradually reopened again, the understandable surge in consumer spending is fuelling a steep rise in inflation. In January 2021, the Consumer Price Index (CPI) stood at 0.7%. By May, it had more than doubled to 2.1% – its highest level since July 2019.

With the economy fully reopening over the second half of the year, experts are predicting inflation will continue to soar, potentially even going above 4%. Not only will this impact the price of everyday items, but high inflation could also erode the future value of any savings you have.

June 2021 research by Moneyfacts found there are currently no savings rates available that better May's CPI figure.

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Remember cash?

It's not just the rise of technology and online shopping that has increased in pace during the pandemic – as a nation, we're far less likely to pay for goods and services in cash than ever before.

According to June 2021 figures from UK Finance, the number of payments using cash fell by 35% in 2020. 13.7 million people now lead a "cashless life" – almost double the 7.4 million in 2019. Just one in six payments now take place with cash, compared to half of all transactions a decade ago.

Cash transactions had been declining around 15% every year since 2017 – so last year's 35% fall is a steeper drop.

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Beware of scammers in a post-covid world

The pandemic has unfortunately seen a steep rise in the number of people being scammed – so how can you be vigilant from fraudsters?

As if we haven't all had enough to deal with lately Covid has given rise to another type of rising in unwelcome cases – fraudsters, and their attempts to scam innocent people.

According to June 2021 research by Citizens Advice[1], more than two-thirds of UK adults have been targeted by a scammer since the start of this year. The most common scams are about fake deliveries, but – since Covid – there's a notable increase in attempts to con people with investment scams.

March 2021 research by UK Finance[2] shows there has been a 32% rise in investment scam cases compared to March 2020, when the UK first went into a lockdown. These scam attempts include fake adverts offering you higher than average returns, plus what's known as template phishing organisations.

This means sending emails and letters purporting to be from reputable companies attempting to fool customers of the organisation into disclosing personal information the scammer can use.

Does it sound too good to be true?

With May 2021 research by LetterBox[3] finding one in three Britons have fallen victim to a scam, it's something that can, unfortunately, happen to anyone.

Scammers employ sophisticated tactics – and so spotting a scam from a genuine offer can be difficult, especially those scammers pretending to be from an established organisation.

There are warning signs that it's wise to be aware of, for example, if you're contacted out of the blue through cold calls, text messages or emails – it's a good idea to be wary.

If they attempt to pressure you to make quick decisions or take a pushy sales approach, that could also be an indication of a scam attempt.

You should think carefully about what they're offering to you. If it's an incredible sounding deal, like guaranteed investment returns or incredibly high interest rates, it's a potential scam attempt. The Financial Conduct Authority[4] (FCA) has a blunt way of putting it – if it sounds too good to be true, it probably is.

If you're approached by a company and you're unsure they are who they say they are, the FCA has a useful register of companies that you can check their details on – and a list of known unauthorised firms you should avoid. It's recommended you call the company back on the number that's on the FCA directory to make sure they're genuinely that company and not a clone.

Never rush a decision

If you do receive an offer that sounds wonderful, it's a good idea to be cautious and take your time by going away and having a think. Don't let any pushy salesperson force you into making a quick decision.

You should also be wary of anyone asking you to pay money upfront, and don't hand over any money until you've had a chance to check their credentials.

If the worst does happen and you're worried you've been scammed stop sending the money if it's not too late, report the scam to the FCA on 0800 111 6768 and report it to the police on 0300 123 2040.

[1] https://bit.ly/3x3RmUH

[2] https://bit.ly/3BKL5RA

[3] https://bit.ly/3BB7pNn

[4] https://bit.ly/36YeKbL

A change in pension rules?

Some tough choices lie ahead rebalancing the books – with pensions in the firing line.

"Hard choices are everywhere" was how chancellor Rishi Sunak put it back in October 2020[1] when asked how he would repay the national debt that has ballooned because of Covid. Since those comments, the pandemic has rumbled on, and government borrowing ended up at £299 billion between April 2020 and April 2021[2] – the highest amount since records began in 1946.

So how does the government plan to pay back the debt?

Across June, speculation grew that those "hard choices" could impact people saving for retirement or who are already retired.[3] From reducing the tax benefits of paying into a pension to limiting future rises in state pension, bad news could lie in store when the Autumn Budget is unveiled.

What could be on the cards?

