moneyworks

AUTUMN
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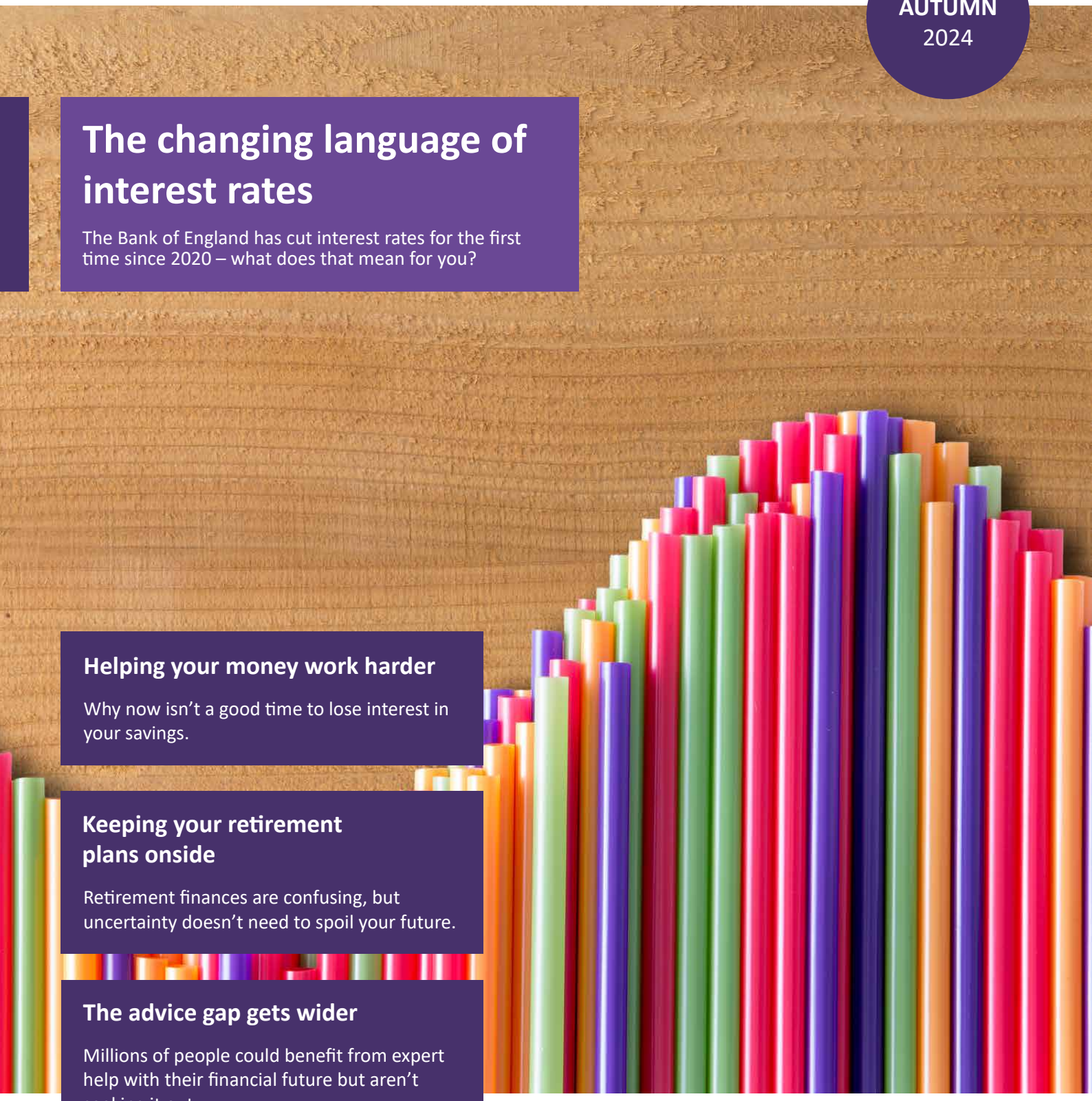

The changing language of interest rates

The Bank of England has cut interest rates for the first time since 2020 – what does that mean for you?

Helping your money work harder

Why now isn't a good time to lose interest in your savings.

Keeping your retirement plans onside

Retirement finances are confusing, but uncertainty doesn't need to spoil your future.

