Self-employed workers may face a pensions crisis

According to new research self-employed workers in the UK may be heading towards a retirement saving crisis.

Insurers, Prudential, spoke to more than 1,200 self-employed people across the country and found that nearly half (43 per cent) have no pension at all, compared to just four per cent of employed workers who said they had no savings.

The study also found that:

- 36 per cent of the self-employed say they cannot afford to save for retirement
- 31 per cent say they will be relying entirely on the state pension to fund their retirement
- 28 per cent will be reliant on their business to provide the income they need

The analysis also revealed that self-employed workers are more likely to save generally, if not for a pension, in order to create a safety net for themselves (64 per cent save in comparison to 57 per cent of those in employment).

Worryingly, only one in 10 self-employed workers see a financial adviser regularly, despite one in five (19 per cent) reporting that they are not confident with money and financial matters. The Association of Independent Professionals and the Self-Employed (IPSE) said the recent findings mirrored its own recent research on pension savings amongst self-employed workers and is calling for more action to help workers save.

In your 50's? How much longer will you work for?

Research recently carried out by Aviva has shown almost 63% of UK workers in their fifties are planning to work longer than they thought 10 years ago.

They're delaying their retirement partly due to the rising costs of living (40%) and also due to a distinct lack in their pension savings (38%) meaning they'll need to continue working to fund their lifestyle into their later years.

With many in this generation being caught out by interest only mortgages and potentially needing to support their children longer, the prospect of having to work potentially into their 70's becomes more concerning when half of workers in this age group, surveyed by the Centre for Ageing Better, felt their age would be a negative factor when applying for jobs.

Some also felt this had been a deciding factor when they failed to secure employment.

Although employers have a responsibility to rule out age discrimination, they should also be encouraged to support older workers to adapt to working longer and recognise the skills gap and lack of experience through not pro-actively employing the older worker. Similarly many employees would welcome more resources and guidance at work with regards to financial issues.

With one third of the workforce predicted to be aged over 50 by 2020, it's important for individuals to start safeguarding themselves as early as they possibly can. As we get older, our overheads naturally reduce, especially going into retirement, so by calculating what we'll need to live on once we leave our jobs, and then putting a realistic savings plan in place with a finance professional, we can help mitigate the need to work beyond the age of 65, unless of course we wish to!

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BIRCHWOOD INVESTMENT MANAGEMENT LTD NEWSLETTER

October 2018

It's plain sailing...

Parents urged to seek financial advice before lending to children!

With house prices soaring and mortgage lenders enforcing stricter lending criteria for borrowing; it is becoming more and more difficult for first-time buyers to get on the property ladder; which has resulted in more people turning to the 'Bank of Mum and Dad' than ever before.

Back in 1977, the average deposit paid by a first-time buyer was £1,094, 20 years later in 1997 it had increased to £2,200 and by 2017 it had risen to a staggering £25,867 – an increase of 2264% from 1977*.

As a result, industry figures** show that more than one in four UK housing transactions are now financed by the Bank of Mum and Dad, whether it is by loaning their children a deposit, gifting it to them as an early inheritance or being a guarantor on their mortgage.

However, many parents are rightly confused on financial decisions and it is crucial therefore, that parents get the correct advice on loaning or gifting money to make sure they are using the most tax-efficient avenue for both themselves and their children with repayment terms or agreed terms in place. This is to ensure they don't get into financial problems a few years down the line or during retirement; especially as this age group have retired much earlier than their children will manage to do and therefore, their money needs to last considerably longer.

There are many ways parents can help their children; with the most important one being to teach them and encourage them to have good financial habits from the start. Showing them how to budget from an early age by saving their pocket money, birthday and Christmas money in a savings account is the first step; followed by making sure they keep up with credit card repayments, mobile phone bills, utility bills and any repayment loans they have to maintain a good credit score, which will all help when it comes to getting their first mortgage.

Parents have several options to help if their children are saving but simply cannot get on that first step of the property ladder. Re-mortgaging their own home, setting up a new mortgage or freeing up equity could all help but this is not always the route many parents want to take.

Other alternatives are parents getting a joint mortgage with their children on a new property, being guarantors on their children's mortgage or simply helping them shop around for better mortgage deals or Help to Buy schemes.

