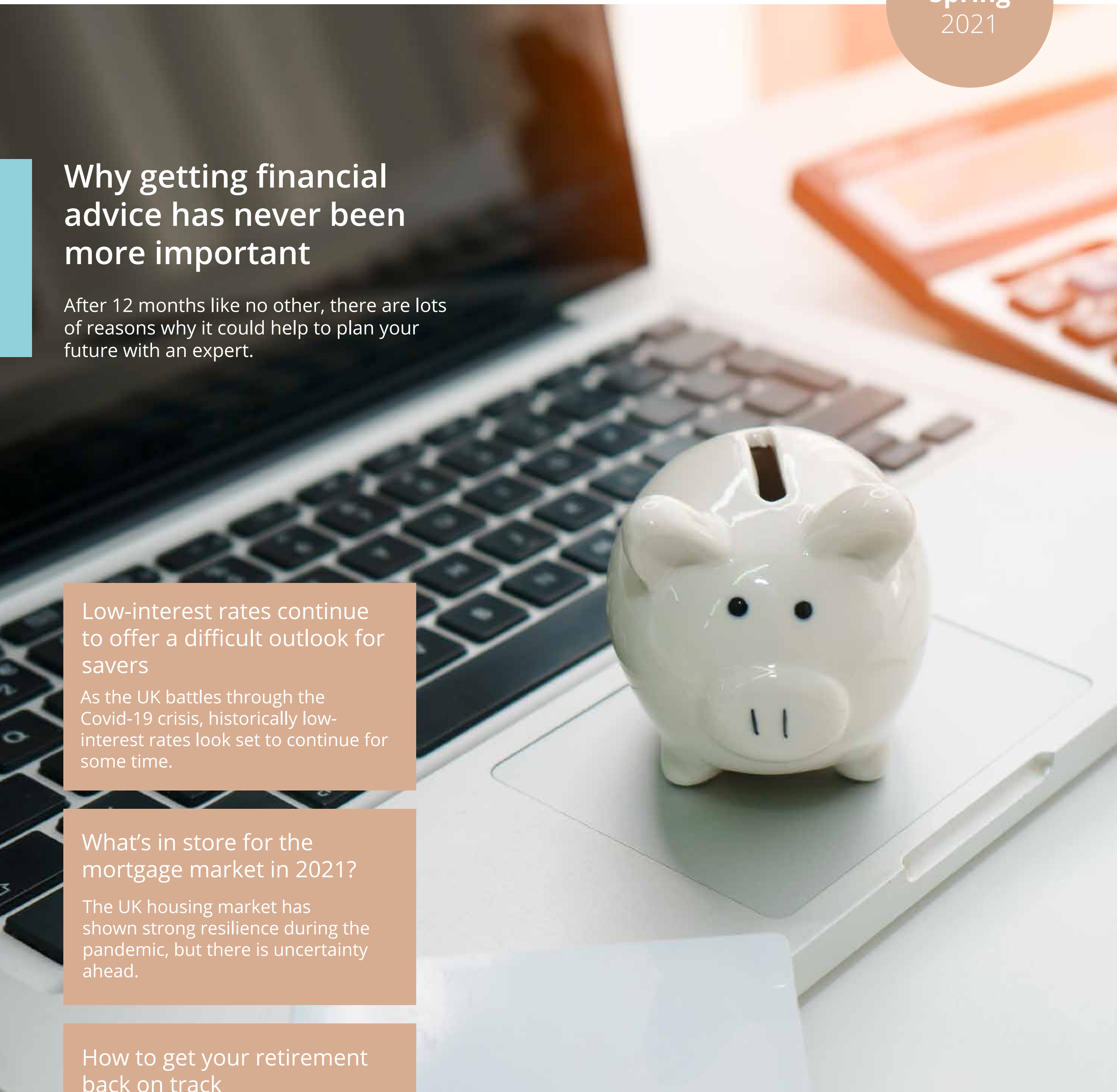
moneyworks

Spring 2021



Why getting financial advice has never been more important

After 12 months like no other, there are lots of reasons why it could help to plan your future with an expert.