The advice gap gets wider

Millions of people could benefit from expert help with their financial future but aren't seeking it out.

Verity
wealth management

Welcome

Welcome to our latest issue of Moneyworks and a chance to take stock of the current market and the pressing issues that are likely to affect you and your savings over the coming months.

One area that is often overlooked is that of low interest savings accounts and why you could be doing more to help make your money work harder by moving it to accounts with better rates. According to Bank of England research 13% of the nation's savings are currently placed in bank accounts that pay no interest at all and millions of savers could be losing out on £1,000 a year by not shifting their savings to more profitable accounts.[1]

We address the steps you can take to help make your money work harder and look at the changing landscape of interest rate rise and falls and what that means to not only your savings but also your mortgage repayments.

In this issue we also focus on the pension rules and why it is such a confusing area for many with Aviva reporting that only 46% of us are confident our retirement plans are on track and 77% unaware what the full value of the state pension is.

We address the importance of speaking to an advisor before it is too late and building a strategy and a pension pot that will adequately support you in retirement.

Elsewhere we look at the importance of having protection in place for you and your family should the unthinkable happen and why going it alone with your financial planning could leave you out of pocket in the long-term and why good financial advice doesn't need to cost a fortune.

We look forward to bringing you more news and financial updates over the coming months.

Best wishes

The **moneyworks** team

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

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The news in brief

A round up of the current financial stories

Two-thirds of future retirees know they're not doing enough to prepare

Retirement should be something to look forward to, but that doesn't seem to be the case for the next generation of working adults who will take the plunge. According to July 2024 research by Scottish Widows, only 34% of adults approaching retirement believe they are adequately preparing. The other 66% (two in three people) are aware they are not doing enough or don't know if they are doing enough.

64% of future retirees are concerned they will run out of money later in life, which may lead to many downgrading they're expectations of when they will actually be able to retire. In total, just over half (54%) of people expect to retire later than they would like to, with an average of seven extra working years forecasted to be needed.

All in all, a worrying 40% of people aged 60-64 are not on track for an adequate retirement, meaning they could face some tough decisions over the next few years.

https://bit.ly/4cCVznf (pages 7 and 33)

Challenge for first time buyers

It's not getting any easier to get on the property ladder. In 2023, the number of first-time buyers who bought a home with a mortgage fell to its lowest level in a decade. And July 2024 research by Lloyds found the financial barriers are pushing aspiring homeowners to consider more unusual routes.

In total, 51% of would-be first-time buyers say they are open to less traditional options, such as buying with a friend (24%) or sibling (22%). 14% believe they have no other option.

What's also interesting is the more typical fall-back option for a younger person wanting to buy a first home – asking for help from their parents – is also a less favoured route. A considerable 48% of young first-time buyers say they would feel ashamed to borrow money from family for a deposit. Only 34% state they would feel confident asking their parents.

https://bit.ly/4cJ1FlO https://bit.ly/47jE22t

One in seven UK adults targeted by pension scammers

For most of us, it's the biggest pot of savings we'll ever have, but one of the most confusing to use. Small wonder then, that unscrupulous criminals are trying to take advantage.

That's the reality for 7.3 million UK adults and their pension savings. August 2024 research by LV= found one in seven UK adults were the subject of a pension scam attempt during the previous 12 months.

Sadly, almost four million Brits fell for a pension scam over this period – showing how difficult they are to spot. Half of us agree pension scam attempts are becoming more sophisticated and difficult to recognise.

If you're ever contacted out of the blue, it's always best to double check that who you're speaking to is genuine. The FCA has a useful mantra when it comes to scam attempts – if it sounds too good to be true, it probably is.

https://bit.ly/4e2sm6j

Your home may be repossessed if you do not keep up repayments on your mortgage. 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. Pension savings are at risk of being eroded by inflation. The tax treatment of pensions in general and tax implications of pension withdrawals will be based on individual circumstances, tax legislation and regulation, which are subject to change in the future. Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits. Accessing pension benefits is not suitable for everyone. You should seek advice to understand your options at retirement.

Helping your money work harder

Why now isn't a good time to lose interest in your savings.

