ONE STOP Finance Ltd

CHARLESTON HOUSE, 13 HIGH STREET, HEMEL HEMPSTEAD, HERTS, HP1 3AA.
ALSO AT: 42 LYTTON ROAD, BARNET, HERTS, EN5 5BY.
T: 01442 232272 E: INFOHEMEL@OSFG.CO.UK
F: 01442 232275 WWW.OSFG.CO.UK

FINANCE MATTERS SUMMER 2017

INSIDE THIS ISSUE

KEY POINTS FROM THE SPRING BUDGET 2017

- The Office for Budget Responsibility (OBR) forecasts the UK economy will grow by 2% in 2017
- UK's national debt now stands at almost £1.7 trillion or a sobering £62,000 per household
- Tax-free dividend allowance will be reduced from £5,000 to £2,000 from April 2018
- £425 million investment in the NHS in the next three years
- Investment in technical education for 16 to 19 year olds rising to over £500 million
- £536 million for new free schools and to maintain existing schools
- A three-year NS&I Investment Bond with a market-leading interest rate of 2.2% available for 12 months from April 2017
- The Lifetime ISA will be available from 6 April this year

RETIREMENT REGRETS AND HOW TO AVOID THEM

First, the good news. Research[1] shows that nine out of ten recent retirees are really enjoying their retirement. Freed from the restrictions of working life, they can pursue their hobbies, take lots of holidays and spend more time with their families.

Where people have regrets, it's often to do with the way they planned for their retirement and the decisions they did or didn't take about their finances whilst there was still time.

NOT SAVING ENOUGH

Some people wish they'd taken the opportunity during their peak earning years to put more into their pension pots. Even small sums saved earlier in a working life can mount up over the years. There's valuable tax relief available on pension contributions, providing an extra encouragement to save.

NOT PLANNING EARLY ENOUGH

It really pays to plan early and keep an eye on how your pension is progressing during your working life. That way, you can think about making additional contributions, or saving into tax-efficient savings accounts like ISAs to boost your income in retirement.

NOT SEIZING THE OPPORTUNITIES

Older pensioners often regret not having travelled more while they felt able to do so. It's often said that there are two times in retirement, when you are healthy, and when you are not. It's a good idea to plan your finances in such a way that you can spend more on leisure pursuits and travel in your early more active retirement years, whilst at the same time keeping funds in reserve to cover the likely cost of care in later life.

GETTING ADVICE ON YOUR PENSION OPTIONS

Should you opt for an annuity? Go into income drawdown? Take a tax-free lump sum? Defer your state pension? These are just a few of the questions you might need to consider as you approach retirement. Each one of them has implications for your future, and each one requires some careful thought.

Not getting appropriate advice is often mentioned as a regret by those people who feel they made poor financial choices when they retired. Taking professional advice can help you understand the implications of each of them in the context of your financial circumstances.

[1]Prudential, 2016

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

With interest rates remaining low, but inflation starting to climb, investing rather than saving can give you the opportunity to increase your capital or potentially receive a higher income from your savings.

Investing can present a few challenges, and your money can rise and fall in line with stock markets, but adopting some simple guidelines should help.

DON'T PUT ALL YOUR EGGS IN ONE BASKET

When investing it's worth heeding the maxim 'don't put all your eggs in one basket'. It's good to spread your money around, to avoid being overly-exposed to one share or one market sector. A portfolio that includes a range of assets alongside equities, such as bonds, property, and cash, has over time been shown to perform better than one that is only invested in one type of asset.

AVOID THE KNEE-JERK RESPONSE

Whilst it's easy to overreact to political events and economic news, it's better to take a long-term view. Long-time investors have learned from experience that markets can be volatile and will inevitably go down as well as up from time to time. They know that probably the worst investment strategy you can adopt is to jump in and out of the stock market, panic when prices fall and sell investments at the bottom of the market. It's important to view investment as a medium to long-term exercise.

THINK ABOUT TAX

It makes sense to use your annual tax-free allowances. With the ISA allowance increased to £20,000 from this April, investors can build up a sizeable fund over the years that's protected from income tax and capital gains tax. If you invest for your retirement, then pension contributions attract valuable tax relief too, within HMRC limits.

INVEST REGULARLY

Investing regularly over months, years or even decades means that short-term downturns in the markets can be ironed out, and shouldn't have a major impact on your portfolio's ultimate performance.

ARRANGE REGULAR REVIEWS

Scheduling regular reviews means that your investments can, if necessary, be altered or rebalanced in line with your objectives and potentially changing attitude to risk.

An annual financial review also provides you the opportunity to revisit your financial strategy. Have your financial goals and priorities changed? A review gives you a chance to formally think about your financial goals, and ensure that your portfolio is in alignment with them.

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HOW TO PAY YOUR MORTGAGE OFF EARLY

Making plans to pay off your mortgage early is a great idea. It will mean that you can put the money you no longer pay out each month to good use, but how practical is it when people are overwhelmed with day-to-day expenses? Here are a few ideas to help you consider the options.

PAY MORE THAN YOUR SET MONTHLY PAYMENT

If you increase your mortgage direct debit so that you pay back more than your normal payment, it will have the effect of shortening your mortgage term and reducing the amount you pay back in total. Common sense, yes, but you would be surprised at how small amounts here and there really do add up. It doesn't have to be every month, but if you get in the habit of using any extra cash here and there, over time you will be thrilled you made the effort.

SHORTEN THE REPAYMENT TERM

While lenders tend to use a term of 25 years when illustrating repayment terms, this isn't set in stone. If you can demonstrate that you can afford the higher monthly repayments, you can ask for a loan for a shorter number of years. The shorter the term, the cheaper the loan will be overall as you will pay less interest.

