

Summer 2024

Financial Viewpoint

Your Quarterly Guide to Financial Planning



Investment myths

Understanding investments can be daunting, and there are several myths that are likely to put you off if you are new to investing. In this blog, we'll debunk five misconceptions about investing. By unravelling these myths, you'll gain a clearer perspective on how to navigate the world of finance and make informed investment decisions.

1 You need to be wealthy

You can invest with less than you may think. Making small regular investments can provide more benefits than investing a lump sum. You can invest a small amount into the markets every month. One big benefit of investing a small regular sum is that, instead of saving your cash until you have a lump sum, you're putting your money to work straight away. Even with rising interest rates, leaving money sitting in a bank account can be less profitable than investing it in the market.

2 It's too much of a risk

With any type of investment, there is a risk of losing your money. It's all a balance between risk and reward, meaning the greater the risk, the greater the potential reward. If you understand the risks involved and the level of risk you're comfortable with, you'll be able to make an educated decision as to whether it's worthwhile.

3 You need to know the best time to buy

Most people think you need to invest when stocks are low and sell when they're high, but there are so many factors that can change the stock market, it's pretty much impossible to predict the outcome. The best thing to do is start investing as soon as you can for as long as you can. There may be fluctuation, some good and some bad, but the longer you're able to hold on to your investment, the more time you'll have to recover from any lows.

4 Your money will be inaccessible

It is true that the longer you keep your money invested, the more chance you have of making a return, however this doesn't have to mean your money is inaccessible. There are lots of investment options where you can access your money at any time. You should leave your investments untouched for them to have the most potential, but should a situation arise where you may need your funds, you will be able to access them.

5 You have to monitor your investments every day

Checking your investments every day can lead to risky decisions such as changing investments or withdrawing funds altogether. Investments usually span over a long period of time, so it's best not to make potentially harmful decisions based on short-term market performance. If you're opting for a low-risk investment, you won't need to check it often. It's recommended to monitor your investments every three months just to see how they're doing.

Get in touch

If you're interested in finding out more about how you could invest your money wisely, we're here to help.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Past performance is not a guide to future performance and should not be relied upon.

Approved by The Openwork Partnership on 30/06/23.

The value of mortgage advice from a financial adviser

Harry and Sam have been staying with Harry's dad in his two-bedroomed terrace for just over a year while they save up a deposit for their first house. The lack of space and privacy has proved challenging to say the least and would now like to start searching for their own house.

Despite having saved up a good deposit, friends have warned the couple they would have no chance of getting a mortgage due to their working situation. Sam is a self-employed, successful roofer, but has only been working for himself for two years. His friends have told him, he'll need at least three years of accounts before a lender will go anywhere near him. They say any mortgage the couple can get will be based on Harry's income alone. Harry works as a hairdresser and his salary is nowhere near enough to secure the kind of mortgage they're hoping for.

The value of mortgage advice

Harry and Sam should resign from listening to their friends as when making such an important financial commitment like this, the only guidance they need is from a qualified mortgage adviser. Here are four ways they can make a difference to a mortgage search:

1 They know the market

If, like Harry and Sam, your needs or circumstances are 'out of the ordinary', your options may indeed be more limited than those of other buyers. However, this doesn't mean you don't have options. They know the lenders who are willing to consider buyers in your situation and will check you're likely to meet their specific lending criteria before submitting a formal application. This will save you time and avoid unnecessary searches on your credit file.

2 They know what a good deal looks like

An attractive rate may seem like your best bet when choosing a mortgage but you also need to factor in things like fees, loan conditions and the mortgage term. They look beyond the headline rate and can help you understand how the length and type of loan will affect how much you pay in the long term. They'll also highlight any additional expenses like administration and booking fees, and valuation costs.

3 They do the hard work for you

As well as helping you select the right mortgage, they'll work with you to complete all of the necessary application forms and liaise on your behalf with solicitors, valuers and surveyors. They can also recommend products that provide financial protection should the unexpected happen.

4 They're professionally qualified

They're fully qualified to advise you on a wide range of lenders and products unlike high street banks and lenders. This way you'll gain from genuine choice coupled with quality advice.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

How to move into the decumulation phase of retirement planning

1. Accumulation:

During your working life, you focus on building up your assets. This might involve contributing to a pension, saving in other accounts, or investing in property. The goal is to create a financial cushion that will support you in retirement.

2. Decumulation:

Once you stop working, you shift your focus to using your accumulated assets to fund your retirement lifestyle. This might involve drawing down on your pension, selling investments, or accessing other sources of income. The goal is to manage your spending wisely so that your assets last throughout your retirement years.

Transitioning into retirement can present new challenges, not least, understanding how to sustainably start using your assets to create an income. As you move into the decumulation phase, you might worry about balancing your needs now with your long-term financial security, but a plan could give you more confidence.

Managing the decumulation of assets is something more people will need to do in retirement as the number of workers with a defined contribution (DC) pension rises.

With a DC pension, you'll retire with a pot of money that you'll have to decide how and when to access. You may need to ensure the pension you've built up over your career will continue to provide an income for the rest of your life.

According to a report in FTAdviser, the Pensions Policy Institute (PPI) expects the assets held in DC workplace pension schemes by over-55s still in work to increase almost threefold to £527 billion over the next decade.

With most workers now automatically enrolled into their employer's pension scheme, which is usually a DC pension, the figure could rise significantly in the future.

Switching from accumulation to decumulation might require changing your mindset

Switching your mindset to start depleting your assets could be more difficult than you think.

