Wise Words
the latest financial news from Aaron Tawny

How Equity Release has evolved

What has changed in the Equity Release market?

Consumer interest in the later life lending sector has been steadily increasing over the past 10 years, with more than 19,000 plans taken out in the first half of 2020 compared to just over 10,000 in the first half of 2010, according to data from Key.

How has lending on Equity Release changed?

Mortgage rates have come down rather drastically, compared to the early days of Equity Release, where lenders are now offering long-term interest rates in the region of 2% to 4%, depending on the borrower's situation.

We are speaking to many clients who have older arrangements in place and are conducting a review of their plans and situation to establish if we could secure a lower rate of interest, and in some cases we can.

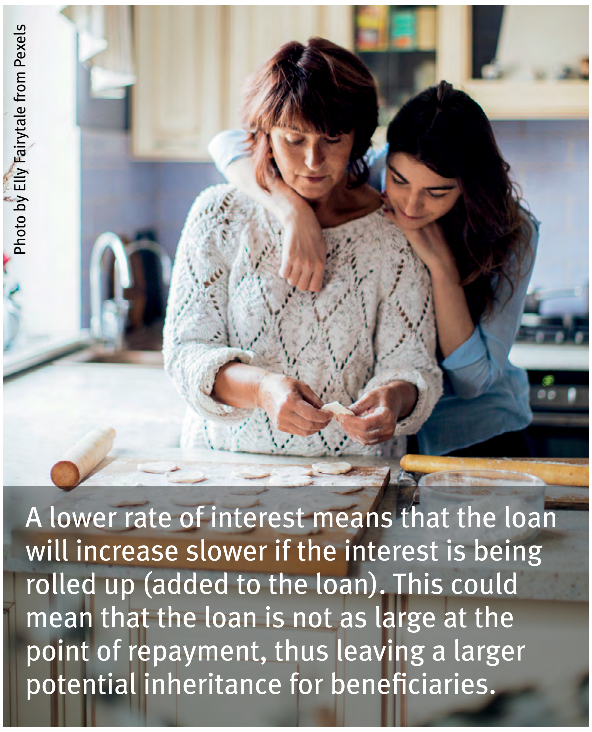


Photo by Elly Fairytale from Pexels

A lower rate of interest means that the loan will increase slower if the interest is being rolled up (added to the loan). This could mean that the loan is not as large at the point of repayment, thus leaving a larger potential inheritance for beneficiaries.

Likewise, some arrangements are set up on an interest only basis, so a lower rate of interest would give rise to a lower monthly repayment, which would of course help an individual's cash-flow.

What options can borrowers get with Drawdown products?

In recent times, Equity Release arrangements with a Drawdown facility have become a popular feature. In fact, Drawdown Lifetime Mortgages continue to be the most popular product type, taken out by 56 % of new customers in the first half of 2020, according to figures from the Equity Release Council.

A Drawdown facility gives the borrower the choice and flexibility to draw further (pre-agreed) funds when they require. Interest is only charged once the facility is used and funds are drawn. This means borrowers do not have to draw large amounts they do not require.

Can Equity Release help to fix the care crisis?

Equity Release is emerging as a solution to the care crisis to assist the ageing population. This has been brought even more to the fore, as a result of the coronavirus crisis, which has shown how important the people who work in residential care homes and provide care at home are.

This is a lifetime mortgage.
To understand the features and risks, ask for a personalised illustration.

If you would like to discuss any area of Equity Release or have any questions, please get in touch with us.

Government launches new model for Shared Ownership

Housing Secretary Robert Jenrick has announced a new model for shared ownership to help more people onto the property ladder by vastly reducing the minimum initial share, and launching a consultation to ensure new homes deliver the accessibility that families need.

The new shared ownership model will reduce the minimum initial share you can buy in a property from 25% to 10%; allow people to buy additional shares in their home in 1% instalments, with heavily reduced fees and introduce a 10-year period for new shared owners where the landlord will cover the cost of any repairs and maintenance.

