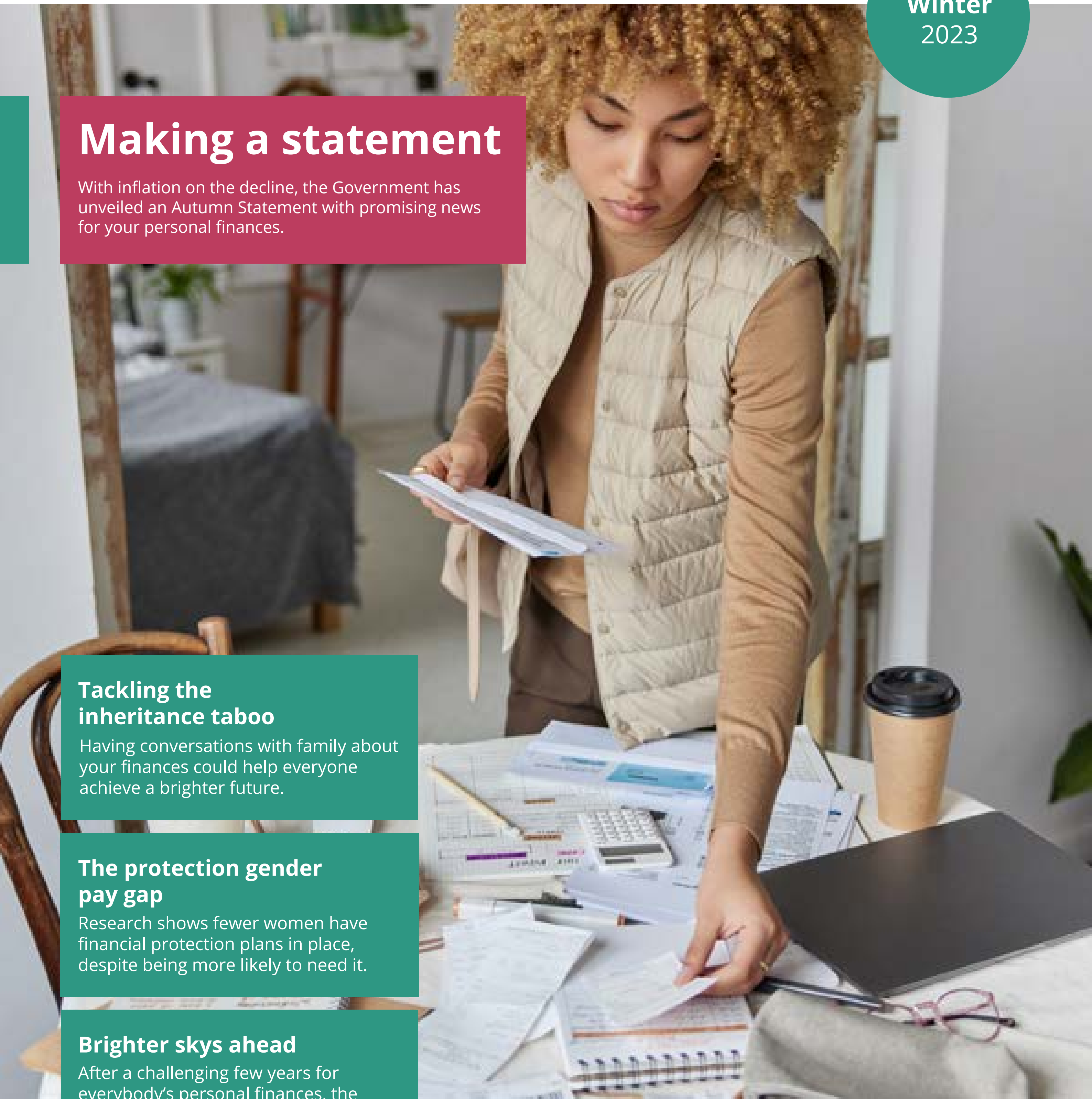
moneyworks

Winter
2023



Making a statement

With inflation on the decline, the Government has unveiled an Autumn Statement with promising news for your personal finances.

Tackling the inheritance taboo

Having conversations with family about your finances could help everyone achieve a brighter future.

The protection gender pay gap

Research shows fewer women have financial protection plans in place, despite being more likely to need it.

Brighter skys ahead

After a challenging few years for everybody's personal finances, the worst appears to be over. And this means it could be a good time to plan further ahead.

Welcome

As another year draws to a close, it has once again been a tough ride for many as the cost-of-living crisis continues to cut deep and the financial belts of the nation remain tight.

