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Your Window on
Money

SUMMER 2021

Growing optimism for a Great British summer

Although the weather may have a different opinion, there does seem to be a growing sense that 2021 will prove to be a Great British summer. Staycations are all booked; a packed sporting schedule featuring the Olympics, Wimbledon, The Open, the British Grand Prix and test cricket awaits, and the Proms are set to make a welcome return for the musically minded.

Improving financial confidence

Recent weeks have also witnessed a notable rise in financial optimism amongst UK consumers buoyed by the lifting of lockdown restrictions and the continuing success of the NHS vaccination programme, though variants of concern have cast a shadow. While some people have seen their jobs and finances severely damaged by the pandemic, the labour market has remained remarkably resilient with the help of the furlough scheme and there are clear signs of a potentially strong economic rebound on the horizon.

Spend, spend, spend?

In addition, many people have witnessed a substantial reduction in their outgoings over the past year, with commuting, childcare and entertainment costs all falling considerably for the typical household. As a result, a significant proportion of the consumer base are sitting on relatively large sums of money and, while some are likely to continue saving, others will undoubtedly be looking to make up for lost time by increasing spending on meals out, shopping trips and holidays.

Challenges vary by age

Unsurprisingly, the experiences and challenges faced by younger and older members of society have differed starkly during the pandemic. While the health crisis certainly put the over-80s most at risk, the financial fallout has hit younger generations the hardest. For instance, research[1] shows 18 to 24-year-olds are more likely to say they are struggling financially and express worries about money. In contrast, those in retirement are the most likely to feel financially secure.

Your financial wellbeing

Whatever impact the pandemic has had on your finances, we are here to help. We can help keep your financial affairs in good order, giving you even more time to enjoy the Great British summer!

[1]LV=, 2021

Multi-jobbers – listen up!

Workers on lower salaries with more than one job are at risk of a poorer retirement, as they miss out on employer pension contributions, a new study has concluded[2].

Excluded from auto enrolment

Auto enrolment was introduced to encourage people to save more in their pensions during their working years. Under the scheme, employers are required to open a pension and make contributions on their employees' behalf, unless an employee opts out of contributing. Employees need to earn at least £10,000 a year to be automatically enrolled into a workplace scheme. At present, the total minimum contribution is 8%, with employers contributing a minimum of 3%.

If multi-jobbers earn under £10,000 a year in each job they hold, the issue becomes apparent. It is estimated that this could affect more than four million people in the UK.

Threshold confusion

Interestingly, many workers are unaware that if they have qualifying earnings above £6,240, they can choose to opt in to their company's pension scheme, with the employer legally required to contribute at a rate of 3% of their salary. Those earning under £6,240 can still opt into their company pension, but their employer is not required to contribute.

Worryingly, the study found that around one in 20 multi-jobbers, with at least one job paying under the £10,000 threshold, say they have been refused entry into a company pension by their bosses.

[2]Scottish Widows, 2021

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INSIDE THIS ISSUE:

Holiday selfie could invalidate insurance

With travel back on the agenda for many, think twice before posting a holiday selfie on social media. Your insurer may consider this as advertising the fact that you are away from home, leaving your property unoccupied and invalidating your insurance cover. Unfortunately, more and more criminals are using social media posts to identify when a property might be empty.

New record for sustainable funds

Data from industry tracker Morningstar, shows that the year kicked off with continued European interest in sustainable funds, which attracted all-time high inflows of €120bn in Q1 – 18% higher than the previous quarter. Climate funds proved to be the best sellers, with six of them featuring in the top 10. The number of sustainable funds continues to grow at pace, with 111 new sustainable fund launches in the first three months of the year.

Jabbed population more optimistic about finances

People who have already received their COVID-19 vaccination are reported to be more optimistic about their finances than those who are yet to have their jab[3]. As well as giving people a sense that the worst of the pandemic may be over, the jab also seems to be providing people with financial optimism about both their own finances and investing. Nearly half (48%) of those who have had the vaccine believe now is a good time to invest, versus 39% who have not yet received the jab.

[3]Aegon, 2021

Social media and the younger investor

The Financial Conduct Authority (FCA) is concerned about the influence social media is having on younger investors, who it believes are taking on significant financial risks.

This younger, more diverse group of investors, it said, is highly reliant on social media platforms such as YouTube, Instagram and TikTok for investment tips and advice, but lacks the knowledge and understanding required to make informed choices.

High confidence, low resilience

The FCA expressed concerns that these investors are putting their money into riskier products, despite a 'striking' lack of awareness of the hazards associated with investing. Shockingly, 45% did not associate 'losing some money' as a potential risk.