Low-interest rates continue to offer a difficult outlook for savers

As the UK battles through the Covid-19 crisis, historically low-interest rates look set to continue for some time.

What's in store for the mortgage market in 2021?

The UK housing market has shown strong resilience during the pandemic, but there is uncertainty ahead.

How to get your retirement back on track

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Fundworks Ltd
INDEPENDENT FINANCIAL ADVICE

Welcome

A year ago, it would have been impossible to imagine how different our lives would be today.

Yet in the space of just 12 months, coronavirus has swept across the globe leaving a devastating legacy in its wake.

Besides the tragic loss of life which has seen over 2.2 million people die from the virus, the impact on people's jobs, savings and long-term financial future has been catastrophic.

The arrival of the vaccine hopefully offers some light at the end of what has been an incredibly dark tunnel but the long-term repercussions on the economy and individual investment plans will be felt for many years to come.

According to the Financial Conduct Authority (FCA), it is estimated that 15.6 million UK adults would benefit from receiving support with their finances – yet only 50% of those have sought help in the past 12 months. In this issue, we explain why it's vital to take the plunge and get your financial house in order to ensure you protect your future.

Last year saw interest rates plummet to historic lows which spelt bad news for savers and as the pandemic continues, those low rates look set to remain for some time to come. With this in mind, we ask what the ongoing impact is for savers and the options available for long-term financial planning.

With stock market volatility having had a huge impact on pension funds, we also address how the pandemic has disrupted the plans of thousands of people who are approaching their retirement and what you can do now to get it back on track.

And finally, we look at the latest news surrounding the mortgage stamp duty holiday and whether or not the housing market can maintain its resilience once the holiday ends and where this leaves you if you are on the brink of moving or are a first-time buyer desperate to get your foot on the ladder.

And so, while the immediate future may seem bleak and uncertain for many, taking the opportunity to speak to an adviser now could have huge benefits and help ensure you are in the best possible position, once the tide turns.

After such a tough and testing 12 months, here's hoping 2021 brings some positivity and we look forward to being here for you over the coming year.

The **moneyworks** team

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The News in Brief

A round up of the current financial stories.

Home is where the heart is for over 55s

6 in 10 over 55s are so satisfied with their current home they never want to move again, according to November 2020 research by Canada Life.

62% of over 55s – equating to over 6.2 million households – want to make their current residence their 'forever home'. The main reasons why include having a large garden (39%), access to off-road parking (35%) and a large kitchen (35%).

Yet despite feeling settled, a combination of factors – spiralling care costs, children returning home or older parents moving in – has led to some forever homeowners considering their financial options, in order to stay put.

The same research found 19% are considering working longer, 13% borrowing money and 11% releasing equity in their home.

https://bit.ly/3aOepto (Canada Life)

What's mine is yours

Kind-hearted grandparents are thinking more about the legacy they want to leave to their families because of the Covid economic uncertainty. That's according to November 2020 research by Killik & Co.

One in seven said the pandemic has forced them to reassess how they will pass on their assets. Two in five added they plan to increase the amount of money they leave behind.

Separate research by Charles Stanley has also found the inheritance children receive could prove beyond their expectations. It concluded that the average amount parents intend to pass on is £124,000 – 60% more than children anticipate receiving. People aged over 75 expect to leave behind an average of £275,000.

https://bit.ly/39Y1hCN (Inews)

The cost of opting out

As millions of people face significant financial pressures because of the Covid economic restrictions, it's understandable many will be going through their outgoings to find ways of saving money. But December 2020 research by Aegon carries a stark warning over the implications of stopping paying into a pension.

Based on the example of a 25-year-old paying 6% of their salary into a pension – topped up by a further 4% from their employer – taking a three-year pension break could see you lose out on £15,000 in your pot by state pension age. Reducing contributions by just 1% could mean missing out on £18,400.

With several employers going as far as fully matching employee contributions, some people could lose out on as much as £36,800 if they reduce their pension saving commitment.

https://bit.ly/3aFGwLs (Wealth Of Advice)

Greater choice for first time buyers

First time buyers are a really important element of a thriving housing market. So, it's encouraging to see January 2021 research by Moneyfacts showing the number of mortgage deals available to first time buyers has almost doubled in a month.