The good news though is that finally, there may be a glimmer of light at the end of this long tunnel and in this issue, we take a look at the promising shoots of recovery that are slowly beginning to emerge.

On the back of November's Autumn Statement, Chancellor Jeremy Hunt delivered far more positive news than this time last year, and we address the main issues of his statement and the impact it will have on people's finances.

With inflation starting to ease, signs that prices are coming down and mortgage rates beginning to look far more attractive than 12 months ago, we ask: are we nearly out of the woods? And explore why this could be the ideal opportunity to start making your money work better by seeking the advice of a financial adviser.

We also take a look at the link between wealth and health and why looking after your finances can have a huge impact on your mental well-being. A recent report from Creditspring[1] claims 30% of us have seen a decline in mental health as a result of the cost-of-living crisis, and we highlight why speaking to an expert can go a long way to alleviate those fears and anxieties.

While still on the subject of protecting your finances, we reveal how far fewer women than men have financial protection in place (despite being more likely to need it) and how, through the help of an adviser, getting protection is easier than you may think.

Talking about your finances with family members is another important issue we often put off. But when it comes to inheritance tax, it is a discussion well worth having and we highlight how addressing such matters now could have a huge impact on the money left to you and your family in the future.

While we are still riding out the storm of the past few years, the outlook is suddenly far brighter than 12 months ago, and speaking to a financial adviser now could help your health and your finances look even brighter over the coming year.

Here's wishing you a Merry Christmas and a happy and prosperous 2024.

The **moneyworks** team

[1] https://www.creditstrategy.co.uk/latest-news/latest-news/financial-worry-takes-toll-on-youth-mental-health-new-study-reveals

Contents

The news in brief

A round up of the current financial stories

Steep rise in unclaimed pension pot

If you've changed employers throughout your career, there's probably many things you've forgotten about your old jobs. But how much you were paying into a pension shouldn't be one of them.

Unfortunately, October 2023 research by the Pension Policy Institute has laid out the growing problem of forgotten pensions. Since 2018, the number of pensions considered "lost" (unclaimed) has increased by 75%, with their collective value rising by 37% to reach £26.6 billion. This works out an average of £9,500 sat in each unclaimed pot.

Only 1 in 25 of us think to tell their pension provider if we move home (compared to 89% who remember to tell their GP or dentist). If you believe you might have lost pension pots from old jobs, the Government has a pension tracing service that could help.

https://www.express.co.uk/finance/personalfinance/1826774/pension-warning-orphaned-accounts-cash-loss

Borrowing for longer: the rise of mortgage marathons

At a time when mortgage rates have shot up significantly, finding ways of making repayments as cheap as possible can be understandable. This partly explains a sudden rise in the number of young homeowners opting for longer mortgage terms.

According to October analysis of under-30s by Experian, one in four homeowners have opted to pay back their mortgage over 35 years. This compares to a typical historical level of around 10% of young borrowers.

The benefits of paying it back over 35 years instead of 30 or 25 are you get lower monthly repayments. But it means waiting until later in life – possibly the traditional retirement age of 65 – before your mortgage is finally paid off. If your circumstances were to change down the line and you wanted to retire earlier, for example, still having a mortgage to pay off could impact your ability to do so.

https://www.theguardian.com/money/2023/oct/02/one-in-four-new-uk-homeowners-opt-for-marathon-mortgages-to-cut-payments

Stronger together: the benefits of consolidating pensions not fully understood

If you've had a working career filled with change, you might well have several different pension pots in different places. Bringing them together could strengthen your overall plans – but October 2023 research by Standard Life suggests a lot of us are ignoring this potential financial boost.

22% of UK adults are not aware they can consolidate their pension pots; 12% are only vaguely aware of this option; and just 20% are fully informed of consolidating.

With 77% of those who have combined their pensions saying they found the process easy, it might be worth considering if you have different pots. Bringing them together could get your pension savings performing better. Although some pensions might have certain terms that make it a bad idea to move out of.

For this reason, asking an adviser to review your pensions is strongly recommended.

https://professionalparaplanner.co.uk/lack-of-pension-consolidation-knowledge-revealed/

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.

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.

Tackling the inheritance taboo

Having conversations with family about your finances could help everyone achieve a brighter future.

There are some things that are easy to talk about as a family. But there are other topics that are much more difficult to broach.

Money is high up on the taboo list, with research over the years[1] showing that family members find it the most difficult subject to bring up with each other.

And of all the different money topics, inheritance is one of the most awkward to discuss. It's easy to see why – no one wants to talk to their loved ones about dying, and the implications it might cause. But as difficult of a conversation as it might be to have, the consequences of not doing discussing inheritance plans could prove worse in the long run.

