Summer 2020

Wise Words

the latest financial news from Aaron Tawny

We normally send you our newsletter by post, but we are looking at ways to be more green so we are now sending you this via email.

We hope this is ok with you? If not and you would prefer a newsletter in the post, please let us know.

Equity Release for house purchase - Schemes for those over 55 years of age

Want to move, need to move, family needing deposit monies for purchase? No savings? Unable to get a mortgage?

If the above sounds familiar, there are new styles of Equity Release schemes that will help achieve any of the above.

So being that little bit older now helps!

Recently we have received several enquiries from older clients looking at ways they can purchase a property. Many of these clients are retired or at the point of retiring and wish to purchase a property to suit their lifestyle, which may be a bungalow or a property nearer to family for example. As you can appreciate, funding such a purchase for some clients can be a challenge, as conventional mortgages may be difficult to obtain due to age or affordability.

For clients in this bracket we've looked at alternative options and using Equity Release via a Lifetime mortgage has helped them achieve the purchase of a new home.

In simple terms, a Lifetime mortgage is an interest only loan secured against the property, with the borrower having the option of making interest only repayments should they wish to or if they choose not to service the interest, allowing it to be added to the loan on a compounding basis.

An income and affordability assessment is not an essential requirement when securing this type of finance as loans are typically determined by the client's age, health and value of the property in question. The client would have ownership of the property in the same way as they would with a conventional mortgage.

Key points:

- Clients must be aged 55 or over to take out a Lifetime mortgage
- You must live or plan to live permanently in the property
- Any existing mortgages/secured loans on the property will need to be cleared as part of the process

Photo by James Hose Jr on Unsplash

Added cost of mortgage payment holidays revealed

Mortgage payment holidays could add debts totalling as much as £665.08 to a mortgage, according to analysis from money.co.uk and Koodoo.

New research showed that a three-month mortgage holiday is adding on average just £11.21 per month to a mortgage, but the total cost owed by homeowners could end up much higher as a result of debt building up over time.

Money.co.uk's research, in collaboration with its technology partner, Koodoo, explained that homeowners looking for help with their mortgage payments, on average, have an outstanding loan of £136,000. Based on this figure, taking a three-month mortgage holiday would see their regular monthly payments jump by £11.21 to £720.22, and based on an average 21-year term, this would cost an additional £665.08.

The calculation was based on the assumption that a customer is taking a three-month payment holiday, and the interest and principal payments during the payment holiday are recapitalised into the loan with the customer continuing to pay their current interest rate – 2.72% in this example – for the remainder of their entire mortgage term.

The numbers come as UK Finance revealed last week that one in six mortgages in the UK are now covered by a payment holiday.

At the time of its analysis, money.co.uk stated that homeowners could take a maximum three-month mortgage holiday and that the vast majority (89%) of homeowners were opting for this – over the shorter term breaks of one or two months.

With the scheme now extended to six months, money.co.uk calculated that taking the additional three-month mortgage holiday could add an additional £1,331.95 – or £22.70 per month – to the full amount owed.

It's important to remember that you will still owe the money and interest will continue to accrue while the deferred payments remain unpaid.

In most cases when a customer takes a three-month payment holiday in a 21-year or 252-month mortgage, the end date of the mortgage doesn't get automatically extended, so the customer now needs to pay back the mortgage in 249 months.

Photo by Mad Fish Digital on Unsplash

As the nation gradually starts to open for business and furloughed workers are brought back, restarting mortgage payments should be a priority. If you are still able to make your payments in full, you should continue to do so.

Get ready for changes to Capital Gains Tax deadline for UK property sales

The deadlines for paying Capital Gains Tax after selling a residential property in the UK changed from 6 April 2020 – if you are a UK resident and sell a residential property in the UK you will have 30 days to tell HMRC and pay any Capital Gains Tax owed.

If you don't tell HMRC about any Capital Gains Tax within 30 days of completion, you may be sent a penalty as well as having to pay interest on what you owe - so it's really important that everyone involved in the sale of a residential property fully understands these changes.

Income Protection & Coronavirus

The income protection market has seen an increase in queries relating to how providers are responding to Coronavirus. Some providers have introduced temporary exclusions and clients want to know if they will be eligible to claim if they go into self-isolation. It seems that the deferred period on many policies will go beyond the 14 day isolation period anyway. We will share any communications we receive from protection providers.

