moneyworks

Autumn
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Baptism of fire

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Beating the re-mortgage race

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ROSEWOOD
WEALTH MANAGEMENT

Welcome

A warm welcome to the Autumn issue of moneyworks and an opportunity to take stock of what has been an incredibly testing time for everybody and take a look at what the future potentially holds for you and your finances.

September saw Liz Truss named as the new Prime Minister and it is sure to be a baptism of fire for the former Foreign Secretary who becomes the fourth PM in six years.

In this issue we look at the main economic issues the new leader will have to address and with the cost of living crisis dominating the headlines all eyes will be on how Truss decides to steady the ship in what are choppy financial waters for us all.

One of the biggest challenges facing many of us will be the spiralling costs of mortgages and with interest rates soaring, the days of favourable deals are now a distant memory. We address how people on a standard variable rate or tracker mortgage are now feeling the pinch and why those nearing the end of fixed rate mortgages must act now to avoid seeing repayments increase dramatically.

We also look at the importance of taking out protection on your mortgage during such uncertain times and why seeking the help of a financial adviser to help find the best options for you has never been more important.

With the cost of living at such high levels, many households are forced to make tough decisions on where their money goes and what sacrifices need to be made to make ends meet, but not losing sight of your long-term goals is just as important. We look at how getting your financial house in order by speaking to an adviser, and prioritising what you can and can't cut back on, will give you peace of mind to best get through the current crisis we all find ourselves in.

Finally, we address the key areas of managing inflation and the practical steps you can take to help protect and grow your finances.

There is no doubting that the coming months will prove hugely challenging for us all but by taking stock of your finances now, we can all give ourselves the best opportunity to weather the storm and come out the other side as strongly as possible.

We look forward to bringing you more news and financial updates in the coming months and look forward to a brighter financial future for us all.

The **moneyworks** team

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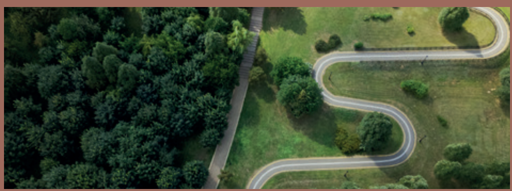

Your home may be repossessed if you do not keep up repayments on your mortgage.

The news in brief

A round up of the current financial stories

Neglecting later life care at your peril

No one likes the idea of needing to be cared for as we get older, but July 2022 research by Canada Life has underlined the risks of not planning for such an eventuality.

Canada Life's survey of over 60s found that more than 7 in 10 have not thought about planning for later life care, despite the fact requests for later life care are on the increase.

44% say they won't think about care until either they or a family member gets an illness. Just over a quarter (28%) admit they have put off thinking about care because it's emotionally overwhelming while 8% feel it should be someone else's responsibility to pay for it.

However, the reality is not everyone will be entitled to long-term care. For example, if you have savings worth more than £23,250 or own your own home. And with the average cost of care in your home £15 an hour, or the average cost of living in a care home £32,000 a year, this could be a lot of money for you or your loved ones to find.

https://bit.ly/3D9yB93 (Canada Life) https://bit.ly/2MMfTdi (NHS) https://bit.ly/3TWTUR0 (Unbiased)

Rise in online fraud underlines importance of being vigilant

Thanks to the rise and rise of online banking and money apps, it's never been easier to pay digitally for products and services. Unfortunately, this is a trend that fraudsters are aware of, leading to a surge in authorised push payment (APP) scams.

According to figures released in June 2022 by UK Finance, adults were scammed out of more than £1.3 billion through APPs in 2021 – a 39% increase on the £583.2 million lost in 2020.

An APP scam is where a fraudster tricks their victim into transferring a large sum of money to them. They may pose as someone from your bank, building society, or another trusted organisation – like your pension provider.

Fraudsters can be very convincing, but if you're made to feel rushed into making a payment there and then it could be a sign that who you're speaking to isn't who they claim to be. It's a good idea to ring your bank or firm directly, so you can check with them first. A legitimate company would never pressure you to make a payment.

https://bit.ly/3RJeFOi (The Guardian)

A different kind of fitness

If you have younger generations in your family like children or grandchildren, you'll have a fair idea of the financial hurdles they're likely to go through in life and why getting into good money habits now could make a huge difference to their future.

