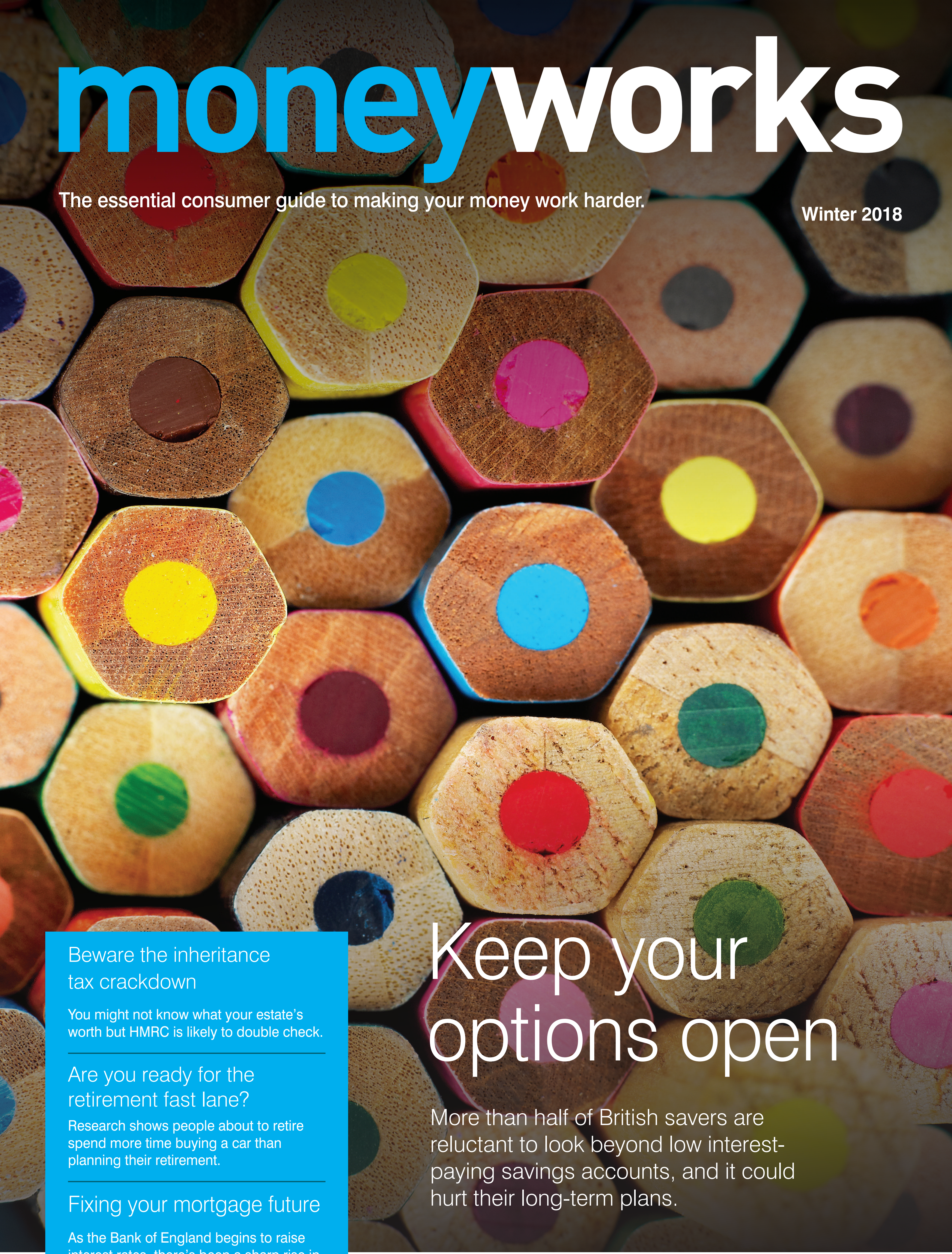

moneyworks

The essential consumer guide to making your money work harder.

Winter 2018

Keep your options open

More than half of British savers are reluctant to look beyond low interest-paying savings accounts, and it could hurt their long-term plans.

