moneyworks

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Upside down

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Looking after your loved ones

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Making the property ladder more accessible

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Fundworks Ltd
INDEPENDENT FINANCIAL ADVICE

Welcome

With the UK in the midst of a second national lockdown, many will be fearing what impact these latest restrictions will have on their short and long-term finances.

With an ever-changing landscape, it is hard to know for certain where we are heading but as we near the end of a year that will never be forgotten, it is worth taking this time to do all you can to protect you and your family for whatever may lay around the corner.

The global pandemic has made us all think even more about loved ones and how we can plan for their future and in this issue we look at the ways you can ease the burden and worry by planning for what would happen financially should anything happen to you and the importance of a financial adviser in such times.

We take a look at how the markets are reacting to a second wave and ask whether shares are better equipped to deal with the uncertainty this time around; why the long-term outlook remains so vital during these challenging times and what we learnt from the first wave.

Following the announcement from the Bank of England that it could shortly introduce negative interest rates, we look at what such an unprecedented move could mean to you and your finances and how it could affect your savings and mortgage plans.

Finally, we also look at how the government has pledged to boost the availability of mortgages for first-time buyers who only have a small deposit and how this could boost the whole property market.

We look at the plans to provide longer-term mortgages to get people onto the property ladder and why shared ownership aimed at buyers struggling to buy a house on the open market is a route that is growing in popularity.

While 2020 will go down in history as the year when the world changed forever, it is important to remember that despite the uncertainty and worry the pandemic has caused, there will be better days ahead and planning for them now will help ensure you are in the strongest position possible when they finally return.

Above all, stay safe and we look forward to being here for you going forward.

The **moneyworks** team

Contents

This newsletter is for information purposes only and does not constitute advice or a personalised recommendation.

The News in Brief

A round up of the current financial stories.

70% avoid the financial impact of Covid-19

During these unsettling times it's no surprise a lot of us have fretted about money. September 2020 research from Schroders has found 48% of UK adults have regularly or occasionally felt stressed or overwhelmed due to their financial situation.

Yet the anxiety caused by the pandemic hasn't translated into any major impact on people's arrangements, with 71% saying they haven't needed to change anything related to their money matters. Just 16% have been forced to dip into their savings to tide them over.

Looking ahead, 60% of those questioned claim the pandemic hasn't change their financial priorities.

https://bit.ly/2TZ5VYp (Schroders)

The bank that never closes

Where would we be without our parents? When it comes to first time buyers, the financial support mums and dads are offering continues to be a vital factor in their children climbing onto the property ladder.

October 2020 research by Legal & General found that 56% of under-35s get financial help from their parents buying a home. It means the Bank of Mum and Dad has played an active role in more than 73,000 home purchases over 2020.

On average, parents lend or gift £19,000. And 71% of children who've benefited from this generosity admit they would not have otherwise been able to buy their home.

https://bit.ly/2HUMwG0 (Financial Reporter)

66 is the new 65

For many years the age of retirement in the UK has traditionally been seen as 65. But recent changes to state pension, which came into effect this October, mean this is unlikely to stay the case.

State pension age – the milestone where you qualify to start receiving a weekly pension income – has now risen from 65 to 66. It is the first time the men's age has changed since the current state pension was introduced in 1948. Although for women it's the latest milestone of a steep rise. Just 10 years ago, women could receive a state pension from the age of 60.

This recent change is far from the last we'll see. The government has proposed to raise it to 68 between 2037 and 2039. And there have been calls to eventually increase it to over 70.

https://bit.ly/3kY5VUF (The Guardian)
https://bit.ly/36313qT (GOV UK)
https://bit.ly/3kVYugM (Evening Standard)

Savings ratio reaches all-time high

With so many of our plans cancelled this year – holidays, family gatherings and days out – it's probably no surprise that a lot of us have been able to squirrel away a bit more money during lockdown.

In fact, figures from the Office for National Statistics found that Brits were able to save more than ever before between April and June 2020.

The percentage of disposable income households have saved rose to an all-time high of 29.1%. That's 29p out of every £1 income we earn being stored away for a rainy day.

https://bit.ly/3kZLre5 (Office for National Statistics)

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

Looking after your loved ones

The global pandemic has made many of us think even more about who is important to us and the ways we can protect them.

The tough realities of Covid-19 might have provided you with an even greater desire to protect those who matter most to you and to think more about how loved ones would financially cope if something was to happen to you.

Back in May,[1] research found the pandemic had triggered a rise in intergenerational financial planning, with nearly a fifth of UK adults (17%) revealing they were more likely to look at leaving money to help their loved ones in the future. Some financial advisers are also reporting an increase in people looking for guidance on wills.[2]

These are positive signs, but June research found almost nine in ten people still haven't found it any easier to open up about their finances.[3] During a time when anxiety and stress has hit millions of people,[4] talking about money matters and getting your financial future in order could provide a psychological boost and help improve you and your family's well-being.

