

VIEWPOINT

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Cost of living crisis: Why you should review your budget and plans

The cost of living is rising. Reviewing your finances now is crucial for understanding what effect inflation could have on your lifestyle and long-term plans.

Inflation was at an almost 40-year high. In the 12 months to August 2022, it was 9.9%. There are several factors contributing to rising inflation, including the conflict in Ukraine, which has disrupted energy and food supplies.

Rising inflation means now is the ideal time to review your budget

Keeping track of your finances during the cost of living crisis is crucial. In the short term, you should review your budget. Can your budget absorb the higher costs, or do you need to make lifestyle changes?

The Bank of England expects inflation to peak at around 13%. It's also said it doesn't expect the rate to fall to its target of 2% for several years.

So, you should look at what that means for you in the coming years. Will rising energy prices mean you need to be more mindful of energy use or cut back expenses in other areas?

While the headline inflation figure can give you an idea of how prices are changing, your personal inflation rate may be very different. If you commute long distances, for instance, the steep rise in fuel costs may mean your outgoings rise more than you expect.

Going through your budget and calculating how your regular costs have changed in the last year can help you better manage your finances.

In some cases, you may decide to draw on savings or other assets to bridge a gap if your expenses rise. You should ensure this is sustainable.

The steps you take could affect your long-term plans

While it's important to focus on how the cost of living crisis is affecting your finances now, don't forget to consider the long-term effects too. Decisions you make now could affect your income and financial security for years to come.

If you're using assets to create an income, such as your pension, you need to be aware of how increased withdrawals may affect you. Could taking a higher income from your pension now to cover costs mean that you deplete your savings faster than you expect? If so, it could mean you face an income shortfall later in life.

Research also suggests that some people are cutting back outgoings that could improve long-term financial security. According to Canada Life, 5% of adults have already stopped contributing to their workplace pension due to budget pressures. A further 6% are actively thinking about pausing their pension contributions.

While pausing contributions for a few months may seem like it will have little effect on your retirement, it can be larger than you think. The power of compounding means that pausing pension contributions for just a year could reduce the value of your pension at retirement by 4%.

It's not just stopping pension contributions that could affect your long-term plans. Things like reducing how much you add to your savings account or investment portfolio could affect whether you can reach your goals in the future, whether that's to support children through university or retire early.

Contact us to review your finances

Amid the current economic uncertainty, reviewing your financial plan can give you peace of mind and confidence. We'll help you understand how your current budget has been affected and the steps you can take now to create long-term financial security.

Please contact us to arrange a meeting to discuss your goals and the effect the cost of living crisis could have.



The effect of psychology on investors

You should base financial decisions on logic and facts. But psychology can have a much larger effect than you think, and it can lead to you making decisions that aren't right for you. Read on to find out more about what behavioural finance is and how it could affect you.

"Behavioural finance" was first coined in the 1970s by economist Robert Shiller and psychologists Daniel Kahneman and Amos Tversky. They used the term to refer to how unconscious biases and previous experiences affect the way people make financial decisions.

It can be used to explain why investors can make knee-jerk decisions or invest in opportunities that aren't in their own best interest. Rather than relying purely on facts, investors often have biases that affect how they react to certain situations.

Finance bias can lead to "irrational" decisions through shortcuts

There's a reason why people often make decisions based on biases: they can make the decision-making process quicker.

If you imagine how many decisions you need to make every single day, it's easy to see why this kind of decision-making can be useful. From what to eat for breakfast to which way to travel to work, it'd take up all your time if you carefully went through the facts for each decision you make. So, you make shortcuts by using biases.

However, while it can be a useful process in your day-to-day life, bias can have a negative effect when you're making important decisions, including financial ones.

Behavioural finance covers five concepts:

1. Mental accounting

Mental accounting can be incredibly useful when you're managing a budget. However, inflexibility could mean you miss out on opportunities.

The concept refers to how people may designate money for certain purposes. So, you may have different savings accounts for various goals. It's a process that can help you manage your outgoings and work towards goals.

However, it can also lead to irrational decision making.

You may not dip into a savings account that you've allocated to buying a new car even when you face an emergency and it'd make sense logically.

How you receive the money may also affect how you use it. For instance, you may put off using money that was given as a gift in an emergency because you believe it should be used for something special.

2. Herd behaviour

Herd behaviour is something that's often seen in investing. When you hear that lots of people are selling certain stocks or buying a specific share, it can be easy to be led by this and follow suit.

It can lead to you making decisions that, while possibly right for others, don't suit you or your circumstances. It's not just investing where herd behaviour can have an effect. You may be tempted to purchase an item after a friend has or choose a savings account because someone you know has.

3. Anchoring

When you have some information, you may focus on this – anchoring your views to this data.

Setting a benchmark can be useful, but it can mean you don't take in other information, especially if it's contradictory.

So, you may hold on to investments even after the value has fallen because you've anchored its worth to a previous valuation.

