moneyworks

SUMMER 2024

Time to take stock

With a brighter outlook for our personal finances, now is a good time to review your investment plans to make sure you're benefitting.

Protecting what really matters

A record number of people are taking steps to protect their finances in case of the unexpected.

Will you still be paying off your mortgage in retirement?

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A good time to invest?

With stock markets looking buoyant in 2024, is now the ideal time to invest?

ROSEWOOD
WEALTH MANAGEMENT

The essential consumer guide to helping make your money work harder.

Welcome

A warm welcome to our latest issue of moneyworks and a chance to take stock of the current financial market and address the issues which are affecting you and your money.

After a strong start to the year, stock markets are suddenly looking more buoyant and with that in mind we ask why now could be a good time to invest. According to April figures from Calastone,[1] a record amount of money has been placed into investment funds during the first quarter of 2024 and we look at your options and why appropriate advice is so important.

With a growing number of people taking out longer mortgages which could well extend beyond their retirement, we address the dangers of such deals eating into your pension savings.

We also take a look at the importance of protecting your finances in case of the unexpected and the steps you can take to look after your long-term savings, and, as we hopefully come out of the financial storm that has engulfed us over the past few years, we ask whether now is the perfect time to take stock and seek advice about whether your finances are working as hard as they should be.

In addition, we report on how the new tax year has seen a shake-up in the ISA rules and the greater freedom this will bring to you and your savings.

Here's hoping you have a lovely summer.

Best wishes

The **moneyworks** team

[1] https://bit.ly/3QUep1a

Contents

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

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

The perils of retiring early

With state pension age having risen to 66 a few years ago, you might assume people are working longer and retiring later but April 2024 research by Just Group has discovered the opposite trend.

In fact, nearly two-thirds of retired people, aged 55 and over, stopped working before they reached their state pension age. Just 19% used the moment they began to receive state pension as their cue to retire, and a further 19% retired after that milestone. The research also found men (69%) are more likely to retire before state pension age than women (55%).

The financial challenge of retiring before 66 is you have to wait to start receiving state pension to support your lifestyle. To make up the funding gap, 34% of people who retired early began dipping into their pension pot. This has led to concerns about the sustainability of their pension pots over the long-term.

https://bit.ly/3QXECfh

The struggle to plan long-term

Now the cost-of-living crisis is beginning to ease, this should be a good time for us all to worry less about our day-to-day bills – and think more about our future but May 2024 research by Scottish Friendly and the Centre for Economics and Business Research suggests a lot of us aren't quite there yet.

According to its survey of UK consumers, one in three of us (33.5%) can't plan beyond having a rainy day buffer, and don't think we will be able to prepare better until 2025.

Nearly half (42.2%) are finding it more tough to balance their financial priorities compared to 10 years ago. 31.5% add they're finding it difficult full stop to plan for the long-term.

When asked to rank their financial priorities, only 32% named a long-term goal – such as retiring early, paying off a mortgage sooner, or leaving an inheritance – as their main priority.

https://bit.ly/3VeUEE6

A distant dream

Everyone knows that owning your first home is not as easy as it used to be. In 1960, for example, the average age of a first-time buyer was just 23. This has gone up and up since, and the average age is now 33. But April 2024 research by Nationwide suggests that – in the near future – the home ownership dream might have to wait even longer.

That's because 48% of first time buyers revealed their prospects of owning a home are further away than ever. This has resulted in one in five (20%) stating they don't think they will be able to buy a house until they're in their 40s.

This challenging outlook means many aspiring homeowners (49%) are delaying their plans over affordability concerns with six in ten (60%) saying they're pushing back their homeownership expectations by up to three years.

https://bit.ly/3wNSQbx https://bit.ly/3VcqLUL

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.

Time to take stock

With a brighter outlook for our personal finances, now is a good time to review your investment plans to make sure you're benefitting.