A right to shared ownership will be available on the vast majority of rented homes delivered through the new programme, providing tenants with a pathway into ownership by giving them the right to purchase a stake in their home.

In total, the new programme represents the highest single funding commitment to affordable housing in a decade.

The £12.2bn overall investment in affordable housing was confirmed at Budget, which also includes £700m on new homes through the 2016 to 2022 programme.

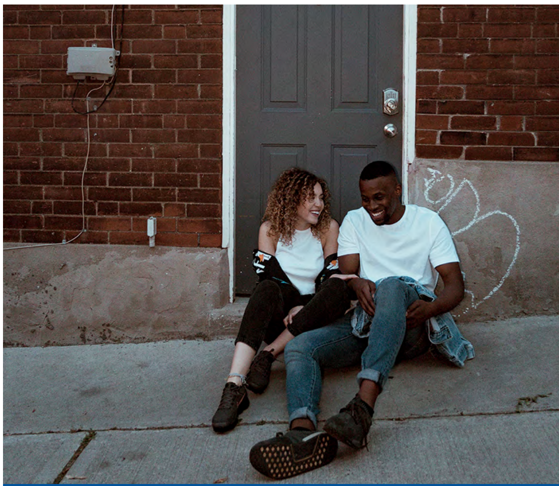


Photo by Wendy Wei from Pexels

Providing tenants with a pathway into ownership

A new £11.5bn Affordable Homes Programme will be delivered over five years from 2021 to 2026, providing up to 180,000 new homes across the country, should economic conditions allow.

The programme will unlock a further £38bn in public and private investment in affordable housing. New homes will be made available from next year.

Stamp duty update

The government introduced an immediate temporary Stamp Duty Land Tax (SDLT) holiday in England and Northern Ireland until 31 March 2021 by raising the threshold above which the main rate of SDLT is payable from £125,000 to £500,000. For second homes, the 3% additional rate will continue to apply. The Scottish Government has since announced that they have increased the threshold for their equivalent tax, Land and Buildings Transaction Tax (LBTT), from £145,000 to £250,000, until 31 March 2021. And the Welsh Government has also now revealed its plans in relation to its Land Transaction Tax (LTT). The nil rate band threshold for LTT will increase from £180,000 to £250,000, until 31 March 2021. This doesn't apply to those buying second homes or to Buy to Let investors.

Capital Gains Tax overhaul on the cards?

Over the summer, the Chancellor, Rishi Sunak commissioned a review of Capital Gains Tax, to determine whether the current system is fit for purpose and to identify simplification opportunities.

The Office of Tax Simplification (OTS) has published an online survey and call for evidence. They will explore the applicable rates, reliefs, exemptions, allowances and overall scope of the tax, in addition to its role in respect of the position of estates in administration, potential distortions to taxpayers' investment decisions and the selling or winding up of unincorporated businesses

Private pension age rise confirmed

In September, the government confirmed the private pension age will increase from 55 to 57 in 2028, meaning those retiring in future will have to wait longer to access their pension.

Financial advice improves emotional wellbeing

Professional financial advice helps to improve the emotional wellbeing of customers on top of the expected financial benefits, new research from Royal London has suggested.

A new report from the retirement specialist, titled Feeling the benefits of financial advice, estimated that around 17 million people in the UK have received financial advice, with the vast majority feeling positive about their Adviser and the services they provide.

For advised customers, Royal London revealed the most commonly recognised emotional benefits of their adviser's services are having access to expertise, which makes them feel "more confident" in their financial plans. Other benefits included feeling more in control of their finances and gaining peace of mind.

The research, based on findings among a UK nationally representative sample of 4,007 people, also showed that advised customers feel positive about the service they received – with the key areas of satisfaction being the quality of advice and expertise (82%), communication style (81%) and trustworthiness (81%).