On 1 December 2020, mortgage deals open to first time buyers, with a 10% deposit, totalled 88. But by 1 January 2021, it had rocketed to 160. At the same time, average rates on 2 and 5-year fixed rate products for first time buyers have fallen. It all means there is more choice at more affordable rates.

Despite this welcome boost, the number of deals for first time buyers is still significantly down compared to the start of the pandemic. In March 2020, there were a healthy 779 options.

https://bit.ly/3aQwl74 (Moneyfacts)

How to get your retirement back on track

The uncertainty caused by the pandemic was particularly unwelcome news for people approaching retirement, but there are ways to strengthen your financial plans.

For millions of older workers, who can see retirement approaching on the horizon, recent pension provider statements might not have made encouraging reading.

At the beginnings of the Covid pandemic, nine out of 10 pension funds experienced a loss.[1] The situation has improved as stock markets subsequently recovered from the initial shocks. But people's day-to-day money situation has also taken a hit, with November 2020 research by LV= finding 40% of people aged 55-64[2] say their finances were worse than three months earlier.

One in four of this age group has seen a fall in income from work, which could reduce how much they can save towards retirement. Especially as only 3% of 55-64s are putting any spare money they have into a pension.

Start feeling more confident

If you're feeling concerned about your ability to retire, you're in good company. Schroders research in November found 41% of global investors[3] are worried they won't have enough money to retire. 43% of people aged 51-70 are anxious their retirement income won't prove enough.

So, what could you do to start feeling more confident? Well, the first thing is to start seriously looking at your retirement ambitions and how much money you're going to need.

For example, it's worth looking at your current spending habits and how it might change. After that, you can think about the fun stuff you'll want to do in retirement and the costs that may be involved.

How do your plans stack up?

With a clearer idea of your outgoings, it's time to look at the health of your savings, investments and pensions – and how much income they could provide you. There's also the state pension to factor in.

If you've changed jobs over your career, you might have amassed several pension pots that you've forgotten all about – these could boost your income. January 2021 research from Interactive Investor[4] found one in eight of us don't know how many workplace pensions we have.

Any gap between your likely spending needs and the level of savings is the key area to address. It's important, to also remember that your retirement will hopefully last for many years, and your needs might change over time. So, your retirement provisions need to last you.

Speak to a professional

With so much at stake, getting an expert to help you plan retirement can make a real difference. That's why a lot of people speak to a financial adviser in the final few years before retiring. They have the know-how to review your plans and forecast your retirement spending needs, so you can get a more accurate picture of where you stand.

A financial adviser will be able to advise you on making stronger plans and help you develop a suitable strategy for transitioning into retirement.

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/36NJxIC (Interactive Investor)
[2] https://bit.ly/3ttWRLH (LV=)
[3] https://bit.ly/2LnLeoD (Schroders)
[4] https://bit.ly/3azwlYR (Pensions Age)

What's in store for the mortgage market in 2021?

The UK housing market has shown strong resilience during the pandemic, but there is uncertainty ahead.

During the last global financial crisis of 2007-2008, the housing market bore the brunt of the economic woes – with UK property prices falling 20%.[1] So when the Coronavirus pandemic hit in March 2020, there were valid fears of another property crash.[2]

Yet 2020 ended with house prices experiencing their biggest rise in five years,[3] and the best December for house sales in over a decade.

So what happened? Well, most industry experts point to the government's decision to introduce a stamp duty holiday as a key factor in keeping the housing market alive. It means all property sales under £500,000 are not subject to tax, when usually a rate of 2% (for house sales between £125,000-£250,000) or 3% (£250,000-£500,000) would apply. The window of opportunity has saved some homebuyers as much as £15,000.

Meanwhile the existing help-to-buy scheme – supporting first-time buyers in getting on the property market – has been repeatedly extended. Applications for this scheme ended on 15 December 2020[4] [5] and the recent budget extension allows time for homebuyers to reach legal completion on their home before the funding ends on 31 May 2021.

