

Haighwood

Financial Services

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.

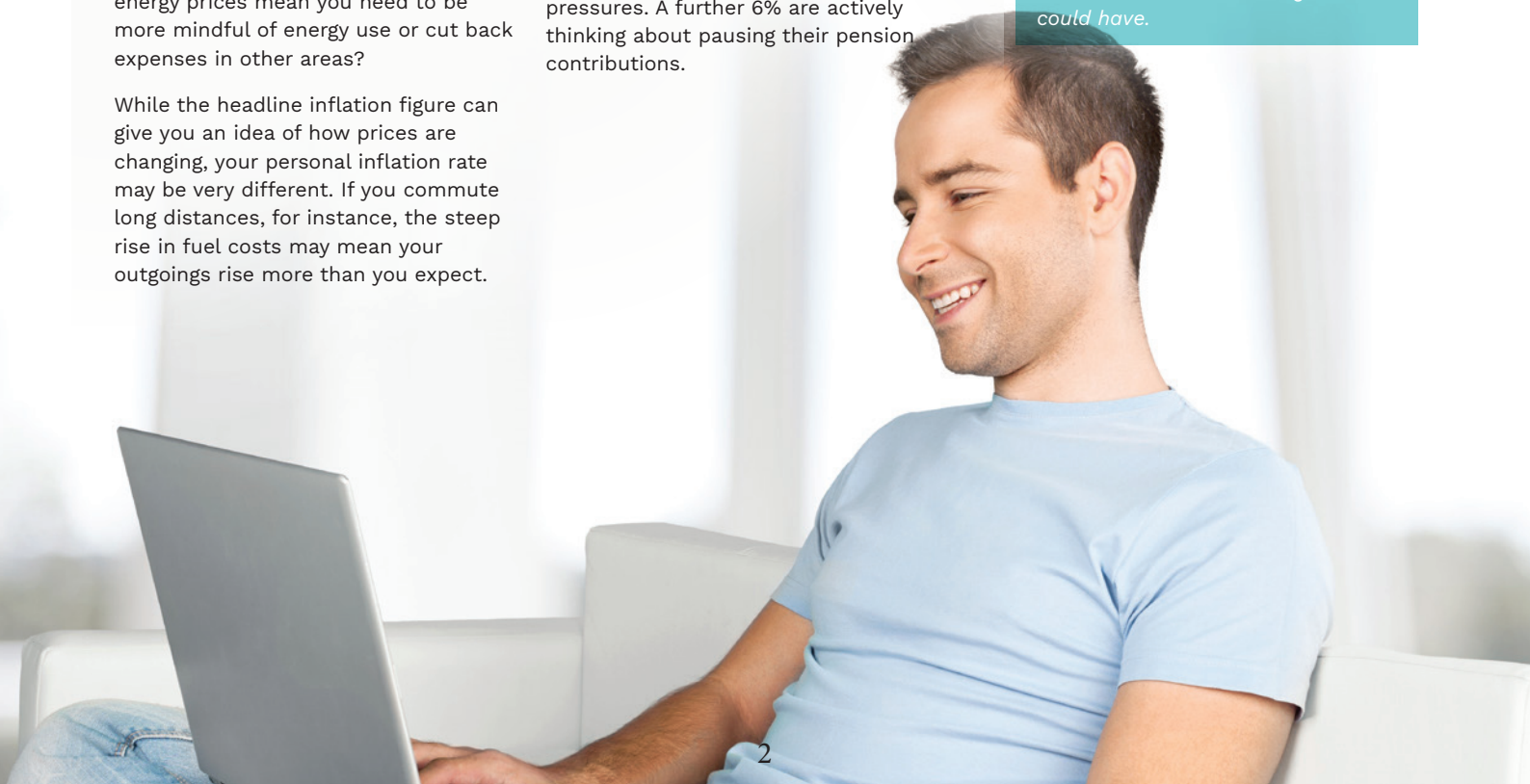
While pausing contributions for a few months may seem like it will have little effect on your retirement, it can be larger than you think. The power of compounding means that pausing pension contributions for just a year could reduce the value of your pension at retirement by 4%.

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.



How to protect your mortgage

Strengthening your ability to keep up with mortgage payments is important and will give you some peace of mind if your circumstances change.

Life insurance is the form of protection most of us would name as one that could pay down or pay off a mortgage. Yet there are other situations (apart from death) that could mean it's very difficult or even impossible to keep up with mortgage payments for an extended period – without the help from other types of coverage.