USE A BONUS, WINDFALL OR INHERITANCE

If you find yourself in the lucky position of coming into money, then consider using some or all of it to repay some of your mortgage as a lump sum payment.

THINK ABOUT OFFSETTING

With an offset mortgage, although your mortgage won't be paid off earlier, the total savings balance that you hold with your lending bank or building society effectively reduces the amount of the outstanding loan on which interest is charged. So, if you have savings of £20,000 with them and a £200,000 mortgage, you'd only be charged interest on £180,000.

POINTS TO NOTE

If you have loans or credit card debts, it may make sense to pay these off first. Also, some mortgage lenders impose early redemption penalties or stipulate a minimum you can over pay.

GET A MORTGAGE REVIEW

If it's been a while since you took out your current mortgage, or your existing deal is nearing its end, then it's an ideal time to take mortgage advice to see if there's a better, more cost-effective mortgage deal available that would be right for your circumstances. With interest rates remaining low, mortgage rates continue to be very competitive.

A mortgage is a loan secured against your home or property. Your home or property may be repossessed if you do not keep up repayments on your mortgage or any other debt secured on it.

IS IT TIME TO REMORTGAGE?

Recent figures from Moneyfacts show that the motivation to remortgage has hit its highest level since 2008, and many market watchers think that this trend looks likely to increase over the coming year.

WHY REMORTGAGING CAN MAKE SENSE

When your mortgage deal ends, your lender may automatically move your mortgage to their Standard Variable Rate (SVR), which normally rises and falls in line with the Bank of England base rate.

The average SVR in February of this year stood at 4.56%. Back in February 2015, the average two-year fixed deal was 3.14%. So, this means that borrowers who have reached the end of their deal would see a rise of 1.42% if they reverted to the typical SVR. This is the highest increase recorded since November 2008. By contrast, the average two-year fixed mortgage rate is now around 2.33%, so by remortgaging, the same borrowers could enjoy a reduction of 0.81%, which could represent a welcome drop in outgoings.

A CHANGE OF ATTITUDE IS NEEDED

Interestingly, a study conducted by YouGov, shows that just 28% of those with a mortgage have switched provider to secure a more favourable deal at the end of their fixed-rate deal. By comparison, 50% of people have switched their energy provider to save money. Whilst the saving to be made by switching to a different gas and electricity supplier can be hundreds of pounds, the savings to be made from switching mortgage lenders could amount to thousands of pounds over the term of a typical loan.

There are currently estimated to be around three million people paying their lender's SVR on their mortgages. So, if you're one of them, this could be a good time to get some

professional help and advice from a mortgage adviser to see if you could switch to a more suitable mortgage deal.

You may have to pay an early repayment charge to your existing lender if you remortgage. Think carefully before securing other debts against your home.

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WHAT YOU NEED TO KNOW IF YOU'RE RETIRING IN 2017

However much we enjoy our working lives, we all look forward to retiring at some point. For many of us it's the welcome prospect of more time to spend with friends and family, or pursuing our hobbies and interests, or even starting a new career. So, if retirement beckons, here are some tips to help you plan your finances to make the most of your later years.

MAKE SURE YOU KNOW WHAT YOU ARE ENTITLED TO

You'll need to work out how much you'll have to live on and how much you'll need to spend. If you've had several jobs during your working life, you may also have built up several pension pots, and there's your state pension to consider too.

It's a good idea to put together a budget that includes all your sources of income, your basic living costs, money you'll want to spend on holidays and pastimes, and funds to cover emergencies.

DON'T GET CAUGHT OUT BY SCAMMERS

It's a sad fact of modern life that there are scammers around who are anxious to get their hands on your pension funds. They email, cold call and can even turn up unannounced on your doorstep. Very often, scams don't look like scams. They sound legitimate and come via convincing websites and glossy brochures. Don't get taken in; if an investment sounds too good to be true, then the chances are that it is. You can check out scams on the Financial Conduct Authority website (Be a ScamSmart Investor).

LOOK TO THE FUTURE

Retirement gives you more time for your family, and that can include practical matters like making a Will and thinking about putting a Lasting Power of Attorney in place, so that if the time comes when you aren't able to make decisions for yourself, you have nominated someone you know and trust to act on your behalf. If you think that your estate might be subject to inheritance tax, then this could be a good time to get some professional advice as to how to plan your wealth so that more of it will go to your heirs.

GET SOME GOOD ADVICE

The pension reforms that came into effect in 2015 gave greater flexibility and more choice. Those in personal pensions can retire from age 55, and people no longer have to take out an annuity; that's just one of many options open to them when planning their income in retirement. There is also the option to take all the cash out in one lump sum, although to do so could mean a hefty tax bill.

With life expectancy continuing to rise, many people retiring today can look forward to several decades in retirement, so it's more important than ever to make the right decisions about your finances. Financial advice can help you understand your options, make the most appropriate choices and plan your finances for the future.

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WOMEN FALTER FINANCIALLY

When it comes to saving and investment, recent research[1] has found marked differences in the attitudes and approach adopted by men and women. Men are twice as likely to invest in the stock market, and more likely to have around £7,500 in the bank, compared with the £1,500 held on average by women. A third of women only have £500 saved.

Both sexes blame their lack of disposable cash, but a reluctance to invest by women may be down to a lack of understanding of how financial markets work, a concern over the level of risk they might be exposed to, and a fear that they might not be able to access their cash quickly and easily if they needed to; all fears that could be allayed with the right financial advice.

Fewer women than men have a pension plan in place. Many women may be hoping to get the full state pension, but may get less if they contracted out of the additional state pension top-ups and under-paid National Insurance during their working lives.

[1]Wealthify, 2016