



NEWSLETTER



Photo by Andrew Spybey
@TheGuildfordian

Early Autumn 2022



Photo by Andrew Spybey @TheGuildfordian

Welcome



We hope that you enjoyed the summer as we begin our approach to autumn 2022. There was much to enjoy, although we are ever conscious that there are many economic factors conspiring to make this coming season tougher financially for households, young and old alike. One notable political change was the end of the Boris era, and of course the Tory leadership election and the change of Prime Minister. Time will tell if this change will improve our economic position, highlighted further below.

Inflation, and its increases (Consumer Prices Index / CPI now running at 10.1%), has been evident at every turn for most. With the next Ofgem energy price cap change due at the beginning of October 2022, a real financial pinch may be ahead of us, if not already felt in energy bills and at the petrol pumps. The Bank of England and the Office for Budget Responsibility expect UK inflation to reach 13.0% in the last quarter of 2022, before holding close to this rate, then falling back in 2023, perhaps levelling through 2023 at approximately 7.5% on average. This is of course not guaranteed.

In addition, the bank base rate increases applied by the Bank of England from 0.1% in December 2021 to 1.75% in August 2022 in very quick succession have seen borrowing costs rise. The next Bank of England decision is due in September 2022. Remember that some mortgage holders have never seen the base rate rise above 0.75% (August 2018) in the last decade plus. The last time it was above this rate was February 2009, some 13 years ago, before which the rate had fallen over a six-month period by around 4% from 5%.

Most economically mature nations of the world have maintained around a decade of low inflation and

interest rates. Some see this current marked change upwards (inflation and base rates) as a temporary position lasting one or two years. We have also seen market volatility in fund values over the course of 2022. Largely, fund values at the start of the year were strong in comparison to recent times. Sadly, the tragic war in Ukraine continues and the economic sanctions being applied by most nations to Russia I am sure will bite harder in the months to come. Some of the negative economic effects that we have experienced in 2022 are directly and indirectly related to this conflict. However, we have seen some positive movements in the last few months, although this is not a guarantee of future performance.

The focus of this newsletter is the use of assets to generate income and capital if required at this time to help with rising costs and needs as they may arise. Where appropriate and as examples, drawing income from ISA plans and taxable investment accounts, or accessing pension benefits, such as tax free cash if needed, could all be potential sources of funds. Everyone's needs will be different and we can provide advice accordingly.

Chapters Financial updates its topical money blog page on a regular basis to focus on financial points that may be of interest, and part of the content of the coming pages may also be found on our website.

Financially, this autumn may be a challenge for some, and taking action to look at potential opportunities might well be worthwhile. The team at Chapters Financial looks forward to helping you with your financial planning needs through the balance of 2022 and into the new year.

Keith Churchouse



You are not alone! Retirement planning...and a new book



It is easy to feel isolated and alone when you face something daunting like retirement, or indeed the prospect of retirement. Please be assured that you are not alone and that the numbers of people facing this prospect are significant.

In a study by Statista.com, the population of England by age group in 2020 is detailed, and it is worth having a look at the graph on the Statista website (statista.com and search under statistics on demography).

It is interesting to note that there are round 10.8 million people within the age range 50 – 64 as of the date of the survey. As you might guess, that's a lot of financial planning to be achieved over the coming years, in the accumulative years, and then into drawing funds.

Accumulation

In the age range 50-60, many individuals may continue to accumulate assets, such as pensions, to build sufficient funds to take the leap from employee or business owner to retiree. In our experience, these years can make a real difference between an average retirement and a good one. If you are over 50 and have not really paid attention to the end game of retiring, then now is a great time to start.

Decumulation / drawing funds

The day is likely to arrive when you decide to stop work and retire. We hope you are excited by the

prospect! There are many options and variations on the way that pension benefits can be drawn. You might know there are many types of pension, perhaps too many to list in the course of this article. Further information, including a Retirement Options schedule, can be found on our website.

Each of us is different, with different solutions as to the way income in retirement should be structured. Talk to the team at Chapters Financial for your individual needs.

New book: *Coming in to Land - Runway to Retirement*

My colleague Vicky Fulcher and I have been working on a new book entitled 'Coming in to Land - Runway to Retirement', and this is now available. As the title suggests, the book focuses on all aspects of the lead up to retirement. It covers what needs to be achieved, the drawing of pension benefits and the options whilst also taking a look at the emotions that an individual and their spouse or partner might be going through in the process. In addition, we look at the start of the post retirement years, which we hope are fun, when an individual gets there.

