Schroders Personal Wealth: 2021 – The year of improving your financial wellbeing

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The start of a new year presents the ideal time to make important resolutions about your money matters.

This year presented many challenges for family finances with the pandemic bringing global stock market crashes and a sudden, deep recession.

This unexpected turn of events served to highlight the importance of financial planning. Being prepared could not only help ensure you and your family are provided for if things take a turn for the worse, having a firm grip on money matters can improve financial wellbeing.

The Schroders Personal Wealth (SPW) Money and Mind report revealed that the majority of people surveyed are on top of the financial basics, but seriously lacking when it comes to financial planning for the future.

The report, produced in conjunction with Warwick Business School, used a scoring system for the financial health of individuals. For the day-to-day household finances the nation scored 20 out of a maximum of 25. It also concluded people are on top of their debt and borrowing matters, achieving 24 out of 25 for debt management.

The scores plummet, however, when it comes to financial planning. For protecting against the unexpected the nation scored just 3 and for planning for the future it was only slightly higher at 5.

Here are five ways which could help you take control of your long-term financial health for 2021 and beyond.

1. Take stock and reduce stress
Almost half (48%) in our study admitted that their financial situation causes stress. Gaining a clear understanding of what your financial priorities are could help with confidence and improve financial wellbeing. Seizing control is crucial. A good place to start is making a list of the things you would like to address. Dig out paperwork and identify any areas where you feel like improvement or change is needed and who you may need to seek support and guidance from.

Over time it is easy to accumulate lots of savings accounts and credit cards. Not only does this often result in lots of post and admin, it could leave you more vulnerable to fraud. Make plans to have a 'financial admin day' and take stock of exactly what you've got and what you need, and look to close those accounts and cards you don't use.

2. Clear debts
Debt is likely to be the biggest cause of financial stress with two thirds of UK adults surveyed saying that being debt free would give them peace of mind over their finances.

Restructuring unsecured debt in the low interest environment like that which exists today could be a smart move.

If it's a mortgage that is keeping you awake at night, there could be ways you can pay it off faster that you can discuss with your lender or an adviser.

It's usually better to clear unsecured debts before embarking on a savings drive for your emergency buffer and long-term investments.

3. Plan for the unexpected
With the biggest downfall being a lack of long-term planning and protection for the unexpected, individuals are leaving themselves worryingly exposed to financial shocks.
The Schroders Personal Wealth Money and Mind report revealed financial security was a higher priority since Covid-19 for 19% of people, but just 13% are now making plans for their financial future.

Planning for the unexpected means having a cash buffer in place for emergencies - such as a new boiler or to cover bills should your income fall – as well as building up longer-term savings via investments which have greater earnings potential.

The events of 2020 also highlighted how important it is to have protection in place for you and your loved ones, in case of illness, loss of employment or death.

Protection insurance pays out should you be unable to work through ill health.
Income protection insurance pays you an income if you have to stop work due to illness or an accident.

Alternatively there's critical illness insurance which provides you with a lump sum if you are diagnosed with a critical or terminal illness named on your policy. Finally, life insurance is an important consideration for those with dependants.

4. Track down retirement savings
Putting money aside for retirement is a core strategy for providing for your future. Most people will be saving through their workplace auto-enrolment pension scheme. But the level at which you are saving might not be enough. The SPW Money and Mind report laid bare just how many people didn't know how much they needed to live on in retirement.

Some 63% confessed they don't know how much money they will need to live comfortably. This dropped to 43% for the over 55s, falling further to 24% among those who have an adviser.

Setting the right goal will help enormously when planning to secure a comfortable retirement – and help ensure you don't run out of money.

As part of your planning process, you should evaluate the pensions you've already built up. Many people end up with a string of pensions from a number of different jobs. It might be smart to consolidate your money into a single pension plan.

If you are in a company pension scheme, consider whether you are making the right level of contribution. If you can afford to do so, you could consider increasing your contribution to the maximum that is matched by your employer.

This is a great way to save as you are doubling your money and you get tax relief on your contribution.

Whatever your circumstances, make sure you get up to date with where you stand and where you are heading.

5. Take advice

The study showed that 77% of UK adults define financial success as having the financial freedom to do what they want without worrying.

An adviser could help achieve that freedom by pinpointing areas you have neglected and recommending measures to limit exposure to financial shocks.

A professional could give you an overall wealth check and help you set short-term and long-term goals.

For later life planning, retirement is no longer a 'cliff edge' moment, with many choosing to do so in stages, working part-time in the first instance. This means it could prove slightly more complicated to plan for without an adviser.

When it comes to protection insurance and life cover, getting tailored advice from a financial adviser can take the hard work out of finding the best cover.

They can help with the application process, work out what level and type of cover you need, as well as explain any insurance terminology you don't quite understand.

Though you have to pay for advice it can be money well spent. Receiving professional financial advice between 2001 and 2006 boosted the value of pensions and financial assets by £47,706 [1]in 2014-2016*.

Following a formal financial plan over time could put you in a better financial position and peace of mind.

Jessica Miller, Head of Product and Proposition at Schroders Personal Wealth, said:

"We want to create more financial plans for more people to help them achieve their end goal. Our research showed that 77% of people define financial success as having the financial freedom to do what they want without worrying. We believe professional financial advice could help get them that freedom."

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Notes to Editors

Schroders Personal Wealth is a joint venture between Lloyds Banking Group and Schroders – two of the UK's largest names in banking and asset management.

We were created to help more people across the UK benefit from financial advice. We have the advantage of solid foundations and a strong heritage. But we take a fresh, transparent and personal approach to financial planning.

We aim to provide clients with clarity and transparency in everything we do. This includes using technology to explain how long-term financial planning can add value to people's lives; to give people access to information about their financial wellbeing; and to communicate with their adviser when it's convenient for the client. Our heritage may be 400 years old, but our approach is built for the future.

For more information visit https://www.spw.com/

[1] https://ilcuk.org.uk/wp-content/uploads/2019/11/ILC-What-its-worth-Revisiting-the-value-of-financial-advice.pdf 2017

*All investments contain an element of risk and could fall in value as well rise and are not guaranteed