Beware the inheritance tax crackdown

You might not know what your estate's worth but HMRC is likely to double check.

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CalverGroom
FINANCIAL MANAGEMENT

Welcome

Welcome to the latest issue of **moneyworks** – your quarterly financial update which addresses the topical financial stories making the headlines.

With very little light at the end of the tunnel of savers and interest rates expected to stay low for another two decades, we ask whether now is the right time to broaden your horizons and look at alternative saving options. Despite more than half of UK savers reluctant to look beyond their low interest paying savings accounts, investing your money elsewhere could prove far more rewarding.

We also report on the HMRC Inheritance Tax crackdown and how in the last financial year the amount of revenue raised reached a record-breaking £5.2 billion. We look at the importance of planning and addressing your legacy now in order to ease the burden on your family and the steps you can take to reduce the bill when you die.

Elsewhere we look at whether you are ready for the retirement fast lane and given the continued increase in life expectancy whether you're pension pot is deep enough to last the distance.

Finally, with more and more people looking to re-mortgage their property as interest rates continue to rise, we report on the question of fixing your mortgage future and why now could be the ideal time to plan your next steps.

We hope the contents of this newsletter are helpful and informative and we welcome your feedback or any feature suggestions you may have for future issues.

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

Best wishes

The **moneyworks** team

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The News in Brief

A round up of the current financial stories.

More than half of savers feel positive mental health effects

Money doesn't buy happiness, but saving for your future can support your mental wellbeing.

According to August 2018 research by Lloyds, almost three-quarters of regular savers (74%) feel happy compared to just over a third (36%) of non-savers. 53% of savers agree having a savings plan has had a positive impact on their mental health.

Almost half of all people surveyed admitted money matters are their biggest cause of stress. It's a particularly large issue for people under 44. 59% of 35-44 year-olds claim to be anxious and worried about their personal finances. 58% of 25-34 year-olds believe money matters are their biggest cause of stress.

(Source: https://www.lloydsbankinggroup.com/globalassets/media/press-releases/2014/180822-lloyds-bank-quarterly-savings-report.pdf)

17.6 million Brits lack the financial resilience to withstand the unexpected

You just never know what's around the corner, and many of us will unfortunately at some stage experience a financial shock or sudden loss of income. So it's concerning that one in three UK adults do not feel they would be able to recover quickly from an unexpected financial surprise.

The August 2018 research, conducted by Zurich, also found 24% of us have no savings to fall back on should something go wrong.

Nearly two-fifths believe that to have greater financial resilience requires adequate savings. 17% feel they would need to have a secure job. 22% say they would not need to be in any debt to manage a financial shock.

Troubling, only 11% of those surveyed have Income Protection, a financial product that shields your pay against being unable to work through illness or injury.

(Sources: https://www.zurich.co.uk/en/about-us/media-centre/life-news/2018/18-million-would-struggle-to-recover-from-a-financial-shock-or-loss-of-income)

Steep decline in young first-time buyers over the past decade

Just short of 60 years ago, the average age of a first-time home buyer was just 23. Yet thanks to spiralling home buying costs and property prices, the average age is now in the 30s.

The last decade has accelerated this trend, according to figures from the Office for National Statistics, released in October 2018. In 2008, 37% of people aged 22-29 owned their own property. But in 2018, that figure has fallen to just 27%.

March 2018 research by Keepmoat Homes found a first time buyer in 1960 paid a deposit of only £595 (the equivalent of £12,738 today), yet an average of £20,622 would be needed today.

(Source: https://www.mortgagestrategy.co.uk/young-homeownership-falls-by-10-in-10-years-ons/

https://www.independent.co.uk/property/first-time-buyer-age-increase-1960s-housing-market-cost-property-ladder-a8244501.html)

Millennials prioritise home ownership before retirement saving

If you're under 35, retiring will seem a long, long way off – but what you're doing, or not doing, now could have a huge impact on your quality of life in retirement.