Yet July 2022 research by Experian has found that 60% of 18 to 24-year-olds think getting physically fit and healthy is more rewarding than getting their finances in order. That's almost double the national average of 36%. 38% of younger people admit they don't know how to budget and 43% say it's hard to save. Half would struggle to cover an unexpected cost (compared to the national average of 35%).

All in all, 52% of young people consider managing their financial health "boring".

https://bit.ly/3AVzHCC (Experian)

Baptism of fire

The nation has a new prime minister. But Liz Truss has a big job on her hands helping the nation through some tricky financial times.

There will be no honeymoon period for Liz Truss and while some of her predecessors enjoyed a gentle start to life in Number 10, the new prime minister walked straight into an economic storm. There are mounting issues for Truss to deal with, and a clear sense of urgency to act.

So, what exactly is on her list of priorities and how will she try to calm the waters that threaten to engulf the nation over the coming months.

1. Tackling the cost of living crisis

Inflation is already at a 40-year high[1] and forecasted to get worse before it gets better.[2]

Truss has moved quickly to reassure households and businesses they will not have to bear the brunt of huge energy cap rises due to come in this October. She unveiled a package of support measures that include capping bills until 2024.

This brought widespread relief. However, rocketing energy prices are not the only reason for high inflation. For example, UK food inflation is at its highest level since the 2008 global financial crisis.[3]

Economists believe Truss' energy bill package will bring inflation down[4], at least in the short-term. But these remain difficult times and the cost of living crisis will still make it a tough winter for many.

2. Reducing taxes

A key cornerstone of Truss' leadership campaign bid was the promise to cut taxes. At the end of September Truss' new chancellor, Kwasi Kwarteng, unveiled a mini-budget that included some of the biggest tax cuts in 50 years.[5] The measures included a plan to remove the additional tax rate, the bringing forward of a 1p cut in the basic rate of tax, and the reversing of last April's unpopular rise in National Insurance contributions.

These measures could spell good news for your personal finances. But it's not all good news...

3. Addressing the economic struggle predicted

Tax cut announcements have only added to the economic uncertainty, at least in the short-term. With the pound falling to a record low[6], The Bank of England is gloomily forecasting we are set to enter our longest recession since the global financial crisis of 2008[7] while the UK is predicted to have the slowest growth of all G7 members in 2023.[8]

Truss also inherits the challenge of Brexit, after the government began making moves to renegotiate current agreements with the EU earlier this year.[9]

In addition, stock markets have had a volatile period as a result of the unfolding UK cost of living crisis and Truss has work to do to convince investors she can steer the UK economy in the right way. One glimmer of hope is that her pro-business, low tax approach could help, with experts believing her energy bill plan could result in a shallower recession than had been feared.[10]

4. Solving the state pension dilemma

In their 2019 election manifesto, the Conservatives pledged to retain the state pension triple lock agreement for the duration of the next parliament. Last year, the government broke its pledge by suspending triple lock for a year due to inflation. They have promised to reinstate it for 2022/23, but experts are warning Truss will ultimately need to scrap it.[11]

The triple lock is a promise state pension will go up each year either by 2.5%, the rate of inflation or average UK earnings – whichever is highest – but it comes at a tremendous cost and economists believe it can't be maintained forever.[12]

When it comes to your finances, plenty hinges on Truss' plans to address the current economic challenges and it's worth keeping an eye out for further policy announcements in the coming weeks.

[1] https://bit.ly/3xYyycV (ITV)
[2] https://bit.ly/3ruH0gt (Personnel Today)
[3] https://bit.ly/3LU6ywQ (The Guardian)
[4] https://bloom.bg/3frAQLj (Bloomberg)
[5] https://bit.ly/3rd5YAG (Channel 4)
[6] https://bbc.in/3CdlKlb (BBC)
[7] https://cnb.cx/3dNmiFa (CNBC)
[8] https://bbc.in/3CdnFGr (BBC)
[9] https://bit.ly/3DY4Nwo (The Mirror)
[10] https://bit.ly/3Rjo26T (The Guardian)
[11] https://bit.ly/3frTana (Daily Express)
[12] https://bit.ly/3DY7SMX (The Mirror)

The Financial Conduct Authority does not regulate taxation advice.

Beating the re-mortgage race

The cost of borrowing is quickly rising, and the days of favourable mortgage deals won't be here for long.