Avoiding the subject

According to September 2023 research by Charles Stanley,[2] only 64% of us have discussed our wealth plan with family members. What's more, 14% of us don't intend to ever have that conversation.

In these cases, it seems more likely the topic of money will only be talked about when a family member passes away and their inheritance plans are disclosed. This could lead to surprises and even family squabbles – for example, if there's a difference between the contents of the Will and expectations.

Even more worryingly, it could leave beneficiaries with the unexpected shock of an inheritance tax bill. If the deceased's estate is above their personal threshold, 40% of everything above it could be taxed. And it would typically fall on the beneficiaries to find the money to settle this bill.

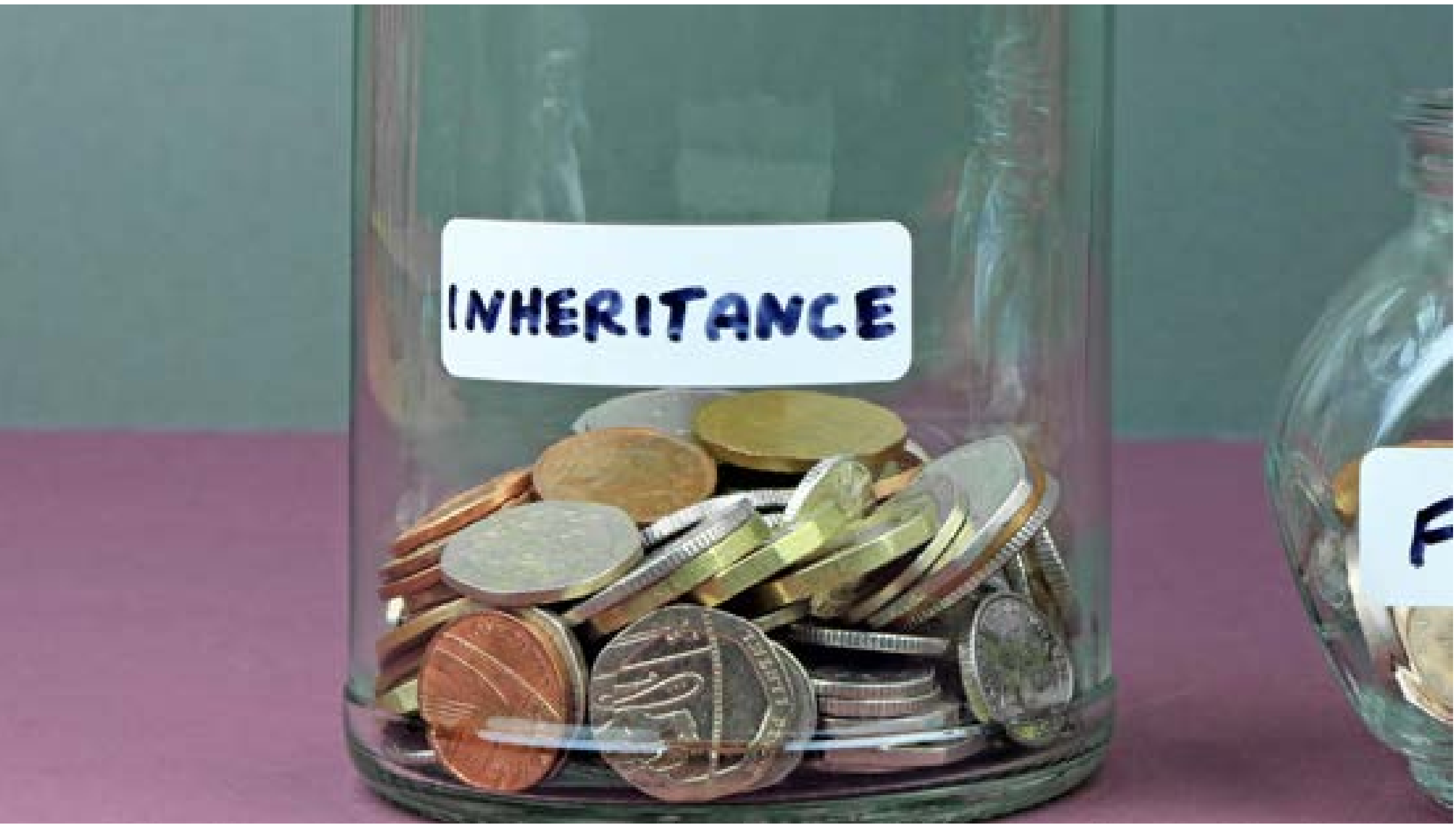
Inheritance tax is a growing problem in the UK: figures show some £7.1 billion was collected in the 2023/23 tax year – a 16% increase on the year before. In November 2022[3], the government took the decision to freeze current thresholds until 2028, which means even more families are likely to be affected over the coming years.