Here are some protection policies you might want to have in place (alongside life insurance) to give your mortgage some security if you are unable to keep up with mortgage payments. Your adviser can help you work out the best option for your situation.

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

Income protection pays out a percentage of your monthly income if you are unable to work due to illness, an accident or disability. Depending on the terms, you'll receive a regular income until you either return to paid work, retire, pass away or if the policy term comes to an end.

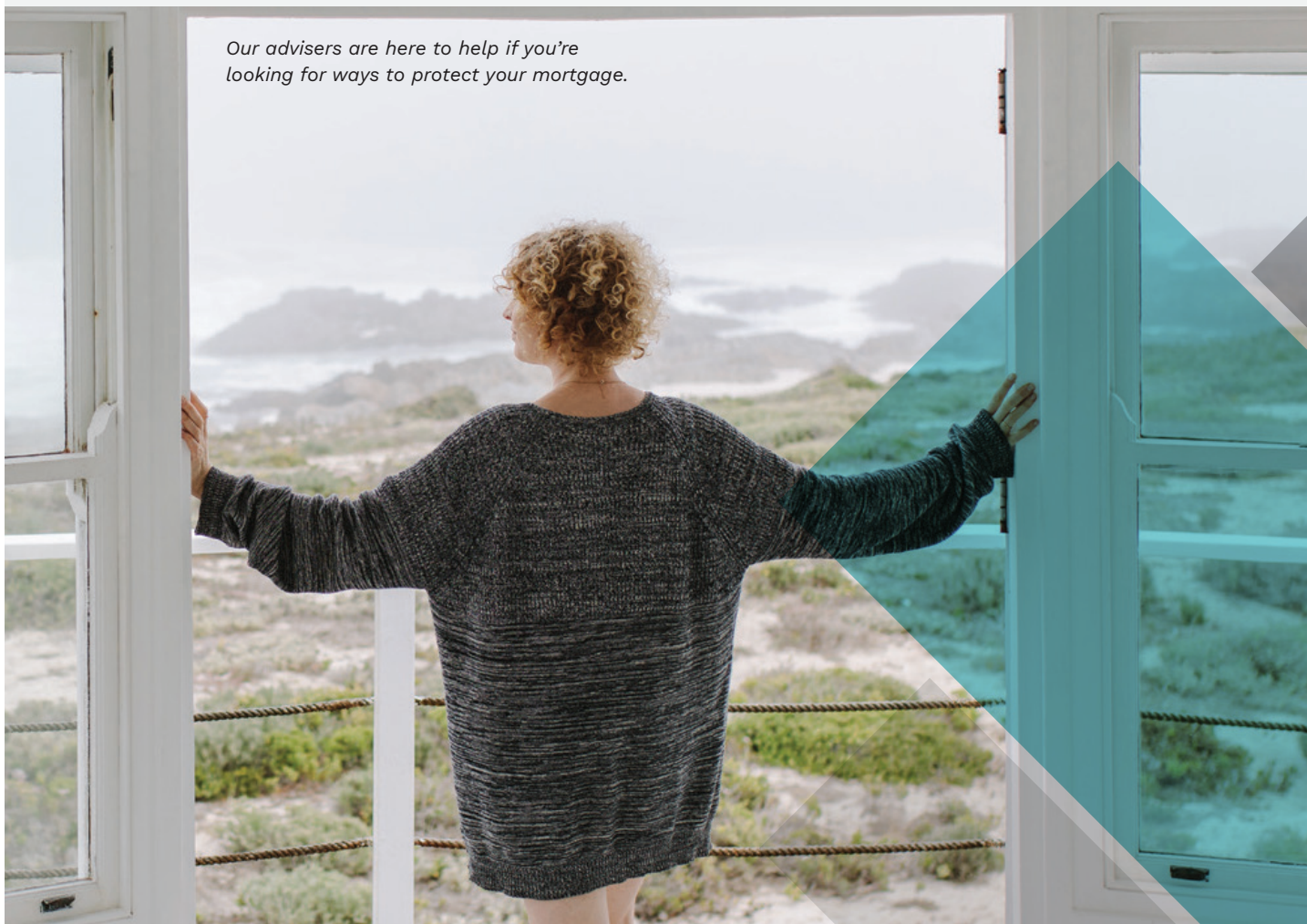
Mortgage payment protection insurance (MPPI) pays your monthly mortgage payments if you're unable to make them due to an accident or illness.