To secure your retirement, you may have diligently saved into a pension or built-up other assets over decades. Watching the value of your assets grow can be satisfying and might help you feel more financially secure. When it comes to using those assets to create an income, it can be challenging.

So, what can you do as you move into the decumulation phase of retirement planning to effectively manage your assets? Here are some steps that could be useful.

Seek tailored financial advice

While general advice can be useful, tailored advice will take into account your circumstances, goals, and concerns to create a bespoke plan.

The PPI has set out five principles for "good" decumulation to help DC pension savers manage their assets. Among them is ensuring savers are supported when making key decisions about their pension, including when decumulating.

Booking a meeting with a financial planner could help you manage the decumulation phase of retirement planning and give you peace of mind. Please contact us if you'd like to speak to one of our team.

Understand how long your pension and other assets need to last

One of the reasons you might worry when depleting your pension or other assets is the risk of running out in your later years. So, understanding how long your pension needs to provide an income is often essential.

It's not uncommon for retirees today to spend several decades in retirement. Indeed, according to the Office for National

Statistics, a 65-year-old man has a 1 in 4 chance of celebrating their 92nd birthday. For women of the same age, they have a 1 in 4 chance of reaching 94.

As a result, you may need to plan to decumulate your assets over a long period.

Manage your investment risk

When you're accumulating wealth, investing might be a good way to help the value of your assets grow over the long term.

However, as you start decumulating your wealth, your risk profile could be very different. As you might not be earning an income, taking the same amount of investment risk may no longer be appropriate, as you may not have the opportunity to recover from potential losses.

The money held in your pension is typically invested and you might have other assets that are exposed to risk too. So, a complete financial review to assess your risk profile and whether your current assets align with this could help you strike a balance that suits you.

Carry out regular financial reviews

Even if you've set out a long-term financial plan you're confident about, reviews throughout retirement can be valuable.

During your retirement, your wishes and circumstances might change. For instance, you might decide you want to travel for an extended period and will fund it by taking a lump sum out of your pension. Or perhaps you plan to downsize, which could release equity, and might mean you don't need to withdraw as much from other assets.

Regular reviews could help ensure that the way you're using assets continues to reflect your goals and financial situation.

In addition, factors outside your control might affect

how and when you want to deplete assets.

High levels of inflation in 2023 is a good example of how external factors might change how you decumulate assets. To maintain your standard of living, you might have needed to increase the amount you were withdrawing from your pension as prices increased. A financial review could help you understand if that would be sustainable, as well as the potential long-term effects.

Contact us if you have questions about using assets to fund your retirement

If you've already retired or are nearing the milestone and have questions about how to use your assets to create financial security, please contact us.

We can work with you to create a plan that focuses on decumulating sustainably, as well as incorporating other important factors, from managing your tax liability to what assets you'd like to pass on to loved ones.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.



What is critical illness cover?

Whether you need critical illness protection depends on your situation as well as any existing policies you might already have in place.

Critical illness insurance pays out a one-off, lump sum if you're diagnosed with a condition or disability that is covered by your policy. It can be offered when someone applies for life insurance – as extra coverage.

In a similar way to some life insurance plans, critical illness covers a set number of years. You can specify whether you want the payout to rise over the course of the term (so it keeps up with inflation) or the opposite – decreasing because your aim is to cover something specific like your mortgage.

If you're thinking about critical illness cover, it's important to speak to your financial adviser who can help you decide how much cover you'll need and how long the term should last.

What does critical illness cover?

Products vary depending on the provider. Certain illnesses are covered as standard by most insurers, including, cancer, heart attack, stroke, organ failure, multiple sclerosis, loss of arms or legs and Alzheimer's and Parkinson's disease.

Some providers may allow you to add additional illnesses to your policy, which you'll pay more for. Your children could also be covered as part of your policy so it's worth asking your adviser about these options if it's something you're keen to have in place.

What does critical illness not cover?

Although a diagnosis of a critical illness can mark the start of a claim in some policies, others may only begin to offer protection once your illness hits a certain level of severity. For example, if you are diagnosed with cancer, payments may only begin when permanent symptoms have been officially diagnosed. Additionally, not all types of cancer are necessarily covered by critical illness protection.

It's important to work with your financial adviser when reviewing a policy and all the small print before you commit to make sure you are sufficiently covered – and aware of areas not included.

Pre-existing conditions

Just like the life insurance application process, critical illness protection requires you to disclose any pre-existing conditions. If you don't then your policy could be invalid.

Your adviser can search the market for a suitable plan, but you'll probably have to pay more in premiums and there will likely be some extra exclusions. The price you pay will vary, based on things like age, occupation, state of health, lifestyle and how much coverage you need and for how long.

Do you need critical illness cover?

There are things to consider if you're worried about being diagnosed with a critical illness and the impact on your income and ability to keep up with bills (which would not be covered by state benefits when you're unable to work).

Your adviser will help you look at the following areas:

- Your employer's coverage – is there any paid leave for illness or disability and for how long?
- Do you have an existing life insurance policy and if so, does it have any illness coverage included?
- Could you consider income protection insurance as an alternative to critical illness?
- Do you have sufficient savings and investments you could use in place of critical illness cover?

If you want to proceed, it's important to work with your adviser to see how much protection you'll need. This means looking at your monthly outgoings and how much you and your family require to live comfortably. You might want to add in any potential costs from medical treatment you may need.

During these important decisions it's easy to lose track of the small details, which is why your adviser can help make the process easier for you and your family and give you some peace of mind.

We can examine your needs and existing policies and then find you the right cover that protects your finances – and your family – should anything happen.