The era of record low mortgage rates is firmly over. In less than a year, the Bank of England has increased base rate seven times[1], from 0.1% to 2.25%. But with the economic fall-out that has followed the mini-budget announcement at the end of September, some experts think base rate will reach 6% in the near future.[2]

Around two million mortgage borrowers have either a standard variable rate or tacker mortgage, according to an August report in the Financial Times.[3] These people have really felt the immediate effects of rising interest rates, as their mortgage rate generally follows base rate movements.

Although fixed rate mortgage holders have some initial protection from rising interest rates, the same Financial Times piece stated that around 40% of this group are on a deal that expires either this year or next. In July, Moneyfacts[4] reported that fixed rate mortgage rates were rising at a record pace – so that next fixed rate deal could prove a lot more expensive.

Less choice, and shorter shelf life

As if that wasn't enough to navigate, in September a number of mortgage lenders withdrew their range of fixed rate mortgages, in anticipation of a future base rate rise[5] while in August data from the Mortgage Trends Treasury[6] found the average length of time these options remain on the market has fallen to a record low of 17 days.

Making informed decisions

As challenging as the flurry of base rate rises is proving, the urgency to act is clear. Borrowing costs are highly likely to continue rising, meaning inaction could cost you even more in the long run.

That's why getting advice on your options now could be hugely helpful. Speaking to a financial adviser allows you to understand better just what's out there in the marketplace, rather than automatically sticking with your current provider.

They can also help you protect you and your loved ones

It can be tempting to skip past the adviser idea and just find a suitable-sounding deal on a price comparison site. But aside from the greater risk of committing yourself to a mortgage product that might not be aligned to your future goals, it could cost you dearly if you miss out on protection.

In June the LMS Monthly Remortgage Snapshot found that 46% of borrowers re-mortgaging were taking on larger loans[7], increasing their repayments by an average of £224 a month.

Mortgage protection insurance is effectively a safety blanket you can wrap around your plans. If you find yourself in a position of not being able to afford your mortgage repayments – perhaps because you've been made redundant or suffered serious injury/illness – mortgage protection insurance would help you avoid defaulting on your mortgage, and possibly getting your home repossessed.

With May research by Yorkshire Building Society[8] finding that 39% of us have dipped into our savings to cover monthly living costs, the importance of having protection plans in place is even higher.

Let an adviser do the hard work for you

By seeking the services of a financial adviser, you can benefit from their expertise and insight. This includes getting them to do time-consuming research on your behalf to find the right products for your circumstances. An adviser may be able to unlock deals you've never thought about, and they can also check if adequate protection is in place.

So, whether you're looking to minimise how much your monthly payments are going up by, or have a home project that requires a little more borrowing, meeting with a financial adviser can help you to feel more confident you're make informed decisions and looking after your home.

You may have to pay an early repayment charge to your existing lender if you remortgage. Your home may be repossessed if you do not keep up repayments on your mortgage.

[1] https://bit.ly/2VTrTf0 (Bank of England)

[2] https://bit.ly/3ULHmwz (Daily Mail)

[2] https://bit.ly/3LO2z4X (Sky)

[3] https://on.ft.com/3UHtTWo (Financial Times)

[4] https://bit.ly/3UGFchE (Moneyfacts)

[5] https://bit.ly/3LObq6n (Moneyfacts)

[6] https://bit.ly/3dL6bbf (Moneyfacts)

[7] https://bit.ly/3CeNhmz (Best Advice)

[8] https://bit.ly/3DY9vuk (Yorkshire Building Society)

Managing inflation

Everyone's feeling the squeeze of inflation right now and it's not going to go away for some time yet, so how can you organise your finances to achieve long-term goals?

Wherever you go and whatever you spend, the effects of inflation are unavoidable and at times like this it is easy to feel helpless. But there are practical steps you can take to help protect and grow your finances through the cost of living crisis.

1) Make a budget and check your expenses

It sounds obvious, but how many of us really budget thoroughly? Without fully realising, all sorts of spends here and there could be going out of our bank account that could be reduced.

Pouring through your monthly spending can give you a chance to fully grasp where all your money goes, and how it measures up to your income. With your bills and regular expenses laid out, you might find areas where you could make savings.

If you've been loyal to certain companies for products and services, it might be worth checking if better deals are available elsewhere. For example, when was the last time you reviewed your insurance or energy supplier?

Pay as little tax on your savings and investments as possible

One side effect of the cost of living crisis is that interest rates are going up, which means savings rates are up too.[1]

So, if you've got money stashed away for a rainy day earning paltry interest, this could be a good time to find a higher-paying savings account. And don't forget your valuable tax allowances. For example, you can save or invest up to £20,000 into an ISA this tax year.