4. Emotional gap

Emotions often play a role in financial decisions. You may sell a stock because you fear that the price will fall, or make an impulse purchase because you're happy.

Being comfortable with your financial plan is important, but an emotional gap can fuel irrational decisions as you're more likely to overlook data.

5. Self-attribution

This concept refers to how investors are likely to have overconfidence in their abilities.

You may believe you can reliably time the market to maximise profits when the markets are unpredictable. In this case, it's common to see "wins" as being down to your knowledge, while "losses" are attributed to things outside of your control.

Unconscious bias may affect your decisions in ways you don't expect. If you have any questions about your finances and the decisions you need to make, please contact us.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Covering the cost of your retirement with confidence

As you approach retirement, it's important to be aware of the cost of living and how much income you'll need to feel financially secure.

With the cost of living going up, people approaching retirement are finding their pension pots are not lining up with how much they'll need in their later years.

An online pension calculator can help start you off by giving you an idea of how much you'll need to live comfortably. Your adviser is ideally placed to help you look at your own situation, finances and future income needs and work out a suitable plan to help you get to these goals.

Examine your assets with the help from an adviser

Everyone's situation is different, depending on how much you have in assets, savings, and investments. However, there are some key issues to bear in mind to help things along, including the issue of rising inflation, which increases the cost of living as years go by.

Volatility in financial markets also adds to the concerns for anyone approaching retirement when it comes to how their pensions are performing. With expert guidance from your financial adviser, you'll be able to make the most of your money for many years to come.

How to boost your pension and make more of your money

Of course, the earlier you start putting money away, the more time you'll have on your side to grow your pension pot. But it can be hard when you're still juggling mortgage debt, family outgoings and the general cost of day-to-day living. Even if you've opted out of your workplace pension or are self-employed and don't have one, it's never too late to start your own personal pension.

We can take you through how a personal pension can benefit you and give you more control and flexibility around how much you put in, where your money is invested and how you can access it in retirement.

Keeping track of workplace pension plans (if you do have them) and thinking about consolidating them into one pot might be a good place to start planning towards the goal of making your retirement as financially worry-free as possible. It's a complex area, which your adviser can handle for you.

It's also worth remembering that if you defer or delay your State Pension, it will go up by 1% every nine weeks. That means if you're entitled to £179.60 a week and deferred your pension by a year, you would get an extra £10.42 a week.

