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wealth management for life

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Your Window on

Home Finance

SPRING 2019

How well is your pension performing?

Do you know how well your pension is performing and will it enable you to enjoy a comfortable retirement? When it comes to pension planning, there are a variety of options available to you, including pension transfers. Here, Gary Slater, our pension transfer specialist, outlines the benefits and risks of this type of arrangement.

"In 2015, the Government introduced new pension freedoms, giving people over the age of 55 the ability to access their entire pension fund at any time without losing tax advantages. Under these rules, the cash value of a defined benefit or salary-related pension can be transferred to another pension scheme. This option is available to people who have left an employer and wish to change or consolidate their pension funds; employees reaching retirement age; and those taking early retirement or redundancy.

Pension transfers allow you make certain choices regarding your pension plan. For example, you could select or de-select certain benefits, choose the assets into which your pension is invested or change the way you pay into it. If your health is in decline, gaining access to your pension pot early on in retirement may be beneficial. Also, your spouse or civil partner may receive up to 50% of the pension value on your death.

Whilst this flexibility is attractive, DB pension transfers do have risks. You will give up a fixed retirement income, although this may not concern you if you have additional assets and aren't solely dependent on your pension. The transaction is irreversible and you cannot reinvest into the original scheme. Your investment may go up as well as down.

If you wish to discuss your pension options, we offer fully independent, regulated financial advice. Please contact me at gary.slater@dandgifa.co.uk.

The impact of humble mortgage overpayments

If you've ever wondered whether it's worth making overpayments on your mortgage, then new research[1] could help you decide.

The data shows the benefits of a monthly £10 overpayment with interest rates at their current low level and illustrates that even modest overpayments can make a difference to the day when borrowers become mortgage free.

If a borrower took out a £200,000 mortgage over a 25-year term, they could save £1,146 in interest (based on current rates) and become mortgage-free four months earlier. By making a £100 overpayment each month on a £200,000 mortgage, a borrower could save £9,948 in interest and reduce their mortgage term by three years in the process.

Those with a £500,000 mortgage, making the same £100 overpayment, could save over £10,000 in interest and become mortgage-free one year and five months earlier.

Don't forget to save too

Whilst these figures show that modest levels of overpayment can prove effective, it's important to remember to keep some savings aside for rainy day events such as unexpected bills and expenses.

[1]Santander, 2018

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.

INSIDE THIS ISSUE:

HELP FOR 'MORTGAGE PRISONERS'

Good news for the estimated 140,000 homeowners trapped on high interest rate home loans with unregulated or inactive firms, who have been unable to switch to a more cost-effective loan. The Financial Conduct Authority Chief Executive has now written to the Chair of the Treasury Committee, raising concerns over the issue and detailing plans to publish a consultation paper this spring.

NUMBER OF HOUSEHOLDS RENTING JUMPS 61% IN 10 YEARS

Office for National Statistics[2] data shows that the rental market has continued to grow steadily over the last decade. The number of UK households in the private rented sector jumped from 2.8m in 2007 to 4.5m in 2017. At the end of the 2017 financial year, the median weekly rent payable across the UK stood at £134.

YOUNG ADULTS IN 2018 FINANCIALLY WEAKER THAN 20-SOMETHINGS IN 2008

Further evidence highlights the financial plight of those aged 22 to 29. Research[3] shows they are less likely to own a home or have any savings, compared with the same age group in 2008. This lack of accessible savings could mean that if they were faced with an unexpected expense, they would get into debt or need to ask the Bank of Mum and Dad for help.

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[2]ONS, Jan 2019 and [3]Oct 2018

New build or period property?

One of the first decisions you need to make when looking for a property is what type to buy. New properties can come with guarantees, light airy rooms, modern fitted appliances and can be energy-efficient and often cheaper to run. Older properties arguably can have more character, be more spacious, and often have larger gardens. Depending on their age, they can be more expensive to maintain, and may not be as well insulated as newer properties.

Something new

Many people are drawn to new build homes because they like the idea of being the first owners and prefer somewhere that doesn't require renovating. However, there can be teething problems.

Thanks to the government's Help to Buy scheme, it is much easier, particularly for first-time buyers, to get funding to buy a new home. Some developments provide a choice of fixtures and fittings, so buyers can customise their property to their own taste. If a property is registered with the National House Building Council, it will have a 10-year warranty and protection scheme.

They have the further advantage of no onward chain and can come with part-exchange deals that can speed up the moving process.

Something old

Older properties tend to come with added extras like their own ready-made community and amenities. They can be cheaper than new builds, offer the added charm of period details, and look and feel more individual. They can offer more scope for extensions and loft conversions, meaning that they can grow with the family.

Getting a survey done on both new and old properties is vital, as it will highlight any defects that could be costly to put right once you've moved in.

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Life insurance – setting the record straight

It's too expensive
Not so. Life insurance is far less expensive than many people imagine. We can help you find a deal that fits your budget and you can always take out additional cover later on.

I'm too young to need cover
Protection policies aren't just for older people. The younger and fitter you are when you take out a plan, the cheaper the premiums will be. Leave it too long and you could find yourself paying a much higher price.

I get cover at work — I don't need more
The amount you're covered for might not be sufficient for your needs, and if you change jobs, that will change too. Plus, with your own policy, the cover can be tailored to your specific needs.