Mortgages, energy bills, food costs – wherever you turned it seemed, prices were going up and as inflation hit a 40-year peak in October 2022,[1] UK consumer confidence fell to a record low.[2]

More than 18 months on, the situation is thankfully much brighter. UK inflation eased to 3.2% in March 2024[3] and could reach the Bank of England's 2% target this summer.[4] Consumer confidence has increased and has now reached its highest level since autumn 2021.[5]

The last measure is perhaps the most important. Everyone's situation is different, but in general people are feeling more confident about their personal finances. Paul Thwaite, the Bank of England's chief executive, declared in April, "For the first time since August 2021, more consumers expect their position to be better in 12 months' time."[6]

How are you feeling?

For many of us, the last few years have been about getting through some tricky financial dilemmas. But with the outlook improving, this could be a good time to look at your long-term goals and consider if your plans are still appropriate.

Because for investors especially, a lot has changed. Stock markets have been up and down over the past couple of years – but as we report in this issue they are surging over the first half of 2024.

The problem is that not everyone is benefitting.

According to March 2024 data from BestInvest,[7] there has been a 170% increase in investment funds that would be considered under-performing, compared to August 2023. These 151 funds have a total of £95.26 billion invested, up from £46.2 billion last summer.

Thousands of investors could be affected, including those of us who might not think of ourselves as investors, but who are paying into workplace pensions.

You might be wondering if you're impacted and – if so – how your fund ended up on what Bestinvest dubs its "Spot the Dog" list? Especially if you invested many years ago, with an adviser.

The reality is that the best place to invest doesn't remain the same forever. All sorts of events can take place – market conditions might go against the fund's aims, key people who run it might leave, or a change in strategy could occur that proves less successful.

All funds will have spells where they don't do as well as others. But if under-performance goes on for a sustained period, it might be time for investors to consider moving their money.

What are your options?

If you have investments, including a pension, and you're not sure how they're performing – especially compared to similar funds – it's a good idea to get them reviewed.

This is where speaking to a financial adviser is highly recommended. They can help you to check over your plans by analysing the performance of your holdings, and if you're on track to achieve your long-term objectives.

If required, they can research and offer you personalised advice on how you could make the most of your money – factoring in your circumstances and any changes in your financial priorities.

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/4e7fZXx
[2] https://bit.ly/3UTrF7o
[3] https://bit.ly/3UXPmv0
[4] https://bit.ly/3UOZCWy
[5] https://bit.ly/3UTrF7o
[6] https://bit.ly/3wRCY7Z
[7] https://bit.ly/3WSTJu0

Protecting what really matters

A record numbers of people are taking steps to protect their finances in case of the unexpected.

There's no denying that working is absolutely vital for many of us. It provides us with the financial capability to live and if we were to suddenly stop receiving an income, it wouldn't take us long to experience financial struggle.

Unfortunately, this scenario could happen to anyone. We might experience a serious accident or be struck with a significant illness, stopping us from working. Such an unwelcome turn of events might have major implications on our lives, and the people who are dependent on us financially.

It's for this reason having a safety net in place could prove really worthwhile in helping you prepare for the unexpected.

Income protection uptake hits record high

An increasing number of Brits are heeding this warning. According to March 2024 figures from the Association of British Insurers (ABI),[1] sales of individual income protection policies hit a record high of 247,000 in 2023. Meanwhile, sales of standalone critical illness policies were four times higher than a decade ago.

But despite this upwards recent trend, overall uptake of protection is still relatively low.

According to the Financial Conduct Authority's Financial Lives survey,[2] in 2023 only 29% of UK adults had life insurance, 13% had critical illness plans, and a mere 6% of us had income protection.

There is little doubt that not enough people have protection plans compared to how many of us are likely to need them. For example, the Health Foundation projects 9.1 million people will be living with a major illness by 2040.[3] A record 2.7 million UK adults are currently unable to work because of long-term sickness, according to the Resolution Foundation[4] and for every 13 people who are working, one person is off on long-term sick, report the Office for National Statistics.[5]

What protection options are there?