It can be an exhausting subject and one that many people can't face dealing with. We're talking about saving. Not the act of building up money, which certainly has its rewards in allowing you to do certain things like go on holiday, afford your next car and have cover for unexpected bills. Instead, we're talking about when you have built up a decent pot of money – and the ongoing activity of finding the best interest rate to give it that extra kick.

The backdrop since 2022 of high savings rates[1] should make this an especially rewarding time to keep hunting out the best deals, but millions of Brits just don't seem to have the inclination to take full advantage.

So much so, June 2024 research by the Bank of England found that 13% of the nation's savings are currently placed in accounts that pay no interest at all.[2] The chances are you might have opened up a savings account that paid a good rate, but stopped doing so over time. You probably should have moved your savings to a better deal at that point, but it takes a lot of effort to keep doing this over and over again.

Are you missing out on a £1,000 a year?

Yet June 2024 research lead by Yorkshire Building Society[3] has discovered just how financially sabotaging this can be. The mutual found millions of savers could each be losing out on £1,000 a year by continuing to store money in low interest accounts. This includes a third of people who keep their savings in current accounts.

Current accounts are handy for quickly accessing money when you need it, but they typically pay low rates of interest.

Yorkshire calculated some £366 billion was sitting in current accounts that earned under 1% interest in May. This is despite the fact there were easy access savings accounts paying 3% interest readily available at the time.

Keeping it too simple

It's not just apathy preventing many people making more of their savings, but the path of least resistance that comes from sticking with what you know.

June 2024 research by Hargreaves Lansdown[4] found more than a third of us went to our usual bank when opening a savings account and when asked why they don't shop around, the most common responses were about trust (in their bank) and ease.

However, playing it safe could mean they are missing out.

With further June 2024 Yorkshire Building Society[5] research finding 17% of adults don't check their rate of interest, the problem is stark. Chasing the best rates can be a lot of hassle. But leaving your savings to grow cobwebs risks undermining the hard work building them up in the first place.

Thinking longer-term

With savings rates starting to fall now – a topic we cover elsewhere in this edition of Moneyworks – you might have even less incentive to shift your savings into accounts paying slightly more interest. But leaving your savings earning unrewarding rates of interest could see you lose out. This money could be working much harder for your future.

Besides, there's potentially a more suitable way to help you grow your money for long-term needs, with the opportunity for higher returns than what even the best accounts offer – and without you having to keep moving your money. That is investing your money for future goals.

Just as savings rates are creeping downwards in 2024, stock markets are largely having a very positive year[6] – rewarding investors who are prepared to take a long-term approach.

If you're in a welcome position of having a decent amount of savings, but know you could be doing more with them, meeting with an adviser comes recommended. They can look at what you have, and how much in savings you need to cover short-term needs like unexpected bills, before advising on a suitable investment approach for the rest of your money.

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/3T1ZlPW
[2] https://bit.ly/475hrpS
[3] https://bit.ly/3WZkc7L
[4] https://bit.ly/3yYOPSL
[5] https://bit.ly/47ajlQY
[6] https://bit.ly/3T77tPj https://bit.ly/3XjjAel

The changing landscape of interest rates

The Bank of England has cut interest rates for the first time since 2020 – what does that mean for you?

What goes up…eventually must come down. After the Bank of England base rate shot up to its highest level in 15 years over 2022, we've all been patiently waiting for signs they would go down again. In August, we finally saw movement. Base rate was cut from 5.25% to 5%, with experts predicting a further reduction before the end of 2024,[1] followed by more next year.

And that's great news if you're a mortgage borrower, after a tough few years. As recently as 2021, mortgage rates were at a record low.[2] But as inflation began to tick upwards, borrowing costs soared. Millions of borrowers have had to pay thousands more pounds on their mortgages.

In the immediate aftermath of the Bank of England August rate cut, mortgage lenders quickly began to reduce the rates on their products.[3] This is an encouraging development if you're looking to buy a home, have a fixed term coming to an end, are on a variable rate mortgage, or are looking to remortgage.

A double-edged sword

That's the potential good news for millions of borrowers, but a rate cut could be bad news for another part of your finances – your savings. The recent environment of high base rate has been welcome for savers, with interest rates hitting their highest level since 2008.[4]

As we cover elsewhere in this edition of Moneyworks, there's evidence that a lot of people haven't taken full advantage of the recent favourable backdrop for savers. And with banks and building societies having already made moves to cut interest rates, some of the very best rates of recent times have been and gone.

