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Your Window on

Money

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Is your family financially-savvy?

Do you discuss financial matters with your children? In the UK, we can be very reticent when it comes to having family conversations about money. But as our children grow, they need to know the financial basics in order that one day they can successfully manage their own money.

So, knowing how to draw up a budget and what should go into it, how interest rates affect the amount of money you pay back on a loan or mortgage, and how compound interest can help savings grow, are all good life skills to learn at an early age.

Starting the conversation

Data suggests 58%[1] of parents report finding it difficult to talk to their children about financial matters. One of the main reasons parents give is that they feel children shouldn't be burdened with adult responsibilities, like concerns about money. It can in fact be very empowering to give your children the skills and confidence they need, so that they don't face money worries in the future.

With so many financial transactions now carried out by the swipe of a card, gone are the days when parents could use a shopping trip as a chance for children to learn about how much things cost. So, it's more important than ever that children understand from a young age that money is finite and sometimes hard choices have to be made in order to keep within a sensible spending limit.

However, there are practical ways to encourage children to save, such as a Junior ISA, which gives children the opportunity to see how a savings account operates, and how their money can grow over the years. Explaining how much family treats such as holidays cost, and how they are budgeted for, will give a child an understanding of the rudiments of money management. When interest rates rise, explaining to a child what the implications are for your mortgage and the family budget will help prepare them for the day when they take their first steps on the housing ladder.

[1]The Money Advice Service

FINANCIAL GLOSSARY

Here we look at some terms that often crop up in financial reports and explain what they mean.

GDP
Gross Domestic Product (GDP) is a way of measuring the health of a country's economy and represents the total value of everything produced by the companies, including those that are foreign-owned, and the citizens of the country. It is used as a broad measurement of a nation's overall economic activity, as well as a gauge of a country's standard of living. It can be compared year on year, or with other countries, to chart progress.

Government Bonds
This is debt issued by national governments, in short, an IOU that can be traded in the financial markets. If governments are looking to raise money, they often do so by selling bonds. In the UK, government bonds are referred to as 'gilt-edged securities' or often just 'gilts'. They are considered low risk.

Guaranteed Income Bonds (National Savings & Investments)
These produce a guaranteed income from a fixed-term investment – typically three to five years. The income can be paid monthly or annually. These are generally considered low-risk investments, but penalties may apply for early withdrawal.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

A MAJORITY OF BRITONS ARE ‘TREND SPENDERS’

A recent survey[2] shows that many of us spend with our hearts rather than our heads. ‘Trend spenders’ don’t feel overly worried about splashing out and are keen to maintain their lifestyle, and are the largest group among the financial personality types. By contrast, less of us are defined as ‘Skilled savers’ and ‘Budget gurus’.

ONE MILLION CHILD TRUST FUNDS LOST BUT CAN BE TRACED

Child Trust Funds were put in place for all children born between 1 September 2002 and 2 January 2011 and kick started by a £250 payment from the government. It’s estimated that one million of these have been overlooked[3] and a new campaign is looking to reunite them with their owners. For more information visit www.shares4schools.co.uk/useful-resources/find-ctf/

PENSION SCAM LOSSES JUMP 70%

About £51m was lost to fraudsters through pension scams reported to the City of London Police from April to June this year, with the average age of the victim being 57 and the average amount £91,000[4]. Frauds often begin with an email, phone call, text message or social media contact, and end with people being lured into parting with their pension savings through bogus schemes offering outlandish returns that never materialise. Don’t get caught out, take professional advice before moving your pension.

[2]HSBC, 2018

[3]The Share Centre, 2018

[4]City of London Police, 2018

What are the main asset classes?

With investing, the old saying ‘don’t put all your eggs in one basket’ rings true. To improve the potential for long-term gains and spread risk, the best advice is to diversify your investment across a range of companies, asset classes and geographical regions. This helps to minimise the impact a poor performing economic region or company may have on your overall portfolio.

When it comes to choosing asset classes there are the ‘traditional’ asset classes – cash, equities or shares and bonds – together with commercial property and commodities.

Cash

The advantage of cash is its liquidity. Money held in cash accounts can be accessed easily and present a low risk for the investor.

Bonds or fixed-interest investments

These are investments that provide a fixed, regular income over a set period of time in the form of interest. Some are government-backed.

Stocks or equities

Equities are shares of ownership issued by publicly-traded companies that are bought and sold on stock exchanges. You can potentially profit from shares through a rise in the price or by receiving dividends from them. Of course, you also risk losing your money too if the stock performs poorly.