More on the new book can be found on amazon.co.uk.

Summary

Whatever your plans and approach to retirement, please remember you are not alone. If you have friends and family of a similar age, go and have a chat with them to see what they are doing and then research further, or engage with a suitably qualified adviser to meet your plans and objectives.

Get ready soon: there is much to enjoy if you have saved enough.



Mortgages & re-mortgages



I wanted to include in this newsletter an article about mortgages and some of the changes that we have seen with our clients' arrangements. To be clear at the outset, we do not offer mortgage advice. However, we can refer enquirers on to a Surrey-based independent mortgage company which can help with advice and implementation where required.

There is an interesting point to note immediately that the average age of the first-time buyer has increased dramatically over the years to a new level of approximately 34 years old (Source: [GetAgent.co.uk](https://getagent.co.uk)), which means that many people are taking out their first loan in their thirties or even later. Many will know from yesteryear that it was usually anticipated by lenders that a mortgage would be repaid in full by age 65, which was the deemed standard retirement age at that time. However, things seem to have changed for the older generation.

Many lenders have now extended the age to which they will continue to offer mortgage finance, even up to age 75+. Whether having a mortgage for this long is sensible should be considered in each individual circumstance, however, with the State Pension age being extended and many now not retiring before age 70, having the facility to maintain a mortgage debt might suit some.

The 'bank of mum and dad' may play a part in keeping access to capital to help younger generations onto the housing ladder. There are a few options in this regard that a mortgage adviser can help you with.

Also, certain lenders will now take into account pension and income drawdown income (or indeed the value of the pension pot where no income is being taken) to help with affordability considerations for mortgages and re-mortgages. It is always advisable to be on top of any mortgage debt you have, and some lenders will write to you a decade out to note a planned end date, and to ask how a loan is to be repaid if borrowed on an interest only basis.

If you do plan to work on past an originally agreed set date, you might want to speak to your lender early, whilst you are still working, to see if they can extend the term, although be sure to check any costs / charges or other conditions.

Alternatively, and as indicated at the start of this article, speaking to a suitably qualified mortgage adviser, as you start to focus on what retirement for you might look like, might well be sensible to help with your overall planning and objectives.

Remember there are grades of recession



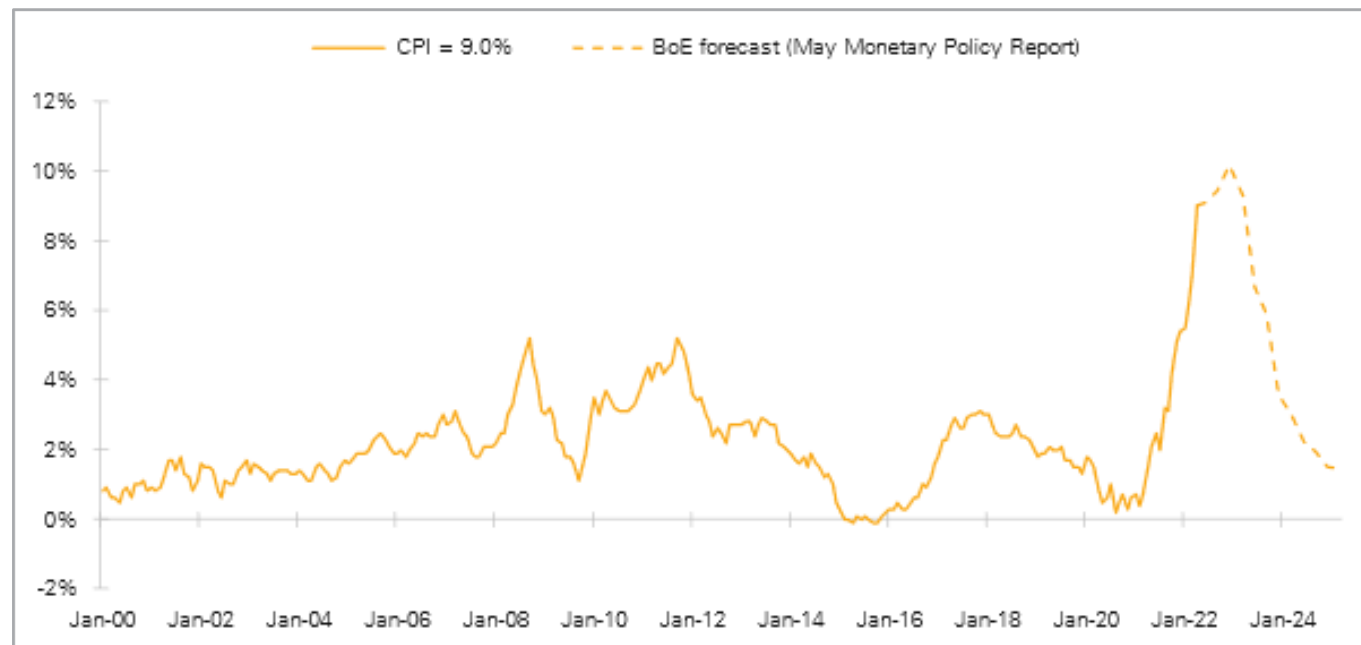
The word 'recession' can strike fear into many people's hearts. To be fair, it's not an unreasonable reaction, and not a great economic situation for a country or trading area. Controlled growth usually works well in a capitalist society, and unbridled growth ironically leads to recession at some point. 'No more boom and bust', as one senior UK politician once said, is something of an impossibility.