Sharing experiences and goals

Inheritance tax isn't the only reason to start being more open with loved ones about financial matters. Talking about money matters can help you all better understand where each of you are – and ways you might be able to support each other.

For example, if you have adult children who are struggling to get on the property ladder, talking about the options to support them – and sharing your own experiences of saving money – could help steer them in the right direction.

You can also use any harsher life lessons to help the younger generations of your family avoid making



mistakes. For example, you might regret not paying enough into a pension earlier in life. This is something you could admit to family members, so they consider what they're doing for their future.

Another compelling reason to talk about your wealth is to clarify inaccurate assumptions that might affect their financial future. For example, June 2023 research by Hargreaves Lansdown found a third of people in the UK[4] are banking on receiving an inheritance to fund their retirement.

Perhaps you can, one day, leave your loved ones a healthy inheritance to support their future. But you might also want to have a conversation about expectations now.

Plan to keep more of your wealth

If you can each develop a better understanding of everyone else's financial situation and goals, you might also be able to make meaningful plans to support each other – with the help of an adviser. It's called intergenerational financial planning, and it allows you to come together to make individual financial plans that don't just benefit you, but other family members.

This is also an effective way of planning for any inheritance tax liability you have. There are different ways you could reduce or even eliminate a potential inheritance tax problem which can include making financial gifts to loved ones.

The rules around gifting to family members can be more complicated than you might think. And the later you leave it to make gifts, the greater the risk of you still having an inheritance tax liability. For this reason, it could pay off to speak to a financial adviser now.

By opening up to your loved ones about your finances, and encouraging them to do the same, you could make meaningful plans that suit everybody. It can leave you all feeling more confident about the future and bring you even closer together as a family.

The Financial Conduct Authority does not regulate Will writing and taxation and trust advice.

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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.

[1] https://www.independent.co.uk/news/science/talking-about-money-is-britain-s-last-taboo-10508902.html

https://www.dailymail.co.uk/femail/article-2376411/Forget-sex-money-difficult-talk-families.html

https://hodgebank.co.uk/intermediaries/articles/hodge-survey-finds-most-people-are-embarrassed-to-ask-family-for-money-help/

[2] https://www.charles-stanley.co.uk/insights/commentary/how-to-talk-to-family-about-money

[3] https://www.moneymarketing.co.uk/news/government-freezes-iht-thresholds-for-2-more-years/

[4] https://todayswillsandprobate.co.uk/over-a-third-of-people-banking-on-inheritance-to-pay-for-retirement-study/

The protection gender gap

Research shows fewer women have financial protection plans in place, despite being more likely to need it.

Sadly, when it comes to our health, we never know what's around the corner. And while everything may be fine now, what would be in the impact on you and your finances if you could suddenly no longer work?

While it's something we often don't want to contemplate, protecting yourself against long-term sickness or disability is something well worth talking about.

Because despite not know what the future might hold, you can still prepare yourself against life's big 'what if's.

And that's where income protection can be such a valuable insurance policy to have. It's designed to pay you a regular income if you can't work because of injury, illness or disability, and mean you have one less thing to worry about as you focus on your health.

Even if you remain fit and healthy, having income protection cover gives you valuable peace of mind that you'd still be able to repay your mortgage and cover your bills should the unexpected happen.

Such protection needn't cost a fortune either; depending on your circumstances, you could set up income protection cover from between £6 and £50 a month.

Despite all of this, the number of people with income protection remains worryingly low. Especially amongst women.

Mind the gap

According to August 2023 research by The Exeter, only 11% of women held or were applying for an income protection policy in 2023, compared to 16% of men.

Yet the same research found that women are more likely than men to suffer adverse mental health effects – the type where having income protection in place could prove especially beneficial.

When asked, 81% of women said they were worried about the cost of living, compared to 69% of men – while around one in three women (32%) surveyed said their mental health had been impacted in the last 12 months, compared to just 27% of men.

When it comes to putting money away for a rainy day, women again appear more financially vulnerable than men who are saving an average of 30% more than they were in 2022 compared to just a 7% increase over the same period for women.

Looking after your mental wellbeing

Longer-term research published by the Priory Group shows that women are more likely than men to experience mental health challenges.

- One in five women experience symptoms of mental ill health, compared to one in eight men.
- 51.2% of women think they had a diagnosable mental health condition at some point in their life (35.2% of men said the same).
- A third of women have had diagnoses for mental health conditions confirmed by professionals (compared to a fifth of men).

