FINANCIAL VIEWPOINT

OYSTER FINANCIAL SOLUTIONS LLP

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More than a decade of auto-enrolment

Since the government introduced pension auto-enrolment in 2012, millions more workers have started saving for their retirement. Now, the government has confirmed plans to extend auto-enrolment to encourage a savings boost. The changes could have implications for both employees and business owners.

Following a review of auto-enrolment the government has revealed key reforms forecast to increase pension contributions by £2 billion a year.

Key auto-enrolment changes to be aware of

The minimum age of auto-enrolment will fall from 22 to 18

Young workers could start saving into a pension much sooner. The government intends to lower the minimum auto-enrolment age from 22 to 18.

For employees, this could be a positive step. Saving for retirement from the outset of their careers could help establish positive money habits among workers. In addition, compound growth means early contributions have the potential to grow significantly.

For business owners, it could mean their outgoings will increase as they'll also need to make pension contributions on behalf of eligible workers.

The lower earnings limit will be removed

Currently workers must earn at least £6,240 to be eligible for auto-enrolment. The government plans to remove this lower earnings limit, so workers will receive contributions from the first pound they earn.

This will boost pension contributions among those that are already paying into a pension. It will also mean low-income workers that haven't previously benefited from a pension, such as those who work part-time while caring for children or older relatives, will automatically start paying into a pension and receive employer contributions too.

From an employer's perspective, this change could, increase the amount they are contributing to employees' pensions.

There could be a maximum limit on pension pots

As most employees are entitled to a pension through their employer, frequent job hopping could lead to individuals holding numerous small pensions. This may make it difficult to manage pensions effectively and understand if you're on track to reach your retirement goals.

The government has set out initial plans to help savers manage multiple pots. Among the proposals is a maximum limit on the number of pensions a person can have. The report also suggests a 'central clearing house' to make it simpler to consolidate pensions.

There is no timescale for the proposed changes

The official document does not set out a timescale to implement any of the changes. So, while young and low-income workers are set to benefit from auto-enrolment, it could be several years before they start contributing to pensions.

The minimum pension contribution will not be increased

The government has not made plans to change the current rules for contributions. Currently, the minimum contribution is 8% of qualifying earnings, made up of 5% from employees and 3% from employers.

Research suggests that minimum contribution levels are not enough to afford a comfortable lifestyle in retirement. There have been calls for the government to increase the minimum pension contribution level to help close the gap.

Auto-enrolment won't be extended to cover self-employed workers

Some organisations have called on the government to extend auto-enrolment to encourage self-employed workers to save for their retirement. However, support for the self-employed has been overlooked in the latest report.

Research from the Institute for Fiscal Studies suggests the number of self-employed workers paying into a pension has fallen over the last decade.

It also found self-employed workers that pay into a pension rarely change the amount they contribute. The analysis suggested a form of auto-escalation, such as a direct debit that increases in line with inflation, could help self-employed workers save more for their retirement.

Take control of your pension and retirement

While the change to auto-enrolment could mean more people are on track for a financially secure retirement, there are still challenges. If you want to reach your retirement goals, engaging with your pension sooner, rather than later, could allow you to identify the steps you need to take.

Please contact us to discuss your retirement aspirations and how we could help you create a tailored financial plan.

Get savvy against financial scammers

Retired teachers Paul and Mary are devoted parents and grandparents to their three children and eight grandchildren.

As their family started to grow, they decided they wanted to begin saving for their grandchildren's future. Disappointed with the returns from their savings accounts, they decided to look into other investment opportunities. After comparing a number of companies online, they settled on one and made a £30,000 bank transfer. Within just a few months, their initial investment had grown sizably.

Soon afterwards, their eldest grandchild passed his driving test. They decided they'd like to buy him a car, so they made a withdrawal. Being able to do this so easily cemented their trust in the investment company. Over the next year, they made several more deposits.

Paul and Mary then agreed they'd like to help one of their children with a deposit for a house. However, when they tried to withdraw most of their original investment, they couldn't access their money or get through to the company by phone, email or any other means. It was at this point, they realised they'd been scammed.

On top of wiping out most of their life savings, the scam took a toll on the couple's mental health. They both suffer from feelings of embarrassment and guilt, and Paul has developed severe depression.