Aegon

Due to the nature of our Income Protection contracts, with a minimum deferred period of 4 weeks, we are not expecting to see any claims due to self-isolation. If someone does contract the virus, again we would not expect them to be off for more than the 4 week deferred period, but if they are, then they would be assessed like any other IP claim.

AIG

Income Protection is paid subject to the illness continuing beyond our defined deferred period which is a minimum of 4 weeks but can be up to 52 weeks. If after a period of quarantine an illness develops and goes beyond the deferred period, we will consider a claim. All claims will be based on whether the individual meets the definition of disability in their policy.

We would not expect Coronavirus to be an extended illness in the vast majority of cases. Recovery can be expected within a few weeks.

AVIVA

Income Protection customers with the Coronavirus infection who are unable to work due to incapacity past the deferred period on their policy would be covered, subject to the terms and conditions of their policy. In addition AVIVA have made changes so customers deferred periods will start from the beginning of their self-isolation, should they receive a positive Coronavirus diagnosis and be unable to work.

Photo by Martin Sanchez on Unsplash

Legal & General

L&G have confirmed that for existing plans, they will consider the medically advised period of self-isolation as counting towards any work absence, even if Coronavirus has not yet been diagnosed. The 2 week deferred period option has been temporarily removed for any new applications from 19 March 2020 onwards.

LV=

Confirmed diagnosis - Where a policyholder has a confirmed diagnosis of Coronavirus, we'll assess and pay their claim in the usual way reflecting their chosen waiting period and the policy terms and conditions. Self-Isolation - The following approach applies to existing LV= Personal Sick Pay members, with a day one and week one waiting period only. We'll consider claims for medically-advised self-isolation, which aligns with current NHS 111 guidance (travel from designated risk areas or direct contact with someone with a confirmed diagnosis). These are highly unusual circumstances, so any decision and payment we make for self-isolation will be outside of the normal terms and conditions. We recognise the importance of speed and common sense in such situations.

Royal London

As our minimum deferred period for Income Protection is four weeks, we don't expect any claims for this cover from customers who've not been diagnosed with the virus itself. Our plans

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Income Protection & Coronavirus...continued

don't contain exclusions in relation to pandemics or the contraction of a virus in a foreign country. We do restrict Critical Illness and Income Protection claims to certain parts of the world. This means if the person covered is living or working outside the UK we may need them to return to one of a list of specified countries for us to consider a claim. Our usual process for Income Protection claims is to get confirmation from the customer's GP that they're unable to work. If this confirmation isn't available, for example if a customer has to self-isolate, our claims team will agree alternatives to ensure that we can pay claims quickly.

Note that Royal London have also introduced some new underwriting questions to capture information on Coronavirus exposure and may choose to defer offering cover.

Vitality

Members will be able to make a claim if they are unable to work due to COVID-19 after the expiry of the deferred period they have chosen for their plan. This will include situations where medical quarantine is imposed by a doctor for COVID-19 and the person is unable to perform their work duties from their quarantine environment.

Zurich

We have been asked what effect any period of self-isolation might have upon a potential claim under our Income Protection plan. Given that the minimum deferred period we offer is 4 weeks and the recommended self-isolation period is 2 weeks then don't anticipate this alone should give rise to a claim. Obviously where symptoms are severe, there are complications or underlying or concurrent medical conditions that result in absence beyond 4 weeks our normal claim process, assessment and process will apply.

Automatic Enrolment earnings trigger and qualifying earnings band for 2020/21

The earnings trigger remains at £10,000 in 2020/2021 (the same level it has been since 2014/15) - the level of salary above which individuals must be auto-enrolled.

The qualifying earnings band (i.e. the band of earnings on which minimum contributions should be based) continues to be aligned with the Lower and Upper Earnings Limits for national insurance purposes.

Therefore for 2020/21:

- The Automatic Enrolment earnings trigger is £10,000
- The lower limit of the qualifying earnings band is £6,240 (previously £6,136)
- The upper limit of the qualifying earnings band remains at £50,000.