One of the biggest benefits of saving into a pension is tax relief. All defined contribution pension holders receive 20% tax relief on what they pay in, with higher and additional rate taxpayers able to claim 40% or 45% respectively.

Sunak is reported to be considering a flat rate of tax relief[4], which would probably disadvantage higher earners. It's also mooted the government might tax employer contributions.

Then there's the lifetime allowance – the total you can hold into pensions without having to pay tax. Currently, you can have £1,073,100 in pensions, but there is talk Sunak will reduce it to £800,000.

The final area under consideration is the most controversial of all – the state pension triple lock. Currently, state pension rises annually either by 2.5%, the rate of inflation or average earnings – whichever figure is highest. Any move to scrap the triple lock could limit future state pension increases – hurting millions of retirees.

How likely are these changes?

Ultimately, this type of speculation is not new. Over the last few years, the countdown to a Budget announcement has often seen rumours[5] that favourable pension rules will be scrapped. And those Budgets came and went with no changes.[6]

Abandoning the triple lock would certainly be a risky move by the government. It is a popular policy, and the Conservatives' 2019 election manifesto included a pledge to retain it.[7]

Nevertheless, the government has to address the debt – and Sunak has not attempted to dismiss recent pension speculation when asked.[8]

Planning for your future

If you've yet to retire, a window of opportunity could be closing. It's worth seeing if you could take better advantage of current pension tax rules – for however long they last.

Equally, the question marks over triple lock are a cautionary tale about relying too heavily on the state pension – whether you're still working or have already retired.

A review of your plans with an expert financial adviser could help you find ways of making the most of your money – no matter what wider changes might lie in store.

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 that is afforded with a deposit account. 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://bit.ly/3xn8Qve

2 https://bbc.in/3C4E65U

3 https://bit.ly/3Ce93F1

4 https://bit.ly/3Ac8Dx7

5 https://bit.ly/2WLrWP7

6 https://bit.ly/2VkDit1

7 https://bit.ly/3CbySFB

8 https://bit.ly/2WSMmG7

Is now a good time to invest?

Stock markets have recovered strongly from initial covid uncertainty, and the global outlook is looking more positive.

February 2020 was not a good time to be an investor. As the world began to take the threat of the coronavirus outbreak seriously, stock markets tumbled – the UK FTSE 100, for example, lost more than £200 billion in a week.[1] By the time Boris Johnson uttered those immortal words, "you must stay at home"[2] on 23 March 2020, the FTSE All-Share had lost 35% since the start of that year.[3]

Yet something surprising happened not long after – stock markets began to quickly recover from the losses. As businesses and economies around the world found a way to keep going, markets rewarded patient investors.

Past performance is not a guide to future returns. But now that we're seemingly over the worst of the pandemic, the future looks even brighter. Recent investments into global funds are the highest on record[4] – demonstrating the rising confidence in this approach for growing your money.

Why people invest

The lesson from 2020 is that investing is not for the short-term. If you have a sum of money that you're willing to commit for at least five years, investing offers you the potential to significantly grow it – especially compared to keeping it in low-interest savings accounts.

It's all about having a long-term mindset for your money. Even the most experienced of investors would not have felt comfortable last February and March, but by holding their nerve, they have started to be rewarded in the longer term.

It's understandable when thinking about investing to be concerned by the risks of losing money. But there are different approaches you could take that means you could find an investment strategy that's right for you.

Balancing your approach

The key to your risk vs reward outlook is the type of investments you could hold. It's easy to assume it's all about stocks and shares. But in reality, that's only part of the story.

Typically, you might invest in a fund that features a wider range of assets – riskier holdings like shares, but also safer areas like government bonds and even cash.

By taking a balanced approach, you can hopefully achieve smoother investment performance. Because if one type of asset is struggling, for a period – like shares – other investment holdings might be performing stronger to balance this out.

The future looks brighter

Now that the world is gearing up to life beyond lockdowns, the prospects for investors look promising. Analysts expect global economies[5] to recover at the strongest rate in 80 years. Markets are likely to benefit from this.

In the UK, we've seen a positive period for investors in 2021[6], despite the challenges of lockdown. Other countries – such as the US and China – are also expected to do well. As an investor, you can benefit from this.

Investing isn't for everyone, but with a positive outlook for markets, it's worth speaking to a financial adviser about whether it might be suitable for your individual needs and 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 that is afforded with a deposit account. Past performance is not a guide to future returns.

