LFA MONEY TALK

THE PERSONAL FINANCE NEWSLETTER PUBLISHED BY LIGHTHOUSE FINANCIAL ADVICE IN PARTNERSHIP WITH UNISON

THE INFLUENCE OF SOCIAL MEDIA ON YOUNGER INVESTORS

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Social media has infiltrated our everyday lives, bringing both positive and negative impacts. Astonishingly, 3.96 billion people, over half of the global population, currently use social media worldwide, up almost double from 2.07 billion in 2015. With the average person having 8.6 social media accounts, there's no wonder it has become such a major influence in many people's lives.

The Financial Conduct Authority (FCA) has recently expressed concerns over the influence of social media on younger investors. Prompted by social media platforms such as Instagram, Tik Tok and YouTube, findings show that a younger, more diverse group of investors are becoming reliant on investment tips and advice through these channels, but worryingly, lack the knowledge and understanding required to make informed choices.

Confidence versus financial resilience

The FCA believes that younger consumers are getting involved in higher risk investments, that are likely to be unsuitable for them, and in which they have a '*striking*' lack of awareness of the associated hazards. Shockingly, 45% did not associate '*losing some money*' as a potential risk, despite 59% claiming that a significant investment loss would have a fundamental impact on their lifestyle.

Ask yourself this...

The FCA has launched a '*digital disruption*' campaign to make investors aware of the risks, question their investment journey and to encourage them to ask themselves five questions:

Nurture your financial future

FCA Executive Director, Consumers and Competition, Sheldon Mills, commented, *"We are worried that some investors are being tempted, often through online adverts or high-pressure sales tactics, into buying higher-risk products that are very unlikely to be suitable for them... We want to make sure that we encourage the ability to save and invest for lifetime events, particularly for younger generations, but it is imperative that consumers do so with savings and investment products that have a suitable level of risk for their needs. Investors need to be mindful of their overall risk appetite, diversifying their investments and only investing money they can afford to lose in high-risk products."*

Don't risk jeopardising your financial future; we can develop an investment plan suited to your long-term goals and risk profile.

HELPING UNISON MEMBERS SECURE THEIR FINANCIAL FUTURE

Each year we run hundreds of seminars on topics including retirement planning, which give UNISON members practical help with securing their financial future. To find out about arranging a seminar or surgery for UNISON members, please contact one of our regional representatives listed below.

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A CHANGING INVESTMENT PERSPECTIVE

We've heard it all before – it doesn't take a rocket scientist to appreciate how the pandemic has prompted a seismic shift in public behaviour, as it's impacted all our lives.

Appreciation of this major shift in the way we live our lives should also translate to our investment choices, making them a prime consideration when evaluating future prospective investment opportunities.

In the mix – socioeconomic trends

For many, especially early on, the pandemic served a slower pace of life, it has also considerably accelerated various socioeconomic trends that have been simmering away under the societal surface for many years. The most obvious example of this being the shift to flexible working practices, suddenly propelled to the fore. The past year has made everyone see that workplace presenteeism isn't always necessary. Companies in traditional offices, were forced to send their employees home to work remotely, and many will continue to work from home long after the pandemic is over. This trend will impact business interaction, travel, commuting, commercial property, and city centres, and spending will move to the suburbs.

The acceleration of digitalisation

Another key trend accentuated by the pandemic has been the intense acceleration of the shift to digitalisation. The massive growth in e-commerce, for instance, has resulted in those businesses with superior online offerings gaining greater competitive advantage. The shift to online shopping has been evident across the age range, as older consumers increasingly turned to e-commerce to avoid leaving home.

Socially responsible investing

The pandemic has reinforced the immediate importance of sustainability and corporate governance issues.

Greater focus has been placed on wellbeing and how businesses treat both their employees and suppliers. As a result, governance and sustainability issues have been catapulted up the corporate agenda.

COULD THE DEFICIT AND RISING INHERITANCES ACCELERATE IHT CHANGE?

With the largest peacetime deficit on our hands, thanks to the pandemic and an aged Inheritance Tax regime, firmly on the government's radar, could this combination lead to unwelcome tax rises on transfers of wealth?

Viewed by some economists as a way to generate revenue without inhibiting the economy, whilst also improving social mobility, the Institute for Fiscal Studies have been exploring two 'i's' - inheritance and inequality.

Heightening inequality

Their spring 2021 paper entitled '*Inheritance and inequality over the life cycle: what will they mean for younger generations?*', pinpoints trends likely to influence policymakers' thinking, with one key finding highlighting that inheritances have formed a rising part of national income for the past fifty years. Inheritances for those born in the 1960s will on average equal 9% of their other lifetime income, compared with 16% for those born in the 1980s. A continuation of this trend will see a widening of the gap between rich and poor families.

With social levelling-up prominent on a cash-strapped government's agenda, IHT changes could prove costly for the wealthy. Taking expert advice and preparing for all scenarios is wise.