Anyone can fall victim to a financial scam

Although Paul and Mary feel foolish, financial scams can be extremely sophisticated and trick the savviest of us. We're used to hearing stories about elderly and vulnerable people being conned but recent research by Lloyds Bank found 18 to 24 years olds are most likely to fall victim to investment scams, making up approximately 25% of all cases. And, in fact, victims aged under 45 account for 70% of all reported investment scams.

Types of financial scam

Financial scams take many forms including high-return investment opportunities, like the one Paul and Mary fell for, pensions transfers and health insurance supplements. Criminals use phishing (emails) or smishing (texts) to impersonate trusted organisations and trick people into giving away their personal information or money.

Top tips to avoid being scammed

1. **Follow the advice of UK Finance's Take Five to Stop Fraud campaign**
   - **Stop:** Take time to stop and think before parting with money or personal information.
   - **Challenge:** It's OK to refuse or ignore requests that make you feel uncomfortable. Only criminals will try to rush or panic you.
   - **Protect:** Tell your bank immediately if you think you've fallen for a scam and report it to Action Fraud.
2. **Great deals don't come looking for you**
   Scammers often advertise on social media and the internet. They may also send 'deals' by email, phone, or direct message.
3. **Make sure it's genuine**
   As in Paul and Mary's case, scammers can easily set up fake companies, profiles and websites. Don't underestimate the lengths a fraudster will go to in order to convince you they're genuine. Before parting with any money, it's a good idea to seek professional advice. You can also use the FCA website to check the details of financial services companies.
4. **Protect your payments**
   Consider your payment method. It's very hard to get money back if you pay by bank transfer. Paying by card offers the greatest protection.

Junior ISAs

In the 2022 Autumn Budget, it was revealed that the Junior ISA (JISA) spending limits would remain at £9,000 for the 2023/2024 tax year. The JISA limit was last changed in early 2020, when it was doubled from £4,500 to its current level.

JISA and CTFs both benefit

JISAs replaced Child Trust Funds (CTFs) in 2011, but those who still hold CTFs will continue to benefit from the increased allowance. Both JISAs and CTFs are a tax efficient way to build up savings for a child. It is not possible to have both a JISA and a CTF.

Savings for children

A Junior ISA can be opened for any child under 18 living in the UK and the money can be held in cash and/or invested in stocks and shares. Once the person who has parental responsibility for a child has opened the account, anyone can contribute to it. The child can manage the account from age 16 and at age 18 they can withdraw the money if they want, when the account otherwise becomes a normal cash or stocks and shares Individual Savings Account (ISA). Alternatively, they can keep saving into it as a standard ISA.

The tax benefits for JISAs and CTFs are the same as for an adult ISA. So, there is no Capital Gains Tax and no tax on income.

Investing for their future

Following the Budget, it was reported:

> **“By saving towards their future, families can give children a significant financial asset when they reach adulthood – helping them into further education, training, or work.**
>
> **Junior ISAs and Child Trust Funds are tax-advantaged accounts for children, designed to encourage a long-term savings habit.”**

Two principles which apply to many aspects of financial planning are particularly relevant when planning for your child’s financial future:

- The longer the timescale, the more scope there is for your investments to grow.
- Taking expert advice can help you avoid potential pitfalls.

The potential of a JISA

It is estimated that if £9,000 was invested every year from birth and assuming a net 2% return, which is obviously by no means guaranteed, the JISA would be worth around £194,000 at age 18. Saving such a large amount is obviously out of the question for most people, but whatever amount you can afford to save for your child’s future, a JISA can be a great choice.

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

An ISA is a medium to long term investment, which aims to increase the value of the money you invest for growth or income or both. The value of your investments and any income from them can fall as well as rise. You may not get back the amount you invested.

Tax concessions are not guaranteed and may change in the future. Tax free means the investor pays no tax.

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5 steps to create a budget

The average British family used to be 2.4 children, these days it's 1.7 children (and half a dog). Whether your idea of a family is two adults and two children, or just you and a dog, creating a family budget is an essential step towards managing your finances effectively.