When you also factor in the much-reported gender pay gap – which is actually getting wider, according to 2023 findings by the Office for National Statistics – the need for women to protect their finances has never been greater.

Getting protection is easier than you think

In the current financial climate, the reality of coping with a sudden loss of earnings without protection cover is a very daunting one. And that's why setting one up could make all the difference if the unexpected were to happen.

Speaking to your financial adviser will give you an idea of what your options are, and how it could be set up quickly and cheaply.

With lots of different types of policies available, speaking to an adviser is recommended as it can ensure you get the right level of cover you need. 'An adviser will look at your individual circumstances and use their expertise to research and present suitable options for your personal circumstances'.

With the right cover in place, you can have the comfort of knowing you have plans in place to fall back on if the unexpected happens.

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

An adviser will look at your individual circumstances and use their expertise to research and present suitable options for your personal circumstances.

[1] https://www.money.co.uk/income-protection-insurance

[2] https://www.covermagazine.co.uk/news/4137278/women-hold-applying-income-protection-exeter

[3] Mental Health Statistics UK - Priory (priorygroup.com)

[4] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2023#:~:text=In%202023%2C%20the%20gap%20among,seen%20in%202019%20(17.4%25).

Brighter skies ahead?

After a challenging few years for everybody's personal finances, the worst appears to be over. And this means it could be a good time to plan further ahead.

Look closely. That faint beam you can see in the distance might well be the light at the end of what's been a very long tunnel.

It's no secret the last few years have been tough for everyone's personal finances, but 2023 is coming to an end with growing signs of positivity that smoother times lie ahead.

Let's start with inflation, which means the rate by which the cost of living is rising. You've no doubt heard a lot about the cost-of-living crisis over the past 18 months, but maybe not so much of late. And that's because inflation is starting to ease.

In October, it came in at 4.6% which – while still high in historical terms – was considerably lower than the 11.1% peak it reached in November 2022. At that point, inflation had reached a 40-year high and everywhere you went, prices were rising sharply; the financial headaches were considerable.

The rate of inflation is forecasted to continue to fall over the coming months and that will be a welcome respite for everyone.

Have interest rate rises peaked?

The other big financial challenge since the end of 2021 has been interest rates. As recently as November 2021, base rate was 0.1% – by August 2023 it was at 5.25%. This was after 14 consecutive rate hikes.

Higher interest rates are especially bad news for mortgage borrowers, but they also affect anyone borrowing money – such as with loans or credit cards.

The fact the rate of inflation has come down so much gives the Bank of England room to pause rate hikes. At the last two meetings held to decide rates, the bank kept them on hold. This suggests rate rises may have peaked. Experts predict rates might fall to 3% by 2026. They won't necessarily go down as quickly as they went up, but they should soon start to ease.

It's estimated some 1.6 million homeowners have fixed-rate mortgage deals that expire in 2024. These borrowers might still face a steep rise when they come to decide their next steps, but the situation is not as bleak as it once looked.

Improving financial situation predicted by millions of Brits

With major elections in the UK and US set to take place in 2024, and ongoing conflicts in other parts of the world, we shouldn't assume there won't be more financial-related shocks next year. But considering all the turmoil we've experienced since 2020, a more settled, quiet 2024 is not an unreasonable expectation.

Indeed, that's how many Brits feel. An October 2023 poll by AJ Bell found a considerable 37% of UK adults have a positive outlook for their household finances over the next 12 months. This is a significantly more optimistic mood

than much of Europe, with only 23% of people in France, 26% in Italy and 30% in Germany feeling the same way.

Whether you're feeling similarly upbeat or a little unsure, the improving economic landscape could mean this is an ideal time to start thinking more about your financial future. Especially if you speak to an expert for help.

An adviser could look at your overall financial arrangements and discuss your priorities – both in the here-and-now, and over the longer term. They can provide you with personalised recommendations for doing more with your money – and give you new options to consider.

There are all sorts of good reasons to speak to an adviser

- If you have a fixed-rate mortgage deal due to expire in 2024, it's definitely worth getting help making a considered choice.
- If you're looking to retire in the near future, or have already retired but are finding your money isn't going as far as it used to, an adviser could help you make better use of your finances.
- Finally, while it's good news interest rates are going down when it comes to your borrowing, it is potentially bad news for any savings you have. So if you have long-term goals and can commit your savings for at least five years, speaking to an adviser could help you invest for the potential of stronger returns.

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 remortgage.

