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FINANCE MATTERS SUMMER 2019

INSIDE THIS ISSUE

IS A 40-YEAR MORTGAGE A LIFELINE OR A LIFE SENTENCE?

Most people who choose a 40-year mortgage do so because they want a low monthly repayment. If you were to take a typical 25-year mortgage, your repayment would be higher. By stretching out the loan, monthly payments decrease.

WHAT YOU NEED TO CONSIDER

While lower monthly payments may be attractive and can represent your best chance of getting onto the housing ladder, there are downsides you should be aware of. Taking out a 40-year mortgage means you'll pay more in interest, and you'll find that you build equity, the amount of the property that you in effect own, more slowly.

Even if you don't actually keep a 40-year mortgage for 40 years, the loan is designed with a 40-year timeframe in mind, so you could find that the interest rate is higher than it would be for a more traditional mortgage term. The chances are you'll be making repayments in your retirement years, so that's something you'll need to consider. It makes sense to check that you can make overpayments if you can afford them and consider swapping to a shorter-term loan when your circumstances allow.

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.

WHICH SEASON IS BEST FOR SELLING YOUR HOME?

The answer to this is that it depends on a range of factors, but there are some seasonal trends that can help you decide when to sell.

Estate agents report that typically once the warmer weather arrives and the evenings are lighter for longer, people are more likely to think about moving home, especially if they have school-age children and want to arrange their move around the summer holidays.

BREXIT CASTING A SHADOW

However, economic and political events play their part too. The uncertainties surrounding Brexit have meant that in some parts of the country, especially London, markets have been subdued in the first few months of this year.

Many homeowners wasted little time listing their properties once the new Brexit date at the end of October was confirmed. Nearly half (49%) of major UK towns and cities analysed by online estate agent Housesimple[1], saw an increase in listings in April. The biggest month on month rise was in Stevenage (69.4%), followed by Salford (43.8%), while Chichester saw a rise of 33.8%. In London, the biggest rise was in Kensington and Chelsea, with listings up by 17.3%.

AUTUMN AND WINTER ACTIVITY

Once the school holidays end, market activity tends to pick up. Buyers think ahead and often picture themselves celebrating Christmas in a new home. Although December sees house sales fall, by January those intent on fulfilling their housing dreams in the coming year start to be in the market.

PRICE IS AS IMPORTANT AS TIMING

Whatever time of the year you intend to sell, the price has to be right. Ideally you want to create plenty of interest and encourage a good number of viewings to help ensure you find a buyer. You can get an idea of what your property might fetch by looking at the various online sites that show the prices that properties in your area have sold for, as opposed to the figure that they might have been advertised for.

[1]Housesimple, May 2019

SHOULD YOU REMORTGAGE?

Whilst everyone's circumstances are different, remortgaging could make sense if you can get a better deal than the one you are currently on. You may, for instance, be able to find a deal that will mean you pay less interest, or one that gives you more flexibility, for example the facility to make overpayments so that you repay your mortgage quicker.

Given the hundreds of different mortgages available, getting professional advice will not only help you get the right deal for your circumstances, it will save you time and stress too. Get in touch.

HOMEBUYER REGRETS, THEY'VE HAD A FEW

Thousands of people move home every year and settle happily into their new property, but some experience buyer remorse. Here are some of the problems that can occur and how to avoid them.

FAILING TO CONDUCT A STRUCTURAL SURVEY

Poor quality building work or a previous owner's neglect can mean expensive repairs, so a structural survey is important. More serious problems like subsidence can leave a house uninsurable and potentially unsellable.

MAKING A RUSHED DECISION

Buying a property is a huge commitment and needs careful consideration. However, it's easy to put yourself under pressure to buy, especially if it's your first home. Take time and think carefully before agreeing to purchase a property and be sure it's right for your needs.

PAYING TOO MUCH FOR YOUR PROPERTY

It can be tempting when faced with the property of your dreams, to spend more than your budget. The excitement of finding a home that you like can lead to you overstretching financially and then regretting this afterwards. Have a clear price in mind and be prepared to widen your search area in order to keep within your budget.

LIFE INSURANCE: IS IT TIME TO REVIEW YOUR COVER?

If you've taken out a life insurance policy it's tempting to cross this important task off your 'to do' list, put the paperwork somewhere safe and forget all about it.

However, if you don't review your policy from time to time, you could risk being underinsured, or be missing out on a newer, more cost-effective policy that might better suit your needs.

So, here are a few life stages when it often makes sense to talk about protection insurance with us.

GETTING MARRIED OR ENTERING A CIVIL PARTNERSHIP

If you've decided to share your lives, the chances are that you'll also be sharing your wealth. This means that it's important to make sure that if anything were to happen to either of you, there would be funds available to meet your financial commitments.

MOVING TO A BIGGER HOUSE

A larger home often means a bigger mortgage, so you need to consider taking out more protection insurance to cover the additional amount you're borrowing.

HAVING MORE CHILDREN

If your family is growing, your financial responsibilities are likely to increase, and your cover will need to reflect this. It is often when families reach this stage that they find it's appropriate to consider other forms of cover, such as accident, sickness and unemployment, critical illness or income protection.

YOU'VE GONE UP IN THE WORLD

If you've received a salary increase or promotion, your lifestyle might have changed too. Your children may be in private school, and your family may have got used to expensive holidays and meals out. If that's the case, then it might be time to increase your cover, so that if anything were to happen to you, they could continue to enjoy a good standard of living.

RETIREMENT BECKONS

At this time in life, a protection policy can help in Inheritance Tax planning, providing a payout on death that will help cover a tax liability on your estate.

