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Your **Money** Winter Q1 2022

Building financial resilience in 2022

The new year is the perfect time to reassess how your finances are faring and take advantage of any opportunities that may lie ahead. Household budgets are likely to be stretched in 2022, with rising inflation and tax increases already on the table. It makes sense to quantify your assets and position them appropriately to build financial resilience for your future.

Millions forecast to be worse off

Analysis by the Institute for Fiscal Studies (IFS) shows that living standards are set to stagnate over the next few years. This year specifically, an average middle-income earner will see take-home pay fall by around 1% as soaring household bills and an increased tax burden outpace any anticipated rise in wages. Research[1] also highlights the pandemic's impact on finances, with almost 16 million people feeling more financially vulnerable than before the pandemic.

Plan for your future

This situation is exacerbated by the fact people typically devote relatively little attention to financial matters. For example, one study[2] found that more than four in ten adults would either struggle to locate and access their pension, or said they had 'no idea' whatsoever about their pension pots.

Building financial resilience, however, lessens the impact of any unforeseen circumstances and ensures you are prepared for life's key events, such as retirement. It's therefore vital to plan now for the future you deserve.

Inflation-proof your finances

Inflation can erode savings quickly and is a growing concern for many. As a result, savers have been increasingly switching money from deposit-based accounts into investments – research[3] suggests over half of UK adults have already done this.

Diversification

The spectre of rising inflation certainly means investors need to carefully consider how to inflation-proof their portfolios. As always, maintaining a diversified range of investments is key, with appropriate portfolio construction enabling successful navigation through any periods of uncertainty.

[1]Royal London, 2021, [2]money.co.uk, 2021, [3]Aegon, 2021

Prepare with confidence

If you are in the dark about how to prepare for retirement, then join the club. Nearly half (47%) of working age people are a bit lost when it comes to getting their retirement planning in the right place[4].

The research also shows that just 28% feel secure in their understanding of how to manage their pension as they approach retirement, while fewer still (27%) have an idea of what a 'good' amount of pension savings is for someone of their age.

'On the back foot'

The gender pension gap once again rears its ugly head in the research, with women almost twice as likely (21%) to say they feel completely 'on the back foot' than men (12%). Women are also more than twice as likely to lack understanding of how to manage their pension in the runup to retirement (34% of women vs 14% of men).

A confident approach to retirement

Managing Director at Aviva, Mary Harper, commented, *"It's very easy to put thoughts about later life to the back of your mind but investing time in thinking and planning ahead can make a world of difference to your options... evidence suggests that people who access financial advice are, on average, tens of thousands of pounds better off in the long-term."*

We can offer expert guidance and advice to help you manage your retirement planning with confidence.

[4]Aviva, 2021

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Inside this issue

Scam victims suffer a £9.3bn wellbeing impact

Unfortunately, scams continue to be rife. As well as having devasting financial impacts, a study[5] has found that scams affect personal wellbeing. By using a model that allows researchers to value changes in wellbeing in monetary terms, the impact of scams on victim wellbeing has been calculated at over £9bn a year – a personal cost of £2,509 for each victim, although the estimated impact for someone hit by online fraud is higher at £3,684. The research suggested scam victims faced a decline in life satisfaction, lower levels of happiness, considerably higher levels of anxiety and in some cases, ill-health.

Is a savings slump looming?

The cost of living is rising, with many savers saying they are rapidly eating into the additional savings they built up during lockdown. Nearly three-quarters (74%) of UK adults say they are worried about rising living costs, with 35% saying they feel more anxious about the future than before the pandemic[6]. This percentage increases to 42% for 45 to 54-year-olds.

A significant proportion of adults are eating into their lockdown savings fast. In fact, one-fifth say they have already spent their lockdown savings, while a further quarter predict their savings will be gone before the year is out. As normal life returns, the balancing act between spending and saving, particularly for those approaching retirement, is becoming ever more delicate. Although you're unlikely to save the same amounts now as you were in lockdown, don't despair as small amounts of savings each month can soon add up.

[5]Which?, 2021, [6]Aviva, 2021

Consumers and investors tune in to tackle climate change

More than half (57%) of consumers want their pension to be invested responsibly to help tackle climate change, but only one in seven people who have a pension have taken steps to invest it responsibly[7].

Climate change and the environment are bigger concerns for most people than COVID-19 or the economy, according to a new study[8]. In all ten countries surveyed, climate change or the environment was the number one ESG (Environmental, Social and Governance) concern, reflecting the prominence of climate change in the global debate. Other environmental issues cited include waste management (8%), pollution (6%) and clean air (5%). Furthermore, over half of consumers are willing to boycott companies with poor ESG performance.

SEC Newgate Deputy CEO EMEA Tom Parker commented, *"There is a widespread interest in and concern about the ethical and sustainability performance of governments and corporates. This is a truly worldwide phenomenon. The surprising consistency in these results illustrates that all local issues are global and that global issues are local."*

[7]Royal London, 2021, [8]SEC Newgate, 2021

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Time to consider external factors

The Autumn Budget may have left a sense that nothing much had changed in the realm of personal financial planning, as no major changes to Capital Gains Tax, Inheritance Tax, Income Tax or pensions were announced. Despite this, a prime consideration needs to be how external factors, such as frozen rates and higher inflation, could impact your finances and what action you need to take before the end of the tax year to utilise any exemptions and allowances.