According to October 2018 research by Prudential, 35% of millennials are prioritising saving for a deposit ahead of paying more into a pension.

21% said they've not started saving for retirement yet, whilst 15% admit pension saving doesn't motivate them. 12% believe pensions are irrelevant to millennials.

The longer you wait to focus on saving for retirement, the more challenging it will be to build up an adequate pot of savings. This may cause you to have to work for longer, or to accept a reduced standard of living.

(Source: https://www.mortgageintroducer.com/millennials-put-buying-property-pensions/)

Keep your options open

More than half of British savers are reluctant to look beyond low interest-paying savings accounts, and it could hurt their long-term plans.

There's no light at the end of the tunnel for savers. Despite Bank of England raising interest rates to their highest level since 2009 earlier this year, base rate is only up to 0.75% and outgoing Bank of England policymaker Ian McCaffery has forecasted rates will stay low for another two decades.*

If he's right, that means UK savers will have faced 30 years of low interest rates – and it could prove telling for your financial future. With UK inflation running at 2.4% in September 2018, it's a challenge just to find a savings account that will keep pace with the rising cost of living.**

Investing in your future

All of which underlines the importance of looking at alternatives for your long-term goals – but that's something more than half of British savers admit they're unwilling to do. July 2018 research from Scottish Friendly found 53% of us are unwilling to consider investing in stocks and shares.*** This is despite the fact nearly two-thirds (66%) are aware savings rates are lower than inflation.

Of those who wouldn't invest, 49% state they're afraid of losing money. 28% feel financial products are too complex. And 25% don't believe stocks and shares are affordable to them.

Are savers right to feel this way? Well, yes and no. There's no question investing comes with risk of losing capital; it isn't an easy concept to understand; it's not recommended if you have only a small pot of savings and nothing else to fall back on. But investing doesn't have to be difficult, and the risks needn't be as large as you might assume.

Speaking to a professional

If you're disgruntled by low interest savings accounts, and have long-term financial objectives, investing shouldn't be ruled out. And this is why it can really help to speak to a financial adviser. In fact, the Financial Conduct Authority believes there are currently 18.2 million people who have £10,000 in savings or investments who might have a need for financial advice.****

A good financial adviser will explore your financial situation and future aspirations. This will allow them to explore ways of investing your money that suits your circumstances. They will clearly explain how investing works and provide you with the knowledge to be able to make decisions. So if you do feel financial products are too complex, they can put your mind at ease.

> *"There's no light at the end of the tunnel for savers. Despite Bank of England raising interest rates."*

A good financial adviser will also help you understand your true personal feelings towards risk and reward – in order to provide appropriate recommendations. They will outline the risks, so you can weigh up if you'd be prepared to accept them.

With interest rates likely to remain low for years to come, investing could provide you with the long-term returns you need.

*https://www.theguardian.com/business/2018/aug/09/interest-rates-will-stay-low-for-20-years-bank-of-england-expert

** https://moneyfacts.co.uk/news/savings/inflation-falls-to-24--and-20-accounts-beat-it/

*** https://www.scottishfriendly.co.uk/news/2018-news-press-releases/new-study-scottish-friendly-reveals-half-british-savers-are-suffering-investophobia

**** http://www.financialreporter.co.uk/finance-news/13m-more-people-taking-financial-advice-in-2018-fca.html

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.

Beware the inheritance tax crackdown

You might not know what your estate's worth, but HMRC is likely to double check.

When it comes to leaving an inheritance for others, it's so important to be clear and accurate. Not only could any ambiguity lead to damaging family arguments over your Will, your loved ones could face all manner of headaches sorting through your financial affairs – and it may even lead to a costly penalty.

According to research by UHY Hacker Young,* over the 2017/18 tax year, HMRC investigated 5,400 estates of a deceased person – to challenge whether the stated value was lower than it should be, to avoid inheritance tax. That accounts to around one in every four estates that might be liable for inheritance tax.

The growing problem of inheritance tax

Inheritance tax is a deeply unpopular tax, which applies if the value of your estate is above a certain threshold.