What's the difference between income protection and MPPI?

Income protection insurance is seen as more comprehensive than MPPI as it covers a proportion of your income and not just your monthly mortgage payments. It could also help to cover monthly bills aside from your mortgage. The period you're protected with income protection tends to be longer than MPPI, too.

Your adviser will help you find a policy that works for you and your needs, in terms of the length of cover you want and how much the premium might be. MPPI premiums could be lower than those for income protection and more affordable.

Our advisers are here to help if you're looking for ways to protect your mortgage.





Feel more secure with income protection

When it comes to insurance, we're more likely to protect our pets than our income. Here's why it's important to have some income protection in place.

What is income protection?

Income protection pays out a percentage of your monthly income if you are unable to work due to illness, an accident or disability. It gives you a buffer between finding yourself without an income, paying the bills and protecting your family's security. Building an emergency fund (which covers around three months' worth of bills and essentials) is a good start to give you some financial back-up, but income protection insurance can also provide peace of mind.

How does income protection work?

Income protection is an insurance policy, so you pay a monthly or annual premium for it like any other type of insurance. If you can't work because of sickness, disability or other reasons (depending on your policy criteria), you will receive a regular income until you either return to paid work, retire, pass away or the policy term comes to an end. We can help you determine how much coverage you'll need.

How much does income protection pay?

It could be anything from 60% to 65% of your pre-tax income, and the regular payments (which are tax free) will start after a pre-agreed waiting period, which could be weeks or months. You'll pay more in premiums if the waiting period is shorter and the percentage of your income is larger. This type of protection is different to life insurance or critical illness cover, both of which do not pay regular amounts but instead provide one-off lump sums in the event of your death or the diagnosis of a critical illness.

Do you need income protection?

With the rise in the cost of living and cost of borrowing right now, many people are worried about paying the bills should anything happen that leaves them unable to work. Recent surveys have shown that the average UK family doesn't have enough in savings to be financially secure for long if they're no longer receiving an income.

That's where income protection can give you some financial resilience, especially if your workplace does not provide statutory sick pay (or only starts to pay out after a period of several months). Your adviser can help you navigate the income protection policies that could best suit you and your needs, weighing up how much your premiums might be with the amount of cover you're after.

As with any insurance policy to do with your life and health, things like your age, health, occupation and other factors (like how much of your income you would like to receive, and how soon you would like payments to start) will be considered when your premium is calculated.

We can guide you through what type of policy works best for you, helping you find value for money as well as some peace of mind knowing your income is protected.

Your adviser is best placed to help you find an income protection policy to suit your needs and provide some security for you and your family.

Peace of mind for the self-employed

Sarah is self-employed and she approached her financial adviser for some advice. As a single mum, she worried that her emergency savings fund wouldn't be enough to cover the rent or bills if she found herself unable to work. Sarah's financial adviser found her an income protection plan with an affordable monthly premium that covers 65% of her earnings.

Pension lifetime allowance - how it affects you

In his 2021 Budget, the Chancellor announced a five-year freeze on the lifetime pension allowance. What does this mean for you and your retirement fund?

What is the lifetime pension allowance?

The lifetime pension allowance sets a limit on how much you can save in your pension before you start paying tax on anything over the limit. For a few years before the 2021 announcement, the limit had been tied to inflation, meaning that it rose in line with the cost of living.

With the global pandemic and surge in inflation over the past couple of years, the decision was made to freeze the limit – at £1.073 million – until 2026. It's hoped that the freeze will generate additional revenue as savers slow down or stop contributing to their pensions and don't claim tax relief from the government.

How are my pensions affected by the lifetime allowance?

The lifetime allowance applies to all types of non-state pensions in your name – so that includes any defined benefit (final salary or career average) schemes you have along with any defined contribution pensions.

The limit of £1.073 million might seem like a huge amount. But if you're a medium-to-high earner, have saved into pensions from an early age and are approaching retirement, you could one of the millions who are affected (and caught unawares) by reaching the threshold.

As pensions are so complicated, seeking advice is important and we can help clarify the status of your pensions, discuss your retirement plans and how to proceed.

What happens if you exceed the lifetime allowance?

Many of us have more than one pension, usually accumulated through different jobs over the years. Keeping track of them and how much they contain can be tricky and time consuming, as you'll need to look at their expected value when the time comes. Your adviser is best placed to gather this information and help with your next steps.