Considering the what-ifs

It's not easy to contemplate if something was to happen to you, or a loved one. But putting plans in place for such a scenario can offer some peace of mind about the future.

The most obvious place to start is a Will. Without one, you would be deemed to die intestate – and that means a set of rules would be used to determine who inherits your possessions. That could lead to avoidable complications or even family fall-outs.

If your overall estate is worth more than a certain threshold, there's also the potential that your loved ones would have to pay a 40% inheritance tax bill to inherit it. Unless you make plans.

The here and now

That's the sadder end of the financial planning scale. But talking about your finances as a family can have other, more immediate and happier benefits too.

October 2020 research by Saga[5] found that 55% of parents believe it is important to leave an inheritance, but 20% say the pandemic has encouraged them to think more flexibly. Instead, 37% would rather see their children benefiting while they remain fit and well.

This is where intergenerational financial planning can really help. It's a chance for you and your family to bring your financial priorities to the same table, and see if you can develop an overall approach that helps everyone.

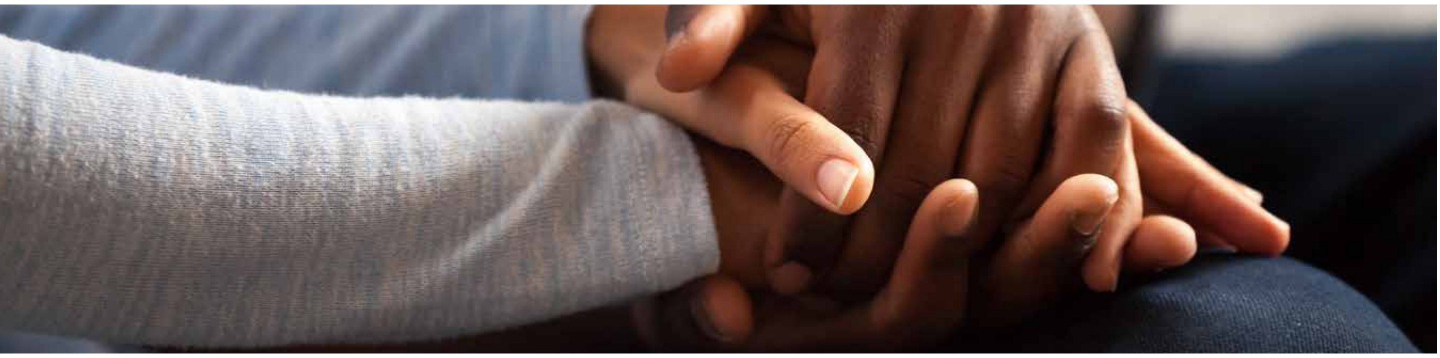
If your long-term goals include providing for your children and grandchildren in some way, it could really help to include everyone in financial conversations. Encourage them to seriously think about what they need to do to achieve their goals, but also outline the level of support you might be able to offer.

It can also help to get your loved ones to understand your own financial priorities and to address more difficult conversations like your legacy.

Including a financial adviser in these important conversations can enable you to work even better together as a group and collectively develop stronger plans. An adviser can ask the right questions and help you all plan for the future, whilst making sure nothing is overlooked.

The Financial Conduct Authority does not regulate Will Writing.

1 https://bit.ly/3erc3Cg (Professional Adviser)
2 https://bit.ly/3kYUfRo (FT Adviser)
3 https://bit.ly/2GrmEk6 (Money and Pensions Service)
4 https://bit.ly/3mQ5ImN (The Guardian)
5 https://bit.ly/3eppnak (Interactive Investor)



Making the property ladder more accessible

The government has pledged to boost the availability of mortgages for first-time buyers who have a small deposit, which could boost the whole property market.

It's no secret that it has become much tougher for first-time buyers to get onto the property ladder over recent years – and the wide-ranging effects of the pandemic have only added to the problem.

At the height of the first wave in Spring, lenders raised the drawbridge on riskier types of lending.[1] Mortgage approvals fell, lending criteria was tightened, and some providers pulled mortgage deals.

Although the situation has gradually improved, it remains a challenging time for homebuyers to get a mortgage,[2] especially first-time buyers with lower deposits.[3] This is despite the government's stamp duty holiday making this a great time to buy a home.

