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Your Window on
Money
WINTER 2022

Building financial resilience in the new year

The start of a new year is always the perfect time to take control of your finances and grasp any opportunities that may lie ahead. This year the case is even more compelling with rising inflation and tax increases set to challenge household budgets up and down the country. So now really is the ideal time to quantify your assets and position them appropriately in order to build financial resilience for your future.

Millions set to be worse off
Analysis by the Institute for Fiscal Studies (IFS) shows that living standards are set to stagnate over the next few years. This year specifically, an average middle-income earner will see take-home pay fall by around 1% as soaring household bills and increased tax burdens outpace any anticipated rise in wages. Research[1] also highlights the pandemic's impact on finances, with almost 16 million Brits feeling more financially vulnerable than before COVID struck.

Plan for your future
This situation is exacerbated by the fact people typically devote relatively little attention to financial matters. A survey, for example, found more than four in ten adults would either struggle to locate and access or had 'no idea' whatsoever about their pension pots[2].

Building financial resilience, however, lessens the impact of any unforeseen circumstances and ensures you are prepared for life's key events, such as retirement. It's therefore vital to plan now for the future you deserve.

Inflation-proof your finances
At the moment, inflation and its erosive impact on savings is a key concern for many. This has resulted in savers increasingly switching money from deposit-based accounts into investments, with research[3] suggesting over half of adults have already done so.

Build a diversified portfolio
The spectre of rising inflation certainly means investors need to carefully consider the composition of their portfolios to ensure their money is potentially inflation-proofed. As always, maintaining a diversified range of investments is key, with appropriate portfolio construction enabling successful navigation through any periods of uncertainty.

[1]Royal London, 2021, [2]money.co.uk, 2021, [3]Aegon, 2021

Be pension prepared in 2022

If you have little idea how to prepare for retirement, then join the club. Nearly half (47%) of working age Brits are a bit lost when it comes to their pension savings[4].

Research has also revealed that just 28% feel secure in their understanding of how to manage their pension in the run-up to retirement, while even fewer (27%) have an idea of what a 'good' amount of pension savings is for someone their age.

'On the back foot'
The gender pension gap once again rears its ugly head in the study, with women almost twice as likely (21%) to say they feel completely 'on the back foot' than men (12%). They are also more than twice as likely to lack understanding of how to manage their pension as they approach retirement (34% of women vs 14% of men).

Approach retirement with confidence
Managing Director at Aviva, Mary Harper, commented, *"It's very easy to put thoughts about later life to the back of your mind but investing time in thinking and planning ahead can make a world of difference to your options… evidence suggests that people who access financial advice are, on average, tens of thousands of pounds better off in the long-term."*

We can offer expert advice and guidance to help you manage your pension with confidence.

[4]Aviva, 2021

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

INSIDE THIS ISSUE:

IN THE NEWS

Scam victims suffer a £9.3bn hit to wellbeing

Scams unfortunately continue to be rife. The financial impacts can be devastating, but a new study has sought to quantify the cost to scam victims' wellbeing. By using a model that allows researchers to value changes in wellbeing in monetary terms, they have calculated the impact of scams on victim wellbeing to be over £9bn a year,[5] a personal cost of £2,509 for each victim, although the impact can be higher for someone hit by online fraud (£3,684). The research suggested scam victims faced a decline in life satisfaction, considerably higher levels of anxiety, lower levels of happiness and in some cases, ill-health after being scammed.

Could we be facing a savings slump?

High inflation is causing everyday living costs to soar, with many savers saying they are rapidly eating into the additional savings they made during lockdown. Little wonder that nearly three-quarters (74%) of UK adults are worried about rising living costs, with 35% saying they feel more anxious about the future than before the pandemic[6]. This percentage increases to 42% for 45 to 54-year-olds.

A significant proportion of adults recently surveyed say they are eating into their lockdown savings fast. In fact, one-fifth say they have already spent their lockdown savings while a further quarter predict their savings will be gone before the year is out. With normal life resuming, the balancing act between spending and saving, particularly for those approaching retirement, is becoming ever more delicate. And, while you're unlikely to save the same amounts now as you were in lockdown, even putting away a more modest sum each month can soon add up.

[5]Which?, 2021, [6]Aviva, 2021

Climate concern – consumers and investors tune in

Despite over half (57%) of consumers wanting their pension to be invested responsibly to help tackle climate change, only one in seven people who have a pension currently invest it responsibly[7].

UK consumers rank climate change as a bigger concern than COVID-19 or the economy, according to a new study[8]. Climate change is a top concern for 71%, with the pandemic (70%) and the economy (67%) lower priorities. In all ten countries surveyed, climate change or the environment was the number one ESG (Environmental, Social and Governance) concern, reflecting the prominence of climate change in the global debate. Other environmental issues cited include waste management (8%), pollution (6%) and clean air (5%). Over half of consumers are willing to boycott companies with poor ESG performance.