Future Bank of England base rate cuts will see opportunities for savers dwindle even further. This could have an impact on your ability to achieve longer-term financial goals.

How to plan ahead

There is one overriding reason why the Bank of England has waited so long to start cutting rates. Namely, inflation.

With the Consumer Price Index – used by the Bank of England to track inflation – falling broadly in line with its 2% target,[5] those inflation pressures are easing. The dilemma for the central bank is not to cut rates too hastily and risk another spike in inflation.

So what you shouldn't expect is for interest rates to go down anywhere nearly as quickly as they went up. Which does make it trickier to plan ahead.

Advice can help you make the most suitable decisions

If you're in a position of needing to arrange a new mortgage soon, for example, it's not easy to decide what to do. With each base rate cut, mortgage rates should fall. So there's a clear risk you could sign up for a fixed rate deal now, only for it to cost you considerably more in monthly repayments compared to deals that might be available a few months later.

Equally, when it comes to saving, it might be tempting to hunt for the best interest rate while you can. But if rates keep falling, you will have to keep accepting weaker deals each time your product matures. Here, a longer-term financial plan might be more suitable – for example, investing your money.

There's a lot to consider here. Opportunities, but also threats. To make more considered financial decisions on your mortgage or growing your savings, professional advice is recommended.

A mortgage adviser can help you to navigate your options and and make choices that are appropriate for you. This includes factoring in the backdrop of falling rates.

A financial adviser can look at options aimed at growing your money by more than savings accounts could achieve. They can recommend a strategy that's suitable for your circumstances.

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

[1] https://bit.ly/4cJXs1s
[2] https://bit.ly/3XlxnRZ
[3] https://bit.ly/4e2V4nz
[4] https://bit.ly/3Z0zhs7
[5] https://bit.ly/3AQvLGL

Keeping your retirement plans onside

Retirement finances are confusing, but uncertainty doesn't need to spoil your future.

As the new football season kicked off in August, millions of fans across the country will have welcomed its return. It's a game known for its complexities – the offside rule and VAR to name a couple – but June 2024 research from Aviva[1] has revealed that even the most confusing aspects of the sport are more widely understood than some of the rules around retirement.

Aviva found that while 59% of UK adults can explain football's offside rule, and 53% know what VAR stands for, understanding of the rules of retirement is much less common. For example, only two in five of us know 66 is the age you can access state pension – 38% of UK adults thought it was much earlier. And just 23% accurately identified the full value of the state pension, with some thinking it was £60 a week higher than it currently is.

Confusion leads to pessimism

It would seem many Brits' optimism about their retirement is a long way below how a typical football fan would rate their club's chances at the start of a season. Aviva discovered only 46% of us are confident our retirement plans are on track.

So how can you change your outlook and keep your retirement plans onside? Well, unlike football there isn't strictly a rulebook to follow. But there are certain things worth understanding now, including where to go for expert help.

Let's start with state pension. If you didn't before, you now know that you get it at 66 (rising to 67 between 2026-2028). State pension is a guaranteed level of income for the rest of your life. For the 2024/25 tax year, the full amount stands at £221.20 a week, or £11,502.40 a year.

If you're thinking "that doesn't sound like a lot", that's understandable. Although state pension rises every year, on its own it will only fund the most basic of retirements.

That's where you'll also need to have your own star signings.

Making the most of your pension

All being well, you're currently paying into a workplace pension. This is really important, not least as it comes with some excellent tax incentives – plus your employer usually pays into it too. It's good practice to pay in as much as you can and perhaps consider setting up additional pensions, if you can afford it.

Unless you work in the public sector, it's likely you have a defined contribution pension. Under rule changes introduced in 2015, you have the freedom to use this money however you like, with a couple of caveats. Firstly, you can't access it until you're 55 (rising to 57 from 2028). Secondly, only 25% is tax-free to withdraw. The rest is taxed in line with income
tax bands.

So if you take too much too soon, you might end up with a large tax bill. A mistake that not even VAR could overturn.

Building a retirement income strategy

You're likely to need your pensions to fund your retirement. Run down your pension too fast, and you might run out of money in your later years. Be too frugal, and you could end up missing out on enjoying retirement to the level you might be able to.