There are grades of recession, some being deeper than others. A bit like a winter cold, sometimes it's just a sniffle for a day or two, and sometimes it's a week in bed feeling dreadful.

If we likened this to the economic effects of a recession, if a recession in the UK was like the former example, you and your personal finances may not know much about it. If, however it's a deep economic recession, then your money planning might be laid up a while.

The definition of recession is two consecutive quarters of negative gross domestic product (GDP). Indeed, it is always the case that you will only know that an economy is officially in recession when the results are announced a time after the end of a three-month period. So, you could be in a recession period and not officially know it.

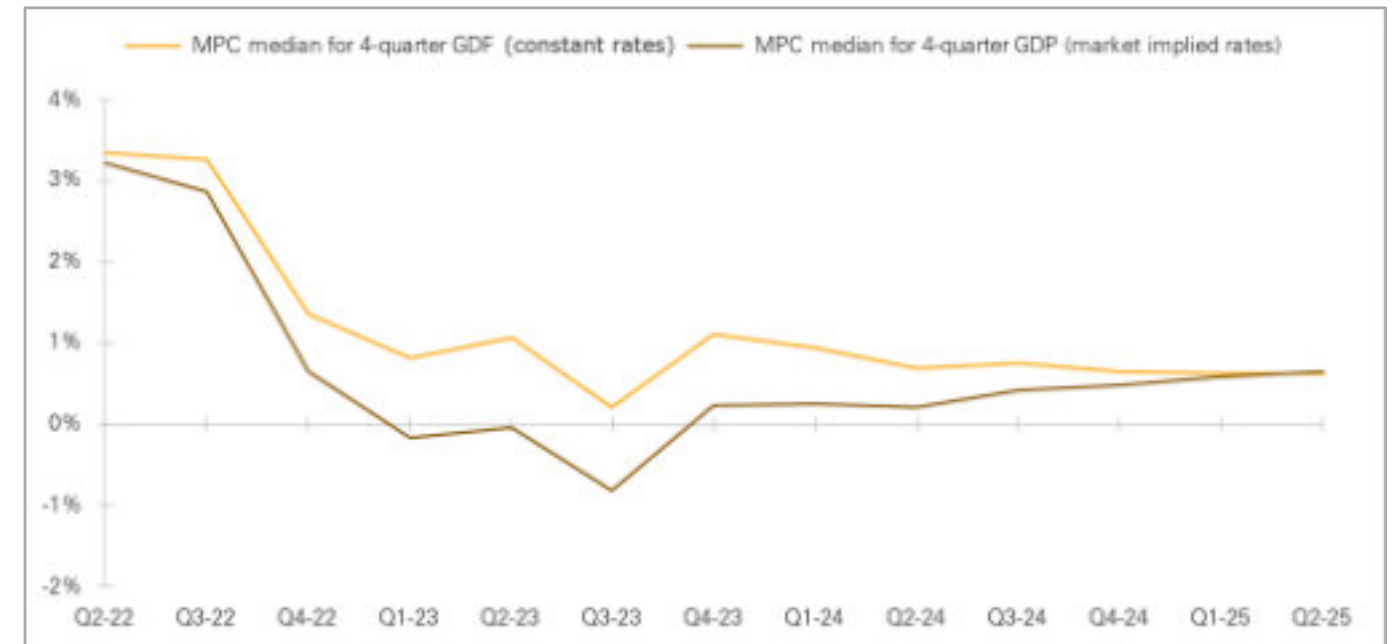
The battle to keep raging inflation rates under control of late is on in most developed western economies, and the tool of choice selected by most central banks is the use of base interest rates to slow growth by raising the cost of capital. The Bank of England has raised base rates in 2022 to 1.75% so far this year, with further rises expected. Current inflation (and future expectations / not guaranteed) are illustrated below:



(Source: Cormorant Capital Strategies)

One key take-away from this graph is that you can see that higher inflation rates are expected to continue for another 18 months or so if the projections prove correct. So, from a budget planning perspective, don't think that inflationary pressures on your household budget

will disappear any time soon. It might be a difficult Christmas 2022, with energy, petrol and food costs remaining high, and perhaps increasing further. And if you have variable rate debt, remember that base interest rate rises are likely to push up your borrowing costs further.



As noted, the purpose of raising base rates is to control inflation, and this will have an effect on GDP. Cormorant Capital Strategies notes:

The yellow line represents the Bank of England's forecast for UK GDP over the next few years conditional on there being no increases in interest rates. In early May, when these figures were released, Bank Rate stood at 1.0%.

The darker line represents the Bank's forecast for GDP assuming that interest rates rise to somewhere in the region of 2.5%. The yellow line shows positive progress throughout, the darker line does not. The darker line is consistent with a recession during the first half of next year.

Actually, the market inferred rate of interest has risen further since these forecasts were made, up from 2.5% to 3.5%, meaning that the recession indicated in that chart may come sooner or it may strike deeper, or it may last longer (or some combination thereof).

These assumptions are not guaranteed but give an indication of what might happen.

Investments

At the time of writing, many will be aware that there has been significant market volatility over the last few months, directly and indirectly

related to the points above and of course to the conflict in Ukraine. Most markets have factored these points in (again not guaranteed) and we hope to see a more positive position looking forward (not guaranteed), although concerns about inflation persist.

As you will be aware, past performance is not a guarantee of future performance.

Summary

I appreciate that the notes above prove perhaps to be a bit of an economics lesson. However, they do offer an insight into what might lie ahead.

The overall message is that it's going to be a year or two for the UK economy to bring its inflationary pressures under control, and households should plan for this.

There are usually actions that individuals can take to reduce costs and increase income. Making your money work as hard as you do is never more important than now.

Do make sure that efficiencies in your money planning are maintained as we move through the autumn, and into, perhaps, a winter of discontent (see 1979!).



Planning your household budget



Household, business and national budgets have a few things in common.

Income and expenditure, and then hopefully a gap of a positive nature, although as many know, this is not always the case.

The 'gap' can create surplus that can be used to save, pay down debt, gift away or enjoy. Extending this surplus can be achieved through three courses of action, namely reducing expenditure, increasing income, or indeed a bit of both. The overall effect should be to create additional surplus, or gap, so concentrating on either end of the spectrum should work.

Pinning down expenditure might be achieved by reading a few of your recent bank statements. Identifying income levels might be achieved through analysis of payslips and tax returns, as examples. Knowing where you are now is key to understanding where you might want to be and if there is a negative gap that needs to be filled. Also, for reference, there is a good free budget planner from the MoneyHelper website: www.moneyhelper.org.uk.

I doubt that I have told you anything new at this stage, but there are now a few other factors that you might want to add in, such as rising costs of living (food and energy in particular), and perhaps any rising costs of borrowing, if applicable. Both points (inflation and loan costs if not fixed) look to be on the rise over the next year.

Expenditure

Shopping around for potential savings on credit cards, mortgages, energy and telecoms costs has never been easier, now that most of these searches can be achieved online. Consider the following points:

- Are you really getting the best deal in your circumstances now?
- Could cost savings be achieved?
- Can costs be cut by making changes to plans, such as holidays or gifts?