They also showed low levels of financial resilience, with research showing that a significant loss could have a fundamental impact on the lifestyles of 59% of inexperienced investors.

Ask yourself five questions

A 'digital disruption' campaign has been launched by the FCA to make investors aware of the risks, by encouraging them to ask five questions:

1. Am I comfortable with the level of risk?
2. Do I fully understand the investment being offered to me?
3. Am I protected if things go wrong?
4. Are my investments regulated?
5. Should I get financial advice?

Don't risk jeopardising your financial future

We can help develop an investment plan suited to your long-term goals and risk profile.

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Keeping up with the Joneses? Your personal goals matter more

Did the way some people tend to crave and display material success all start with yuppies and Harry Enfield's 'Loadsamoney' character in the 1980s? No, it goes back much further, to 1913, when a New York Globe comic strip 'Keeping Up With the Joneses' first appeared and created an enduring, meaningful expression.

Envy about others' wealth and possessions existed in biblical times; the Tenth Commandment is proof of that. It translates to *'Thou shalt not covet thy neighbour's house… nor any thing that is thy neighbour's.'* A TV cartoon about the neighbouring Flintstone and Rubble families is less convincing evidence of materialism in the Stone Age!

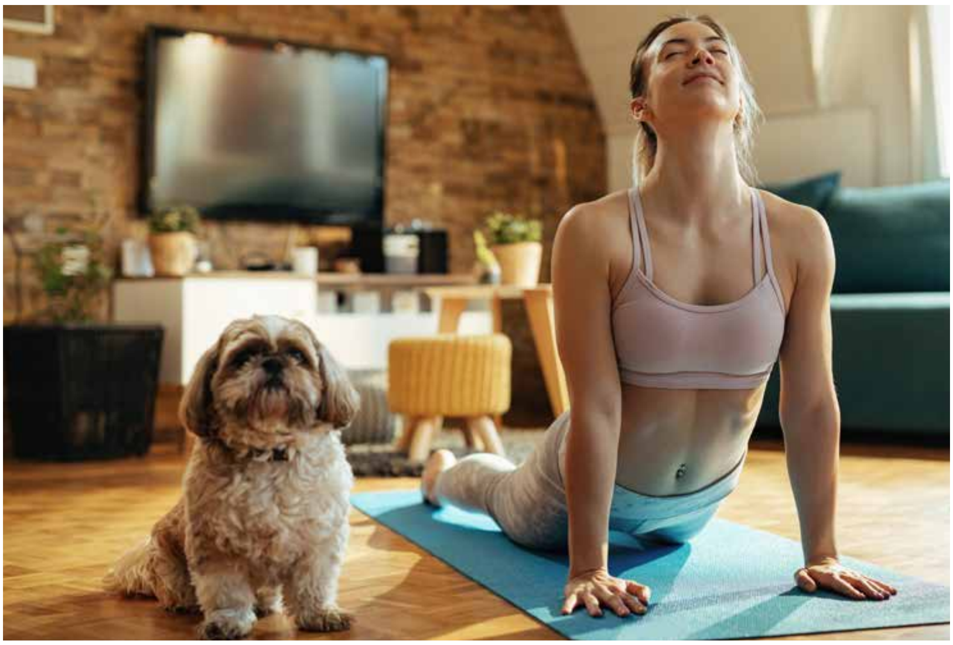
A friendly approach

More relevant to the present, is the time two centuries ago when the British class system meant that much of the population led impoverished lives, with poor housing and harsh industrial working conditions, and little opportunity for social mobility. That was when mutual organisations, such as co-operative, friendly and building societies, began improving ordinary families' lives.

In 1820s Lancashire a group of workers formed a sickness and benefits society that later became Shepherds Friendly Society, today a provider of long-term insurance and investment products. As a mutual, owned by its members, a much-modernised Shepherds Friendly still espouses the principles of its founding members, broadly advocating thrift and a caring, sharing community.

Pre-pandemic, Shepherd's Friendly ran a survey themed *'Keeping up with the Joneses: Does it make us happy?'* Among the 2,000 respondents, 52% admitted comparing their finances to those of friends and family; 30% had been tempted to buy something because people they know had done so; whilst 9% had bought something unaffordable just to impress.

More reassuringly, 'achieving personal goals' was a top-scoring response to a question about feeling successful, whereas the bottom-scorer was 'owning expensive items'. So, maybe lavish expenditure beyond your means will bring less happiness than focusing on your own finances and being realistic about what you can really afford without damaging your long-term financial outlook.



Stay one step ahead

Nearly a third of homeowners (31%) would only consider purchasing protection insurance if they fell ill[4] – too late to support them financially if they couldn't work.