[1] https://www.bbc.co.uk/news/business-67412740

[2] https://tradingeconomics.com/united-kingdom/inflation-cpi

[3] https://www.cnbc.com/2022/11/16/uk-inflation-hits-new-41-year-high-as-food-and-energy-prices-continue-to-soar.html

[4] https://www.bankofengland.co.uk/explainers/will-inflation-in-the-uk-keep-rising#:~:text=We%20expect%20inflation%20to%20continue,did%20a%20few%20years%20ago.

[5] https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp

[6] https://www.bbc.co.uk/news/business-57764601

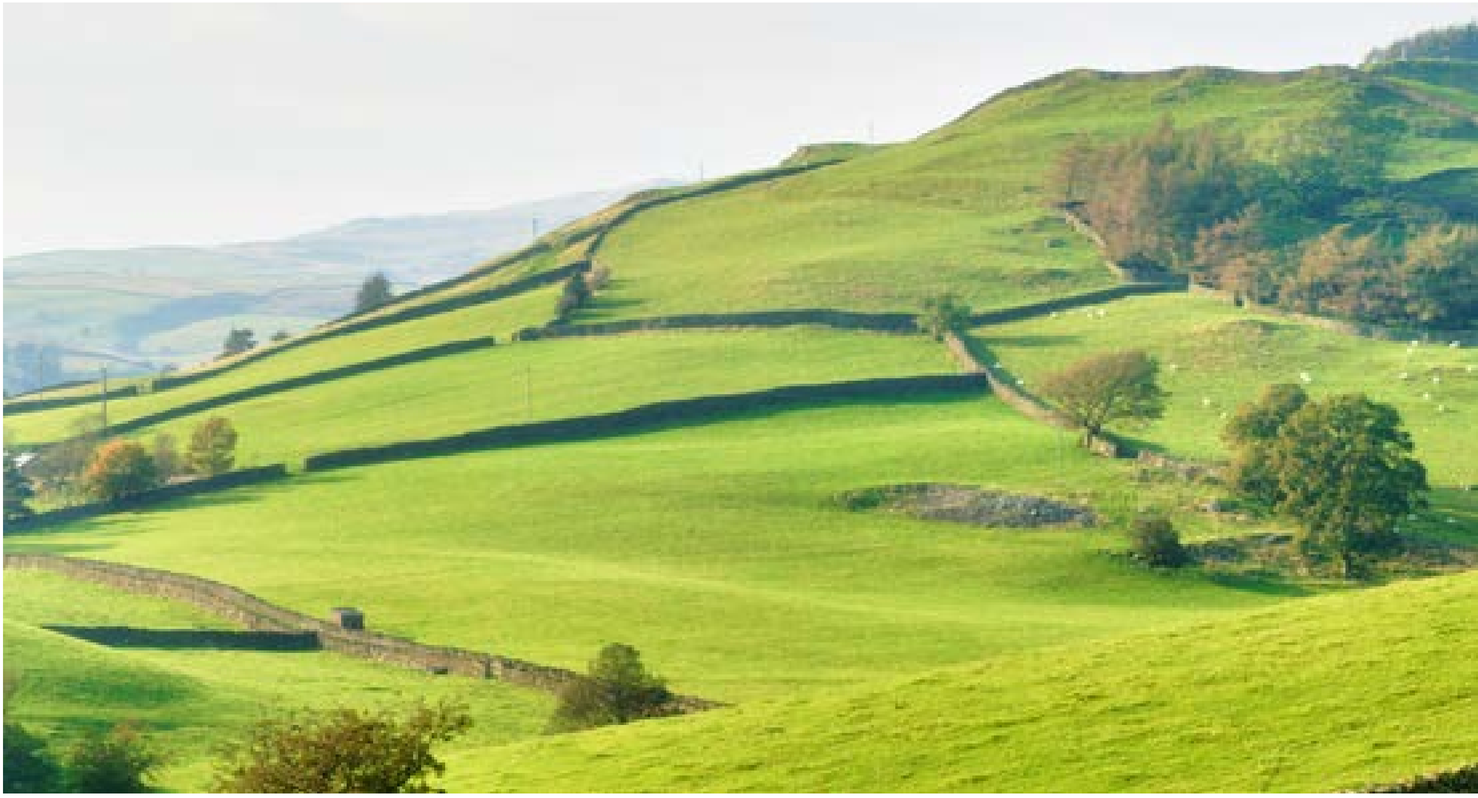
[7] https://www.theguardian.com/business/2023/sep/21/bank-of-england-keeps-interest-rates-hold

[8] https://www.thisismoney.co.uk/money/mortgageshome/article-11885727/When-rates-start-fall-Base-rate-forecasts.html

[9] https://www.theguardian.com/money/2023/nov/09/new-mortgage-deal-below-5-percent-watershed-moment-uk-homeowners#:~:text=Despite%20the%20rate%20reductions%2C%20large,due%20to%20expire%20in%2020-24.

