

VIEWPOINT

AMA FINANCIAL SOLUTIONS

Please enjoy reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us.



PART OF
— THE —
Openwork
PARTNERSHIP

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 £1,495.¹

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.

The effect of psychology on investors

You should base financial decisions on logic and facts. But psychology can have a much larger effect than you think, and it can lead to you making decisions that aren't right for you. Read on to find out more about what behavioural finance is and how it could affect you.

"Behavioural finance" was first coined in the 1970s by economist Robert Shiller and psychologists Daniel Kahneman and Amos Tversky. They used the term to refer to how unconscious biases and previous experiences affect the way people make financial decisions.

It can be used to explain why investors can make knee-jerk decisions or invest in opportunities that aren't in their own best interest. Rather than relying purely on facts, investors often have biases that affect how they react to certain situations.

Finance bias can lead to "irrational" decisions through shortcuts

There's a reason why people often make decisions based on biases: they can make the decision-making process quicker.

If you imagine how many decisions you need to make every single day, it's easy to see why this kind of decision-making can be useful. From what to eat for breakfast to which way to travel to work, it'd take up all your time if you carefully went through the facts for each decision you make. So, you make shortcuts by using biases.

However, while it can be a useful process in your day-to-day life, bias can have a negative effect when you're making important decisions, including financial ones.

Behavioural finance covers five concepts:

1. Mental accounting

Mental accounting can be incredibly useful when you're managing a budget. However, inflexibility could mean you miss out on opportunities.

The concept refers to how people may designate money for certain purposes. So, you may have different savings accounts for various goals. It's a process that can help you manage your outgoings and work towards goals.

However, it can also lead to irrational decision making.

You may not dip into a savings account that you've allocated to buying a new car even when you face an emergency and it'd make sense logically.

How you receive the money may also affect how you use it. For instance, you may put off using money that was given as a gift in an emergency because you believe it should be used for something special.

2. Herd behaviour

Herd behaviour is something that's often seen in investing. When you hear that lots of people are selling certain stocks or buying a specific share, it can be easy to be led by this and follow suit.

It can lead to you making decisions that, while possibly right for others, don't suit you or your circumstances. It's not just investing where herd behaviour can have an effect. You may be tempted to purchase an item after a friend has or choose a savings account because someone you know has.

3. Anchoring

When you have some information, you may focus on this – anchoring your views to this data.

Setting a benchmark can be useful, but it can mean you don't take in other information, especially if it's contradictory.

So, you may hold on to investments even after the value has fallen because you've anchored its worth to a previous valuation.

4. Emotional gap

Emotions often play a role in financial decisions. You may sell a stock because you fear that the price will fall, or make an impulse purchase because you're happy.

Being comfortable with your financial plan is important, but an emotional gap can fuel irrational decisions as you're more likely to overlook data.

5. Self-attribution

This concept refers to how investors are likely to have overconfidence in their abilities.

You may believe you can reliably time the market to maximise profits when the markets are unpredictable. In this case, it's common to see "wins" as being down to your knowledge, while "losses" are attributed to things outside of your control.

Unconscious bias may affect your decisions in ways you don't expect. If you have any questions about your finances and the decisions you need to make, please contact us.

The value of your investment 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.

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.





What is critical illness cover?

Whether you need critical illness protection depends on your situation as well as any existing policies you might already have in place.

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

In a similar way to some life insurance plans, critical illness covers a set number of years. You can specify whether you want the payout to rise over the course of the term (so it keeps up with inflation) or the opposite – decreasing because your aim is to cover something specific like your mortgage.

If you're thinking about critical illness cover, it's important to speak to your financial adviser who can help you decide how much cover you'll need and how long the term should last.

What does critical illness cover?

Products vary depending on the provider. Certain illnesses are covered as standard by most insurers, including, cancer, heart attack, stroke, organ failure, multiple sclerosis, loss of arms or legs and Alzheimer's and Parkinson's disease.

Some providers may allow you to add additional illnesses to your policy, which you'll pay more for. Your children could also be covered as part of your policy so it's worth asking your adviser about these options if it's something you're keen to have in place.

