moneyworks

Spring
2024

At the end of the storm

After a volatile few years financially, is now the time to start looking forward with greater confidence?

What goes up...

As interest rates begin to fall, what it means to you and your finances.

Homeowners drain pension funds

How high interest rates are forcing many over 55s to dig into their lifetime savings pots.

Will you be able to retire at pension age?

As the traditional age of retirement changes what it means to your working life expectancy.

Verity
wealth management

The essential consumer guide to making your money work harder.

Welcome

A warm welcome to the first issue of this year's Moneyworks and as the economy begins to show tentative signs of recovery, we take a look at the key financial issues that are likely to impact you and your finances.

With interest rates having endured a rollercoaster ride over the past two years, there are growing expectations the storm may be passing and 2024 will bring better news for mortgage borrowers. We ask what this now means for people coming to the end of a fixed rate or variable rate mortgage and why seeking advice on your next step could pay huge dividends.

After such a volatile and uncertain period for our finances, another positive to take is that stock markets around the world enjoyed a strong end to 2023 and investors are finally beginning to reap the rewards again. We look at how investing now could help boost your finances in the long-term and the different options available to you.

With pension news dominating the headlines recently and the traditional age of retirement set to rise to 67 between May 2026 and March 2028, we look at what this means to millions of people and the importance of having an adequate pension pot if you want to avoid having to work longer than you expected.

Finally, we discuss the merits of protecting your income with a protection plan should the unexpected happen.

A recent report by Royal London found that 8 in 10 homeowners who are paying a monthly mortgage have no income protection in place, while two-thirds have no protection should they be diagnosed with critical illness.[1]

We ask whether or not this is a risk worth taking and why having a protection policy in place could save you from financial hardship should the worst happen.

Here's wishing you a prosperous 2024 and we look forward to bringing you more updates throughout the course of the year.

The **moneyworks** team

[1] https://bit.ly/3IzsaOe (Royal London)

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Your home may be repossessed if you do not keep up repayments on your mortgage. The Financial Conduct Authority does not regulate taxation advice.

The news in brief

A round up of the current financial stories

Bank of Mum and Dad is booming

The first step is the hardest. Getting onto the property ladder has become difficult for younger generations, with a quarter of couples putting off their wedding and 15% delaying starting a family until they can buy their first home. And December 2023 research by the Institute for Fiscal Studies (IFS) highlights a key source of support for those who do succeed.

The IFS' survey of first-time buyers showed that on average they receive £25,000 from their families to get on the property ladder. Not only did this financial assistance speed up their entry onto the property ladder, it enabled them to put down bigger deposits and secure a larger home.

For nearly two-thirds of first time buyers, every £1,000 they received from parents increased the value of the house they could own by £10,000 assuming they put down a 10% deposit.

https://bit.ly/49Owyoi (Yorkshire Building Society) https://bit.ly/3Te8Zyd (IFS)

Beware the pension tax

In these challenging times of high mortgage rates and the cost-of-living crisis, it's no surprise a rising number of over 55s are turning to their pension pots to unlock some extra money. But doing so can have unintended consequences on your long-term future.

Figures for quarter three 2023, released by HMRC in January 2024, show a 21% increase in the number of people withdrawing taxable sums of money from their pension, compared to a year earlier. In total, 911,000 people withdrew taxable lump sums. As it's treated as your personal income, withdrawing too much in the same tax year could see you pay a tax charge of 40% or even 45%, on part of it.

Only 25% of your defined contribution pension is tax-free to withdraw. So if you want to withdraw from your pension, it might be worth seeking advice to find the most tax-efficient approach.

https://bit.ly/48K7oGh (The Telegraph)

Don't lose interest in your savings

If you have savings ear-marked for your long-term future, this era of higher interest rates gives you the opportunity to get it working harder. But January 2024 research by Yorkshire Building Society suggests millions of us are missing out on significant rewards.

The mutual calculates there are nearly 13 million current accounts with balances above £5,001, which have an average balance of £24,500. In total, around £400 billion is held in current and savings accounts earning 1% interest or less.

With 55% of UK savers admitting they haven't compared the interest paid on their accounts in the last year, and 36% holding most of their savings in a current account paying little or no interest, there is more many of us can do.

It's especially worth considering if you can commit spare savings for at least five years, as investing this money – with advice – could help you unlock better returns.

https://bit.ly/3wMchkS (Yorkshire Building Society)

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.

What goes up...

Interest rate rises have been bad news for mortgage borrowers over the last two years, but is the trend about to reverse?

The worst appears to be over. Between November 2021 and August 2023, the Bank of England increased interest rates 14 times[1] – from 0.25% to 5.25%.[2] It's the highest interest rates have been since 2008[3], and has spelled a lot of pain for millions of mortgage borrowers.