Royal London's research also suggested that customer satisfaction with Advisers is even higher where there is an ongoing relationship in place.

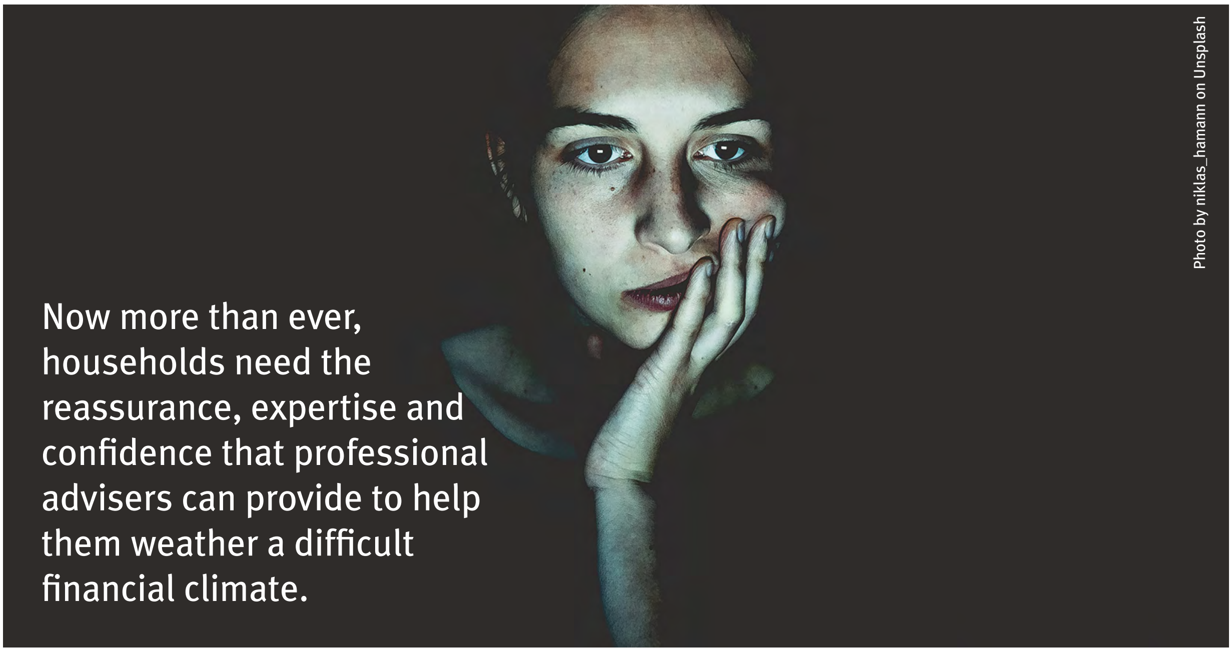
"We have long suspected that the benefits of advice go far beyond financial gains alone and our research confirms that individuals who have received advice are more likely to feel confident about the future, and less likely to feel anxious or worried," commented Royal London intermediary distribution director, Tom Dunbar.

"It's easy to see why clients turned to Financial Advisers when the pandemic struck. But advice is most powerful – and most rewarding – when it goes beyond a one-off meeting. An ongoing relationship with an Adviser amplifies the emotional, as well as the financial, benefits."

The research found that 63% of people who received advice said they felt financially secure and stable, compared to just 48% who had not received advice. Four in 10 (41%) who had not received advice felt anxious about household finances, compared to just a third (32%) of whose who were advised.

The research also considered how the COVD-19 crisis made non-advised clients feel about their finances, with 35% of respondents indicating they felt anxious about their financial situation, and 65% appreciating the value in being more prepared for life's shocks.

"COVID-19 will have lasting effects on the nation's finances for years to come," Dunbar continued. "Now more than ever, households need the reassurance, expertise and confidence that professional Advisers can provide to help them weather a difficult financial climate. The industry also has a responsibility to make sure more people are able to get the support they need."