Before lending any money, parents should consider if they can afford to give it away; they may be financially secure now but it could all change during retirement. If they do not have the funds in the bank and would therefore need to re-mortgage or release equity, they need to ask themselves would their child want to see them go without or get into debt to help them. If their child is buying a property with their spouse, partner or even a friend, they need to consider what happens if this relationship breaks down, so it's imperative that terms are confirmed so all parties know where they stand.

To ensure the right decision is made for all parties and to avoid the risk of relationships going sour, parents need to get clear financial advice by contacting an approved financial adviser. There is a common misconception that financial advice is expensive and as a result many people do not take up the advice they greatly need; but this is generally not the case and sound financial advice can mean mitigating any risks of losing money further down the line.

Financial education in the workplace

Wellbeing in the workplace has been somewhat of a “buzz phrase” for some time now, with employers realising that to attract and retain key talent, they need to consider the overall benefits package rather than just an annual salary. Although childcare vouchers, private healthcare and of course the auto-enrolment pension schemes are now fairly standard, many individuals of all ages and levels are looking for additional areas in which a company can support them both personally and professionally.

Wellbeing itself often conjures up perceptions of physical health. According to a report from the HM Treasury and the Financial Conduct Authority (FCA), 57% of employees expressed interest in working for companies that offer them advice on financial matters and making their money work for them. In a society that is living longer and longer, this is becoming an increasingly important focus.

Financial education was introduced into secondary schools in 2014 and in some areas of the UK, is also now being taught in primary schools. Younger generations are starting to become aware of their financial choices, whereas, many parents are not, with a wide swathe of adults facing an uncertain future when it comes to their retirement choices, or how best to save and invest during their working years.

Although the younger millennials may consider pensions too far off to worry about, many of us in our 40’s onwards are starting to wonder what we’ll be living on if we don’t start making provision. This, when coupled with the day to day pressures we all face can impact us at work and affect our productivity and motivation.

For employers who understand one of their biggest assets is their staff, introducing opportunities for employees to learn important money facts, and how they can use existing benefits to their advantage can help ally potential fears of what their future holds; thereby making them less anxious and stressed. Having this as part of the overall benefits package means employers will not only attract the best talent but will also retain them in the long term making it a cost-effective exercise.

This education can be provided in the form of in-house workshops to suit each company. These help employees look at their long-term financial goals and plan their desired retirement lifestyle regarding pensions, ways of mitigating tax and other forms of investment.

Many employees normally attend a workshop and follow this up with an individual consultation tailored to a particular area of concern they may have, but it is also possible to request an individual meeting as a starting point for any members of staff wishing to do so.

There’s a big surge in the nation’s interest in mental health and wellbeing in the workplace, partly due to stress, depression and anxiety accounting for 12.5 million working days lost in 2016/17 according to Government statistics. Therefore, anything that companies can do to nurture and protect their employees to make them feel happier and more empowered in their financial choices can only help the organisation, as it means a more productive workplace for everyone and greater staff retention.

A fifth of property investors intend to stay in the market for life

According to a new study around one in five landlords intend to remain in the buy-to-let market indefinitely, while a similar number of portfolio landlords intend to do the same.

Put together by Foundation Home Loans, the new research suggests that around 37 per cent of landlords are unperturbed by the recent changes to tax, which has seen a reduction in tax relief on mortgage interest and the creation of a three per cent surcharge on the purchase of second homes.

Breaking the data down by age group, one in 10 landlords aged 18-34 intend to remain indefinitely, rising to 17 per cent of those aged 35-54 and 20 per cent of those aged 55 and over.

The area of the UK most likely to see landlords hold on to property is the East of England, where nearly a quarter of respondents said they planned to remain in the buy-to-let market.

The average investment length for a portfolio landlord, i.e. an investor with three or more properties, was 15 years.

In comparison, smaller investors, with one or two properties, only planned to hold onto their investments for roughly 10 years on average.

Market Report

October 2018

Global Review

An acceleration of global economic growth in the second quarter reinvigorated developed equity markets despite the ongoing threat of protectionism from the Trump administration. Strong US corporate earnings, with almost 90% of companies beating expectations, more than offset any impact from the deterioration in trade relations between the US and China.

US stock markets posted new all-time highs with Apple and Amazon both peaking at valuations of over US$1 trillion.