- Are there monthly subscriptions you no longer use, and could cancel with no penalty?
- Can you be creative with your grocery shopping – look for bargains, use accrued loyalty points, use your freezer and be flexible in your menu planning?
- How about being creative with any commute you undertake – can you save on fuel / travel costs by walking, car-pooling or working from home?

If you are getting into difficulties, then seek advice promptly. Sticking your head in the sand about escalating debts can be a real issue.

Income

If you need to raise extra income, then have a think about what assets you have available to you.

Savings: Interest might be accumulating, and this could be paid out to help with household costs. Also, deposit savings rates are increasing because of base rate increases, and many savings providers rely on apathy from an investor not taking any action. Have a hunt around to see if your cash could be working harder.

Investments: Again, any returns might be accumulating, and these could be paid out to help with household costs if needed, rather than being re-invested.

Pensions: If you are over the age of 55, these might be accessed, although this might not be the best strategy for your longer-term retirement planning. More can be found on our Retirement Options Schedule available on the Chapters Financial website.

These are just some basic ideas but provide a flavour of what might be achieved to help as the financial squeeze continues over the months ahead.

Summary

Irrespective of the current economic position, and its evolution into this autumn and winter, having a good handle on where your budget stands is usually a good idea. If possible, building in some resilience into any gap/surplus you have now may well be worthwhile to cater for high inflation and rising borrowing costs.

Photo by Andrew Spybey @TheGuildfordian

Managing cash



We've seen a lot of volatility in most investment markets in 2022 so far (cryptocurrencies included), particularly over recent weeks. Concerns about economic growth and inflation are likely to persist over the balance of the year and into 2023. Sitting tight on any investment / pension funds you hold is usually worthwhile, rather than making any significant changes at this time.

However, with the Organisation for Economic Co-operation and Development (OECD) suggesting earlier this year that inflation will hit double digit figures in 2022 in the UK, and will average 7.4% in 2023, this does not really help those with cash / deposit holdings, as the real purchasing power of these holdings is being eroded. Sure, the Bank of England is likely to increase base interest rates further, as will many other nations, with the aim of controlling inflation, at least in part, and this might help deposit returns (if deposit takers actually pass the increase on!).

Managing cash may well be less than straightforward, and apathy can reign as real values are reduced. We also need to be conscious of the deposit protection limit for bank and building

society holdings of £85,000 (per eligible person, per bank / building society, doubled for joint accounts).

The first point is to shop around for deposit rates, checking that any provider offering good rates is covered by the Financial Services Compensation Scheme (FSCS) for the £85,000 protection noted above. One key point here is that one notable provider, National Savings & Investments (NS&I), is backed by the government and has no protection limit (just limits on the amounts that can be invested in their product range).

Also, check any terms and conditions for fixed rate offers. Competitive terms now for say two or three years might look poor in a few months' time if the Bank of England raises its rates quickly. You might need to commit your funds for the term being offered, so check the small print on the T&C's.

Don't forget about tax. The first £1,000 gross of deposit interest in a tax year is tax free (for basic rate tax payers). This is the case for each individual, so if you are married or in a civil partnership, cash could be held under both names to use both personal savings allowances. Of course, don't forget to use your ISA allowance each tax year (up to £20,000 each) to add an extra shield from tax for any interest you receive.

Finally, as ever, if it looks too good to be true, it usually is. Scammers are going to be keen to get hold of your funds, so look out for inflated rates of return being offered...that will never materialise.

Staff Spotlight – Catherine Da Costa

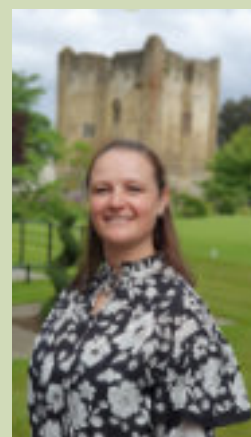
Catherine joined Chapters Financial in May 2022 as Administrator.

She has previously worked in the health and short-term insurance fields, as a Knowledge Manager and Corporate Trainer, as well as being the Training Officer for another company.

Having recently joined the team in the new Tunsgate office, Catherine is excited to learn and evolve within the company and understand

the finer details of financial planning and its dynamics.