But now, there is light at the end of the tunnel.

The central bank has kept base rate unchanged since last summer and there is growing confidence interest rates will finally start to go down this year. At the end of January investors were pricing in a first rate cut taking place this May – with a further three to follow before the end of 2024.[4]

It all spells good news for around one third of UK householders, who have a mortgage[5]. After mortgage rates rose considerably in 2023, this year has seen them levelling off and, in some cases, coming down.[6]

This is potentially a huge boost if you're on a variable rate mortgage or if you're one of the 1.6 million borrowers with a fixed rate deal due to expire in 2024.[7]

Assessing your next steps

The first thing to say for any borrowers on a fixed rate expiring this year is there's likely to be some form of increase in repayments to absorb. If you're on a two-year deal, your current product will have been taken out when interest rates were starting to shoot up while If you're on a five-year deal, the landscape is now very different.

That's why what you do next is so important.

If interest rates start to go down, it might be unwise to rush into another fixed rate deal. If you do, you might discover – just a few months later – that a cheaper option becomes available.

Instead, you might prefer to join the 1.5 million UK homeowners[8] on a variable rate mortgage. When base rate goes down, your variable mortgage rate reduces too. When base rate goes up, so too does your rate.

The downside of this approach is variable rate mortgage rates can sometimes be higher than fixed rate deals. So there's a danger you could end up with higher overall repayments – especially if the base rate doesn't go down, or fall slower than expected. It also means you're exposed to the risks of the base rate going up again.

For this reason you might prefer to find another fixed rate deal which will give you the security of

knowing what you'll be paying, for the entire term of the product.

What if you're currently on a variable rate mortgage?

Depending on how long you've been on a variable rate mortgage, the last few years might have felt very uncomfortable at times. The fact rates are set to go down is likely to be a financial boost for you, as your payments will start to reduce.

That said, you might welcome the chance for a bit more certainty in future, especially if we go into a more typical economic environment of rates going both up and down.

As an example, during the period 2000-2005[9] which despite being a time of relative stability, the base rate was changed 16 times – going up on six occasions and going down on 10 which makes it trickier to manage your finances.

With the mortgage rate market around its peak high, now certainly won't seem like the time to go from a variable to a fixed rate deal but it may be something worth exploring soon, should interest rates fall as predicted.

Even if you want to steer clear of a fixed rate option, it might be worth looking into whether other lenders are offering even better variable rate deals.

The value of advice

The up and down nature of interest rates shows that there are no easy decisions and so speaking to an adviser is strongly recommended.

An adviser can help you make sense of the fast-changing mortgage market and consider what's suitable for your unique situation. They can use their extensive experience to find options than meet your needs. Best of all, most can usually give you access to better deals than you can get speaking to lenders yourself.

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

[1] https://bit.ly/3PhZzjZ (Sky)

[2] https://bit.ly/4c7cZcp (Bank of England)

[3] https://bit.ly/3TGj3BL (ITV)

[4] https://bit.ly/3TfPTI7 (This is Money)

[5] https://bit.ly/49MEre6 (BBC)

[6] https://bit.ly/43bkISS (This is Money)

[7] https://bit.ly/49MEre6 (BBC)

[8] https://bit.ly/48Q5YKl (The Guardian)

[9] https://bit.ly/4c7cZcp (Bank of England)

Will you be able to retire at state pension age?

The traditional age of retirement is changing – meaning you could end up working longer than you expected to.

There was a time when your 65th birthday was a double cause of celebration. Not only were you another year older, you'd finally reached the milestone age where you could retire.

But over the last two decades, 65 for many is no longer the moment you stop work – instead, the countdown to retiring is stretching further into the distance with around 11.5% of UK adults now working beyond their 65th birthday – compared to just 5.2% in 2000.[1]

72 is new 65

According to January 2024 research by Canada Life, half of Britons (49%) who are not already retired plan to work beyond the age they will receive their state pension - equivalent to 19.2 million - and on average, people expect to work until they're 72.

Of those expecting a prolonged working life, 36% say it will be because their pension won't be sufficient enough to cover their day-to-to-day expenses. Of this same group, those closer to retirement are even more acutely concerned about this with 52% of over 55s worried they won't be able to afford to stop working at state pension age.

There's plenty of reasons why working into your 70s is not an appealing prospect – with the impact on your health a chief fear.

A third of us are worried about our health deteriorating because of having to work longer, while 24% fear retiring later will mean they don't get to spend enough quality time with their family.