Other triggers for taking out protection cover include a change in employment status (25%) or having an accident (24%), while 22% say there is no circumstance that would make them consider purchasing a protection product.

Reasons for not taking out cover include:

- Not thinking they need it (28%)
- Believing it to be too expensive (25%)
- Not being able to afford it (22%)

Don't regret it

Unfortunately, once people experience a change in their circumstances, it is often too late to protect themselves. Most protection policies do not offer backdated cover, meaning that homeowners could find themselves in unnecessary financial difficulty as they try to meet their mortgage, bills and other essential payments.

And, with the survey also finding that one in seven (14%) people regretted not having financial protection in place that would have supported their mortgage payments in the past, it is clear that many people wish they had better understood the true value of protection.

Be one step ahead

We can help explain the implications of having no protection insurance for you and your family, and help you find suitable and cost-effective products to protect you financially – before it's too late.

[4]MetLife, 2021

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Taking the emotion (and colour!) out of investment decisions

The psychology of investing is fascinating. There are so many behavioural traps that investors may find themselves falling into as markets fluctuate and knee jerk reactions take hold. The anchoring trap is a prime example, where investors over-rely on their perceptions of an investment which may be totally incorrect, rather than being flexible in their thinking and responsive to new data.

Separating emotions from investment selection and market reaction is indeed a whole different challenge. Managing impulses as markets and stocks fluctuate, and grossly underestimating risks associated with investments, are just a couple of reasons why investors sometimes make suboptimal decisions based on emotion, which can result in financial loss.

Red rag to a bull

Another added complication has been highlighted by an interesting new study[5] which shows that financial information presented in red tends to make people more pessimistic about the market than the same facts presented in blue or black. It seems that using the colour red to represent financial data influences individuals' risk preferences, expectations of future stock returns and trading decisions, effects not present in those who are colour blind, and they're muted in China, where red represents prosperity.

Assistant Professor of Finance at the University of Kansas, William Bazley, who undertook the research, commented on the findings, *"The use of colour could lead to investors avoiding the platform or delaying important financial decisions, which could have deleterious long-term consequences. In Western cultures, conditioning of red colour and experiences start in early schooling as students receive feedback regarding academic errors in red. Red is associated with alarms and stop signs that convey danger and command enhanced attention."*

On our best behaviour

The good news is that you can avoid these potential pitfalls. You can rely on us to take the time to understand your objectives, apply a rigorous process and advise you on the strategies and products most appropriate for you.

Financial advice is key

If you're concerned about your finances or need help with basic financial topics, we aren't here to judge. We're on hand with simple, jargon-free advice that will provide you with the confidence and understanding you need to take control of your finances once and for all.

[5]The University of Kansas, 2021

Long-COVID pension pot peril

The pandemic has affected almost everyone in myriad ways, whether medically, socially or financially; its death toll has been appalling and overshadows all other consequences. The vast majority have fortunately come through the pandemic, but the speed of recovery from its consequences has been variable.

Medically, many patients have recovered well, but some with prolonged symptoms have been diagnosed with 'long COVID'. It's a similar picture financially, as many people have lost earnings or even their jobs, but economic recovery could help restore their financial health. A minority, however, may suffer the financial equivalent of long COVID.

Insurer and pension provider Legal & General (L&G) has monitored the financial effects of COVID-19 during the pandemic, particularly the long-term impact on the prospective pension income of workers over 50 and thus closest to retirement. In the early months of the crisis, the picture wasn't too disturbing; last August, only 2% of this group envisaged cutting their pension contributions.

Numbers crunched

Fast-forward eight months to April this year, when L&G research revealed that some 12% of workers over 50 were paying less into their pension pots because COVID-19 had disrupted their finances. This led L&G's number-crunchers to work out just how severe the impact could be on the retirements of those one-in-eight (about 1.7 million) 50-plus workforce members.

The message from L&G's figures is simple: anyone, whether over 50 or under, who has economised on pension contributions during the pandemic should restore them as soon as they can. To give L&G the last word, *"A 50-year-old opting out of a workplace pension could be £50,000 worse off by the State Pension age of 67 if they never opted back in and continued working full-time throughout."*

A word of advice... Addressing the raft of amateur investors who started trading during the pandemic, renowned investor and US business tycoon Warren Buffett said at an annual shareholder meeting in May, *"I do not think the average person can pick stocks,"* adding to other pearls of wisdom he has imparted over the years! *"Rule No. 1: Never lose money. Rule No. 2: Never forget rule No.1"* and *"If you aren't thinking about owning a stock for 10 years, don't even think about owning it for 10 minutes."*

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