For this and so many other reasons, speaking to a financial adviser is recommended. They can review your current pensions and give you a clear idea over what you're on track to have.

If you're approaching retirement, an adviser can help you develop a plan for using your pension in a tax-efficient, sustainable way, based on your circumstances. With their help, you could get more out of retirement.

If you're amongst the majority of people more likely to understand how offsides work than the retirement rules, speaking to an adviser can help you feel more confident about the future.

The Financial Conduct does not regulate taxation advice. 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. Pension savings are at risk of being eroded by inflation. The tax treatment of pensions in general and tax implications of pension withdrawals will be based on individual circumstances, tax legislation and regulation, which are subject to change in the future.

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

The advice gap gets wider

Millions of people could benefit from expert help with their financial future but aren't seeking it out.

Speaking to an expert can often make all the difference in life. Yet when it comes to money, millions of people are missing out on the positive impact a financial adviser could have on their plans. If this includes you, there's a risk it could leave you struggling to achieve your goals.

June 2024 research by Boring Money[1] concluded some 12.4 million UK adults – with collective assets of £700 billion – have fallen into the advice gap in 2024. What this means is they have a certain level of wealth (such as savings, investments and pensions) that means they might benefit from the help of a financial adviser, but aren't getting this expert support.

Breaking down the numbers, Boring Money found there are some 9.2 million DIY (do it yourself) investors – people who are deciding themselves the best place to invest their money, without advice. And there are another 3.2 million people who have more than £10,000 in savings, who might be able to get better returns on their money if they were to invest it.

In total, just 9% of all UK adults (and 21% of all investors) have received financial advice.

Why people are falling through the gap

There's a lot of reasons why someone might elect against getting financial advice. Cost is certainly one of the biggest barriers. Financial advice can be perceived as expensive, and on the high street a lot of banks and building societies will only offer advice to people who have a large amount of money to invest.

Ultimately, the cost of advice can be justified by the difference in investment returns you achieve over time. It's about having someone get to know you, and what you want to accomplish in the future. An adviser can share their expertise to help you make stronger and more suitable decisions.

This is an especially important consideration for DIY investors. Yes, it might be cheaper to find your own investment route. But it can be easy to make mistakes that you only realise when it's too late. For example, is the investment you chose really suited to your circumstances, or are there more appropriate options available?

One of the biggest strengths of a financial adviser is their ability to look at the long-term, and what steps you can take to help you achieve your financial ambitions that right now might seem vague and woolly to you.

Ultimately, your financial goals are too important to get wrong. A financial adviser can help you avoid this happening.

Good financial advice doesn't have to cost the earth

If you've never received financial advice before, you might assume it costs a lot of money. But it could be a lot cheaper than you think. As a starting point, it's always worth asking an adviser upfront about their charging approach. Any good adviser will be very happy to talk it through first, so you can make a decision on whether the costs seem acceptable before you commit.

If you do proceed, an adviser will ask you about your current situation and future goals. They'll be able to review your plans and check if they're on course to give you what you need. If required, they can then research and present recommendations for you to consider. This advice will factor in your risk and reward appetite.

If you're a DIY investor, you can ask an adviser to look at what you've set up and if it's truly suitable for you. This second opinion can give you extra reassurance you're on the most appropriate path, or allow you to discover if it's worth making some changes to help put you in an even better position.

With an adviser's help, you can feel more confident that you have suitable plans in place – to give you a better chance of achieving the financial future you aspire to.

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/3Z2pRwy

And finally...

The hidden costs of everyday falls

Misjudging your stairs, slipping on the floor or bumping into furniture – every day accidents can happen, well, every day. We all experience them, but sadly sometimes a small accident can lead to an injury and potentially further complications.

A July 2024 survey by MetLife found 56% of UK adults have sustained an injury from an every day accident, with tripping up/falling over the most common cause (32%). Such unfortunate outcomes could mean you're unable to work, which is where there could be financial consequences.

Whilst 62% of UK adults have some form of financial protection in place if they are injured, this usually means life insurance or similar products. MetLife found just 7% of us have personal injury cover – and a further 7% have invested in Accident and Sickness policies. This means the vast majority of us probably don't have sufficient plans in place for a scenario that routinely befalls so many of us.

https://bit.ly/3ySWv9c

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