Money dilemmas: Should I change what I'm doing with my money?

Spring 2023

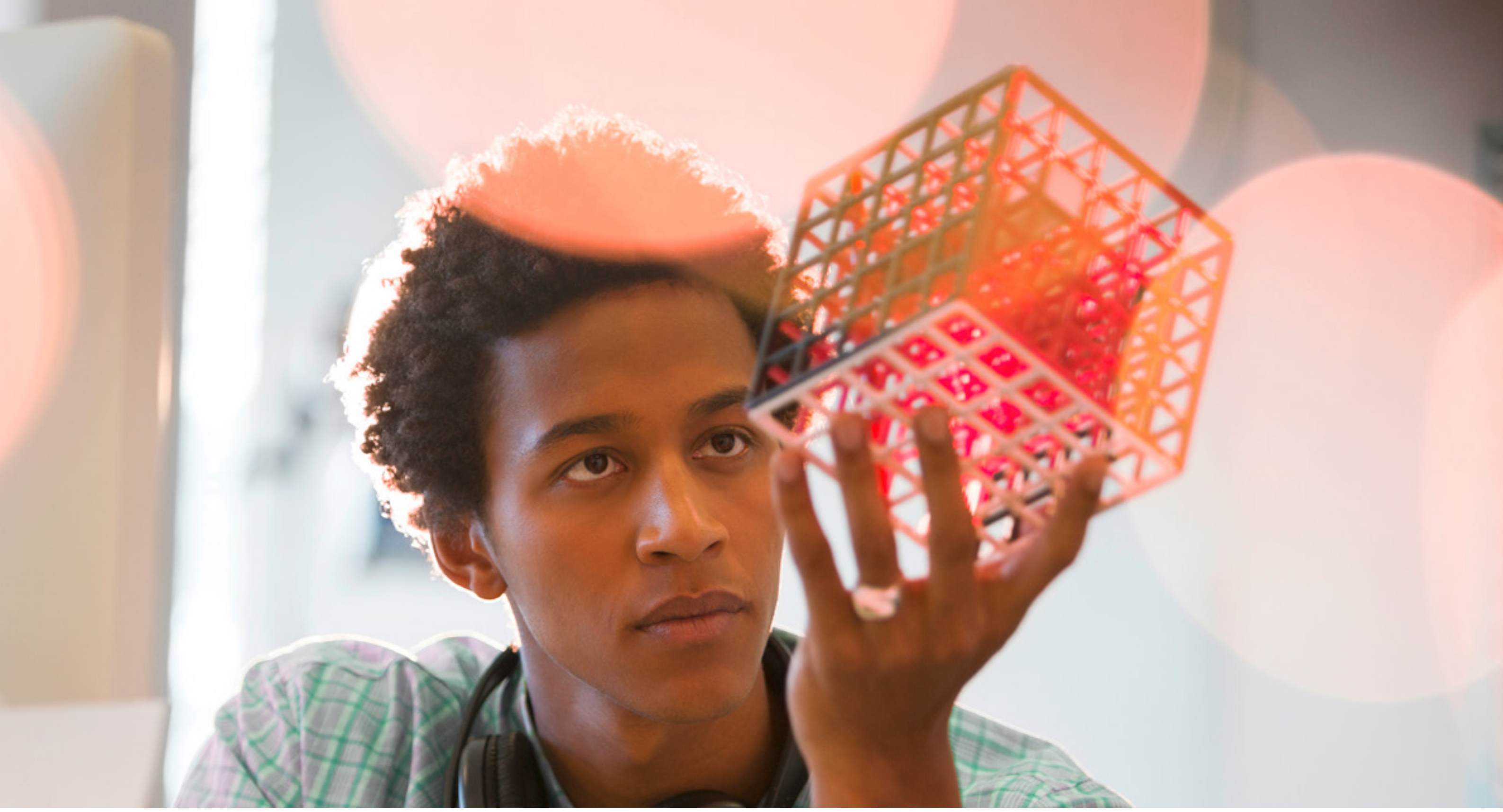
The UK is currently in the grip of the worst cost of living crisis in decades, with households hit hard by rising interest rates and high prices.

In January 2023, Savanta Comres carried out an online poll of 4,187 UK adults for BBC News. They found more than 8 in 10 of those surveyed were worried about the soaring cost of living.

How this affects your financial decisions

With prices on the up, the pressure on our pockets can feel relentless. We're all becoming more conscious of our expenses and thinking long and hard about where and how we can save money.