By gathering information about your income and expenses, categorising your expenses, setting financial goals, determining your disposable income, and creating a budget plan, you can take control of your finances and achieve your financial goal.

1 Top tips to avoid being scammed

Make a list of all your average monthly outgoings, then compare it to your current income and see if you spend more than you earn. If there is money left over every month, then it's easier for you to add this to savings. If you earn less than you spend, try to cut back on your expenses slightly.

2 Set realistic goals

Set yourself short and long-term financial goals. Short-term goals should take around one to three years to achieve and might include things like setting up an emergency savings fund or paying credit card debt. Long-term goals, such as saving for retirement or your child's education, may take decades to reach.

3 Follow the 50/30/20 rule

Once you've identified your monthly income and expenditures, it's worth using the 50/30/20 rule. This is a technique where you divide your income into three categories. 50% of your budget covers any essentials like rent and bills, 30% covers variable costs like eating out and shopping and 20% covers savings and paying off debts.

4 Cut back on nice to haves

We are all guilty of enjoying the finer things in life, but identifying what nice to have items you can cut back on can help you achieve your financial goals quicker. For example, cutting back on eating out may only save you a small amount each month, but can be a huge saving in the long term. You may be surprised by how much money you could accumulate by making one minor adjustment at a time.

5 Review your budget regularly

Once you have created your budget, don't forget to review it from time to time, especially as the cost-of-living crisis is beginning to catch people out with rising prices. By checking it frequently, you'll see whether you need to adjust your goals and where you could still cut back on your expenses.

Investment myths

Understanding investments can be daunting, and there are several myths that are likely to put you off if you are new to investing. In this blog, we'll debunk five misconceptions about investing. By unravelling these myths, you'll gain a clearer perspective on how to navigate the world of finance and make informed investment decisions.

1 You need to be wealthy

You can invest with less than you may think. Making small regular investments can provide more benefits than investing a lump sum. You can invest a small amount into the markets every month. One big benefit of investing a small regular sum is that, instead of saving your cash until you have a lump sum, you're putting your money to work straight away. Even with rising interest rates, leaving money sitting in a bank account can be less profitable than investing it in the market.

2 It's too much of a risk

With any type of investment, there is a risk of losing your money. It's all a balance between risk and reward, meaning the greater the risk, the greater the potential reward. If you understand the risks involved and the level of risk you're comfortable with, you'll be able to make an educated decision as to whether it's worthwhile.

3 You need to know the best time to buy

Most people think you need to invest when stocks are low and sell when they're high, but there are so many factors that can change the stock market, it's pretty much impossible to predict the outcome. The best thing to do is start investing as soon as you can for as long as you can. There may be fluctuation, some good and some bad, but the longer you're able to hold on to your investment, the more time you'll have to recover from any lows.

4 Your money will be inaccessible

It is true that the longer you keep your money invested, the more chance you have of making a return, however this doesn't have to mean your money is inaccessible. There are lots of investment options where you can access your money at any time. You should leave your investments untouched for them to have the most potential, but should a situation arise where you may need your funds, you will be able to access them.

5 You have to monitor your investments every day

Checking your investments every day can lead to risky decisions such as changing investments or withdrawing funds altogether. Investments usually span over a long period of time, so it's best not to make potentially harmful decisions based on short-term market performance. If you're opting for a low-risk investment, you won't need to check it often. It's recommended to monitor your investments every three months just to see how they're doing.

Get in touch

If you're interested in finding out more about how you could invest your money wisely, we're here to help.

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.

Past performance is not a guide to future performance and should not be relied upon.

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The value of mortgage advice from a financial adviser

Harry and Sam have been staying with Harry's dad in his two-bedroomed terrace for just over a year while they save up a deposit for their first house. The lack of space and privacy has proved challenging to say the least and would now like to start searching for their own house.

Despite having saved up a good deposit, friends have warned the couple they would have no chance of getting a mortgage due to their working situation. Sam is a self-employed, successful roofer, but has only been working for himself for two years. His friends have told him, he'll need at least three years of accounts before a lender will go anywhere near him. They say any mortgage the couple can get will be based on Harry's income alone. Harry works as a hairdresser and his salary is nowhere near enough to secure the kind of mortgage they're hoping for.

