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YOUR MONEY SPRING 2018

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YOUR CREDIT SCORE EXPLAINED

Your credit score can be particularly important when you apply for things like a credit card, a loan or a mortgage. There are three main credit reference agencies, Equifax, Experian and CallCredit and they all collect information about you which lenders access when considering your application.

Credit reference agencies gather information from sources such as banks, retailers and credit card companies. This includes personal details about you, information about your financial links to other people, whether you are on the electoral roll, the credit accounts that you have, and any payments you have missed or failed to pay. This provides the data that lenders use when assessing whether to lend money to you. So, your credit score represents how a lender views your creditworthiness and is a measure of how likely you are to repay what you borrow.

A higher score usually means you are seen as a lower risk; the more points you score the better the chances that you'll get credit at better rates. How your credit score is regarded can differ from one lender to another as their borrower assessment criteria may vary.

SAVERS HAVE MISLAID OVER £400M IN OLD PENSION POTS – DON'T LOSE TRACK OF YOURS

If you've changed jobs during your career, you may find yourself with several pension pots with different employers or pension providers. It's obviously very important to track down all the different pension schemes you've paid into, as you'll want to be sure that when it comes to retirement you're claiming everything you're entitled to.

It can be easy to lose track of paperwork over the years, or forget to update your address details with providers when you move home. If you find yourself in this situation, you aren't alone. There's estimated to be £400m in unclaimed pension savings in the UK.

If you're in this position, then there are various steps you can take. Contacting old employers for details can be a good first step, and then there's the free Pension Tracing Service provided by the Department for Work and Pensions (DWP). This service was launched back in May 2016 and has been used more than a million times by savers.

EXPLORING YOUR OPTIONS

You may want to consider consolidating your various pensions into just one pension pot, as this will cut down on all the paperwork. The most obvious reason for moving a pension is to improve investment performance and lower the charges to boost your retirement income. But before you make your move, there are downsides that you need to consider.

If you're in a final salary company pension, also known as a defined benefits scheme, it will often be best advice to stay put because of the guarantees attaching to your pension. Some money purchase schemes, referred to as defined contribution plans, also offer guarantees that you need to seriously consider before moving your pension savings into an alternative scheme.

A STEP IN THE RIGHT DIRECTION

It's a good idea to keep a note of all your pension pots, and seek professional advice before deciding whether to consolidate them. A pension review will help you understand how much you'll have to live on in retirement, and whether you need to top up your contributions to ensure a better level of income in your later years. Make sure you know your state pension age and get a forecast of how much you'll receive.

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

PROTECTION AND THE GIG ECONOMY

Nowadays, more and more people work on a freelance or short-term contract basis, as opposed to having more traditional permanent jobs and they are often classed as self-employed. There are over 4.8m self-employed workers in the UK, according to figures from the Office for National Statistics.

The self-employed in the gig economy often miss out on valuable benefits available to employees, such as death-in-service payments or sick pay. This means that they should seriously consider putting in place policies like life insurance, critical illness cover and income protection.

MAKING GOOD CHOICES

According to research from a major insurer[1], whilst almost 80% of the self-employed consider that a mobile phone is essential, only 40% see life cover as essential. Sadly, this means that if the unexpected were to happen, then many families wouldn't have a payout from a policy to fall back on, and could face real financial hardship.

Coping with a long-term illness or injury can be stressful enough without the added pressure of money worries. Taking out an income protection plan offers peace of mind and security for your family. Many people believe that the state will provide for them if they can't work, or worse still were to die. However, the benefits that exist represent no more than a safety net.

HOW INCOME PROTECTION CAN HELP

Whilst employees can claim statutory sick pay of £92.05 per week (2018-19) for up to 28 weeks, the self-employed have to rely on the Employment and Support Allowance which is means tested. The maximum payable to those aged 25 or over during the assessment period, the first 13 weeks of their claim, is £73.10 a week.