In the Budget announcement in early March, the Chancellor, Rishi Sunak,[6] revealed that the stamp duty holiday will be extended until the end of June – a move that could benefit an extra 300,000 home purchases.[7] And for homes worth up to £250,000, there will be no stamp duty to pay on house purchases until the end of September.

In a further boost for the housing market, the government has also launched a mortgage guarantee scheme to help people with small deposits get on the property market.[8]

This along with the new Equity Loan Scheme 2021-2023 being now readily available, makes this a good time to buy a new home.

Kicking the can

As welcome as the March Budget announcements will have been to many people, there remains some uncertainty over the medium-term outlook.

In the early weeks of 2021, there was notable panic amongst home buyers and estate agents[9] over whether sales would be completed to beat the original March 31 deadline. This is an issue we may see return towards June and September, as the new revised deadlines approach for people in the process of moving home.

There are also concerns that extending the stamp duty deadline is merely kicking the can down the road. And at some point, should the stamp duty rates return, there could be a sharp slowdown in the property market.

Opportunity knocks

Despite the potential issues later in 2021, there is little doubt that right now is a great opportunity to move house. Whether you're a first time buyer who had been struggling to get a large enough deposit, or you're ready to take the next step up the property ladder and want to save thousands of pounds in stamp duty.

There is evidence the events of the past 12 months have changed what people are looking for in a home. If you want to move somewhere that gives you more home office space or a garden, for example, this could still be the right time to take the next step up the property ladder.

There's a lot at stake. So if you're looking to move home, an expert adviser can help you to consider your situation and use their extensive knowledge of the mortgage market to present you with suitable options.

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.

[1] https://bit.ly/3v11MEO (Savills)
[2] https://bit.ly/3v4sD2Y (Express)
[3] https://bit.ly/3bspNwV (Mail Online)
[4] https://bit.ly/3ejFath (The Sun)
[5] https://bbc.in/3v1xW30 (BBC)
[6] https://bit.ly/3uXsvSC (Property Industry Eye)
[7] https://bit.ly/30qkbg0 (Property Reporter)
[8] https://bbc.in/3endxzt (BBC)
[9] https://bit.ly/3veBvDc (Property Reporter)

Low-interest rates continue to offer a difficult outlook for savers

As the UK battles through the Covid-19 crisis, historically low-interest rates look set to continue for some time.

The sudden global outbreak of Covid-19 caught everyone by surprise, throwing all kinds of forecasts out of the window. That includes the outlook for UK interest rates.[1]

Back in May 2019, the-then Bank of England governor, Mark Carney, was warning that interest rates would rise over the next three years.[2] Yet rather than climbing from its 0.75% level at the time, last March rates were pushed lower than they've even been as the Covid-19 crisis escalated.[3]

Following February 2021's MPC meeting, rates have remained at the historic low of 0.1%. With the UK in danger of experiencing a double-dip recession, a rate rise now appears a long way off. Speculation remains that rates may even go negative – an option the Bank of England has talked up as offering "significant stimulus."[4]

A tough time for savers

Low-interest rates are not good news for savers, as they've significantly reduced the attractiveness of options available. January 2021 research by Moneyfacts[5] suggests that, by the end of this year, it will be difficult to find savings rates that better the anticipated rise in inflation.

December 2020 research by Aegon[6] has spelt out the problem even more starkly. It found that putting £100 in a savings account, at today's rates, means it would take 100 years to grow it to £125. Such a low rate of return demonstrates just how difficult it is to rely on savings accounts to significantly grow your money over the long-term.

Whilst the current level of the base rate is unprecedented, low interest rates are not a new thing. This March will mark the 12th anniversary since the Bank of England pushed the base rate below 1%. That was in response to the global financial crisis – but even after that storm passed, rates have remained low.

In the past, savings accounts were an effective way to grow your money. But those days are long behind us – and may take years to return.

Looking at other options

Although the climate for savings accounts is unlikely to improve for some time, it doesn't mean you need to accept lowering your future expectations. Investing your money could help you grow your money to achieve your needs, providing you're willing to tie up your money for at least five years.