Update to the UK property funds suspensions

There has been valuation uncertainty following the extreme market volatility experienced in relation to COVID-19. Several UK Property funds have been suspended citing material uncertainty relating to the manager's inability to provide accurate asset valuations. In order to protect the interests of the existing shareholders, the investors will not be able to access or sell out of the funds until the suspensions are lifted.

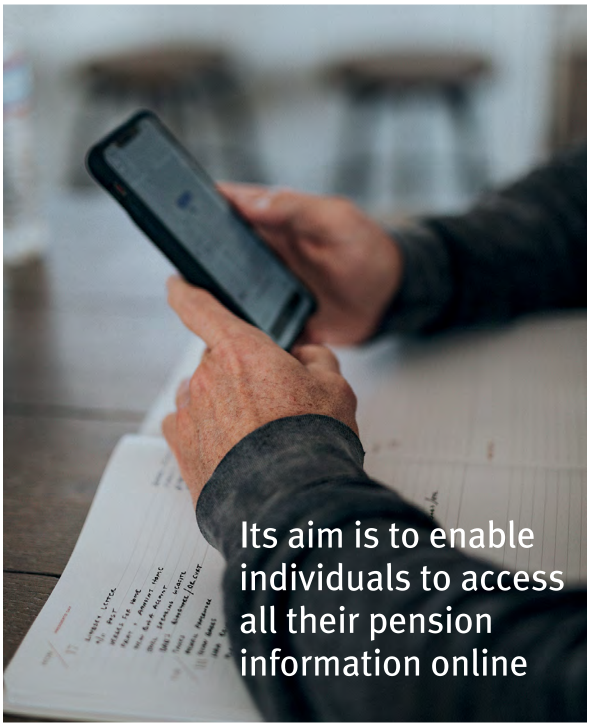
During the period of suspension the funds will continue to be actively managed, markets closely monitored and action taken in the best interests of the investors, with a view to resuming dealing as soon as possible. The Fund Managers will also be in regular communication with the Valuers, the FCA and industry bodies such as the Association of Real Estate Funds.

Pensions Dashboards Programme
- progress update report

The vision of the Pensions Dashboards Programme could not be simpler. Its aim is to enable individuals to access all their pension information online, securely and all in one place, thereby supporting better planning for retirement and growing financial wellbeing. However, the delivery challenges underlying this vision are significant even more so in the current circumstances.

Delivering this valuable service for society will depend upon close collaboration across government, regulators and the pensions industry.

The plan is to lay out a more detailed timeline by the end of the year.



Temporary Lifetime ISA rule change re: COVID-19

People whose income has been affected by Coronavirus and who want to access their Lifetime ISA funds early will no longer face an additional withdrawal charge thanks to a temporary rule change. The move is part of the government's package of support to help individuals, businesses and the economy during this difficult time.

The Lifetime ISA (LISA) is intended to help younger people save for their first home or for later life. As with many other long-term saving products, withdrawing funds early or for unintended purposes normally incurs a charge. But to help people who need to access their money earlier as a result of the outbreak, the charge on unauthorised withdrawals will be temporarily reduced. This means savers will get back all the money they originally put in, subject to any investment losses incurred on Stocks and Shares Lifetime ISAs.


Photo by Toa Heftiba on Unsplash

Pandemic prompts one-third of UK to draft or amend their Will

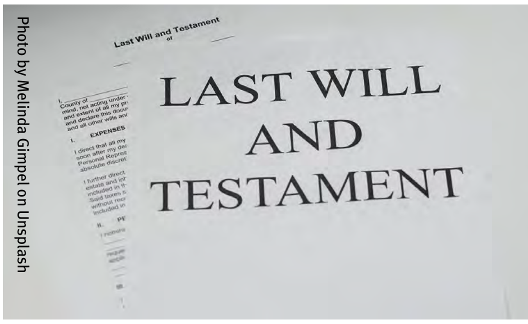


Photo by Melinda Gimpel on Unsplash

The coronavirus pandemic has already prompted a third (33%) of people in the UK into either drafting a new Will or amending an existing one, according to a new study from Handelsbanken Wealth Management.

Handelsbanken suggested that the crisis is having a wider effect by making families more open with their finances, with 78% of people believing the pandemic will lead to more conversations about inheritance planning within their families.

