# Red screens at night ...

## Tom Murray explains the need for a more long-term view on savings despite the current market turmoil

**"Red sky at night, Shepherd's delight". According to the old saying, if the sky is red in the evening, the next day will be fine. Unfortunately, the same does not apply to trading screens. In Investment Houses across the globe, the red screens that are glowing most evenings show the further decline in the global economy as investment fund values fall. Which generally would not indicate a fine day tomorrow. Instead, it shows signs of another torrid day on the markets as fund values come under pressure from bad economic news from almost all the world's developed economies.**

Falling fund values make an exciting headline, and the media have been quick to report on it in the hushed tones normally reserved for a major tragedy. The result is that the general public getting their financial information from the nightly news is being given the impression of a declining economy and a general sense that all is not well.

### A chill wind

This is backed up by their day-to-day experience, as rapidly rising inflation increases their living costs in a manner that hasn't been seen in a generation. For many people, rising energy bills combined with dramatic food inflation and increasing mortgage repayments have made things tight already. Hence, the news of falling markets and currency values exacerbates their feelings of financial insecurity. The current turbulent political situation in the UK adds further to the feelings of uncertainty that are unsettling the mood of the general population.

These feelings are inducing a sense of mild panic in the population. There is a sense that things are just getting worse and that it is foolish not to be trying to prepare yourself to withstand the financial Armageddon that the media is so confidently predicting day in and day out. A sensation that, if you are keeping your head when others are losing theirs, perhaps you don't quite understand the seriousness of the situation. Given this level of uncertainty, the question becomes what you should be doing to act in response to all these warning lights that are flashing red.

### Pare to the bone

The obvious answer for most people is to eliminate all non-essential spending to prepare for the coming storm. "Batten down the hatches" becomes the cry confirmed by the inundation of similar attitudes on social media. Social media, like all media, thrives on drama and thus it encourages people to discuss worst-case scenarios and generally take extreme positions, those being the views that get the most ‘likes’, comments, and recommendations.

This hysteria can make people feel that their personal situation is more precarious than it is and push them into taking more extreme action than their particular situation may actually require. They can become over-pessimistic about the future and be far less confident in their ability to survive the current turbulence.

### Take the easy way out

When that feeling arises, people look for quick and easy ways to strengthen their balance sheet and cut unnecessary outgoings. One of the most obvious areas for many people to cut is their long-term savings, which immediately reduce their weekly or monthly outgoings and help quell any panic they are feeling about their financial situation.

The effect on their long-term positions is not apparent to them and the critical point about a crisis is that it tends to shorten the time horizons of what one is concerned about. Already, we see the impact this is having with an increase in enquiries to employers about opting out of auto-enrolment schemes for pensions, which have increased significantly in recent months.

### Don’t panic, don’t panic!

Of course, the Government has been making moves to support people through the economic crisis. The cap on energy prices is a good example of how Government action can help the most financially vulnerable households through tough economic times. However, the messaging for this is not good. Whether they are trying to get credit for their actions or explain why they are increasing spending, they over-emphasise the severity of the situation that their policies are counteracting.

This approach has the effect of increasing the sense of crisis in the country rather than easing it. The sense of the Government riding to the rescue can only give people the impression that they are threatened and need saving. Too much of this kind of messaging helps push people into making unnecessary reductions in their savings and spending as fear takes hold and they stop making rational assessments of their situation.

### Education is the answer

The question for both the Government and the financial services sector (the life assurance industry in particular) is how to reduce this level of panic reaction and help people to make plans based on their own true long-term interests. How can they make the general public see that a knee-jerk response to the general sense of impending economic doom that is being spread across the airwaves and internet could cause them to make poor decisions that will have an outsized negative impact on their future financial well-being?

This is where the provision of more financial advice would be a lifesaver. Of course, there are many articles advising about ways to save money – lowering your thermostat and batch cooking meals, for example – but these are pitched at a general level and can’t take into account each individual’s personal circumstances. Thus, they are more likely to increase the fear factor rather than reduce it and therefore tend to operate against allowing people to think rationally.

> “The Government, the insurer and the saver have a vested interest in maintaining the rate of saving for the future. The question is how to help their policyholders and scheme members see what is in their long-term interest.”

### Nothing in life is free

Access to more individualised advice is needed to encourage people to make the savings they need but not at the expense of their long-term financial security. To be sure, there will be some people whose financial situation is now all about survival and who cannot afford to think about the future. But for many, the situation is not that extreme and reducing their savings will make them less able to withstand the type of short-term financial hit that can happen to anybody, such as illness preventing them from working.

And there are certainly many whose retirement savings are below what they need for a comfortable retirement. They need to be encouraged not to reduce these savings even further in order to deal with the straitened times that are currently in place. Inflation will ease eventually, but the damage done to their long-term savings won’t recover easily.

The problem becomes one of cost. Advice is expensive in the short term. Despite the value of it as a long-term investment as it helps build more wealth for your future, the idea of paying fees to a financial adviser during an economic downturn is not one that many will leap to as they feel the need to reduce spending. It is in the insurer’s interest to encourage existing policyholders and auto-enrolees to maintain their savings habits. If they stop, getting them to restart will be difficult and expensive. It is also in the Government’s longer-term interest as it seeks to prevent the future economic cost of an ageing society from becoming overwhelming. The Government, the insurer and the saver have a vested interest in maintaining the rate of saving for the future. The question is how to help their policyholders and scheme members see what is in their long-term interest.

### Not a Marvel movie

Government can help by dialling down the rhetoric and re-positioning their help as being more of a safety net than an immediate rescue mission. They should be urging people to take a more holistic view of their position and put the emphasis on sensible economies rather than contributing to the sense of hysteria around an impending crisis.

And they should be urging people to consider their long-term interests, rather than just increasing the level of panic so that they can seem to be more of a superhero for organising the rescue. The same applies to the Opposition – tempting as it is for opposition politicians to make wild claims about impending doom for political purposes. The longer-term interests of their constituents also need to be considered by taking a more measured approach. It may make for less exciting media spats, but it would serve the citizens of the UK better.

### Information, information, information

Access to digital tools to help people to understand the impact of reducing or stopping their savings will be a vital part of helping people to understand the cost of any move to bolster their balance sheet by reducing their long-term savings. Intuitive tools that allow employees and policyholders to see the impact that a reduction in savings will have in the future could encourage them to maintain their savings and do their best to weather the difficult times without losing sight of what is in their long-term interest.

As the idea of spending money on getting financial advice when all the noise is about the difficulties of making ends meet may well seem an extravagance they can’t afford, the insurers need to make some investments in order to bring home to their scheme members and policyholders the effects of any short-term action to reduce outgoings by stopping saving and investing. Time and effort spent on this could prove one of the best investments insurers make for themselves and their customers.

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