We know you want to make the best choices for you, so we've explained some common money dilemmas.



Should I stop paying into my pension?

Saving for the future is something we all need to do. The full amount you get from the state pension is currently just £185.15 a week, and the age you can get it is set to rise.

Findings from the Pensions Management Institute (PMI) show that 1 in 5 pension savers have either stopped or reduced their contributions in the last 12 months.

Things to think about

- Putting your retirement savings on the backburner may give you more money now to cover short-term spending – providing a bit of breathing space if things are tight.
- Remember, if you're employed your pension contributions are paid gross of tax. If you stop or reduce your pension payments the extra amount in your pay will be taxed so your pay might not increase as much as you hoped. It's worth understanding though what you're giving up. It's a bit like taking a pay cut, as when you stop paying into your pension you miss out on the top-ups you get from your employer and the government.
- Would reducing the amount you're paying into your work pension help instead? Talk to your employer about your options. That way, you're freeing up some cash while still investing in your future.
- Good habits take time to build up, and once you stop it can be hard to get going again. So if you do decide to reduce your pension payments for now, commit to restoring them again as soon as you can. Saving more now might bring your retirement forward by a few years or give you a more comfortable later life.

Worried about your mortgage payments?

If you're struggling with rising bills, you might think about how to manage your household expenses.

Things to think about

- If you're worried about your mortgage payments, talk to your lender, they'll be able to discuss the options available to you.
- Your lender could suggest reducing your monthly payments or extend the length of mortgage to reduce monthly repayments.
- It's not wise to just stop paying your mortgage, it's better to talk to your lender than getting behind on your mortgage, as the consequences of that could be a lot more serious.

If you've had extra cash to play with in recent years maybe you've been making overpayments on your mortgage. You may be wondering whether to stop these, before you do, you should think about:

- Whether your current household budget still has disposable income. Most lenders let you overpay by around 10% every year, penalty-free, which means you reduce the interest and clear the balance quicker. This saves you money in the long-term – so it's beneficial to keep overpaying if you can.
- Whether you can have an emergency fund in place. If you have to decide between overpayments or an emergency fund, it's wise to have an emergency fund in place first. This should be enough to cover your essential spending for 3 to 6 months.

Once you've paid off expensive debts and built up your emergency fund, you can then decide to return to making mortgage overpayments again.

Should I stop other regular investing?

The cost of living crisis might mean you're thinking more carefully about whether you can afford to keep investing. Pausing regular investments, or cashing them in, can feel like an easy 'quick fix'.

Things to think about

- If you can afford it, it's best to stay invested if you can. The one exception is if you have a costly debt you need to clear, as if that's the case it's generally better to pay this off first.
- The problem with stopping investing is you could end up selling when the market is down and getting back into investing when markets are higher. This can leave you in a worse position than if you'd stayed the course.
- Investing should be viewed as for the long-term, so for at least 5 years if not longer. This allows for the short-term ups and downs to be smoothed out.

As a more general rule, moving money you've put aside for the long-term out of investments and into cash could be something you want to avoid. We're finally seeing interest rates on savings accounts going up, which is welcome, but what you can get on savings still isn't keeping up with the rising cost of living. At the end of January according to Moneyfacts, even the best easy access accounts paid a return of less than 3% on your hard-earned cash.

Paul Davies, behavioural psychologist says:

'It can be very difficult to think about looking after your 'future self', especially if that future feels like a long time away. For example, a 21-year-old will have a different view of retirement than, say, a 55-year-old.'

'And when times are tough, the idea of a future self goes out the window. If you need that money now, that's where the actions we've talked about such as stopping pension contributions come into play. That's fair enough.'

'If you can, try to commit yourself to better financial behaviour in the future where possible. I like to think about it in terms of 'if this, then that' statements. So that might be something like: 'If I get a pay rise, then I will put 6% of my pay into a pension.' It's like a little instruction to yourself, which makes it easier to follow in future when things are on a more even keel.'

Ultimately, you're the best person to decide where your money should go. It comes down to being informed about what your money is doing – and knowing that short-term decisions can affect your financial future.

If you can get this balance right, your future self will thank you for it.

Useful resources

You can find out more about your state pension and get a forecast at gov.uk (search for state pension). More generally, organisations like Citizens' Advice citizensadvice.org.uk and MoneyHelper moneyhelper.org.uk offer free online resources that may help with your money dilemmas. Your lender or other product providers may also be able to offer support.

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