On weekends, she enjoys exploring the Guildford area with her husband and Jack Russell terrier and trying out the different restaurants around our town.



And finally...an education in money



Most of our younger generations are returning to school, college, and university as we start to head towards the autumn following the summer break.

However, perhaps you as a parent or grandparent can add on an early lesson before the next term begins with some money guidance and an overview of how it all works.

Many schools and higher education facilities do not teach money planning on a regular basis, and quite a few youngsters reach university and adult life with limited knowledge of the money system. Keith Churchouse joined a bank aged 18, so had to learn fast!

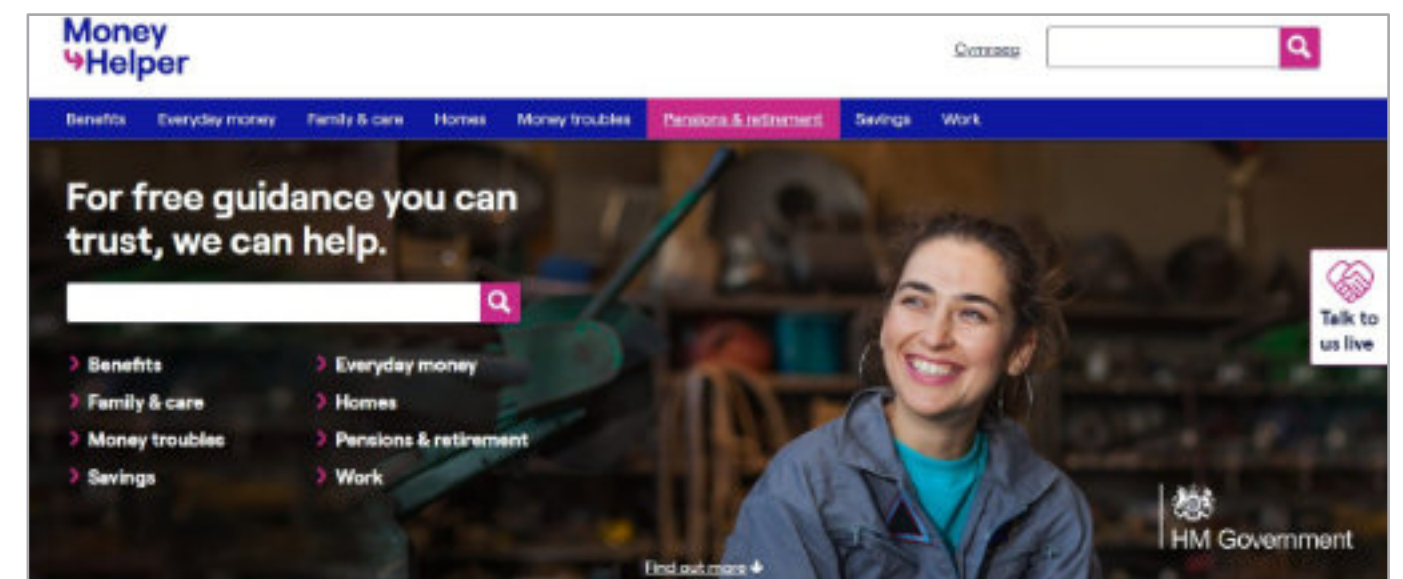
The MoneyHelper website, a free government-backed website, looks at useful ways our younger generations can be introduced to money planning early. Usually well worthwhile, we are sure you would agree.

The guide looks at:

- Why is it important to teach children about money?
- How does talking about money help?
- Do children learn about money at school?
- What should I teach about money?
- Six fun ways to teach children about money.
- More money-management ideas.

Teaching children about money helps them build the skills and knowledge they will need to manage their money effectively, both now and in adult life. Research has shown that how we behave around money as adults is learnt in early life, through observations of the world around us. It might be interesting to reflect on your own money habits, good or bad, and how these may have developed.

More information can be found on the MoneyHelper website: www.moneyhelper.org.uk



Summary & Review

Please do pass our details on to contacts you may have that may benefit from our service. We are always pleased to receive referrals.

Please contact the team at Chapters Financial; Keith, Vicky, Esther, Julia, Suzanne or Catherine on 01483 578800 or by email at info@chaptersfinancial.com to discuss your requirements and to book a meeting or financial planning review.

If you would like to receive this information in e-mail format, please let us know.



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