What does critical illness not cover?

Although a diagnosis of a critical illness can mark the start of a claim in some policies, others may only begin to offer protection once your illness hits a certain level of severity. For example, if you are diagnosed with cancer, payments may only begin when permanent symptoms have been officially diagnosed. Additionally, not all types of cancer are necessarily covered by critical illness protection.

It's important to work with your financial adviser when reviewing a policy and all the small print before you commit to make sure you are sufficiently covered – and aware of areas not included.

Pre-existing conditions

Just like the life insurance application process, critical illness protection requires you to disclose any pre-existing conditions. If you don't then your policy could be invalid.

Your adviser can search the market for a suitable plan, but you'll probably have to pay more in premiums and there will likely be some extra exclusions. The price you pay will vary, based on things like age, occupation, state of health, lifestyle and how much coverage you need and for how long.

Do you need critical illness cover?

There are things to consider if you're worried about being diagnosed with a critical illness and the impact on your income and ability to keep up with bills (which would not be covered by state benefits when you're unable to work).

Your adviser will help you look at the following areas:

- Your employer's coverage – is there any paid leave for illness or disability and for how long?
- Do you have an existing life insurance policy and if so, does it have any illness coverage included?
- Could you consider income protection insurance as an alternative to critical illness?
- Do you have sufficient savings and investments you could use in place of critical illness cover?

If you want to proceed, it's important to work with your adviser to see how much protection you'll need. This means looking at your monthly outgoings and how much you and your family require to live comfortably. You might want to add in any potential costs from medical treatment you may need.

During these important decisions it's easy to lose track of the small details, which is why your adviser can help make the process easier for you and your family and give you some peace of mind.

We can examine your needs and existing policies and then find you the right cover that protects your finances – and your family – should anything happen.

The pros and cons of downsizing

Downsizing could mean lower overheads as well as the extra cash from the sale of your home. But there are factors to consider before you make the decision.

From reducing household bills to boosting retirement savings, there are plenty of reasons why people choose to downsize and move to a smaller property.

It's important to consider interim costs, however, like whether you decide to rent in the area you're thinking of moving to, as the search could take some time. There are also fees to pay when selling your home including stamp duty, survey costs, legal expenses, agents' fees and moving costs. Your adviser will be able to help breakdown these costs for you.

Practical benefits of downsizing

Along with cutting your bills, helping you to pay off debt and putting some money towards your retirement savings goals, downsizing has other benefits too.

The stress of maintaining a larger home might become unmanageable as you grow older – leaving you out of pocket and physically drained too. Moving to a less expensive-to-run, smaller home could make your life simpler, leaving you with more time to do the things you enjoy during your retirement years.

Downsizing and tax

Your financial adviser can guide you through the tax implications for downsizing, like inheritance tax and whether your estate may still be able to benefit from the residence nil rate band (RNRB) even if you have downsized your property before your death. The rules around this are complex and often come with qualifying conditions, however, so it's essential to let your adviser examine your options and potential tax implications beforehand.

If you're considering downsizing, your adviser can expertly guide you through the process, explain your options and ensure you are fully informed throughout the process

Plan ahead when downsizing

It pays to plan ahead for the type of home you need when you're downsizing. Your mortgage adviser can help you do this and ensure you're buying somewhere that's the right size for you, as well as keeping you updated on what your eventual mortgage payment might be. They will also be able to explain the advantages and disadvantages of other options, like moving to a retirement village.

It's an emotional decision too, especially if the home you are selling is where your children grew up and holds happy memories. Talk about it as a family so that you are all clear about the reasons for the move. Thinking about your future and planning what your retirement income and outgoings could be – in your current home compared to a smaller one – is also something your adviser can help with.

Things to think about if you've made the decision to downsize:

- Clear out any clutter before you move and consider selling items (like furniture) you will no longer need.
- Look at your home and assess whether any repairs are needed before you sell. Your mortgage adviser can help you with this.
- Your adviser will also be able to factor in the costs for selling your home and moving to a new one, to help you budget.
- Think about how much space you will need in your new home, for hobbies, work and when guests come to stay.



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