SEC Newgate Deputy CEO EMEA Tom Parker says, *"There is a widespread interest in and concern about the ethical and sustainability performance of governments and corporates. This is a truly worldwide phenomenon. The surprising consistency in these results illustrates that all local issues are global and that global issues are local."*

[7]Royal London, 2021, [8]SEC Newgate, 2021

UK consumers rank climate change as a bigger concern than COVID-19 or the economy, according to a new study

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Consider all the variables

From many people's perspectives, the Autumn Budget may have left a feeling that nothing much had changed in the world of personal financial planning, as there were no major changes announced to Income Tax, Capital Gains Tax, Inheritance Tax or pensions. However, the key consideration is how outside factors such as higher inflation could affect your finances and what steps you should take before the end of the tax year to make the most of any allowances and exemptions.

Inheritance Tax (IHT)
Official figures from HM Revenue and Customs (HMRC) for April to September 2021 show that IHT receipts totalled £3.1bn, £0.7bn higher than the same period in 2020. With the nil rate band and residence nil rate band now frozen until April 2026 at £325,000 and £175,000 respectively, the importance of effective estate planning shouldn't be overlooked.

Individual Savings Accounts (ISAs)
The annual ISA limit has now been frozen at £20,000 for five years. If the allowance had increased with inflation each year since 2017, it would stand at £21,440 today, sheltering an additional £1,440 from the taxman. JISAs celebrated their tenth birthday in November – the allowance remains at £9,000.

Dividend Tax
The government revealed in September that it would increase Dividend Tax by 1.25 percentage points from 6 April 2022 to help fund health and social care. This means investors will have to pay more on any income from shares held outside ISAs and above the £2,000 Dividend Allowance.

Pensions
The Lifetime Allowance remains at £1,073,100 and the Annual Allowance remains at £40,000. As these allowances haven't increased with inflation, it effectively means those saving to the maximum extent possible with tax concessions can save less in real terms each year.

Variables at play
It's important to be aware of all the variables at play; inflation, interest rates, taxation and frozen allowances all affect your finances. Talk to us for help with your individual circumstances.

Lights, camera, action!

Jackie Chan's Stunt Team may be blacklisted by all insurance companies, but for most people life insurance is an easier task to tick off the to do list, no excuses.

With one in three people more likely to buy protection insurance because of experiences during the pandemic[9], the devastating impact of COVID has clearly led many to reassess their priorities. The reassurances provided by protection insurance have seemed more appealing for many amidst the turbulence of the last couple of years (98% of protection claims paid in 2020)[10]. Witnessing the pandemic's impact on the health of others was cited as the main reason people were now more likely to take out protection insurance.

Affordability issues
Perceived cost, however, remains a barrier for some. Indeed, almost a third of people say they haven't taken out protection because they think it would be too expensive.

It's a wrap
Protection is a crucial component of a balanced financial plan and, with policies starting at just a few pounds a month, it is a small price to pay for the peace of mind it provides.

Take action in 2022, to leave those you love protected.

[9]Hymans Robertson, 2021, [10]ABI, 2021

Saving for your child's future

Many parents give their children a flying financial start by saving or investing throughout their childhood. A new survey[11] shows mothers typically take the lead in this area, while cash remains disproportionately popular.

Mum's the word

The research shows responsibility for children's savings is particularly borne by mums: 60% of those actively contributing to a child's savings and investments were found to be women. Researchers noted that this fits a broader theme whereby women tend to connect investing to outcomes for their family more than to their own needs.

The survey also highlighted a drop-off in contributions as children get older. While 67% of new parents start saving or investing for their new-borns, this figure falls to 54% by the time children reach secondary-school age.

Cash is king?

The efforts of parents to save for their children is clearly admirable, but it is important to make that money work hard. Most financial products held for children are in cash, with stocks and shares Junior Individual Savings Accounts (JISAs) making up just 3% of all accounts. The JISA recently celebrated its tenth birthday, and the allowance has increased over the years from £3,600 in April 2011 to £9,000 today.

In a high-inflation environment, sticking to cash can limit the impact of parents' saving, as the real value of cash savings is likely to be eroded over time. While not guaranteed, investment products have historically delivered better returns over the long term. It's advisable to consider the options.

[11]Boring Money, 2021

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Investment terms trigger emotional response

Jargon is common in the world of investments and pensions, which can make them seem impenetrable and intimidating. If the thought of 'Equities' and 'Investment ISAs' makes your heart race, you're not alone, new research[12] has shown that financial terms really do make people anxious.

Jar-gone

Researchers used a variation of the Emotional Stroop Test, which measures information processing speed when naming the ink colour of different words, to compare response times for neutral words like 'pencil' with investment-specific terms like 'FTSE.'

Nearly two-thirds of participants had slower response times and higher error rates for financial trigger words, suggesting they may be susceptible to a stress response. Additionally, 44.3% experienced an increased heart rate and 11.5% reported breathlessness.

The terms 'Stockbroker', 'Asset Management' and 'Investment Risk' produced three of the slowest reaction times. Other investment-related words like 'Bond Fund' and 'Equities' also took longer than average.

Don't fear 'FTSE'

Stripping back jargon can help people think more clearly about investments and pensions. In supporting research, Barclays found that 71% of respondents don't feel confident enough to invest money in the stock market, with a quarter feeling '*frightened*' by the idea.

Despite these fears, people do want to improve their financial knowledge, with three in five participants keen to learn more about financial terminology. We can relieve the stress of investments and pensions – and take the fear out of financial planning!

[12]Barclays, 2021

IF YOU WOULD LIKE ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.