In 2015/16, the latest figures available, the average inheritance tax bill was £179,000.** The government's own projections show annual revenue will continue to rise.

Your estate is made up of everything you own, with the exception of your pensions. If its total value exceeds £325,000 (if you're single or divorced) or £650,000 (if you're married, in a civil partnership or widowed) everything above your threshold is taxed at 40%.

The government has started to roll out a main residence nil rate band, currently worth £125,000 a person, that can be added onto your threshold if you leave your home to a direct descendent. But the rules are complicated, and not everyone can benefit.

What is HMRC investigating?

When you die, the executor of your estate – usually a family member – will have to sort through your financial affairs and submit this information to HMRC. If your estate is above your threshold, they will receive a 40% tax bill. It needs to be paid within six months or interest is charged on top. And, usually, your family can't inherit your estate until it's settled.

HMRC's extra investigations mainly centre on checking if the stated value of your property is actually accurate – and they're prepared to challenge it. So if your family aren't precise, they could face a larger bill. Should HMRC have reason to believe the estate was deliberately undervalued to avoid inheritance tax, they could issue a financial penalty.

Plan your legacy

Inheritance tax rules are complicated, but there are ways you can plan and address it – which can ease the burden on your family.

Speaking to a financial adviser can help you explore if your estate has a liability, and the steps you can take to tackle it. A great benefit is they'll be able to present solutions tailored to your situation. This is a complicated issue, but an expert adviser can help you build the most appropriate plans.

* https://www.moneywise.co.uk/news/2018-09-17/inheritance-tax-avoidance-investigations-rise-hmrc-cracks-down-estate

** https://www.independent.co.uk/money/spend-save/inheritance-tax-british-pay-increase-cost-a8474526.html

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The Financial Conduct Authority does not regulate taxation & trust advice.

Are you ready for the retirement fast lane?

Research shows people about to retire spend more time buying a car than planning their retirement.

Retiring is seen as a care-free, relaxing period in life – where you can wave goodbye to the hassles of working and put yourself first. But if you don't make the most suitable financial plans, unfortunately, retiring could actually prove a struggle.

It's not just about how much you save towards your retirement, but the decisions you make around using your pensions, and other pots of money, to fund your lifestyle. A bad choice can have long-lasting repercussions. The 2015 pension freedoms give you more flexibility, but also puts more onus on you to get it right.

A time for planning

In your final decade of working life, you realistically need to increase your focus on your retirement financial plans. Yet September 2018 research by Legal & General suggests that's not really happening.*

Amongst their survey of over 55's, 32% are spending less than a week, collectively, on making a decision arranging an income from their pension. This includes researching their options and understanding which products represent good value. Yet 40% admit they would spend more than a week planning and making a car purchase.

Almost one in four were unable to say what rate would represent good value for money on their investments or savings. 18% aren't confident their pension savings will last them.

The last point is crucial. Life expectancy from birth has significantly risen over several decades. If you reach 65, you can on average expect to live to 83.6 (men) and 85.9 (women).**

Whereas previous generations would realistically only get to experience a relatively short retirement, yours could last for two decades if not longer. Your retirement could be defined by the decisions you make just before, and at the point of, finishing working. It needs much, much greater thought than planning your next car purchase.

What do you need to consider?

In your final decade of working, you especially need to focus on planning your retirement. As a starting point you might want to consider if you can afford to pay into your pension. And, crucially, check if you've invested in a way that's appropriate for you – for example the level of risk you're taking.

To help decide this, you need to develop concrete thoughts on what you want to achieve in retirement, and the type of lifestyle you hope to fulfil. Knowing this could help you to think about how you will use your pension to fund retirement, and the options available to you.

> *"As a starting point you might want to consider if you can afford to pay into your pension."*

Ultimately, your money needs to last you throughout retirement – and should take into account the possibility your circumstances could change. That's difficult to forecast. But by speaking to a financial adviser, you can benefit from an expert working with you to plan your future. They can support you in devising a strategy that aims to set you up for the retirement you deserve.