NS&I to pay all Premium Bonds prizes direct to customers' bank accounts

NS&I has announced that, from the December 2020 Premium Bonds prize draw, they are stopping prize payments by warrant (like a cheque) and will be paying prizes straight into customers' bank accounts instead. It's quicker, easier and safer than waiting for a cheque to arrive in the post.

They will be doing this in phases, and by March 2021 will no longer send any prize cheques through the post. Premium Bonds customers can also continue to choose to have any prizes reinvested into more Premium Bonds, up to the maximum holding of £50,000.

Whether customers have their prizes paid to their bank accounts or reinvested, they can choose to be told the good news by email or text message.

Since 2011, Premium Bonds customers have been able to have their prizes paid directly into a UK bank account in their name. In the September 2020 prize draw, almost three quarters (74%) of the 3,856,040 prizes were paid directly into customers' bank accounts or reinvested into more Premium Bonds.

Therefore, if you hold Premium Bonds and currently receive prize cheques through the post, please contact NS&I with your bank details to carry on receiving them. NS&I will hold on to any prizes you win until they have your bank details.

Renovation nation gets stuck in

It seems the months spent at home have been put to good use as the nation reflected on their living space and chose to spend an average of just over £4,000 each on renovating their homes, since lockdown commenced in March.


Photo by Roselyn Tirado on Unsplash

A study has highlighted that the key area for improvement has been upgrades to the garden (34%), with living room (23%), bedroom (22%) and kitchen (22%) improvements also featuring in the top four. With garden improvements in the top spot, it's no surprise that lockdown prompted people to enjoy their outside space, in fact Gardeners World received its highest ratings in a decade as people took to their gardens up and down the country.

'*Zoombarrassment*' motivates the nation

To fund these projects, it seems nearly a quarter (24%) of respondents deflected money set aside for a holiday, while 26% raided their savings pot. Homeowner motivation to embark on these projects ranged from adding value (27%), with 40% citing 'Zoombarrassment' over the appearance of their homes, as the reason for renovation!

Have you saved during lockdown?

If so, you're part of 37% of the UK population who managed to put away more money during lockdown, as daily expenditure on commuting and leisure activities dramatically decreased.

What's more, it looks like Britain's growing army of savers are here to stay, with 36% stating they aim to keep cutting costs post-lockdown.

Could savings rates harm your goals?

Unfortunately, this wave of savings enthusiasm has come at a time when interest rates are at rock bottom.

The average instant access rate has plummeted, from rates savers enjoyed at the beginning of the year.

Make your savings work for you

There are still better rates out there – you might just have to shop around and work a bit harder to find them.

Take a long-term perspective

Interest rates fluctuate over time, so don't despair. We can help you manage your cash balances to achieve your personal savings goals.

Planning system - major reforms announced

Reforms proposed by the Housing Secretary, Robert Jenrick, are set to revolutionise the planning landscape in a "once in a generation" shakeup. He says the proposed changes will speed up the construction of much-needed new homes.

Automatic planning permission

The main change will be the automatic granting of planning permission for new homes constructed within designated 'growth' zones. The reforms propose the division of land into three zones: 'growth' zones, 'renewal' zones (in which development proposals will be given 'permission in principle' subject to basic checks) and 'protection' zones (i.e. green belt land).

It is intended the proposals will modernise the currently "outdated" planning system, which sees many proposed developments become embroiled in planning disputes that can result in long delays. The reforms are expected to enable developers to push on with the construction of much-needed new homes without interruption.

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The new proposals also tie in with the government's 2050 zero-carbon sustainability target, including carbon- neutrality for all new homes by 2050.

A 'first homes scheme' also featured within the proposals would offer a 30% discount on newly-built homes for first-time buyers, local residents and key workers.