The value of mortgage advice

Harry and Sam should resign from listening to their friends as when making such an important financial commitment like this, the only guidance they need is from a qualified mortgage adviser. Here are four ways they can make a difference to a mortgage search:

1 They know the market

If, like Harry and Sam, your needs or circumstances are 'out of the ordinary', your options may indeed be more limited than those of other buyers. However, this doesn't mean you don't have options. They know the lenders who are willing to consider buyers in your situation and will check you're likely to meet their specific lending criteria before submitting a formal application. This will save you time and avoid unnecessary searches on your credit file.

2 They know what a good deal looks like

An attractive rate may seem like your best bet when choosing a mortgage but you also need to factor in things like fees, loan conditions and the mortgage term. They look beyond the headline rate and can help you understand how the length and type of loan will affect how much you pay in the long term. They'll also highlight any additional expenses like administration and booking fees, and valuation costs.

3 They do the hard work for you

As well as helping you select the right mortgage, they'll work with you to complete all of the necessary application forms and liaise on your behalf with solicitors, valuers and surveyors. They can also recommend products that provide financial protection should the unexpected happen.

4 They're professionally qualified

They're fully qualified to advise you on a wide range of lenders and products unlike high street banks and lenders. This way you'll gain from genuine choice coupled with quality advice.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

Home insurance explained

One wet and windy evening, Alex and Megan decided to take advantage of their newborn, Ellie, falling asleep in her moses basket by getting an early night. Picking up the basket from its regular spot in front of the fireplace, they crept upstairs. No sooner had they settled in bed when they heard a massive crash from the living room. They ran back downstairs to find a pile of rubble in the exact spot Ellie had been sleeping just minutes earlier.

Aware the incident could have been much worse; the couple were still left with an enormous mess to sort out. High winds had caused the inside of the chimney to collapse. However, Alex and Megan's home insurance provider refused to pay for the structural damage because, according to their terms and conditions, the wind hadn't been strong enough to constitute a storm. They also refused to replace the living room carpet because the couple's contents insurance didn't include accidental damage cover.

So, what can you do to make sure your home insurance provides you with the protection you'd expect when the unexpected happens?

Let's start at the beginning – what exactly is home insurance?

Home insurance financially protects your home against damage or theft but is typically split into two parts – buildings and contents.

Buildings insurance

This covers the building itself, including walls, floors, doors, windows, and the roof. It also covers permanent fixtures such as baths, toilets, fitted kitchens and even wallpaper.

Contents insurance

This typically covers anything that can be taken with you if you move – e.g., kitchen appliances, furniture, and valuables.

Not all home insurance is equal

As Alex and Megan discovered to their cost, not all home insurance is equal. Although tempting to simply go with the cheapest option, it's always best to check the details of any policy you're considering to see exactly what's included. For example, some buildings insurance covers garages, greenhouses and garden sheds but some policies don't.

It's also a good idea to check for exclusions. You may find some insurers won't pay out for anything considered to be the result of general wear and tear or damage that happens over time, such as damp or rot.

Meanwhile, contents insurance generally has a single-item limit, meaning high-value possessions may need to be named separately. You may also have to pay extra to cover belongings when they are taken outside your home.

Add ons

There are also certain add ons that are worth thinking about to provide a way to get cover without paying for a more expensive policy with features you may not need. These include:

Accidental damage cover

This provides cover for accidents that occur around your home.

Home emergency cover

This protects your home against emergency call outs or repairs like a burst water pipe.

Personal possessions

This covers items that are used away from home such as handbags and mobile phones.

Legal expenses

This covers the cost of legal proceedings if you need to take action or defend a claim.

Do you really need home insurance?

Homeowners

Although buildings insurance isn't a legal requirement, most mortgage lenders insist on it. No one is going to force you to buy contents insurance, but it can provide valuable peace of mind and combining it with your buildings insurance may save you money.

Renters

You don't need to worry about buildings insurance – this is your landlord's responsibility. However, contents insurance may be a sensible idea.

Speak to a professional

Your home is probably your most valuable possession, and you'll want to make sure it's protected. Whether you want a combined building and contents insurance policy or separate ones, we're here to help.

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