An unavoidable option

In February 2024, the International Longevity Centre published research[2] suggested the state pension age might need to rise to 71 for anyone born after April 1970. They cite a rise in life expectancy and fall in birth rates as the key reasons.

As it stands, state pension age is set to rise to 67 between May 2026 and March 2028 while from 2044, it's expected to rise to 68. This new research suggests these planned rises might not be significant enough.

As a result of the government's triple lock pension, the state pension is scheduled to rise each year by either 2.5%, the average UK wage growth, or the rate of inflation, whichever is higher – state pensions will increase by 8.5% in April 2024.

However, how long the triple lock pension will remain in place is unknown.

Put your retirement in your own hands

If you are worried about your own future and ability to retire, let's talk about what you can do about it. If you're working right now, saving for retirement should be one of your key long-term financial priorities.

It's all very well to have a pension, but if you're not paying in enough, or not thinking about how it's invested, you might later discover you're not building up sufficient savings for your retirement and may end up working longer.

Providing you have the right level of earnings, you can now pay up to £60,000 into a pension each year. Even better, you can get tax relief of at least 20% (40% or 45% if you're a higher or additional rate taxpayer and you claim for it).

Building your money for retirement takes careful consideration – and with so much at stake, financial advice is strongly recommended. An adviser can review your current arrangements and give you a clear idea of what you're on track to receive and for how long.

With all this information they'll be able to devise a plan based on your circumstances and goals. It will give you a clear idea of when you can retire, giving you greater confidence. You might discover, for example, you don't need to wait until state pension age to retire and can start enjoying the benefits of a retired lifestyle when it suits you.

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. 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/49Kpn0l (Ageing Better)

[2] https://bit.ly/43guHGC (ILC UK)

Homeowners drain pensions to survive mortgage crisis

High interest rates are forcing many over-55s to dig into lifetime savings pots.

Homeowners are draining their pensions to survive the mortgage crisis with close to a million now accessing their lifetime savings.

The sharp rise in mortgage rates this year means thousands of borrowers are facing shock increases in their payments, and many aged 55 and over are softening the blow by drawing on the cash in their pensions.[1]

Borrowers faced with paying hundreds in extra monthly bills are dipping into lifetime pots in record numbers.

The number of people withdrawing taxable lump sums flexibly from their pensions hit 911,000 in the last tax year – up 21pc compared with the previous year, according to HM Revenue & Customs. Savers withdrew £4.8bn in 2022–23, up from £4bn the year before.

The amount being withdrawn tax-free has also risen. While the amount itself is not tracked, the money HMRC has refunded those taking advantage of their 25pc tax-free allowance has almost doubled – from £33m in the third quarter of 2022 to £61m in the same quarter of 2023. This is another indication of more people accessing their savings from the age of 55.

Ian Cook, chartered financial planner at Quilter, said the Government's figures "starkly illustrate the pressure the cost-of-living crisis[2] is placing on everyday finances".

He added: "More people are choosing to access their pension funds flexibly as a result."

Matthew Colwell, 59, plans to withdraw £20,000 of cash from his pension next month to pay for the extra £1,000 in mortgage repayments he will have to stomach after moving from a 1.86pc rate to a 4.69pc rate.

He said: "In order to afford this, I've decided to use the pension tax-free element. Many of us are in a similar dilemma – and whilst some might view this as a first-world problem, it is life changing."

Anyone aged 55 or over with a defined contribution pension can withdraw up to 25pc of it in tax-free lump sums. This is capped at a quarter of the lifetime allowance (£268,275). They will then pay income tax on the remaining 75pc of their pot.

Steve Webb, former pensions minister, said over 55s' pension pots were "where all the action is" right now, and that opt-out rates among younger homeowners have "nudged up" but not by the same proportions.

He added: "While I wouldn't condemn anybody looking at their options, the worry is that the money you take out in your late 50s won't be there in your 70s.

"When there is an immediate pressure, it is tempting to take out cash. But the risk is that you suffer more in retirement.[3] You can't spend the same £1 twice."

Advisers have also reported a rise in clients using their pensions to pay down their mortgages, as dreams of retiring early are axed.

Nick Onslow, of financial planning firm Progeny, said: "I'm seeing more people doing it and I'm doing it myself. My fixed deal ends in February on two mortgages. The interest is about to triple. So I've taken out £50,000 to pay for it. But I do have other pension income.

"Loads of people are taking out a bit of tax-free cash here or there to top up their incomes. I will carry on paying into my pension for another six or seven years until I stop working."

The average five-year fixed mortgage rate today is 5.18pc, according to data firm Moneyfacts. While most high street lenders are offering some rates closer to 4.5pc, this is still a marked jump for those who last fixed before rates began to rise again.