"Shameful proposals"

The proposals have been met with consternation by some bodies and organisations within the housebuilding sector. The President of the Royal Institute of British Architects (RIBA), criticised the "shameful proposals" that could "lead to the next generation of slum housing." RIBA fears that the proposed lack of oversight of the planning process, together with the extension of permitted development rights allowing commercial premises to be converted for residential use, could see the proliferation of sub-standard housing for maximum profit.

Small Island living
- rediscovering what we already have

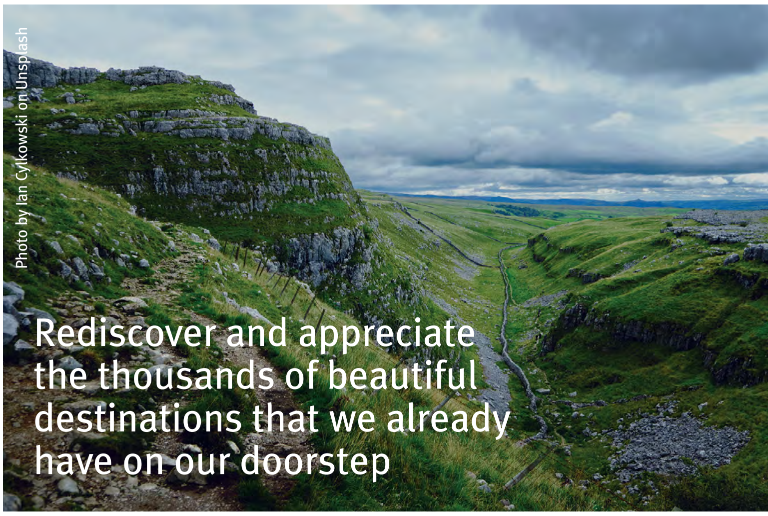
In recent weeks, there has been an 800% rise in Brits searching for 'Staycation UK', as the uncertainty surrounding international travel during the pandemic continues to prevail.

Appreciating what you already have...

Destinations such as Plymouth, the Isle of Wight and Exeter are expected to recover quickly due to the staycation tourism boost, according to new research. It would seem that the pandemic is allowing Brits to rediscover and appreciate the thousands of beautiful destinations that we already have on our doorstep.

...including your finances!

This attitude of appreciating what we have extends to our finances. Over the years, life gets busy and it's easy to lose track of our money. A reported one in five savers have lost track of a pension pot – and the situation is likely to get worse. Meanwhile, other research suggests that 43% of us have lost track of a bank account, 17% don't know what's happened to their Premium Bonds and 15% have been separated from an ISA – leaving them needlessly out of pocket.



In these troubled financial times, taking stock of your finances and appreciating what you have can give you a sense of financial control during a period of uncertainty.

Time for a financial review

If you feel like you've lost your grip on your finances, undertaking a review can help you make the most of what you've already got. So, before you set off on an autumn break to rediscover a favourite UK holiday spot, contact us to get reacquainted with your finances.

Titanic disaster led to historic life insurance payouts

When the 'unsinkable' Titanic hit an iceberg and sank in 1912, life and accident insurance companies lost $3,464,111, according to a contemporary article published in The Shore Press.

The accident led to some of the largest insurance payouts ever, with the beneficiaries of business magnate John B. Thayer receiving a total accident insurance payout of $120,000 (equivalent to around $3.2m today) from insurance firm Travelers and his widow on the receiving end of a $50,000 life insurance payout (around $1.3m today).

According to another article from 1912, Herbert F. Chaffee of North Dakota held the largest life insurance policy of all those who perished, with his beneficiaries receiving a staggering $146,750 (around $3.9m today)!

Don't leave your family's future to chance

No less relevant today

The Titanic may have been considered as a once-in-a-lifetime disaster, but recent events show us that life insurance is every bit as important in 2020 as it was in 1912. The coronavirus pandemic has led to the tragic loss of over 40,000 lives in the UK alone, with many grieving families left financially devastated.

Peace of mind

Don't leave your family's future to chance. Life insurance is often cheaper than many think and ensures your dependants will be financially secure if the worst should happen.