If your total exceeds the lifetime allowance, the excess amount will be taxed as follows:

- 55% if you receive the amount as a lump sum from your provider
- 25% if your payments are gradual or are cash withdrawals

These are large penalties on your savings, so it's worth acting now to find a way to protect your hard-earned pension.

Your adviser is ready to help you navigate the complex area of pension and ensure you move forward in the strongest position for you and your 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.

Seek help to protect your pension

Protecting your pension and making sure you're able to live comfortably in retirement and keep up with the cost of living is something we can help with. So, if it looks like your pensions could be affected by reaching and exceeding the lifetime allowance, there are some options you can discuss with your financial adviser:

Divert savings into an ISA

You can earn tax-free and make withdrawals in most cases. Our advisers can help you calculate how much you will need to live comfortably in retirement and help plan your investment strategy to achieve that goal.

Combine pensions with your spouse

Consolidating your pensions can be an effective way to grow your retirement savings in one place. It can also save time on the administration involved, cut down on fees and create a more streamlined investment strategy.

Claim pension credit

Many pensioners are eligible for pension credit but fail to make a claim. It's available if you are over the state pension age and on a low income, are a carer, severely disabled or responsible for a child. It could boost your retirement income up to £182.60 a week if you're single, or £278.70 for couples. It's separate to the state pension, and we can help calculate whether you and your partner are eligible.

Pension allowance protection

Your adviser will be able to assess whether your pension could benefit from protections that help avoid the tax charge by offering a higher lifetime allowance. But there are several conditions and criteria you'll need to meet. Our experts can advise whether it would be applicable to your situation.



Investing or saving?



Investing can beat inflation

Investing is a better option if you've got longer-term goals because inflation can erode the value of cash savings over the medium to short term, and your money may not have the same spending power as when you first put it away.

For example

If you have £2,000 in savings and the bank offers a 1% interest rate, each year you will get back £20. However, if the inflation rate is 6% the cash in your savings account will fall in value. After one year your cash would be worth £1,887. After five years it would be worth only £1,495!

Saving money is a great way to prepare for unexpected expenses and investing your money can have the potential for higher growth than saving.

A lot of people put their money in a savings account and leave it there to accumulate interest. While this is a good strategy in the short term, you potentially risk losing out on higher returns in the long run, while also struggling to keep up with inflation. However, investing is a good approach if you have long-term financial goals and want to earn more money than you could by saving it.

What's the difference between saving and investing?

With saving you are setting aside cash for future use, while investing means using cash to buy assets that you expect to produce a profit or income. The biggest difference between saving and investing is the level of risk. With saving you will always get back at the very least what you have put in, as well as any interest on your deposits. You won't lose any money, making it a less risky option.

Investing your money means it will rise and fall over time and there is a chance you could lose some of your initial investment. Your financial adviser will be able to help you make sure you're aware of the risks and the minimum time you should consider investing for. A longer timeframe (at least five years) will give your investment more time to recover if there are any sudden market swings.

Speak to your financial adviser to find out about a range of investment opportunities to help you meet your financial goals.

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.

Types of investments

The main types of asset classes that investors could choose from – which your adviser can go into detail with you – are equities, bonds, and property. Different asset classes have different levels of risk and return. Usually, the safer an asset is the lower the returns will be, while the riskier an asset is, the higher the returns.



Property this could be investing in commercial property through investment funds, including retail, office, and industrial property. It makes a good long-term investment and is effective at beating inflation. Property can add diversification to your portfolio as it tends to perform differently to other assets in response to different market conditions. However, property does come with its risks, including a risk of a fall in value as well as the maintenance costs.



Bonds sometimes called fixed-term investments, bonds are issued by governments and companies looking to raise money. A bond is essentially a loan made to a company or a government by an investor for a set period – usually several years. In return they pay you a regular income in the form of interest over the life of the bond, after which they must repay your loan. Bonds typically offer stable returns and are a lower risk than equities, although they tend to offer lower returns in the long term.



Equities also known as stocks and shares, equities are issued by a public limited company and can be bought and sold on stock exchanges. When you buy an equity, you are basically buying a piece of that company and become a shareholder. Equities can make you money through increases in share price or you can receive income in the form of dividend payments. The disadvantage is that returns are not guaranteed, and the share price could fall below the level that you invested.

Contact us

We hope you enjoyed reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us:

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