Sentiment toward Asian and global emerging markets has been subdued by a catalogue of regional issues.
The possible impact of trade wars on the Chinese economy, the increasing strength of the US dollar, the fear of contagion from currency crises in Turkey and Argentina and fresh US sanctions against Iran have seen the stock markets of developing economies lag year-to-date.

At the same time central banks in the developed world are introducing tighter monetary policy thereby squeezing global liquidity.

UK

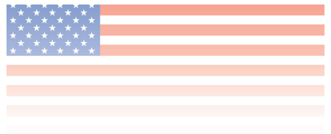
The Monetary Policy Committee voted unanimously to raise interest rates by 0.25% in August. This was just the second hike of the current cycle following a similar move in November.

Pressure to act had been increasing after the Committee delayed an expected hike in May. UK GDP accelerated to 0.6% and the unemployment rate had fallen to 4% in the three months to July.

Inflation also hit a six month high of 2.7% in August, albeit driven by higher fuel prices and weaker sterling.

Monetary policy remains accommodative and future moves are expected to be gradual given the uncertainty surrounding Brexit. The government’s latest Brexit plan has been rejected by the leaders of the remaining 27 EU member states jeopardizing the possibility of a resolution by the scheduled leaving date of 29 March 2019. UK equity markets continue to price in a ‘no deal’ outcome.

US



The bull market in US equities is now the longest ever with the benchmark S&P 500 index not falling by more than 20% since its nadir on 9 March 2009. Local stock markets continue to set record highs driven by strong company earnings and above trend economic growth. US GDP expanded at an annualised rate of 4.2% in the first six months of the year.

Whilst economic activity may ease in the second half, full year results are still expected to be well ahead of the 2.2% growth recorded in 2017.

With job creation still strong and inflation running above target, the Federal Reserve is expected to continue to lift interest rates.

Whilst there is broad support for a further hike in September, the escalating trade war with China could yet influence the decision. The US have imposed tariffs on $250bn of Chinese imports and this has been met with reciprocal measures.

Europe

Tensions between the EU and US eased after the two sides agreed to discuss a reduction in trade tariffs. The subsequent rebound in sentiment provided further impetus after economic output in the Eurozone was revised up to an annualized 2.2% in the second quarter. However, political concerns and stubbornly low inflation, with a core figure of 1% year-on-year, should keep the European Central Bank on an accommodative footing with interest rates expected to stay at record lows until at least the summer of 2019.

The imminent Italian budget represents the latest challenge for the EU. The ruling coalition government have rejected austerity as a means of reducing the budget deficit, a move that could draw reaction from the European Commission if policy deviates from the objectives of the stability and growth pact. Italy is the third largest economy in the EU and has the second largest public sector debt after Greece.

Japan

Japan has the largest government debt as a percentage of GDP in the world having run budget deficits for more than twenty-five years. Spending could exceed ¥100 trillion for the first time next year if government ministry funding requests are fulfilled. Prime Minister Abe’s administration is also seeking to fund a further stimulus package designed to shore up domestic demand as a planned consumption tax hike comes into force in October 2019.

The rebound in global growth was mirrored in Japan as economic output expanded by an annualised 3% in the second quarter. This was an encouraging turnaround following the 0.6% contraction in the first quarter that ended the longest period of economic growth for over thirty years. A further acceleration could be curtailed by the current global trade disputes as well as severe labour and capacity shortages.

Asia

Exports from China to the US fell by 2.5% month-on-month in July as the escalation in the trade war between the two countries has been blamed for a decline in commerce across the globe. Despite robust GDP growth of 6.7% annualised in the second quarter, China’s central bank has taken steps to support domestic demand by injecting liquidity via the commercial banking system. Personal income tax thresholds were also raised in a move designed to boost domestic consumption.

Indian GDP surprised on the upside with growth of 8.2% annualised in the second quarter. Demand across the economy was strong despite rising inflation coupled with a weak currency.

The rupee is the worst performing Asian currency year-to-date having fallen over 10% versus the US dollar. Headline inflation increased to 4.6% in June, whilst retail inflation edged up to 5%, significantly higher than the 4% target. The Reserve Bank of India has raised interest rates twice in three months and further hikes are expected.