[1] https://bit.ly/3jijIG3

[2] https://bbc.in/3xlML0l

[3] https://bit.ly/3foTGzO

[4] https://on.ft.com/3jgVfRf

[5] https://bit.ly/2TX8PRm

[6] https://bit.ly/3ftXrnz

The furlough mortgage battle

Getting a mortgage when furloughed is difficult, so how can you be confident of moving up the property ladder or arranging your next deal?

The UK's furlough scheme has proved vital in helping people through the pandemic and at its peak, over 8.8 million people were furloughed.[1] The arrangement, which sees up to 80% of your pay covered, has helped to keep people employed and helped them to continue to pay their bills.

But one of the unfortunate consequences of living on furlough pay includes the difficulty to borrow money. Some banks and building societies have rejected mortgage applications from people who had been furloughed.[2] Others have adopted stricter lending criteria, meaning they will only lend to furloughed people with large deposits.[3]

The UK might have reopened since lockdown, but the latest available figures show there are still 2.4 million people relying on the furlough scheme[4] – which will run until at least September.

So at a time when housing market activity is at record high levels,[5] favourable stamp duty rules remain in place until 30th September and some mortgage rates are at their lowest level in four years[6], a lot of furloughed people – who might want to move home, remortgage or arrange a new deal – are finding it challenging.

Why is this happening?

As anyone who has gone through a mortgage application will tell you, lenders will typically ask you to provide wage slips for the last 3-6 months. This is to prove you have a stable, relatively secure level of income that shows you have the financial capability to meet mortgage repayments.

The problem with being on furlough – or if you've recently been on the scheme – is that wage slips over that time will paint a distorted picture of your earnings.

Even if your employer has generously agreed to top up the remaining 20% of your wages, through absolutely no fault of your own, your income record will appear less secure.

That's why some lenders won't take this increased risk.

What are your options?

Whilst there is no getting away from the fact furloughed people face a reduced level of choice, it doesn't mean you have to shelve your plans.

Firstly, if you're on a fixed term that's coming to an end, you should as a minimum be able to switch to another deal with your current lender.

It's more difficult to switch lenders, but not impossible.[7] That's why it's a good idea to speak to a mortgage adviser before you commit to your next fixed-rate deal. They can search the market for you and see if there are better options available from lenders who will accept product transfers from furloughed people.

Seeking the help of a mortgage adviser is also recommended if you're looking to move home and arrange a new mortgage.

An adviser can research and find suitable options from lenders who are prepared to accept applications from furloughed people. So you can still achieve your goals, despite the temporary income challenges of the pandemic.

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

[1] https://bit.ly/3xkjvXS

[2] https://bit.ly/37mMmjq

[3] https://bit.ly/2Vvp7Rz

[4] https://bbc.in/3jpit86

[5] https://bit.ly/3rOYjb6

[6] https://bit.ly/3rPchKl

[7] https://bit.ly/2Vo2lvg

And finally...

Are you protected?

One of the biggest consequences of the pandemic has been thinking about the unthinkable. What if I was to get Covid and didn't survive it? How would your loved ones manage – not just emotionally, but financially if the worst was to happen?

Covid's uncomfortable reminder of our mortality has prompted a strong reaction from many, with June 2021 figures from Canada Life showing it has prompted 5.8 million adults to buy – or consider buying – life insurance. That's 11% of the population, meaning 37% of all of us have now bought or considered life insurance. Yet that still leaves 63% of UK adults with no active life insurance policy in place. Having life insurance is about giving yourself and your family valuable peace of mind. It's a policy that provides your loved ones with financial support when you die. It reduces the financial impact by helping your family continue managing everyday financial matters like household bills or mortgage payments.

Typically, your loved ones would receive a single cash lump. Depending on the level of cover you take, it might payout if you were sadly diagnosed with a terminal illness or when you die. It's one less thing for your family to worry about during what would already be a difficult time.

Life insurance isn't as expensive as you might imagine. Monthly payments (known as premiums) can range between £15 and £30. It all depends on the level of cover you choose to take out – your age is also a big factor. The longer you wait to take our life insurance, the higher the premiums are likely to be. That's why it's wise to consider taking out cover sooner rather than later. As it's about getting the right plans for you and your family's situation, talking to a financial adviser can help you to discover suitable options – so you can make informed decisions.

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