[10] https://www.xtb.com/en/education/uk-interest-rates-projections-in-the-next-5-years#:~:text=Currently%20UK%20interest%20rates%20are,affect%20your%20borrowing%20and%20mortgages.

[11] https://www.thisismoney.co.uk/news/article-12624901/Upbeat-Britain-UK-households-consumers-major-European-countries-feel-positive-budgets-economy-shows-signs-recovery.html



Making a statement

With inflation on the decline, the Government has unveiled an Autumn Statement with promising news for your personal finances.

The mood music has definitely changed and at the end of November, the Chancellor Jeremy Hunt delivered an upbeat Autumn Statement.

Hunt's tone was in stark contrast to his equivalent Budget announcement a year earlier, where in Autumn 2022 he talked about having to make "difficult decisions" and even as recently as September this year, was ruling out the possibility of tax cuts.

But with the economic outlook improving and inflation falling, Hunt was able to take a more positive approach and announce measures aimed at boosting millions of people. And as we head into 2024, some of these changes might just leave you financially better-off.

National insurance cut and triple lock pension commitment

Whether you're working or have already retired, there was an income-related boost in the Autumn Statement. The National Insurance rate will be reduced from 12% to 10%, from as early as 6 January 2024.

If you earn more than £12,570 a year, you must pay National Insurance on your income above this threshold. For someone earning the UK average salary of £35,000, this cut from 12% to 10% will save £450 a year. Higher earners can save even more money overall.

Then there's the state pension triple lock – a pledge the Conservatives made until at least the next general election. The triple lock is a promise to raise the state pension by either 2.5%, UK average earnings, or the rate of inflation – whichever percentage is higher. With wages and inflation skyrocketing in recent years, maintaining this promise has been in some doubt – given how much it means state pension has to go up.

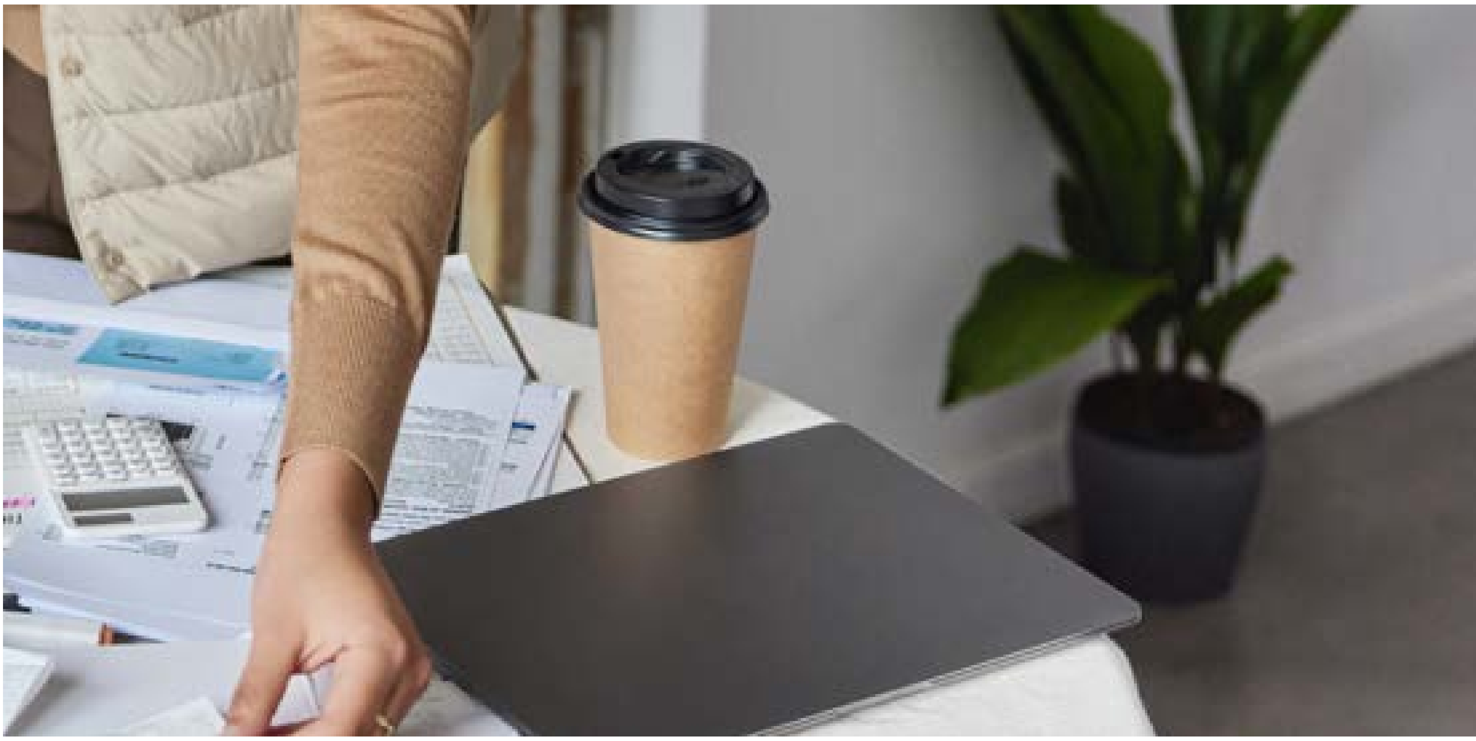
But despite speculation it might be scrapped, Hunt announced the triple lock agreement will be honoured again. The state pension will rise by a considerable 8.5% in April – adding an extra £900 a year income for people who qualify for the full amount.