SCAMMERS IMPERSONATING HMRC

Scammers are pretending to be from HMRC and using threatening tactics to try and convince victims to part with large amounts of money or face the risk of being arrested. This is a particularly nasty scam. Victims are threatened with lawsuits, warrants for their arrest or demands for thousands of pounds of outstanding tax to be paid. In another version of the scam, automated voicemails are left saying that recipients or their solicitors must get in contact or face the legal consequences.

ELDERLY TARGETED

Those targeted are often elderly and some have felt sufficiently pressurised to make payments. HMRC say that they have received more than 60,000 reports of phone scams in the six months to January 2019, an increase of 360% compared to the previous six months. Fraudsters are also impersonating HMRC online and using SMS.

ADVICE

Don't assume that anyone who calls or contacts you out of the blue is who they say they are. HMRC will only call you in connection with a debt that they have already made you aware of in writing.

HOW WEALTH GETS HANDED DOWN THE GENERATIONS

The rise of the Bank of Mum and Dad shows how the younger generation increasingly needs to rely on financial support when they face major expenses such as buying a property or raising a family.

New figures[2] show the extent to which parents and grandparents are making gifts and loans. Recipients are commonly those aged 25 to 34, with 11% in this age bracket receiving more than £500 during the previous two years; the average across all age groups being £2,000.

INHERITANCES PEAK FROM AGE 55

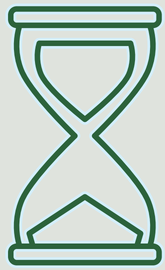
At the other end of the scale, those aged 55 to 64 are most likely to receive larger inheritances, receiving on average £33,000. This figure from the Office for National Statistics shows that it's wise not to put all your retirement eggs in the inheritance basket.

Interestingly, a survey by Wealth Manager, Charles Stanley, has shown that millennials may have unrealistic expectations as to when they will receive an inheritance. One in seven questioned said they expected to inherit money before they are 55, hoping to receive £130,000. However, the average inheritance across all age ranges during the previous two years was £11,000.

[2]ONS analysed data from its Wealth and Assets Survey data covering July 2014 to June to 2016.

HOW TO HELP WITH A DEPOSIT ON A HOME

Gifting money is a popular choice for parents and grandparents who want to help a family member buy a property whilst at the same time reducing their IHT bill.



USE YOUR ALLOWANCES

Everyone has a yearly 'gift' allowance for IHT purposes. You can make gifts of up to £3,000 each year, and the good news is that this figure can be carried over to the following year if you don't use it, meaning a maximum allowance of £6,000. So, a couple could be able to give away £12,000.

In addition, you can make small gifts of up to £250 per person per tax year, to as many people as you like. Weddings are another opportunity to hand over cash to loved ones – parents can give children £5,000 each as wedding presents, and £2,500 to grandchildren or great-grandchildren, or £1,000 to anyone else, all free of IHT.

MAKING LARGER GIFTS

You can give away larger sums known as 'potentially exempt transfers'. However, you need to live for at least seven years after making the gift for it to be totally IHT-free. It's advisable to take professional advice if you are planning to give away significant sums.

HAPPY RETIREMENT FOR THE AVERAGE OAP

Income data from the Office for National Statistics is likely to add fuel to the intergenerational fairness debate. Retired households have seen their income surge by almost 60% in the past 13 years, far outstripping the increases received by those in work.

The average pensioner's household income was £27,283 last year, an increase of more than £10,000 or 59% since 2005-06.

By contrast, the typical working household's earnings rose by only 36% over the same period, to £36,332.

RETIREMENT: 68% MAY BE MAKING THE WRONG CHOICES BY GOING IT ALONE

Since the introduction of the pension reforms, retirees have much greater flexibility to spend and invest their pension pots as they wish. However, this means that people are faced with important decisions, both in the run-up to retirement and afterwards, that will affect their standard of living and financial outlook for years to come.

A recent report[3] shows that only 32% of retirees take professional advice. This means that many may not be fully exploring their options and aren't putting in place the right pension arrangements for their personal circumstances. Figures show that many simply take the annuity or drawdown facility that their existing provider offers them, as they aren't aware that they can shop around to get a better deal.

CONCERNS EXPRESSED

The Financial Conduct Authority has reported concerns that those who don't take advice may be in danger of making poor investment decisions, or simply withdrawing cash from their pension pot and putting it into low return cash funds where it will be eroded by inflation.

[3]Canada Life, March 2019

YOUR INVESTMENT STRATEGY – HOW WILL IT CHANGE WITH YOUR AGE?

Having the correct investment strategy when you reach the different stages of life will help ensure you achieve your financial goals.

STARTING OUT

Investing at an early age, rather than keeping all your spare cash in a bank or building society account that pays low rates of interest, can be a good long-term strategy. Taking on greater risk can offer the prospect of a bigger return. Young investors have sufficient time ahead of them to ride out the inevitable peaks and troughs in the stock market, and to recoup any temporary losses they might make.

However, if one of your financial aims is saving money for a short-term project like a house deposit, to reach this goal you may want to opt for less risky investments.

REACHING YOUR MIDDLE YEARS

These could be your peak earnings years, so building up your pension investments should be a priority. You'll probably face greater calls on your cash, such as raising a family or taking care of elderly relatives. But don't overlook your own needs whilst looking after others. Having a regular review with us can ensure you keep your investments on track. Remember, you only have so many working years left to provide for your future.

WINDING DOWN

Today, more people than ever are working on past what would once have been considered normal retirement age. So, you may want to keep investing, gradually focusing more on income-producing stocks and shares as you wind down to retirement. You may be more concerned about protecting your wealth from stock market volatility, and at this point may want to adopt a lower risk profile.

Whatever your age, getting good advice can help you make the right investment choices.

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.

The value of investments and income from them may go down. You may not get back the original amount invested.

IF YOU WOULD LIKE ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.