Your pension

The Annual Allowance remains at £40,000 and the Lifetime Allowance remains at £1,073,100. As these allowances haven't increased with inflation, it effectively means those saving to the maximum extent possible with tax concessions can save less in real terms each year.

Individual Savings Accounts (ISAs)

The annual ISA limit has been frozen at £20,000 for five years. If the allowance had increased with inflation every year since 2017, it would stand at £21,440 today, sheltering an additional £1,440 from the taxman. JISAs celebrated their tenth birthday in November – the allowance remains at £9,000.

Inheritance Tax (IHT)

HM Revenue and Customs (HMRC) data for April to September 2021 shows that IHT receipts totalled £3.1bn, £0.7bn higher than the same period in 2020. With the nil rate band and residence nil rate band frozen until April 2026 at £325,000 and £175,000 respectively, don't overlook the importance of effective estate planning.

Dividend Tax

Last September, the government revealed that it would increase Dividend Tax by 1.25 percentage points from 6 April 2022 to help fund health and social care. This means investors will have to pay more on any income from shares held outside ISAs and above the £2,000 Dividend Allowance.

Variables

It's time to tune in to all the variables at play, affecting your finances; frozen allowances, inflation, interest rates and taxation. Talk to us for help with your individual circumstances.

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Lights, camera, action!

Did you know that Jackie Chan's stunt team has been blacklisted by all insurance companies, leaving Chan to pay out himself for any injuries? Fortunately, for most people it is considerably easier to get covered, so there is no excuse to be uninsured.

Over a third of people say they are more likely to buy protection insurance because of their experiences during the pandemic[9], indicating how the devastating impact of COVID has clearly led many to reassess their priorities and to seek the reassurances provided by protection insurance. This reassurance comes from hearing that 98% of protection claims were paid in 2020[10]. Witnessing the pandemic's impact on the health of others was cited as the main reason people were now more likely to take out protection insurance.

Affordability

Perceived cost, however, remains a barrier for some. Indeed, almost a third of people say they haven't taken out protection because they think it would be too expensive.

It's a wrap

Protection is a crucial component of a balanced financial strategy and, with policies starting at just a few pounds a month, it is a small price to pay for the peace of mind it provides.

Take action in 2022, to protect those you love.

[9]Hymans Robertson, 2021, [10]ABI, 2021

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Making savings for your children work

Many parents are keen to give their children a flying start financially by putting aside money throughout their childhood. Mums have been shown to be more likely to take the lead in this area, with most savings being held in cash products, such as cash Junior Individual Savings Accounts (JISAs) or premium bonds.

Mum's the word

The research[11] shows that 60% of those actively contributing to a child's savings and investments were women. Researchers commented that this appears to fit in with a broader theme whereby women tend to connect investing to outcomes for their family more than to their own needs.

The survey also highlighted a drop-off in contributions as children get older. While 67% of new parents start saving or investing for their new-borns, this figure falls to 54% by the time children reach secondary-school age.

Is cash king?

The efforts of parents to save for their children is clearly admirable, but it is important to make sure that the money works hard for the long term. The JISA recently celebrated its tenth birthday, and the allowance has increased over the years from £3,600 a year in April 2011 to £9,000 a year today – currently stocks and shares JISAs make up just 3% of all accounts.

In times of rising inflation, sticking to cash can limit the impact of parents' savings, as the real value of cash will be eroded over time. While not guaranteed, investment products have historically delivered better returns over the long term. It's advisable to consider the options.

[11]Boring Money, 2021

If you would like any advice or information on any of the areas highlighted in this newsletter, please **get in touch**.

Investment terms trigger stress reaction

The common use of jargon can make investments and pensions seem impenetrable and intimidating. If the thought of words such as 'Equities' and 'Investment ISAs' gets your heart racing, you're not alone, new research[12] has shown that financial terms really can make people feel anxious.

How can this be tested?

Researchers used a variation of the Emotional Stroop Test, which measures information processing speed when naming the ink colour of different words, to compare response times for neutral words like 'pencil' with investment-specific terms like 'ISA.'

Nearly two-thirds of participants had slower response times and higher error rates for financial trigger words, suggesting stress reactions. Additionally, 44.3% experienced a raised heart rate and 11.5% reported an increase in breathlessness.

The terms 'Stockbroker', 'Asset Manager' and 'Investment Risk' produced three of the slowest reaction times. Other investment-related words like 'Bond Fund' and 'Equities' also took longer than average.

Don't have a fear of finance

Stripping back jargon can help people think more clearly about investments and pensions. In supporting research, Barclays found that 71% of respondents don't feel confident enough to invest money in the stock market, with a quarter feeling 'frightened' by the idea.

Despite these fears, people do want to improve their financial knowledge, with three in five participants keen to learn more about financial terminology. We can relieve the stress of investments and pensions – and take the fear out of financial planning!

[12]Barclays, 2021

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