Further developments for pensions

Hunt also made a number of announcements designed to encourage saving for retirement through a pension.

Depending on how far on in life you are, some of the proposals might come a little too late to help you. But confirmation the lifetime allowance – the amount you can have in a pension without paying any tax – will be abolished next April might help. It means paying into a pension will become even more attractive.

For younger people, Hunt unveiled plans for you to have one pension pot for life. Instead of having to go into employer's default pension scheme – and then having to start paying into another scheme if you switch employers – you can pick one fund and pay into it over your full career, no matter who you work for.



This is designed to address some of the issues we talk about on page 3 – people losing track of pensions, or having lots of pots in different places.

Right now, this is only a proposal, and – if the Conservatives lose the next general election – it might never see the light of day. But it might be something that helps younger generations in your family and something you might even be able to take advantage yourself, if you have several years to work and don't want to pay into your employer's default scheme.

Picking the right fund for you might be difficult, and so seeking financial advice to help you is recommended.

Small ISA changes could also help

Away from the headlines that Hunt's Autumn Statement speech generated, there were some small developments to ISAs. From April, you will be able to invest in more than one type of ISA each tax year compared to the solitary one you can now.

The rules around transferring between ISA providers will be changed to make this easier. The government also confirmed the ISA allowance remains at £20,000 for 2024/25.

Inheritance tax rules remain unchanged

One area where we didn't see change – despite speculation in the build-up – was to inheritance tax. It has long been an aim of the Conservatives to reduce the number of families who have to pay inheritance tax, and rumours grew of radical changes.

In the end, the Autumn Statement passed with no alterations announced and it is thought the Government are perhaps keeping their powder dry on inheritance tax pledges until the next general election. It once again highlights the risks of relying on rule changes to solve any potential inheritance tax liability you might have, and underlines the importance of seeking financial advice to help you make plans that are suitable for your personal situation.

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The value of your investment can go down as well as up and you may not get back the full amount invested.

[1] https://www.gov.uk/government/speeches/autumn-statement-2023-speech

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1118417/CCS1022065440-001_SECURE_HMT_Autumn_Statement_November_2022_Web_accessible__1_.pdf

[3] https://www.theguardian.com/politics/2023/sep/13/rishi-sunak-refuses-to-commit-to-triple-lock-on-pensions-beyond-election

[4] https://www.theguardian.com/politics/2023/nov/17/jeremy-hunt-weighing-up-inheritance-tax-cut-autumn-statement

And finally...

Look after yourself

Money doesn't only make the world go round – it has a huge impact on our mental wellbeing. With the recent cost-of-living crisis having a widespread effect, a September 2023 report by Creditspring has underlined the toll it's having on the nation's health.[1]

When surveyed, 30% said their mental health had deteriorated since the crisis began and 23% admitted their current mental health situation is the worst it has ever been, due to financial concerns.

Such fears are made worse when family members do not have any financial protection arrangements in place and are left financially vulnerable, should the worst happen.

Talking to a financial adviser will help give you the peace of mind that should anything happen to you, or you experience an unexpected loss of earnings due to illness, you and your loved ones will be financially protected.

While there's no easy cure to financial anxiety, making adequate plans goes a long way to easing any fears. It really can help to speak to an expert about your money situation, and with the right level of cover, you could feel more positive about the future.

[1] https://www.creditstrategy.co.uk/latest-news/latest-news/financial-worry-takes-toll-on-youth-mental-health-new-study-reveals

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