"It is now more important than ever to ensure that families are getting their financial affairs in order. Speaking to a Financial Planner ensures that all bases are covered and family members are looked after. Having a watertight, up to date Will in place can bring peace of mind to you and your family.

Do you want your savings to work harder, but feel uncomfortable with taking any investment risk? – *then a Flexible Offset Mortgage could be for you...*

Very simply described, an Offset Mortgage is a way of using the credit balances in your savings and current accounts including ISAs, to help reduce the mortgage balance you are charged interest on.

By linking your savings to your mortgage, you can make your money work harder

Any savings and current accounts you choose to link to an Offset Mortgage will not earn interest, but the more you hold in them, the more mortgage interest you will save. As interest is calculated daily, even savings held for a few days will reduce the mortgage interest charged. You can still have instant access to your savings whenever you want, as they are not part of the mortgage loan.

How does it work?

Taking the benefit later – term reduction
This could be ideal if you want to pay off your mortgage early. You make your regular monthly mortgage payment but the mortgage interest you save is used to reduce the balance each month and pay off your mortgage earlier – this could be days, months or even years earlier, depending on how much is offset against your mortgage.

Taking the benefit now - payment reduction

Payment reduction could be ideal if you want to reduce your monthly expenditure. The mortgage interest you save one month is used to reduce your monthly mortgage payment in the following month.

Your monthly payments will therefore depend on the credit balance in your linked savings and current accounts during the previous month.

Offsetting can make sense, whatever the level of interest rates

By offsetting, you are effectively getting interest on your savings at the full mortgage rate. For example, if rates are low and affecting the returns you get on your savings accounts, you may find your savings work harder for you with an Offset Mortgage. This is because mortgage interest rates are typically higher than the rates you can get on your savings accounts.

For example, if your mortgage rate is 3%, your savings and current account balances would be offsetting the mortgage interest at that rate.

Tax efficiency

As no interest is earned on your linked Current and Savings Accounts, there is no tax to pay on savings interest received. This may be particularly efficient if you're a higher rate tax payer.

Is an Offset Mortgage right for you?

If you have savings or a little left over each month, an Offset Mortgage could suit you - this applies whether you're re-mortgaging or buying a new home.

Your situation	*The benefits of an offset mortgage*
You want to save now, as well as pay off your mortgage faster. You want to save regularly towards your annual tax bill. of your mortgage. You want to be able to dip in and out of your savings as you need them.	*Your savings could work efficiently until you need them – and at the same time you could either reduce your monthly payments or the term of your mortgage.*
You are self-employed or in a job where your income is variable and may consist of additional payments, such as bonuses or commission. You have other sources of income such as rent.	*As interest is calculated daily, any income is variable and may consist of additional regular monthly overpayments or large payments to your offset accounts will start to save mortgage interest immediately.*

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Do you want your savings to work harder, but feel uncomfortable with taking any investment risk? - *then a Flexible Offset Mortgage could be for you*...continued

Will I still get credit interest on my savings?

No, from the day your mortgage completes and your Offset Arrangement is set up, your linked savings will stop earning interest. The total balance of your offset accounts will instead be used to reduce the mortgage balance that interest is calculated on. The interest you save every month is known as your Offset Benefit.

What happens if I have more in savings balances than I have outstanding on my mortgage?

Because of the way interest is calculated on an Offset Mortgage, you wouldn't receive any credit interest on the surplus savings.

If you feel that an Offset Mortgage would benefit you, and allow your savings to work harder for you, please call one of our Independent Advisers today on 01536 512724

Newly retired women urged to check their State Pension for little-known boost

Newly retired women who paid the 'married woman's stamp' towards their pension early in their careers could still benefit from it now. The concession could be worth between £4,027 and £6,718 a year depending on your circumstances, and the government estimates that as many as 10,000 women could benefit.

Before the introduction of the new State Pension in April 2016, women could claim a partial pension based on the NI record of their husband. However, the new state pension is based on an individual's NICs, not their spouse's, which could leave some women disadvantaged.

The concession could be worth between £4,027 and £6,718 a year depending on your circumstances

Recognising this, the Government introduced a concession which allows women reaching state pension under the new rules and who paid the married woman's stamp to make a claim based on their husband's record. The rate payable would be a full basic state pension of £134.25 if they are now divorced or widowed, or 60% of the basic State Pension - £88.55 a week – if they are married.


Photo by Dave Francis on Unsplash

It is not widely known that women who paid the reduced stamp at any point in the 35 years before they retired, and who come under the new State Pension system, can claim a minimum payment under the new system.

Contact the Pension Service if you think you may be eligible.

Make time for life's big decisions

Make time for life's big decisions

In the current climate, there is uncertainty in all of our lives with both health and financial concerns.

However, while we are all understandably focusing on the here and now, it might be worth using this time to take a step back and review your long-term financial wellbeing as well. This newsletter takes a look at some of the areas you might want to consider. Of course, we are on hand to support you through any challenges ahead.

A recent study suggests many people don't have sufficient mental space to make the right choices when it comes to tackling life's difficult decisions.

The good news, however, is that minor changes to the way you approach decision-making can dramatically improve your ability to make better financial choices.

Photo by Mimi Thian on Unsplash

Avoiding difficult decisions

The research found that the great British public typically 'don't do difficult decisions'. For instance, over four million said they don't have the mental space to tackle difficult issues. While a further 6.4 million don't have time for important life admin.

Many Brits also admitted to putting little effort into key decisions: while the other half said they always ensure an optimum choice of holiday destination, less than one in three adopt such a thorough approach to pension arrangements.

Decision fatigue

This tendency to 'sweat the small stuff' appears to be impacting people's financial decision-making abilities. For example, over half of respondents said they haven't made a decision on whether to buy critical illness cover, while just under half haven't considered changing their pension arrangements. In addition, when financial decisions are being made, many don't give it their full attention, with over four in 10 sorting out finances while sat on the sofa and one in 10 doing so at work.

> Many people don't have sufficient mental space to make the right choices when it comes to tackling life's difficult decisions.

Tips to aid decision-making

Small behavioural changes, however can have a big impact on people's ability to tackle difficult decisions.

For instance, picking a quiet location free from distractions and a time when you can focus fully on an issue will help, as will avoiding making decisions after a tough day. Visualising the future and linking financial decisions to life ambitions can also be beneficial.

We are here to help

Don't forget - we're always here to help you with life's difficult financial decisions.

So, get in touch and we will guide you through the decision-making process. With our assistance you might even find that making better financial decisions isn't actually too difficult or time consuming.

Finger on the pulse - Investing in uncertain times

Global stock markets are suffering a period of volatility as a result of the COVID-19 outbreak. Although markets do not respond well to periods of uncertainty, what is certain is that volatility goes hand in hand with stock market investment; and although market movements can be concerning, experience teaches us to expect the unexpected.

Calm & collected

To navigate market volatility, stick to your plan, diversify your holdings and very importantly, expect and accept volatility. Investors with diversified portfolios, who stay in the market, have historically and consistently experienced steady gains over time. Even though it can be difficult to ignore market movements, it is vital to focus on the long term and remember that volatility also presents opportunities.

Investment requires a disciplined approach and a degree of holding your nerve if markets fall. 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.

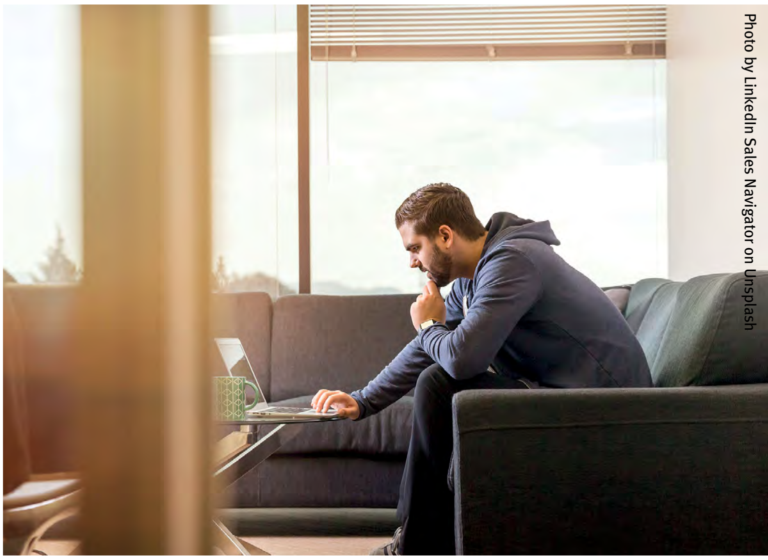

Photo by LinkedIn Sales Navigator on Unsplash

Weather the storm together

A well-defined investment plan, tailored to your objectives, in line with your attitude to risk, that takes into account your financial situation, can help you weather short-term market fluctuations.

Market volatility is a timely reminder to keep your investments under regular review.

> Investment requires a disciplined approach and a degree of holding your nerve if markets fall

A reminder on FSCS cover and deposits

Compensation limits for Deposits

Deposits held in Banks, Building Societies and Credit Unions (including in Northern Ireland) that are authorised by the PRA are protected up to £85,000. The limit is applied per person and per PRA authorised firm, so for deposits in a joint account, each account holder is protected up to £85,000 (so up to £170,000 in total).

National Savings & Investments

National Savings & Investments products don't qualify for FSCS coverage as they are already 100% backed by HM Treasury.

Life insurance for astronauts?

The first astronauts had a problem, especially in the early days of the Apollo missions to the moon, as their lives were literally uninsurable. No insurance companies would consider insuring anyone about to embark on a potentially lethal mission.

NASA came up with an idea to arrange 'insurance cover' whereby the crew autographed a number of postal envelopes, as close to launch as possible, the assumption being that these would soar in value if the crew died on the mission, leaving sufficient funds to take care of their families.


Photo by Adam Miller on Unsplash

Protection for everyone

Fortunately, it's much easier for the average person to obtain protection insurance these days and it's important to have everyday risks covered.

Once in a blue moon?

It can be difficult to think that the worst might happen, but it's best to be financially prepared for illness or death, to give you and your family valuable peace of mind.

Five million Self-Employed

Photo by Tina Witherspoon on Unsplash

Recent figures from the Office for National Statistics (ONS) show the number of self-employed in the UK has reached record levels, at five million people, which represents around 15% of all people in employment.

If you are self-employed, you won't benefit from Auto Enrolment, but you will still qualify for generous tax relief on any pension contributions you make, subject to annual and lifetime HM Revenue and Customs allowances.

We can advise you on the pension that best suits your individual circumstances, so that you can look to the future with confidence.

Junior ISA and Child Trust Fund annual subscription limit

The annual subscription limit for Junior ISAs and Child Trust Funds has increased, quite substantially, from £4,368 to £9,000 (meaning that 16/17 year olds can have £29,000 in total (including £20,000 to a cash ISA) added to these tax efficient shelters in 2020/21.


Photo by Jeremy McKnight on Unsplash

Lite Relief

This happened at a New York Airport - an award should go to the United Airlines gate agent in New York for being smart and funny, while making her point, when confronted with a passenger who probably deserved to fly as cargo.

For all of you out there who have had to deal with an irate customer, this one is for you.

A crowded United Airlines flight was cancelled. A single agent was re-booking a long line of inconvenienced travellers.

Suddenly, an angry passenger pushed his way to the desk. He slapped his ticket on the counter and said, "I HAVE to be on this flight and it has to be FIRST CLASS."

The agent replied, "I'm sorry, Sir. I'll be happy to try to help you, but I've got to help these folks first; and then I'm sure we'll be able to work something out."

The passenger was unimpressed. He asked loudly, so that the passengers behind him could hear, "DO YOU HAVE ANY IDEA WHO I AM?"

Without hesitating, the agent smiled and grabbed her public address microphone. "May I have your attention, please?", she began, her voice heard clearly throughout the terminal. "We have a passenger here at Gate 14 WHO DOES NOT KNOW WHO HE IS. If anyone can help him with his identity, please come to Gate 14".

*With the folks behind him in line laughing hysterically, the man glared at the United Airlines agent, gritted his teeth, and said, "F*** You!"*

Without flinching, she smiled and said, "I'm sorry Sir, you'll have to get in line for that, too."

We hope you find this a useful and informative read. With our constant strive for excellence in customer service we always appreciate your feedback, whether good or bad.

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