Investing can seem complicated and comes with risks – but it also offers the potential for higher rewards. It's strongly recommended you speak to a financial adviser. They'll be able to review your situation, future ambitions and help you to work out important considerations like your attitude to risk and reward.

By really getting to know and understand you, an adviser can present recommendations that are personal to your situation and help you get your money 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.

[1] https://bit.ly/2MYzedG (Trading Economics)
[2] https://bit.ly/3tCL7H9 (The Guardian)
[3] https://bit.ly/3aG1Znq (Bank Of England)
[4] https://on.mktw.net/3jlYUNx (Market Watch)
[5] https://bit.ly/3ru8vEP (Money Facts)
[6] https://bit.ly/39PqHCx (Express)

Why getting financial advice has never been more important

After 12 months like no other, there are lots of reasons why it could help to plan your future with an expert.

15.6 million UK adults might benefit from receiving support with their finances – that's the verdict of the Financial Conduct Authority (FCA).[1]

The independent financial regulator conducted an extensive tracking survey of UK adults and their finances, concluding millions of us have at least £10,000 in investible assets, who could benefit from advice and guidance over what to do with our savings.

The need for support has been further emphasised by the last 12 months and the wide-ranging economic effects of Covid-19. Stock market volatility has affected many people's retirement plans.[2]

Low-interest rates are hindering people's ability to grow their savings while many people are facing an uncertain employment future[3] because of lockdowns. Others are managing to save more money than ever,[4] but may not know what to do with it.

Over recent years, we've already seen significant personal finance changes like pension freedoms, which have further emphasised the importance of thinking about financial advice.

Taking the plunge

Despite the growing list of reasons for 15.6 million adults to consider financial advice or guidance, the FCA found that only 50% of this group have received support in the last 12 months.

That leaves another 50% – around 8 million people – who have not received any support.

The FCA suggests these people are not allowing their money to work harder on their behalf, with the report explaining, "Our research indicates that a significant proportion is holding far more money in cash than is likely to be needed for an emergency savings buffer."

Getting help with milestone moments

One group of adults who the FCA especially highlighted are those approaching retirement.

It found there are 1.2 million with a defined contribution pension, who would be expected to access it or retire within the next two years. Yet only 53% of this group have had any support over the last 12 months.

For the other 47% especially, there is a real risk of making a poor decision overusing their defined contribution pension.

Those pension freedoms now allow you to access this money, from 55 and use it however you like. But there are some key tax considerations. It's also likely you'll need this money to support your retirement lifestyle for many years, so it's important to tread carefully.

Trust in an expert

There are many options, information and guidance out there to help you plan your finances better. But with your long-term future at stake – and your circumstances and aspirations personal to you – speaking to a financial adviser could prove the best option.

A financial adviser can review your objectives and the arrangements you have in place, before providing recommendations for achieving your goals in a way that suits your needs and feelings to risk and reward.

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/3jmesAT (FCA)
[2] https://bit.ly/36JjSk6 (IFS)
[3] https://bit.ly/39RGn8p (Mental Health Foundation)
[4] https://bit.ly/39P105i (Interactive Investor)

And finally...

Tax relief offer to UK's army of home-based workers

Who would have thought, this time last year, that your bedroom would become your place of work? The pandemic restrictions have caused millions of us to work from home. And it's a situation that probably won't change for some time.

In winter especially, the impact of home working can include rising heating bills that negate the money saved from not commuting. But there is good news if you're home working and need a financial boost.

Last year, HMRC launched a new online service that allows you to claim for working-from-tax relief worth up to £125 a year. It's available to anyone who has been informed by their employer they must work from home – even if it was for only for a short time.

If you think you might qualify, simply visit the HMRC website and follow the instructions – www.gov.uk/tax-relief-for-employees/working-at-home

Fundworks Ltd

INDEPENDENT FINANCIAL ADVICE

Fundworks Ltd

Paul Bailey

Step Business Centre, Wortley Road, Deepcar, Sheffield, S36 2UH

01142 903645

paul@fundworks.net

www.fundworks.net