Mike Barrett, of consultancy The Lang Cat, said in his conversations with advisers and investment platforms "the majority of at- and post-retirement clients have been increasing withdrawals".

He added: "[Investment] platforms and advisers we've spoken with have noted an increase in smaller, ad hoc withdrawals, as well as regular income payments and withdrawals being increased. Both are in response to the cost-of-living crisis, including mortgages."

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

[1] https://bit.ly/49LwnKl (The Telegraph)

[2] https://bit.ly/4c7dTWl (The Telegraph)

[3] https://bit.ly/3TfQzx9 (The Telegraph)

At the end of the storm

As we appear to be heading to calmer waters after a volatile few years for everyone's personal finances, is now the time to start looking further forward with confidence?

It's not quite the end, but it definitely feels like the beginning of the end. As the pace of inflation continues to slow, interest rates look set to start falling and the worst of a turbulent few years for our personal finances might be behind us.

And because of the brighter outlook, an increasing number of us are beginning to feel more upbeat. January 2024 research by Aegon[1] found 52% of UK adults are feeling positive about their finances for the year ahead.

That said, 38% say they are still feeling negative about their finances for 2024, again demonstrating we're not completely out of the cost of living crisis woods just yet. But with inflation now less than half the level it was compared to the start of 2023[2], UK unemployment proving much lower than thought[3], and state pension going up 8.5% in April[4], there are reasons for most of us to feel less worried about our finances.

What next?

Reflecting on the more positive global outlook, stock markets around the world enjoyed a strong end to 2023 and have largely kept their upwards momentum in early 2024. In the US, for example, the S&P index reached a record high in January.[5]

Global stock markets have endured their fair share of knocks over these challenging few years. From Covid, the Ukraine/Russia dispute, and rising inflation, it has been a rollercoaster period. But with events settling down, investors could potentially reap the rewards.

If you're not investing right now, you're actually in the minority. 51% of UK adults – equating to 27 million Brits – have invested as of the start of 2024 which is up from 2 in 5 (42% in 2023.[6]

The question to ask if you're not, is, could investing help build you a stronger financial future?

What it means to invest

If you've never thought seriously about actively investing, it might be you're put off by how complicated it sounds – and the risks. Both are very valid concerns, but letting them stop you exploring investing could reduce your future quality of life by keeping you from growing your money over the long-term.

Investing typically involves committing your money for at least five years, in a way that is suitable for your personal circumstances. It can include investing in areas like stock markets, but also other types of assets – to manage the overall risk you take.

There are thousands of investment funds available that could help you achieve your long-term goals.

Why a long-term outlook to your money matters

Going back to the Aegon survey, the biggest financial priority for UK adults this year is paying for basic living expenses (37% of respondents felt this way), followed by building emergency savings (32%) and enjoying life (28%).

That's a really sensible order of priorities. First and foremost, we all need to make sure we can afford to pay our bills. Beyond that, having emergency savings is so important for unexpected financial situations like a large bill.

But if you've got both these covered, how do you then achieve that third priority of enjoying life?

Spending spare money is obviously a quick-fire way to enjoy life, but in the long-term it might not be sustainable. That's why investing could be key to boosting your future lifestyle. It's all about considering any savings you don't necessarily need right now and getting them working harder so you can reap the benefits in later life.

Advice is the key

With your long-term future at stake, speaking to a financial adviser can help you to work out what you want to achieve with your money. They'll explain how investing works and help you to understand what level of risk you might be prepared to take.

Meeting a financial adviser can give you new ideas, more options and different things to consider to help you achieve your long-term financial ambitions. And at a time when there appears to be a light at the end of the tunnel, this could be the right moment to start plotting the future you deserve.

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/3Tw1BQd (Aegon)

[2] https://bit.ly/4a5I1zv (Trading Economics)

[3] https://bit.ly/3wLRk9r (Reuteres)

[4] https://bit.ly/3Tt7cqi (Money Savings Expert)

[5] https://bit.ly/3Vbxizm (BBC)

[6] https://bit.ly/3Pg9oz6 (Finder)

And finally...

Choice is back

In a sign of much needed normality returning to the mortgage market, the number of products available has risen to a 15-year high.

In January 2024, Moneyfacts reported that there were 5,899 mortgage options available. This includes a sharp rise in the number of 95% LTV mortgages available, at 270 – among the highest since September 2022.

This greater range of choice is a real boost if you have a fixed rate deal coming to an end soon, are looking to remortgage, or want to switch from a variable rate mortgage. That said, with more options, it can be harder to find the most suitable deal for your situation. To save you time and hassle, it's a good idea to speak to an adviser for help making informed decisions.

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

https://bit.ly/43by41k (Financial Reporter)

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