*https://www.legalandgeneralgroup.com/media/2693/24092018-over-55s-spend-more-time-on-car-than-pension.pdf

** https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2015to2017

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.

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.

Fixing your mortgage future

As the Bank of England begins to raise interest rates, there's been a sharp rise in the number of homeowners and landlords re-mortgaging.

We might still live in an era of historic low interest rates, but there's only one direction they are moving. In November 2017 and August 2018, the Bank of England voted to raise interest rates by 0.25% a time. Base rate currently stands at 0.75%, and is forecasted to be increased at least once next year.*

For mortgage borrowers, this slow but upwards path provides a potential dilemma. With mortgage rates slowly rising in line with base rate, it's already more expensive to re-mortgage compared to 12 months ago. But is it better to stick with your current fixed rate deal until it runs out, or to find another product now? And what if you're on a variable rate mortgage?

Steep rise in re-mortgaging

As this summer showed, the prospect of an interest rate rise led to a sharp rise in the number of homeowners acting. During July, around 46,900 homeowners and 14,700 landlords re-mortgaged their properties to a new deal.** This was not only a 25% increase on the month before, but the busiest July for re-mortgaging in over a decade.

Given the Bank of England did indeed increase interest rates the month after, those who re-mortgaged might have felt justified. Yet, surprisingly, the August base rate rise has not led to a sharp rise in fixed rate mortgages. In fact, during October average rates on fixed rate mortgages actually fell for the first time in 12 months.*** This fall was attributed to increased competition in the mortgage market, as lenders vie to attract borrowers. There's also been a rise in the number of lower loan to value products.

It seems highly unlikely we will see a return to the historic low fixed rate mortgage deals of 12 months ago.**** But borrowers who chose to sit out the July stampede might be encouraged to discover they haven't necessarily missed out.

Planning your next steps

Although mortgage rates haven't risen as quickly as many might have feared, over the long-term they're likely to continue increasing. If your current fixed rate mortgage deal is due to come to an end in the near future – or you're on a variable rate, and not sure whether to stay with it – now could be the ideal time to assess your next steps.

Ultimately, it's not about finding the cheapest possible deal – but what's the most appropriate for your current circumstances. For example, how long you intend to stay in your current home. If you're happy with your current house and don't intend to move for several years, a longer-term fixed rate mortgage – at current rates – could prove advantageous.

> *"But is it better to stick with your current fixed rate deal until it runs out."*

For this reason, it could really pay off to 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. This saves you from having to shop around yourself, and potentially risk re-mortgaging onto a product that isn't necessarily as suitable for your situation compared to other options.

* https://www.thisismoney.co.uk/money/news/article-1607881/When-UK-rates-rise.html

** https://www.which.co.uk/news/2018/09/remortgaging-surges-by-23-should-you-switch-to-a-fixed-rate-deal/

*** https://www.ftadviser.com/mortgages/2018/10/09/two-year-fixed-mortgage-rates-dip/

**** https://www.whatinvestment.co.uk/is-it-the-end-of-low-mortgage-rates-2614582/

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

And finally...

Beware the pension cold callers

91% of UK savers say they've been contacted by a cold caller about their pension, according to September 2018 research by Aegon.

With FCA figures showing victims of pension scams lost an average of £91,000 each, during 2017, it is no surprise more than half of the 800 people surveyed by Aegon are worried about the government's delay implementing a pension cold calling ban.

The government was due to introduce the ban during the summer, but pushed it back until this autumn at the earliest. With the FCA also finding almost a third of pension holders aged 45 to 65 would not know how to check if they're speaking with a legitimate pension adviser or provider, the need for extra protection is evident.

(Source: https://www.cofunds.aegon.co.uk/ukcpw/intermediary/news/nine_in_10_peopleaffectedbyscourgeofcoldcallers.html
https://www.fca.org.uk/news/press-releases/regulators-warn-public-pension-scammer-tactics-victims-report-losing-average-91000-2017)

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