By contrast a self-employed worker could take out an income protection policy that could provide between 50% and 70% of their gross income tax-free. Policies pay out after a deferred period, typically between four and 52 weeks, and can continue until you return to work or the policy term comes to an end.

[1]Scottish Widows, 2016

Income protection (with no investment link) has no cash in value at any time and will cease at the end of the term. If you stop paying premiums your cover may end.

GENDER PAY GAP – WOMEN SHOULD CONSIDER THEIR PENSIONS

The recent revelations about equal pay at the BBC have highlighted the ongoing gender pay gap that exists across the UK. Although steps are being taken to tackle the problem, women face an earnings gap as a result of career breaks, lower rates of pay and the responsibility and cost of childcare.

Women who take maternity leave may end up earning less in the long run, whether missing out on promotion opportunities, or returning to work on a part-time or flexible basis. With the high cost of childcare, some mothers can find that it doesn't make financial sense for them to return to work full-time or at all.

IT'S NEVER TOO EARLY TO SAVE

All this can mean that women can miss out on saving for a pension. However, it's important to remember that starting to save for retirement as early as possible is crucial, even if you can only afford relatively small amounts to start with. Saving regularly will give your money the time it needs to grow, and with the interest or dividends earned being reinvested, you'll benefit from the compounding effect that will help your money grow.

The government's auto-enrolment pension initiative is getting more and more workers saving for retirement, and by the end of this year, all employers will need to have a scheme in place. Women who are members of a work-based pension scheme should consider upping their contributions to provide a better outcome at retirement.

Women can also consider setting up a personal pension plan, and for those who want more control over their pension pot and how it's invested, then there's the option of a Self-invested Personal Pension Plan.

TAKING ACTION

We all need to be realistic about the state pension. Getting a forecast of how much it will be and when it becomes payable is a good first step in assessing what you'll have to live on. We can help you put plans in place for the future.

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PERSONAL FINANCE HACKS WE SHOULD ALL FOLLOW

Being good with money isn't just about making ends meet. Knowing how to make good financial decisions can make a big difference when it comes to buying your first property, getting married, raising a family and enjoying a comfortable retirement.

Learning some financial basics means you won't miss out on tax breaks on savings accounts or pension contributions – valuable information that could make a big difference to your finances later in life.

TRACK WHERE YOUR MONEY GOES

Learning how to budget will stand you in good stead when you apply for a mortgage. Lenders operate stricter criteria these days, and before they lend, they will want to know where your money goes, how much you save, and if you can comfortably afford monthly mortgage payments. Drawing up a budget now will help you keep an eye on where your money gets spent. That way, you'll know how much your morning coffee costs you each month. The more you have as a deposit, the better rate you're likely to get on your mortgage.

HAVE AN EMERGENCY FUND

We all need an emergency fund to fall back on. If you can get into the habit of saving money each month, and making this a non-negotiable commitment, then the sooner you'll have a financial buffer against life's financial ups and downs.

KEEP AN EYE ON YOUR CREDIT CARDS

Credit cards can sabotage your budget and be your worst enemy. Resist the urge to use your credit card for purchases you can't afford, especially on items you don't really need.

RETIREMENT PLANNING FROM DAY ONE

Although it may seem decades away, whatever you do, you should start saving for your retirement as soon as you can. The younger you start saving into a pension, the better the chance you have of accumulating a reasonable pension pot when you retire. Put simply, the later you leave it, the more your pension will cost you.

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ARE BABY BOOMERS SPENDING THEIR KIDS' INHERITANCE?

Well, some perhaps are, but according to recent research carried out by the Resolution Foundation[1], today's millennials are likely to receive the biggest inheritance boom in decades.

WILL IT COME IN TIME?

The analysis finds that the large sums of wealth accumulated by older generations will provide a major boost to younger generations' wealth and living standards in years to come. Inheritances are set to more than double over the next two decades and peak in 2035, as the well-off baby boomers currently holding more than half of Britain's wealth progress through old age.