Most protection options are where you pay a small amount of money on a regular basis (usually monthly) to have cover that would pay out when you need it.

There are different types of protection options to consider, depending on your circumstances. Let's start with income protection – which relates to if you were unable to work because of illness or an accident. This cover is designed to provide a regular income, either until you are able to return to work or until you retire.

Critical illness cover kicks in if you were to suffer from a serious medical condition – in this scenario, it's designed to pay you a lump sum to financially help you. If you were unfortunate to experience a serious illness, this cover could ease the financial burden and allow you to focus on your health and family.

Term life insurance is designed to cover mortgage payments, if you were to die unexpectedly before the term of your mortgage ended. Having this cover would mean your loved ones would be able to keep paying the mortgage if the worst was to happen.

Finding the right type of cover for you

Getting advice on what sort of safety net would work for your situation is strongly recommended and is something a lot of people do. For example, the same ABI[6] research found that 97% of individual protection products taken out in 2023 were arranged with advice.

The great thing about asking an adviser for help is they can analyse your finances and measure your likely resilience to an unexpected shock event. They can also use their expertise to research the market and find the most appropriate cover options for your needs, at the most suitable price.

[1] https://bit.ly/3VbylPA
[2] https://bit.ly/3KfteHD
[3] https://bit.ly/4axcoif
[4] https://bit.ly/4aynx2f
[5] https://bit.ly/3yAJJeX
[6] https://bit.ly/3VbylPA

Will you still be paying off your mortgage in retirement?

A growing trend of taking out longer-term mortgages could see up to a million people still in debt beyond state pension age.

For most of us, a mortgage is the biggest – and most expensive – financial commitment we will ever make and over the last three years, the cost has grown even further.

According to April 2024 figures from Zoopla,[1] average annual mortgage repayments, for someone with a 30% deposit, have reached £11,400. In 2021, when interest rates were at historic lows, the average was £7,000.

With this challenging backdrop, some borrowers have taken more extreme steps to afford a mortgage, but it is a decision that could cause them future financial headaches.

The rising popularity of ultra-long mortgages

A freedom of information request from LCP in May[2] found that – during the last three years – over a million people have taken out a new mortgage that will run past state pension age. In other words, they will still have a mortgage to repay beyond the point they would expect to retire.

This trend is especially popular amongst people under the age of 40. There has been a 29% increase in people in their 30s taking out a mortgage that runs past state pension age. This accounts for 39% of all new mortgages to people in their 30s, according to separate information from the Bank of England.

Why would this route be appealing? Well, applying for a mortgage with a longer term means that your monthly repayment will be lower, making it easier to meet your repayments in the here and now.

But it could leave you storing up longer-term problems. Ultra-long mortgages typically prove more expensive overall, in terms of the amount of interest you ultimately pay to your lender. Even more crucially, it could impact your future.

Retiring with debts can be difficult. If you haven't built up enough money in pensions, the ongoing cost of the mortgage could eat into your retirement savings too quickly, potentially impacting how long it lasts. Realistically, it might delay when you can actually retire – as you could still need an employee wage to cover the expense of repaying your mortgage.

It can be tempting to avoid worrying about such matters when you're in your 30s or 40s as retirement will feel some way off, but it could prove a costly decision you may one day look back on with regret.

The importance of speaking to an expert

If you're signed up for an ultra-long mortgage, it might be worth checking your options the next time your fixed rate deal is due to expire. Or, if you're on a variable rate with a long term, you could start to look into it now.

Opting for a shorter-term mortgage might mean more immediate pain in terms of the size of your repayments. But with interest rates predicted to start to going down later this year,[3] you might be able to find options for reducing your mortgage term without facing a significant rise in your monthly repayment amount.

The stakes are incredibly high – and making a decision that's right for your individual situation isn't easy to do on your own. That's why many people use a mortgage adviser to help them plan with confidence.

An adviser can help you make sense of your current deal and find affordable options that meet your needs. Best of all, most advisers can usually give you access to better deals than you can get from speaking to lenders yourself.