You can also invest up to £40,000 into a defined contribution pension this tax year (or 100% of your earnings) to benefit from tax relief. And carry forward any unused pension allowances from the previous three tax years.

2) Check your mortgage

The other side of rising interest rates is that mortgage rates are going up. If you're on a tracker mortgage, you'll no doubt have noticed this. It might be a good idea to consider moving to a fixed rate deal – depending if it's right for your situation. If you're on a fixed rate mortgage due to come to an end soon, it's really important to look at your options.

Seeking the help of an adviser can help you secure the best deal for your circumstances.

3) Review your investment portfolio (including pensions)

When we say everyone's feeling the effects of recent events, we mean it – the stock market has not been immune. It has been an up and down period for investments, and this could call for a review of your arrangements – including your pension.

You might have set up a good investment strategy a few years ago; but making some tweaks to it now can help you stay on track. Speaking to an adviser is recommended, to get an expert view on whether your money could be working harder.

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

[1] https://bit.ly/3eyY2Xk (Forbes)

Don’t fall off track

As the cost of living crisis offers us all some uncomfortable money dilemmas, it’s important not to lose sight of our long-term goals.

Everything’s going up right now, it seems – and that’s putting an obvious squeeze on household budgets. Finding areas to cut back on can be difficult.

A June 2022 report by Scottish Widows[1] underlined the type of dilemmas and conversations taking place in UK households. It found that 35% of us are reducing our spending on non-essential activities while 16% are unfortunately having to cut back on essential items like food and utilities.

And then there are others who are changing potentially crucial financial plans for the future.

The £2.5 billion annual pension drop off

This is because Scottish Widows found that 11% of us have reduced our pension contributions, or stopped paying into a pension altogether, because of the rising cost of living. On average, these people are cutting back £37 a month, which is the equivalent of £2.5 billion in lost contributions across the UK.

It’s easy to see why many of us have taken this route. Retirement can seem far away in the distance and something right at the bottom of our current financial priorities but not preparing could have a hugely damaging impact on our future. It might result in a reduced standard of living in retirement or having to delay when we finish working.

The more you can pay into a pension now, the greater your potential financial security when you retire.

Half of us worry we’re not doing enough

The same Scottish Widows research found that 57% of working adults feel concerned about their finances in retirement. And 50% of us don’t feel we’re adequately saving for it.

This is further reason why it’s important not to cut back on saving into a pension right now, merely as a way of looking after your immediate financial priorities.

It also strongly suggests that getting financial advice is a good idea. An adviser can help you by analysing what you’re on track to have in your pension when you retire, and if you could be doing more to prepare for your long-term goals.

That doesn’t necessarily mean you’ll get advice to pay in more – something that might seem especially unhelpful right now. The beauty of speaking to an expert adviser is they can assess how your pension is invested and if it’s worth making changes.

For example, the Scottish Widows research also found that 18% of us have our pension invested in cash or low risk assets, such as government bonds. Yet if you’re many years away from retiring, it might be helpful to consider taking more risk to give you a better chance of achieving higher returns.

That might sound daunting, but a good financial adviser will only ever recommend options that suit your circumstances, including appetite for risk. So, if you want to feel more confident about achieving the retirement you deserve, meeting with an adviser could be the best thing you ever do right now.

A pension is a long term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Pension income could also be affected by interest rates at the time benefits are taken.

[1] https://bit.ly/3x8a5S3 (iNews)
https://bit.ly/3DbquJ8 (Scottish Widows)

And finally...

Protecting what matters in tougher times

It will get worse before it gets better. That's the underlying message the Bank of England offered in August 2022[1], as it painted a challenging picture about the next 18 months for the UK.

A recession seems to be on its way, and that throws open a huge number of what-ifs. An economic slowdown can have wide-ranging effects and that means many of us could face some bad news in the future, or at least a greater possibility of it.

If something was to happen that affected our job security and – with it – our wealth, it's only natural to worry about how we would cope and so knowing you have protection plans in place can offer valuable peace of mind during such uncertain times.

If you're not sure whether you have sufficient protection plans in place, it's worth speaking to an adviser now. They can look at your unique situation and financial provisions, to help you get the best available cover.

[1] https://bit.ly/3qA825l

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