I'm not a breadwinner, so I don't need insurance
The bill for replacing all the services homemakers provide – like cooking, cleaning and childcare – can amount to a hefty sum. If you weren't around to provide these, then your partner could face considerable additional costs. Many people hope their family would rally round, but raising a family is costly and family members won't have planned for the added expense.

I don't have kids, so it's not relevant to me
Whilst it's true that there's less need if you don't have a family, how would your partner manage if you weren't around to contribute to the bills?

There's too much choice
It's true there are lots of different types of policy, each designed to provide cover for specific risks. That's where we can help. We can find the right type and level of cover to meet your insurance needs and your budget.

Looking for a mortgage? Why it's good to talk

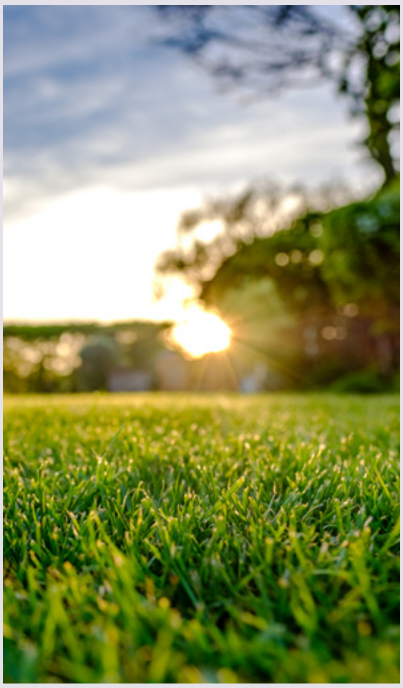
With so many mortgage deals on offer from a wide range of lenders, it can be really hard to know which one is right for your particular circumstances. There are fixed rates, variable rates, deals with options such as cashback, and offset arrangements, to name but a few. Then there's the stress of completing and submitting your application to a lender.

Help is at hand
We will research all of your mortgage options, and help you find a deal that's appropriate for your budget. We will talk you through terms and conditions and guide you through the information and documentation you will require.

We will explain how to get a mortgage agreed in principle. This is important as it shows you are a serious buyer and are in a position to proceed with a purchase.

And that's not all; we can offer good advice on important points such as choosing a solicitor, why it makes sense to have a property survey done, and when you need to insure your new home.

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.



Over half the UK's wealth is tied up in land

Research from the Office for National Statistics[4] has shown that the majority of the UK's wealth is tied up not in property, but in the land that it stands on.

With the UK's net wealth valued at £9.8tn, land now represents over half of the UK's total net worth. At £5tn it is worth more than all the homes, commercial property, machinery and equipment and all the other non-financial assets combined.

This means that the UK now has the highest proportion of wealth tied up in land of any G7 country.

[4]ONS, Aug 2018

SUBSIDENCE CLAIMS QUADRUPLE

The Association of British Insurers (ABI) reports that the long dry summer of 2018 saw subsidence claims quadruple to the highest level in more than a decade. In just three months of last year, over 10,000 households made subsidence claims worth a total of £64 million. This increase represents the highest quarter-on-quarter jump since records began more than 25 years ago.

The ABI advises those who spot cracks in their property and fear they may be experiencing subsidence to contact their insurer for guidance and assistance.

Home Insurance – a closer look at add-ons

Home insurance acts like a financial shock-absorber and protects thousands of families each year from unexpected and unwelcome loss, damage and expense.

Whilst standard policies can cover buildings and all the things kept in a home such as TVs, furniture, carpets and personal belongings, you can also choose additional cover for specific risks and tailor the policy to meet your needs.

Accidental damage
As the name suggests, this provides cover for unintentional one-off accidents that harm your possessions. So, if paint gets spilt on your carpet, or you drop your laptop and smash it, then you'd be able to make a claim.

Personal possessions away from home
This cover protects portable items such as cameras, laptops, or jewellery, away from home, up to a specified limit. It can provide useful protection if, for example, your children take their phones or iPads to school, or you lose your watch on the way to work.

Home emergency cover
This covers misfortunes like burst pipes, boiler breakdown, blocked drains or electrical failure. It can provide access to a 24-hour helpline and also pay towards the cost of accommodation if it's not safe for you to stay in your home after an emergency.

Legal expenses
This type of insurance typically covers legal proceedings relating to your home, employment, death or personal injury, as well as any award of the other party's legal costs.

Jewellery, antiques and musical instruments
Many people wrongly assume that these will all be automatically covered on a standard home contents policy. Some insurers restrict the cover for high-value items, so it pays to ask us to help you put the right cover in place.

AVOIDING FINANCIAL VULNERABILITY

There's growing evidence that people aren't saving as much as they used to, and are leaving themselves vulnerable should they face a financial crisis.

A third of Brits do not have enough savings to cover a month's rent in the event that they lost their job, a survey has shown[5].

In 2017, UK households spent more than they earned for the first time in almost 30 years. In addition, shoppers are increasingly turning to their credit cards, not just for bigger one-off purchases but to fund their day-to-day living expenses too. Spending on cards rose by 12.1% in October 2018 compared with the same month in 2017.

Everyone needs a back-up plan
We could all benefit from having a savings plan in place to act as a buffer. Even small amounts saved regularly build up over time.

[5]Oaksmore, 2018

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change. The information contained within this newsletter is for information only purposes and does not constitute financial advice. The Financial Conduct Authority does not regulate commercial buy-to-let mortgages.

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