The availability of 90% and 95% mortgages remains much lower,[4] with nine in 10 deals removed from the market since the pandemic. Meanwhile, the government's popular help to buy scheme will become more restrictive over the next few years, before stopping altogether in March 2023.[5]

"Generation buy"

Responding to these issues, in October the prime minister Boris Johnson unveiled plans to offer long-term mortgages for homebuyers with a small deposit, pledging to turn "generation rent into generation buy".[6]

Johnson has stated that his new approach will create two million owner-occupiers, which would be good news for all homeowners.[7]

The stamp duty holiday has led to a boon in house sales,[8] but there are fears of troubles ahead when it ends on 31 March 2021.[9] Property prices are predicted to fall in 2021.[10] If the government scheme helps first-time buyers, it could provide a wider boost to the rest of the housing market.

Shares in a home

However, the government's proposals are not the only option available to would-be first-time buyers with another, less known route being shared ownership.

Aimed at buyers struggling to purchase a home on the open market, shared ownership allows you to acquire a share of a home – typically between 25-75% – and pay a mortgage on the part you own. You would then pay rent on the remainder of the home, usually at below market value level. The buyer has the option to increase their share in the home at a later point, all the way up to 100%.

This can still be an expensive option – the culminative mortgage, rent payments and other service charges would add up to a large monthly outgoing – but it is a route that is growing in popularity.[11]

Selecting the right approach

There's a lot to think about when it comes to moving on or up the property ladder. Or even if you're on a fixed rate deal that's due to come to an end soon, and you're not sure what you should do next.

For this reason, it's a good idea to arm yourself with the facts and speak to an expert adviser. They can consider your situation and future goals – and use their extensive knowledge of the mortgage market to help you make informed decisions.

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

1 https://bit.ly/3jV8oxJ (Experian)
2 https://bit.ly/3mRn8zt (Which)
3 https://bit.ly/3eu9RKf (This is Money)
4 https://bit.ly/3kYcWEZ (Which)
5 https://bit.ly/3oZ3mE3 (Unbiased)
6 https://bit.ly/3666kxR (This is Money)
7 https://bit.ly/34WBA35 (The Guardian)
8 https://bit.ly/3kY11Xl (GOV UK)
9 http://dailym.ai/34WoYJx (Daily Mail)
10 https://bit.ly/3jV8N3d (The Mortgage Hut)
11 https://bit.ly/2GqaJD4 (Best Advice)

Upside down

The Bank of England has signalled it might take interest rates even lower, which could have an extraordinary impact on your savings and mortgage.

In a time of unusual records, the Bank of England could be about to set a new first. Base rate has already been reduced to its lowest level in the Bank's 326-year history[1] and it might yet go even lower. So low, in fact, it goes negative.

In September,[2] the UK central bank announced it was looking into cutting interest rates below zero. The reason why such a radical move is being considered is to enable the Bank of England to provide extra firepower to boost the economy, following the autumn Covid-19 surge. As businesses face more uncertainty, unemployment could be set to rise further.

The Bank elected against negative interest rates at its latest MPC meeting in early November, but there is a further rate decision to make just before Christmas.

Although adopting negative interest rates would be uncharted territory for the UK, it has been used by the European Central Bank and Bank of Japan. The theory, which the Bank claims there is evidence of,[3] is that companies will increase investment rather than hold onto cash.

It is also designed to get money flowing out of banks and into the economy in the form of loans and mortgages. Encouraging businesses to borrow money that can support them through these difficult times. This could boost stock markets.

But negative rates would also have other, stranger affects for savers and mortgage borrowers.

Paid to have a mortgage

If you have a variable rate mortgage, under negative interest rates, you would no longer pay interest on your repayments – your lender would technically pay you.

The reality of how this would work[4] is that your lender wouldn't actually pay you each month, but instead reduce the outstanding capital, speeding up how quickly you pay off your mortgage debt. In the immediate term, your monthly mortgage payments would reduce.

This opens up some really interesting possibilities, if you're looking to move home, remortgage or are coming to the end of your fixed term. It goes without saying it should lead to some very favourable options for you to consider.

More misery for savers

On the other side of the coin, negative interest rates would spell bad news for savers.

Negative base rate would mean that you technically have to pay the bank to store your savings, rather than them earning interest. This could take the form of a monthly charge.[5]

It would be a fresh blow for savers, but perhaps this possibility could act as an opportunity for you to reconsider how you're building up your money for your longer-term needs. After all, base rate has remained at low levels for more than a decade, and it's unlikely it will significantly climb for a long time.

For this reason, speaking to a financial adviser about investing your savings, for your long-term needs, could give you a better chance of achieving rewarding returns. An adviser could help you explore investing and provide suitable recommendations.

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. You may have to pay an early repayment charge to your existing lender if you re-mortgage.

[1] https://bit.ly/3k6336W (Bank of England)
[2] https://bit.ly/3eub0Bx (Finance Monthly)
[3] https://bit.ly/3646gPh (The Guardian)
[4] https://bit.ly/32f0zge (Schroders)
[5] https://bit.ly/2JvIILv (Schroders)

Riding the second wave

After a summer of life slowly returning to normal, Covid-19 cases have rocketed over autumn – leaving markets and investors with plenty to consider.

