eNews

WINTER 2023

Homecroft WEALTH

Chartered Financial Planners

PLANNING

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How expensive are your habits?

This new year make time to review your regular payments such as subscription services – you may be spending more than you think.

Many content providers for example – from Netflix and Disney+ to Spotify – have increased monthly fees over the past year. However it's not just entertainment platforms looking to lock consumers into regular payment plans. There are now subscription services for podcasts, audio books, online newspapers, wine deliveries, make-your-own meal boxes and pet food supplies — to name but a few.

Research suggests the average person spends £39 per month on subscriptions, though many will pay significantly more. Collectively, this means UK households spend £1.6bn a month on such services. Yet not everyone is getting value for money, with one in ten claiming they don't use some services at all.

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It's not hard to see how this happens. Providers often have low-cost or free introductory offers — knowing many of us forget to unsubscribe within the cancellation period. And while the cost of any single subscription may look modest, once you're paying for a few, the costs quickly mount.

A regular review of how often you use these services can pay. There is generally no contract, so it's easy to cancel payments for subscriptions that are just not working for you.

If it's a service you do use regularly, check whether you can 'downgrade' your payment plan. Streaming services, for example, often have cheaper options with advertisements. Family plans can also be cost effective if more than one person in your household pays for the same platform. Don't forget to double check subscriptions that charge annual fees, rather than monthly payments, which can be easy to overlook.

Once you've saved money from raking through regular subscriptions, conduct a more thorough audit of your finances by looking at other regular bills: from gas and electricity contracts to home and car insurance – savings can often be made by switching to better priced deals.

SAVINGS

Alternative to deposits

Higher interest rates are good news for savers – although some banks have been slow to raise rates paid on deposit accounts.

However, money market funds could be a good choice for some savers, providing an alternative to traditional high-street accounts. These funds invest in short-term debt issued by governments, banks and companies with high credit ratings and typically pay investors a monthly return.

These are relatively low-risk funds, certainly compared with equities and longer-term bonds, but this doesn't mean they are entirely risk free. Interest rate movements can affect the value of the underlying holdings and payments made to investors. There is also the risk an issuer could go bust, defaulting on payments, although the spread of securities minimises this to some extent.

Money market funds allow instant access and are often used by investors as a temporary safe haven when stock markets look turbulent. Returns vary, depending on the underlying investments, but many funds are currently yielding around 5%. Like all investment funds, though, there will be management fees to pay.

It's important to note that these funds are not covered by the Financial Services Compensation Scheme which protects deposits up to £85,000 in the event of a bank or building society going under.

✢ *The value of your investment and any income from it 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.

Investments do not offer the same level of capital security as deposit accounts.

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PENSIONS


Mila Supinskaya Glashchenko/Shutterstock.com

A guaranteed income for life attracts more interest

Rising interest rates are changing retirement income perspectives.

Three years ago was another era when it comes to interest rates. The Bank of England's Bank Rate was just 0.1% in December 2020 when a government bond maturing in 2035 delivered a gilt-edged annual return of less than 0.4%. Today's 15-year gilt offers around 5%.

While the change in bank rate received plenty of media coverage, the move in long-term government bond yields has attracted much less attention. Those higher bond yields have pushed up annuity rates significantly across the board. For example, in December 2020, a typical non-smoking 65-year-old (man or woman) could have secured a 4.8% guaranteed income for life by purchasing an annuity. In October 2023, the equivalent 65-year-old buying an annuity would receive a rate of around 7.5%.

Choosing the right option

If you are about to start taking an income from your pension fund or are considering a move away from income withdrawals, look carefully at what today's annuity market can offer you. Annuity tables are at best only a very broad guide for a variety of reasons:

- Annuity rates are now close to being individually calculated. Where you live, whether you smoke, how much you drink, any medical conditions you have and your relationship status are all factors that can determine your personal annuity rate.
- Annuities can be set up as level or increasing, either at a pre-determined rate or in line with inflation.
- Joint life annuities are an option, meaning that a guaranteed income is paid for both your and your partner's lifetimes, or the second person could be a dependent child.

To learn more about all your annuity choices and the latest rates, get in touch.

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Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.

Occupational pension schemes are regulated by The Pensions Regulator.

ESTATE PLANNING

Why wills matter: intestacy rules change delay

The intestacy rules for England and Wales have been changed…belatedly and with real consequences for some estates.

If you do not have a valid will then the decisions about what happens to your estate on your death are governed by the laws of intestacy. These may not work as you might hope or expect them to. The rules differ between England and Wales, Scotland and Northern Ireland, but in all three jurisdictions a surviving spouse or civil partner (not cohabitee) receives only a specified share of the estate if there are also children or grandchildren.

For England and Wales, that surviving spouse or civil partner's entitlement consists of personal possessions, assets up to a fixed cash value and half of any remaining estate.

Disparity across jurisdictions

The legislation for England and Wales requires that fixed cash value to be updated once total inflation has exceeded 15% since the last update. No such indexation provision applies to the intestacy laws of Scotland and Northern Ireland.

Unfortunately, although the 15% inflation threshold was triggered in November 2022, the Ministry of Justice did not act until 26 July 2023, by which time the Lord Chancellor's legislated increase raised the cash sum by 19.3% to £322,000.

Throughout the UK, intestacy law is not a subject at the forefront of legislators' minds. But at a personal level, the defaults imposed by intestacy rules can have serious effects. The families of those who died intestate between November 2022 and July 2023 have potentially lost a substantial amount.

Research shows 50% of UK adults do not have a will. If you are among them or your will has not been reviewed for some years, the time to act is now. Procrastination, as the Ministry of Justice showed, can be costly.

✢ The Financial Conduct Authority does not regulate will writing and some forms of estate planning.

INSURANCE

Is your protection level enough?

Income protection insurance can ensure essential bills will be paid if you are unable to work due to ill-health. But with the cost of living rising significantly over the last 18 months, it is worth checking that any policy you have in place will still cover mortgage or rent, food and energy costs.

Income protection covers a fixed proportion of your salary and typically only pays out after you have been signed off sick from work for several weeks. The longer this deferral period, the lower the starting premium.

If you've insured 50% of your salary, for example, it is worth checking this is sufficient to cover essential bills given the rise in energy costs and interest rates.

If not, you might want to increase the benefit on the policy, although this will result in higher monthly premiums. Alternatively look to build more substantial rainy day savings, which could be used to cover any shortfalls in an emergency.