Property

Investing in property can be as simple as owning your own home. However when it comes to portfolio investments, typically property investments are made in commercial property. This includes warehouses, offices, industrial estates and shopping centres, often owned through pooled investment funds.

Other asset classes

This category covers investments that don’t fall into the main asset classes shown above, and can include commodities such as oil or gold, foreign currency, or even art and antiques. These are generally high risk because their value depends on conditions within a specific market.

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Seven out of ten pension savers favour retirement income targets

Without professional advice, it can be very difficult to know if you're saving enough for your retirement. It's unsurprising then that many savers who took part in a survey[5] carried out by the Pensions & Lifetime Savings Association (PLSA) believe that saving and planning would be made easier by having retirement income targets available, a concept that is currently used successfully in Australia.

The PLSA proposes three levels of target that would equate to 'minimum', 'modest', and 'comfortable' levels of income in retirement. These, it believes, would give savers a tangible target to aim for, and encourage them to keep their pension plan under regular review. Its research also highlighted a worrying finding: 51% of those surveyed wrongly thought that the auto-enrolment minimum pension contribution level represents a recommended amount of money that should be saved. However, this isn't the case and the PLSA is calling for the minimum level (8% from April 2019) to increase to what they believe is a more realistic figure of 12% of salary between 2025 and 2030.

[5]PLSA, 2018

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More taking out protection policies as health consciousness rises

Life is full of twists and turns, some of them good, others not so good. Protection policies are one of the best ways of ensuring your family is provided for financially, if unexpected and unwelcome events should happen. Policies can pay out lump-sums or provide an income to ease the financial burden at a difficult time.

It seems that the message that it's important to have the right type of protection policy in place is being listened to. Recent data from financial software company IRESS, shows a positive trend in the sale of protection products in the first six months of 2018. Life term insurance and Income Protection saw the largest year on year increase in new business, up 35.1% in the first half of 2018 compared with the first half of 2017[6].

Insurers believe that this rise is due, in part, to greater health consciousness and a better understanding of the part that protection policies can play in keeping a roof over a family's head and ensuring that household bills can still be paid if death or illness were to strike.

If you'd like advice on choosing the right insurance cover, do get in touch.

[6]IRESS, 2018

Reached your half-century? How to plan for retirement

Once you reach 50, it's time to get serious about planning your retirement. True, it could still seem ages away, and you may not be thinking of giving up work anytime soon. However, putting a retirement plan together will help you understand what your finances will look like when you decide to take life easy.

Retirement planning isn't just about getting your money organised, although that's vitally important. Depending on your circumstances, you may want to think about completely changing your lifestyle, moving home, travelling the world, or simply putting your feet up. And like all big projects in life, the more time you can invest in thinking it through, the better.

Start by taking stock

Getting financial advice will help you get a true perspective on how your pension planning is shaping up. We will help you work out the value of your current plans, including your state pension entitlement. If you've lost track of pensions held with past employers, now is a good time to get them traced. If you've several pension plans, we will be able to help you work out if it would make sense to consolidate them.

And don't just think about pensions; having money in ISAs will help in planning your retirement income tax-efficiently.

Do your sums

Don't leave it until the last minute to work out how much money you'll need to live on in retirement. Some costs will go down, like travel to work, but others like utility bills are likely to increase as you spend more time at home. Factor in the cost of the travel, holidays and hobbies you're likely to want to pursue when you have more time.

Adults carry out 109 life admin tasks per year

Do you struggle with your financial 'to-do' list?

You aren't alone. A recent survey[7] shows that the average adult also has four important tasks currently pending, but doesn't have quite enough time to do them.

These admin tasks include important things like

managing their ***mortgage***

reviewing their ***insurance & savings.***

If it's been a while since you checked out your mortgage, updated your insurance policies or looked at the progress of your pension, or any other task that's in your financial pipeline, then why not arrange a review?

[7]AAT (Association of Accounting Technicians), 2018

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.

WOMEN ARE BETTER SAVERS THAN MEN

Women, it seems, are heeding the message about saving for retirement and are saving more for their future than men, after adjusting for earnings. However, the fact that women are saving more as a percentage of their earnings, but still achieving lower balances in their pension plans, shows the effect that the gender pay gap continues to have.

Women also tend to be hampered in their attempts to save for a comfortable retirement by disrupted work patterns as they take time out to raise a family, or look after ageing parents.

A survey conducted by Prudential[8] showed that women's expected retirement income has hit a record high this year, but they still have an average retirement income that's likely to be around £5,000 lower than men.

[8]Prudential, 2018

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