This was the sequel that no one wanted. After the UK's new Covid-19 cases fell below 500 a day during July,[1] a second wave of the virus has hit the country over autumn.

It's difficult to compare recent case numbers with those of the first wave in Spring – given the greater advances in testing capacity – but infections have risen sharply. The government has made stark warnings of a very difficult winter ahead, as shutdown measures return.[2]

In early November, the UK went into a second national lockdown with millions of people now living under tough restrictions[3]. Businesses have again been forced to close and while the furlough scheme has been extended until March 2021 in a bid to protect jobs,[4] unemployment is inevitably on the rise.[5]

Beyond these shores, the picture is similarly difficult for a number of countries.

Another bumpy outlook

For investors, the resurgence of Covid-19 carries obvious concerns about their money. After all, during the first wave global markets fell dramatically. The second quarter of 2020 saw a very swift recovery. But as case numbers began to rise again, there was further negativity in markets over September and October.

The key consideration for markets is the ability of businesses to operate. There is no roadmap on how to manage this crisis. Meaning individual countries are trying to find their own balance between installing preventative Covid-19 measures and enabling their economy to function.

As we've seen already this year, some shares are well positioned to benefit from the Covid-19 restrictions. Technology companies – particularly the US giants – have experienced a good year, for example.[6] There are others however who simply can't operate fully, and they are left with very uncertain futures.

The mixed outlook will continue to unsettle markets and affect investors. But as much as it will contribute short-term bumps, the shock factor is not there compared to last Spring.

A resurgence in Covid-19 cases is worrying but not exactly a surprise. Even as markets bounced back over the summer, the threat of a second wave prevented share prices rising too steeply. Going into the resurgence, markets appeared to have already priced in the possibility of a second wave.[7]

Keeping calm and carrying on

Some tough moments might lie ahead for your investments during the final few weeks of 2020, and early 2021. But it's the long-term outlook – and your reasons for investing in the first place – that ultimately counts.

As each day passes, we move closer to finding a vaccine to address Covid-19. Eventually, normal life will return – and, with it, the long-term opportunities remain for investors.

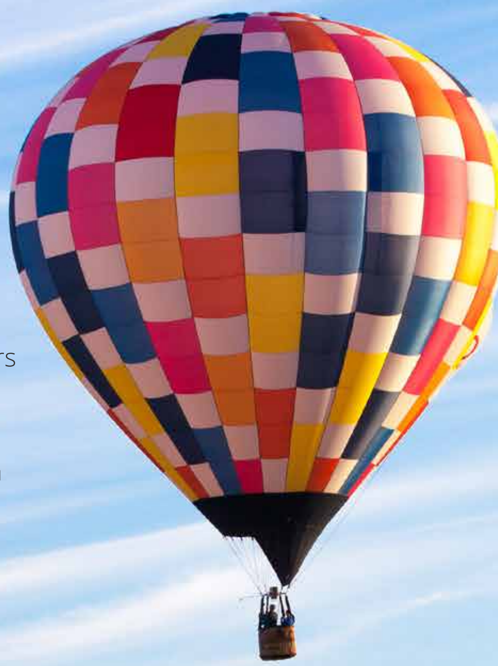
For this reason, now could be a really good time to speak to a financial adviser. By reviewing your plans with an expert, you can benefit from advice that's personal to your situation.

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/2GrLd0i (GOV UK)
2 https://bit.ly/364NnM1 (Manchester Evening News)
3 https://bbc.in/32cymXn (BBC)
4 https://bit.ly/366xRiH (GOV UK)
5 https://bit.ly/365nNGY (The Guardian)
6 https://bit.ly/38crk9a (This is Money)
7 https://bit.ly/32dPfkD (Money Week)

And finally...

Life insurance cover on the rise



With the dangers of Covid-19 so evident, insurance providers are reporting a notable increase in life insurance sales – and a rise in pay outs.

Royal London revealed in August that life insurance, illness and income protection products sales are up by 15%, partly because of the pandemic reminding customers of the importance of having cover. Another broker, LifeSearch, has reported a 25% rise in purchases of financial protection cover.

At the same point, Royal London disclosed it has paid out more than £8.5 million in Covid-19 related life insurance claims. A figure dwarfed by the larger insurers, L&G and Aviva, who have each paid out £36 million.

In addition to providing financial pay outs, insurers have also put plans in place to ensure people who are financially impacted by Covid-19 can maintain their life insurance cover whilst they're struggling to pay premiums.

If you don't have cover, or aren't sure if what you have is adequate, it's strongly recommended you speak to an adviser.

https://bit.ly/2JFkQ8B (The Guardian)
https://bit.ly/3mSXiuW (This is Money)

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