BOOMING PROPERTY WEALTH

Fast-rising home ownership rates for the generations born before and after the war also mean that, as well as bigger total inheritances each year, a greater share of young people today are likely to benefit from inheritances than did in the past. Almost two-thirds of young adults (20-35 year olds) have parents who own property, which they might expect to receive a share of in future. By contrast, only 38% of adults born in the 1930s received an inheritance.

However, the Foundation noted that while inheritances and gifts have a large and important role to play in boosting the wealth of younger generations, they are not a silver bullet for addressing their much lower home ownership rates and ability to save for their futures.

The report points out that those who can expect a share of parental property wealth are likely to inherit it too late in life to be able to rely on it to support them in their expensive family-raising years. On average, the Foundation expects millennials will have to wait until age 61 to receive their inheritance.

If you'd like to discuss how to plan your finances in a tax-efficient way so that you enjoy your later years whilst helping family members get a good start in life, do get in touch.

[1]Resolution Foundation, 2017

YOUR CHILDREN AND MONEY – WHERE TO START?

Children today are growing up in a world where the money landscape is dominated by financial issues such as austerity and cut backs, the struggles of home buyers to find affordable housing, and the proliferation of online financial frauds and scams. Against that background, parents can help children by teaching them how to save for the future, budget, and guard their financial and personal information when using the web.

Financial literacy isn't something we're born with. Learning how to manage money effectively requires acquiring a few important life lessons that parents can share with their children from a young age.

GETTING THE SAVINGS HABIT

Getting children used to money by earning their pocket money will help them recognise its value. Parents can explain to young children how, by putting aside some of their pocket money on a regular basis, they'll be able to save enough money to buy a new toy or book with their own money.

UNDERSTANDING WHAT BUDGETING MEANS

By the time they're ready to leave home, teenagers need to know how to handle their money responsibly. They'll need to understand how credit cards work, and how interest and charges are calculated, and how they can mount up if the balance on the card isn't cleared each month.

When it comes to borrowing money, they'll need to be aware that there are many different types of loan available and that it's important to understand how to compare charges and interest rates, and shop around for the most appropriate and cost-effective deal.

It's also worth explaining to older children the value of having a good credit score, and how this can improve their financial chances when the time comes to enter into life's major transactions such as applying for their first mortgage.

LEARNING TO SAVE

Junior Individual Savings Accounts (JISAs) are a good way for children to learn about the benefits of accumulating money for the future, and develop good savings habits that will stand them in good stead throughout their lives. Your child can have a cash JISA, or a stocks and shares JISA, or a mixture of the two.

The advantage of a JISA is that they are tax-free, and once the account has been opened by the parent or guardian, anyone can make contributions, including grandparents, friends and family. The savings limit for the 2018-19 tax year is £4,260 per child.

Children gain control of their JISA at age 16, but the money cannot be withdrawn until they are 18. At that point, the account is automatically rolled over into an adult ISA, a valuable facility for teenagers who want to continue saving or investing tax-efficiently.

The value of investments and income from them may go down. You may not get back the original amount invested.

NEARLY 16 MILLION DON'T HAVE CONTENTS INSURANCE – ARE YOU ONE OF THEM?

Having a home contents insurance policy in place protects your personal possessions should disaster strike. So, if you're a victim of an unpleasant incident such as a burglary, leaking pipe or a devastating fire, having a policy in place means there would be a payout to help put things right.

However, recent figures from the Financial Inclusion Commission (FIC) show that almost 16 million adults in the UK don't have any insurance in place to protect their personal possessions.

With the average value of contents in a three-bedroom family home estimated at £55,000, it's important to be fully insured at all times. The November 2017 FIC report shows that 1.2 million successful claims were made on household buildings and contents cover in 2016, with an average payment of just over £2,500 being made. For households who aren't protected by insurance, finding this amount of cash to replace lost, stolen or damaged possessions would put a strain on their finances. Home insurance brings valuable peace of mind to millions of families, so don't run the risk of being uninsured.

IF YOU WOULD LIKE ANY ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.