What advisers should look out for in 2022

By Cristian Angeloni, 21 Dec 21

Industry players discuss the challenges facing the sector next year

The last two years have been already hard for savers whose finances have been strained by the pandemic.

While we all hope the current situation will improve as quickly as possible, 2022 will undoubtedly come with its challenges.

Next year will see inflation grow, national insurance contributions increase, and energy prices following suit. 2022 will also mark a year since the freezing of personal tax allowances in Rishi Sunak's spring budget 2021, as well as the shift from a triple to a double lock for state pensions.

As a result, what should advisers keep their eyes out for in the coming months?

Industry players weigh in on the biggest challenges the advisory and personal finance industry will face in the next 12 months.

Personalisation

Steven Cameron, pensions director at Aegon, expects two big moves from the Financial Conduct Authority in 2022: a consumer investment strategy and its updated consumer duty.

"We expect the FCA to consult on aspects of its Consumer Investment Strategy early in 2022," he said. "It believes too many individuals are holding too much in cash and is targeting those with over £10,000 ($13,230, €11,700) of investable assets in cash, believing those who can accept the risk could be making their money work harder by investing it.

"This of course will also support the UK's post-pandemic economy.

"We expect a consultation on a new form of 'guided sales' to help support such individuals invest some of that excess cash. This is the first sign of the FCA considering a more personalised form of guidance with less regulatory burden than full financial advice.

"Advisers might want to start thinking about how they may wish to build a more personalised form of guidance into their client propositions, perhaps to reach new segments or in workplace situations."

On the consumer duty plans, Cameron said: "The aim of making sure firms have good customer outcomes at the heart of all they do is admirable, and the latest consultation adds more detail to FCA expectations.

“The final rules are expected by July 2022, with an implementation period running until April 2023. The draft regulations and guidance set out expectations for both manufacturers and distributors, including many areas where working together will be required to understand aspects such as target markets and new value assessments.

“All firms including adviser firms should get ready to undertake a substantial gap analysis exercise.”

Pensions

Cameron added that 2022 will also be the year when the freezing of the pensions lifetime allowance at £1,073,100 until 2026 will begin to bite savers.

“Since [the spring budget 2021], inflation has risen dramatically, meaning the impact of all frozen thresholds will be felt by more individuals.

“Advisers have a key role to play in helping individuals assess the risk of potentially exceeding the lifetime allowance, perhaps because of a combination of defined benefit (DB) and defined contribution (DC) pensions, and then to decide what if any action they should take as a result.

“This may involve explaining why exceeding the allowance may be better than sacrificing employer pension contributions.”

Baroness Ros Altman, a Pension Playpen All Star, said 2022 will likely see the UK government pushing more to make DC schemes work better for members.

“Regulatory change is a certainty in terms of delivering on policy decisions, and I would expect to see auto-enrolment reform lean towards increasing participation and contributions with existing levels and minimums stripped away.

“I hope pensions will be seen increasingly as a force for good and a catalyst for positive change, with requirements and encouragement for pensions schemes to support green growth and even help with the governments levelling up agenda.

“Most of all I hope 2022 will be a year where people get to know their pension and take increased ownership. Pensions are not just about money, they are about people and creating a better life in retirement.”

Plan for any possibility

If the last two years have taught us anything is that you can never plan too much for worst-case scenarios.

As a result, Will Stevens, head of financial planning at Kllik & Co, said there is a six-point checklist savers should consider in case 2022 turns into a "turbulent year".

According to Stevens, the questions to customers should ask themselves are:

- Do you have a rainy-day savings fund you can dip into in the case of an emergency? We generally recommend holding back between three to six months' worth of expenditure in an easily accessible cash account for just this purpose so that you're not left struggling to pay for an unexpected bill.
- Do you have financial protection and insurance policies in place that cover scenarios such as premature death, critical illness, inability to continue in your profession due to illness? Setting up protection policies to cover against worst-case scenarios can be incredibly useful in ensuring that you or any loved ones are taken care of financially if something happens that would negatively impact the affordability of your lifestyle.
- Have you drawn up an overview of your financial circumstances and any professional advisers so that they can be located in the case of an emergency? If you are unable to act, this makes it easier for those taking care of you to determine who to speak to. Equally, providing your professional advisers with contact details for a trusted party may also come in very useful in cases where you have lost mental capacity and they are worried you are susceptible to manipulation from an outside source, for example from scammers trying to fraudulently acquire your assets.
- Have you put in place a Will to ensure your assets go to who you would want them to go to in case of your death? Dying intestate, without a valid will, can result in some loved ones not taken care of the way you maybe would have wanted them to so it's important to get this right to prevent what will already be a difficult time for those left behind becoming even harder.
- Do you have lasting powers of attorney put in place? These are two documents that allow you to nominate people you trust to act on your behalf on health and welfare matters and on property and financial affairs if you lose capacity, perhaps due to severe illness. Not putting these in place can make it very challenging for

your loved ones and you as they are not able to automatically take control of your affairs without these documents and would have to go through a costly and lengthy process of applying for permission from the court of protection.

- Have you created a provision to pay for potential long-term care costs, should they be required in later life? The government made headlines this year with changes to the provision of long-term care and imposing a so-called lifetime cap on care costs – to be funded by the health and social care levy. However, the practicalities of this scheme will leave those wanting to pay for private care, or with assets above the taper, subject to covering most of their own costs. Therefore, it remains as important as ever to ensure you have set aside some provision for this.

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