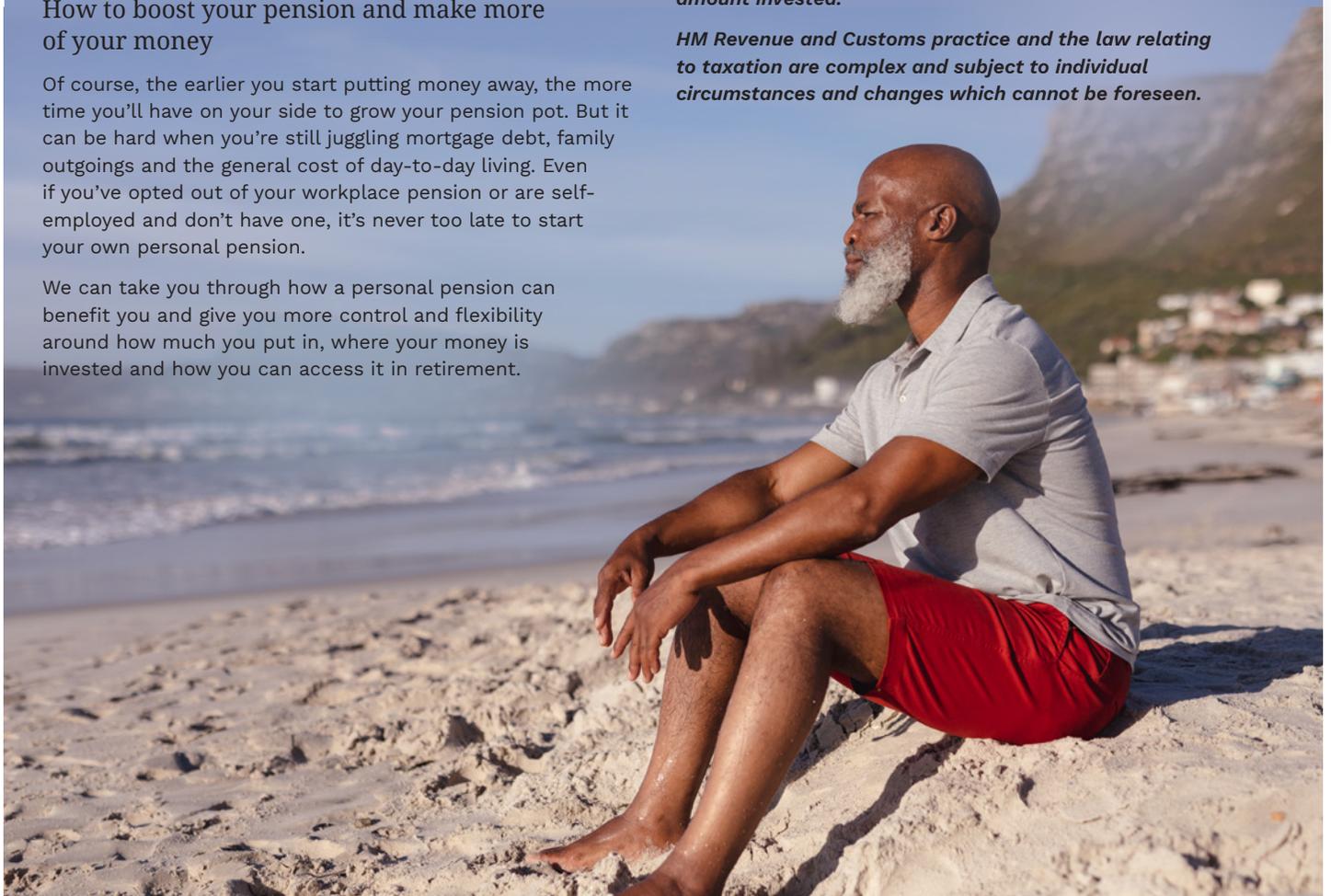
Make the most of your pension allowance

Most people are able to pay up to £40,000 a year into your pension, tax free although some exemptions may apply. If you don't use this annual allowance, you can 'carry forward' the previous three years' worth of unused allowances providing you are still registered with the pension and have earned in the current tax year the amount you (or your employer) would like to contribute.

Our financial advisers can help you review your pensions and advise on how to make the most of your investments going forward into retirement.

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.

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





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.



How might rising interest rates affect your mortgage?

The Bank of England has raised interest rates and warned further hikes are likely in the coming months.

This will mean bigger bills for some homeowners.

On 3 November 2022, the Bank of England raised interest rates from 2.25% to 3% - the eighth hike since December 2021 - in a bid to combat soaring inflation. And, the Bank's Governor, Andrew Bailey, has warned people to expect further rises in the coming months.

It is now widely anticipated that rates will rise to over 5% by Spring next year. This has had a huge impact on the mortgage market - with some lenders pulling deals altogether and others replacing their offerings with more expensive alternatives.

What does a rise in interest rates mean for your mortgage?

If you don't have a fixed-rate mortgage, you're likely to see your borrowing costs rise, although how they are affected will depend on the type of product you have. Your adviser can help you assess your mortgage deal and figure out ways to make savings.

- Only borrowers with a mortgage that moves up or down with the base rate will be immediately affected by the interest rate change.
- This includes tracker mortgages and standard variable rate mortgages (which you revert to when a mortgage deal ends).

Fixed-rate mortgages

If you're on a fixed-rate mortgage deal, you won't see any change in your monthly payments. This is because the interest rate you pay stays the same for the length of your mortgage deal.

But with further interest rate rises expected, if you're close to the end of your current term, it may make sense to look for a new deal sooner rather than later. You can generally lock in a new mortgage deal three to six months before an existing deal comes to an end.

If you've got more than six months to the end of your current deal, you'll either need to wait for a while or pay the early exit fee (A fee you may have to pay your current lender if you end your mortgage deal prior to the 'official end date') We can advise you on the best way forward.

Standard variable rate mortgages

You end up on a standard variable rate (SVR) when a tracker or fixed-rate mortgage deal ends, and you don't remortgage.

If you're currently on your lender's SVR, you may well see your monthly payments increase following the rise in the base rate. You may not be hit with the full increase though, as these rates go up at a lender's discretion.

Tracker mortgages

Tracker mortgages follow the Bank of England's interest rate. So, payments on your tracker mortgage will rise as a direct result of any increase in the base rate. Exactly when this happens will depend on your lender.

As a rule, tracker mortgages do not exactly match the base rate but are set at a level just above it. For example, if your lender's rate is the base rate +1%, the interest you'll pay in total on your loan will be 3.25 % (based on the base rate of 2.25% - 5 October 2022).

Whatever type of mortgage you have, we can advise you about how the interest rate rise might affect you and address any questions or concerns you have.

How to save on your mortgage costs

The best thing you can do is to speak to your financial adviser. If you're on a tracker mortgage, they'll be able to advise whether changing to a fixed-rate deal to protect yourself from any further rises is a good idea. They'll also let you know about the fees involved when making changes to your mortgage. If you're on an SVR, the interest rate you will switch to when your initial mortgage deal ends, you can switch to a new mortgage deal at any time. With interest rates rising, your adviser can help you look at available fixed-rate deals.

If you're already on a fixed-rate deal, your mortgage payments won't increase until your current term ends. With many lenders letting you lock into a new deal six months before your existing one finishes, it's a good idea to plan ahead.

Whether you're looking to remortgage or are a first-time buyer, we can help you find the most suitable deal for your circumstances and help keep your costs down.

**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS
ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT**