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VIEWPOINT

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Myths about retirement

When it comes to retirement, there are some ideas that can turn out to be quite different when you examine them closely. We explore five of them.

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.

1. You can live off the state pension alone

The current basic state pension is £137.60 per week, or £179.60 for the new state pension if you were born on or after 6 April 1951 (for a man) and on or after 6 April 1953 (for a woman). That works out annually as £7,155 or £9,339 respectively, depending on meeting National Insurance contribution requirements and other eligibility criteria.

This could be enough for those who own their home outright, to cover the very basics for everyday living but is limiting for those who want to enjoy a more comfortable retirement without money worries. As life expectancy rises, so does the amount of time we'll need to fund our lives in retirement, including long-term care when we're older.

2. Matching your workplace pension is enough

With an occupational (workplace) pension, the overall minimum total contribution is 8%, with employees paying in 5% of salary and employer contributing 3%. But this might not be enough to give you the kind of income you're expecting once you've retired.

The good news is you can back your workplace pension up by increasing your contributions if you're able. Better still, some employers also offer to pay more into your pension to help build your retirement benefits faster, by matching any additional contributions you make up to a set level. If you start the ball rolling earlier, the more tax relief you'll receive and the more time your overall pot will have to grow.

3. It's possible to keep working for longer

The reality is, even if you wanted to continue working either full – or part-time after state retirement age, you might not be able to do so. It might be too physically demanding or might not fit in with retirement goals like spending more time with grandchildren, travelling or other pursuits you've been looking forward to.

Getting help from a financial adviser can ensure you have your desired level of income in retirement. You'll then be able to focus on keeping busy through hobbies, part-time work or other areas like volunteering in your community.

4. After a certain point it's too late to save for retirement

As we're living – and working – longer than before, while it's true that the sooner you start the better, life doesn't always go as planned so it's never too late to start saving for retirement. Compound investment growth can make a big difference to the value of your pension over time.

5. You can save for retirement without help from an adviser

Even with the best intentions when it comes to saving and investing, doing it alone is difficult. That's why working with a professional investment adviser can give you confidence about the direction of your investments. An adviser will be able to point out the long-term benefits of your investments and how they can pay off for you.

Speak to your adviser about making the most of your pension investments.

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Time to consolidate your pensions?

Employer pensions can accumulate as we change jobs, and it's easy to lose track of how much each one contains. We explore what you need to know if you're thinking about consolidating your pensions.

When you leave a job, it's easy to forget about the workplace pension you might have had there. With the average person having several jobs during their lives, along with the 2012 introduction of auto-enrolment for employer-based pensions, it's not surprising that many of us have more than one pension to our name.

Whatever the situation with your workplace pensions, the first thing to do if you're thinking about consolidation is to speak to a financial adviser. We can help you figure out the best solution for your individual needs.

Tracking down your old pensions

All pension providers are obliged to send members of their schemes annual statements to keep them updated on how much their pension contains.

The Association of British Insurers (ABI) estimates 1.6 million pension pots worth billions of pounds are forgotten about due to people just moving home. So it's vital to write to your old pension providers to let them know if your address changes.

The government is in the process of launching a dashboard where all pension providers will be able to input member details, giving customers the ability to see their pensions in one place. But the process will take some years for all providers to supply their data.

Consolidating your pensions

As to whether you should consolidate your pensions into one pot, the first step should be to check the small print. If you have an older pension (around 20 years or older), you could lose some of its benefits if you transfer and be left with steep exit fees taken out of your pension amount.

Unlike older pension schemes, the newer 'defined contribution' pensions are more common and less likely to be affected by exit penalties if you want to transfer them into one place. The funds are invested, which makes consolidation an attractive option.

It's worth noting that if you're still paying into a defined contribution scheme and want to withdraw from it, the amount you can pay in and claim tax relief on could reduce.

On average, management fees for workplace pensions are around 1%. Newer pensions could benefit from tax benefits that older ones don't come with, so it's always worth checking each policy individually and get some advice from a financial adviser.

Leaving older pensions where they are

Along with exit fees and tax privileges, pre-2006 pensions (that were not affected by tax changes established in 2006) could have benefits like guaranteed annuity rates (promising a guaranteed income after retirement), which could be lost if transferred to another pension pot.

Final salary scheme pensions are probably best where they are, too, due to the nature of their payouts when you retire (based on what you earn at retirement.)

Some people opt to create a self-invested personal pension (SIPP), which lets them choose where their pension money is invested. This is beneficial to those who want to put their money into sustainable funds and make ethical investment choices.

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Be wary of the crypto-craze

You might be thinking about whether to invest in crypto currencies. We explain why it may not be the right choice, and how to better approach your portfolio.

This year has been eventful for bitcoin, with the cryptocurrency reaching a record high and then almost halving in value all in the space of six weeks. The walk-back in May from Tesla's Elon Musk in his support of bitcoin underlined concerns around the idea of cryptocurrencies as a stable investment. Musk – previously an outspoken supporter – announced his company would not be accepting bitcoin as payment for its vehicles. What followed was a series of plunges in its value – not helped by the additional news of Chinese regulators signalling a crackdown on the use of digital currencies.

Bitcoin in brief

Bitcoin is a type of digital, decentralised currency, allowing the transfer of goods and services without the need for a trusted third party. The network is based on people around the world called 'miners' using computers to solve complex mathematical problems in order to verify a transaction and add it to the 'blockchain' – a massive and transparent ledger of each and every bitcoin transaction maintained by the miners. The first to verify is rewarded with bitcoin. There is a finite amount of bitcoin that can be produced and, as more are created, the mathematical computations required to create more become increasingly difficult.

Cryptocurrencies can be volatile

Bitcoin's high volatility (risk) makes it a poor substitute for money in a broad sense. The unsteady air around cryptocurrencies in May showed the speculative nature of this asset class. Bitcoin and cryptocurrencies in general have more in common with commodities and currencies – they are much harder to value than cashflow-producing equities and bonds.

Reasons to be crypto cautious

- Cryptocurrencies are a volatile choice and susceptible to stock market bubbles, which can affect investments negatively during a downturn.
- They're not a tangible form of investment, and are not regulated, which can be a red flag when it comes to your investments.
- Volatility means investors are likely to act on doubts and sell if they fear a fall in return.

Where to invest?

A sensible approach is to invest in high-quality companies that are well-established businesses. These are usually businesses with strong management teams, serviceable levels of debt and predictable cash flows. To avoid being hit by market volatility make sure your portfolio is invested in a wide range of assets, and less vulnerable to market shocks.

Staying invested when there is a downturn can help you get through any turbulent times and put you in a good position to benefit from any ensuing recovery.

Our financial advisers can help advise you on your investment choices.

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OW3539 Exp. 25/08/22

Things to avoid when investing

To keep your investments from losing value or slowing the growth of your assets, avoid these common investing mistakes.

There are more risks and opportunities than ever for investors to navigate in today's rapidly evolving markets. Here are four approaches we believe every investor should follow.

1. Don't pile into cash – stay invested

The biggest advantage of cash is that it offers relative safety. Cash can help diversify a portfolio during times of volatility and is easy to access in an emergency. With cash you'll be paid interest on the money, which will be tax free where it's in an ISA.

You won't lose any money by putting your money in cash, but it tends to offer lower returns than other asset classes. It's also important to know about the impact of inflation on your savings and investments as it can make a huge difference to how much profit you make. Cash is seen as a shortterm safe haven and should not be held over a substantial period of time to avoid the impact of inflation.

While it's good to have some cash savings for a rainy day, the spending value of your money can fall over time if inflation is higher than the interest rate you receive. With interest rates on cash investments at historically low levels, and well below the inflation rate, millions have seen the value of their savings eroded in recent years. To make money on your investment you'll need to find an account or investment that gives you a greater return than the current rate of inflation.

2. Don't go chasing fads – think about the long term

Short-term gains can seem appealing for investors, but if you don't want to lose your savings, it's best to not believe the hype about the latest investment craze. Choosing the wrong investment can be a costly mistake. Many investors are turning to social media platforms such as Facebook, Twitter, YouTube, TikTok and other unregulated sources for information about investing.

While it may seem tempting to get investment recommendations this way, it puts you at significant risk from volatile stocks or even fraud. It's easy to jump on the bandwagon, but momentum is typically falling by the time most people join.

3. Don't put all your eggs in one basket – diversify

One of the biggest mistakes when investing is putting all your eggs in one basket as it can leave you exposed to fluctuations in the market. If you've invested in one stock and something unexpected happens and it plummets, you could find your nest egg suddenly disappearing.

One way to lower risk is by spreading your wealth over a wider range of investments so it's not concentrated in one place (known as diversification). By diversifying your portfolio you can reduce the risk that all of your investments will experience the same negative impact at the same time.

Ideally, you should be looking to build a diverse portfolio with a mix of different investments in line with your attitude to risk. A balanced portfolio will contain a mixture of asset classes, such as stocks, bonds, and alternatives.

4. Sit tight when it's right

When markets wobble it can be tempting for investors to sell their shares to avoid any further losses. It's easy to react to short-term losses but the best thing you can do is most often precisely nothing.

Timing the market involves buying and selling investments when you think they will rise or fall at exactly the right moment. It's a difficult strategy that rarely works and there are too many unpredictable factors.

If you sell into a falling market you will lock in your losses and it could take you years to get back to where you were. While markets can fall sharply, given time they can rebound, so instead make sure you take the long view. Stock markets have a history of recovering from downturns. If you see your investment drop, don't worry. Just keep your cool and sit tight.

It pays to seek advice

A financial adviser can help you work out how to achieve your long-term financial goals, while taking inflation into account so it doesn't eat up your returns. Your adviser will speak to you about your attitude towards risk and the level you are comfortable with, helping you make the right investment choices..

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Should we be concerned about rising inflation?

Most economists expect inflation to pick up over the next few months as lockdown restrictions ease and shops and restaurants reopen. But is this a cause for concern?

As lockdown measures begin to lift, financial markets are making their adjustments in anticipation of a rise in inflation, with bond yields picking up (meaning prices have fallen) and stock markets rotating from defensive sectors into cyclicals.

What is inflation?

Put simply, inflation measures the change in the prices of goods and services. If it rises then it takes more of our cash to buy things. We all experience inflation in our daily lives, from filling up our cars with fuel, buying groceries or using public transport.

In the UK, the official measure of inflation is the Consumer Prices Index. It's published by the Office for National Statistics (ONS), which monitors what people are spending their money on, using a basket of everyday goods and services.

The ONS adjusts the basket from time to time to reflect our changing spending habits. During lockdown, there was a shift with products like hand sanitiser and hand wipes being added, and items like white chocolate and ground coffee dropping off the list.

Inflation is all an illusion… or is it?

It's easy to ignore the impact of inflation on your finances. Most people's spending habits this month compared with the same time a year ago would probably stick to the same patterns – regardless of inflation at the time – because the differences seem small and therefore wouldn't affect the way they spend.

If you're trying to save money though, it's worth remembering that with interest rates currently lower than the rate of inflation, the real value of any cash savings is falling. In other words, the cost of living is increasing at a faster rate than your savings are growing, which means the spending power of your money is actually falling.

How will inflation affect investments?

Many people in the UK are preparing to spend the cash they've saved over the past year when the lockdown ends and shops, restaurants and entertainment venues reopen. Activity is likely to return to pre-pandemic levels and the expectation is that inflation is likely to pick up. Some economists are worried about inflationary pressures. In addition to this is the effect of government stimulus packages on the economy, which would provide another tailwind.

However, experts believe it's likely to be a short-lived phase and should not pose a longer-term challenge to fixed income or equity markets. The Bank of England does foresee inflation rising towards the 2% mark, but believes it will be a temporary phenomenon. Continuing deflationary forces like ageing demographics, technological innovation and global supply chains cast doubt over predictions of a new era of inflation.

Ultimately if you want to beat inflation in terms of finding some good returns on your savings, investing is the best option at the moment – due to cash savings rates being at such low levels.

One of the best ways to ensure your investments are given the strongest opportunity to navigate the effects of inflation on financial markets is through a global, multi-asset portfolio that's actively managed by a professional team of investors. Speak to a financial adviser to find out more.

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