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

[1] https://bit.ly/3UTJLWL
[2] https://bit.ly/4bASVhZ
[3] https://bit.ly/4dVa6fW

A good time to invest?

With stock markets looking buoyant in 2024, is now the ideal time to invest?

Is the storm over? No one would deny it has been a difficult few years for our personal finances but the first half of 2024 is proving more settled, offering us reasons to be optimistic about our money.

Nowhere is this better displayed than in the world of investing. You may have seen headlines that the UK FTSE 100 index[1] has hit record highs on several occasions this year. It's proved to be a similar story in the US, where its major stock markets are thriving[2]. This is great news for people who already have investments – and it's also proving to be a popular route for others looking to grow their money.

According to April figures from Calastone, a record amount of money has been placed into investment funds during the first quarter of 2024.[3] A total of £7 billion was added to shares, including £2.3 billion invested in March alone.

If you can commit your money for at least five years, investing can give you a better opportunity to grow your money over the long-term, especially compared to regular savings accounts.

What it means to invest

There are many different ways you could invest, including selecting individual shares in companies. But for most people – who don't have time to research stocks, and who want to manage the risk they take – an investment fund is a better option.

This means putting your money into a fund that invests into a wide range of assets including shares, but also other areas like bonds, commercial property and gold. This more balanced approach means your money isn't fully exposed to the ups and downs of stock markets.

It's also an effective way of adopting a level of risk that you're comfortable with. In a nutshell, the more risk you're prepared to take, the higher the potential reward (although of course that also means the more chance you have of losing money). Different funds take different levels of risk.

Sticking to the path

With an investment strategy in place, the most important thing to do as an investor is stay patient. There will be times when markets struggle. But whilst past performance isn't a guide to future returns, history has routinely shown that markets bounce back over the long-term.

Let's look at the period of 2019-2023. Over these five years, the US S&P index has delivered an average annual return of 15.36% . Over the same period, the UK FTSE 100 gained 36.67%.

You should know you can't invest directly into an index and returns of individual funds will vary but these figures are a useful guide and show that, even when times are tough, investors can still achieve strong returns on their money.

Suitable advice can make all the difference

Choosing an investment approach for your needs is very difficult to do on your own. That's why a lot of people use a financial adviser. They can help you to fully work out what you want to achieve with your money, and how much of your savings you could commit to your long-term goals.

They can then use their expertise to research and present you with investment options, which are closely tied to your circumstances, including your individual appetite to risk and reward. That way, you can make informed decisions.

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. As property is a specialist sector it can be volatile in adverse market conditions, there could be delays in realising the investment. Property valuation is a matter of judgement by an independent Valuer therefore it is generally a matter of opinion rather than fact. It may be difficult to sell or realise the investment, or obtain information about it's value, or the extent of the risks to which it is exposed. Past performance is not a guide to future performance and should not be used to assess the risk associated with investments.

[1] https://bit.ly/4bRN6ws
[2] https://bit.ly/3QUep1a
[3] https://bit.ly/3yudPAJ
[4] https://bit.ly/4bLifSJ
[5] https://bit.ly/4bslpuc

And finally...

New tax year sees major shake-up of ISA rules

The humble ISA reached its 25th anniversary this April,[1] with a range of rule changes introduced.

- You can now open as many ISAs of the same type as you like. Before, you could only have one Cash ISA and one Stocks and Shares ISA each new tax year.
- There were restrictions over how much money you could move from one ISA to another, which have now been lifted. This gives you more control over where you store your money.
- You no longer have to reapply for an ISA you already have from a previous tax year, if you want to pay more money into it and keep the tax benefits.

These changes are designed to make ISAs more popular again and there are signs it is working.[2] So if you haven't started to use your £20,000 ISA allowance for the 2024/25 tax year, it might be worth seeing how these new rules could boost your financial future.

[1] https://bit.ly/3WTIkKn [2] https://bit.ly/3Vb59rV [3] https://bit.ly/4bRbluB

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