LOCKDOWN SAVINGS RESULT IN SIX-YEAR ISA HIGH

People paid £1.5bn into Individual Savings Accounts (ISAs) in April[1]; this constitutes the highest level of April inflows in over six years. During the month, people invested £78m more into ISAs than over the entire previous 12-month period.

Chief Executive of The Investment Association, Chris Cummings, commented about growing investor confidence in the UK as the country emerges from the pandemic, adding, *"Savers have once again shown the appeal of ISAs in helping to get into the savings habit and build up a retirement nest egg. Comparing the strong ISA flows this April to the year before shows investors have been moving money into funds to make the most of tax incentivised savings and to deliver better returns amidst low interest rates on cash savings."*

He also noted, *"Rising inflows to more domestically-focused UK Smaller Companies funds shows investors are increasingly positive that the post-Brexit UK economy will grow strongly as it opens up. In another strong month for responsible investment funds, savers invested £1.6bn, taking the total inflows to £13.5bn over the last year – representing 30% of flows into funds."*

Here to help

For advice on maximising your savings in a low interest environment, get in touch.

[1]*The Investment Association, 2021*

PROTECTING YOUR PENSION FROM LONG COVID

The medical, social and financial impacts of the pandemic have been far reaching. Some people who are recovering from COVID, are left with prolonged symptoms, leading to a diagnosis of *'long COVID'*. Similarly, from a financial perspective, many people have lost earnings, but economic recovery could help restore their financial health and wellbeing. Unfortunately, a minority could suffer the financial equivalent of long COVID.

During the past eighteen months, Legal & General has monitored the financial effects of the pandemic, with a particular focus on the long-term impact on the future pension income of workers aged over 50. Last August, only 2% of this age group were considering reducing their pension contributions.

Eight months on, in April this year, the research highlighted that 12% of workers over 50 were actually paying less into their pension pots because of the financial disruption caused by the pandemic, severely impacting the retirements of one-in-eight (about 1.7m) 50-plus workforce members. By way of example, L&G cites, *'A 50-year-old opting out of a workplace pension could be £50,000 worse off by the State Pension age of 67 if they never opted back in and continued working full time throughout.'*

The message is clear – anyone, whether over the age of 50 or under, who has economised on pension contributions during the pandemic, should restore them as soon as they can, as Andrew Kail, CEO of L&G Retail Retirement, concludes, *"Although current circumstances are proving challenging, we would urge those who have already saved something for retirement to maintain their contributions. Pausing them may be tempting, however people should explore every possible alternative before considering this. Prioritising enrolling back into the scheme as soon as possible, to limit the losses and take advantage of the tax breaks, is also advisable for anyone who has already stopped."*

SAVING FOR A PENSION LATER IN LIFE?

When it comes to saving for retirement, there are always options, no matter how late you leave it.

Increase your contributions

If you're currently paying the minimum 8% (including tax relief and 3% employer's contribution) into your workplace pension, consider increasing it. Making a few cuts elsewhere can help you find those much-needed funds.

Look at your State Pension entitlement

If you have made at least ten years' National Insurance contributions (NICs), you will be entitled to some level of State Pension. The full rate New State Pension is currently

£179.60 per week, or £9,339.20 per year, with eligibility reserved for those who have made 35 years' worth of NICs. While the State Pension is not enough to live on, it will help boost your income during retirement.

Quantify your pensions (and any other assets)

When you look at the State Pension entitlements, they do serve as a wake-up call to engage with any other pension provision you have made. It's likely, if you've moved jobs, you have accumulated pensions; these need to be quantified and the underlying investments assessed for diversity and suitability.

Take advice

An ILC study[2] revealed that pension savers who took advice for a five-year period between 2001 and 2006 accumulated nearly £50,000 more wealth on average (in pensions and financial assets) than those who only took advice at the beginning. It's easy to justify the value of advice.

[2]International Longevity Centre UK, 2019

As a UNISON member, it is likely that you are in workplace pensions that are defined benefit public service pension schemes that do not rely on individual investment choices. For more information please visit the UNISON pension pages here. You can also visit the UNISON benefit check on the website here.

DO YOU UNDERSTAND YOUR PENSION BENEFIT ENTITLEMENT?

Rising living costs and increased life expectancy mean that it's more difficult than ever to save up enough to provide a sufficient income for our retirement years. And yet, 63% of Britons who are of pensionable age have never checked their entitlement to benefits, making them the least likely group to do so[3].

Very few pensioners are on a high income, and yet millions of pounds worth of benefit payments, including pension credit, housing benefit, income support and child tax credit (to name but a few) are going unclaimed every year.

A financial health check

It's always good to regularly review your finances to check you're on track for retirement. For assistance in exploring the various options for funding your later life, please get in touch.

[3]Turn2us, 2021

We can help

Talk to our customer services today. Call **08000 85 85 90** and quote **UNISONNews2107** or alternatively, send an email quoting **UNISONNews2107** to **lhgenquiries@quilter.com** to arrange a consultation with one of our professional financial advisers.