Extra time for Help to Buy scheme

Due to construction delays caused by the pandemic, over the summer the government announced an extension to the Help to Buy equity loan deadline.

Previously, new homes had to be finished by the end of December 2020, which has been extended to 28 February 2021, enabling homebuyers to benefit from the scheme despite construction of their new homes being knocked off schedule. The deadline for the legal completion of the sale will remain 31 March 2021.

Photo by Jaye Haych on Unsplash

An extra measure announced will see Homes England support people who had a new home reservation in place before 30 June this year. Individual situations will be assessed and an extension provided if necessary, in which case the legal completion will be extended to 31 May 2021.

The new Help to Buy scheme, which introduces property price caps and is restricted to first-time buyers, is still scheduled to come into place from 1 April 2021, running until March 2023, with no plans for further extensions.

Kiss your cash goodbye

"Sorry, we don't accept cash" has become a familiar refrain in shops and eateries in recent months due to fears that handling cash could accelerate the spread of the virus. So, are we on our way to a cashless society?

Predictions of the death of cash are not solely a result of the pandemic. Discourse surrounding the 'cashless society' pre-dates lockdown by many years and trends such as the introduction of online and mobile banking, the disappearance of ATM machines and the rise of contactless payments have long been features of modern society.

The cashless society?

There is no doubt that the pandemic has accelerated this trend, with credit and debit card usage soaring. The maximum contactless spend was recently upped to £45 to facilitate this, with 66% of Mastercard transactions in the UK now contactless and 45% of people stating they have used cash less during the crisis.

However, research states that cash is still a necessity for 25 million people. A 100% cashless society assumes that every person has the means, technological know-how and ability to pay by card for every transaction. So, while the grip of cash on Britain is undoubtedly being eroded, it will be important to maintain access to cash for certain groups of society, including the elderly.

ISA - 21 not out

When the Individual Savings Account (ISA) was launched in 1999, the allowance was £3,000 for a Cash ISA or £7,000 for a Stocks and Shares ISA each tax year. Now at the grand old age of 21, the overall allowance has risen to a generous £20,000.

In the early days, choice was limited to either a Cash ISA or a Stocks and Shares ISA, but the range has been extended over time and the total investment of £20,000 can be spread across different types of ISA. Any investment growth is tax free.

First investment route

Junior ISAs (JISAs), introduced in 2011, can be opened by parents or a guardian with parental responsibility for a child from birth. Once opened, anyone can pay into the JISA, but the child is unable to access the cash until they reach the age of 18. The JISA annual allowance per child was almost doubled to £9,000 per tax year at the Budget in March.

ISAs have proved a popular investment choice over the years; recently released government figures show around 11.2 million adult ISA accounts and around 954,000 JISAs were subscribed to in the 2018–19 tax year, with new investments totalling around £67.6bn and £974m, respectively.

Are you looking to invest tax efficiently, either through a lump sum investment or regular savings? If so, get in touch.

Brits spend £40.6bn on lockdown entertainment

According to Barclaycard Payments, the UK population spent £40.6bn, or a staggering £771.34 each, on dispensable items to alleviate lockdown boredom.

The ordinary...

Popular purchases included takeaways (24%), summer clothes (19%) and garden plants and flowers (16%) - but not everybody was so conventional.

Photo by Bianca Ackermann on Unsplash

Takeaways were a popular purchase during lockdown

And the bizarre...

Topping the list of the weirdest items purchased by lockdown consumers were an inflatable pub, an antique diving suit, a penny farthing bicycle and a piece of the moon!

Satisfied customers

Most customers proclaimed themselves satisfied with their lockdown purchases, with only 6% regretting their expenditure.

Financial lifeboat for large balances

The Financial Services Compensation Scheme (FSCS) has extended its protection for savers amid concerns that the pandemic has increased the likelihood of financial firms failing.

The fund currently protects deposits with UK banks, building societies and credit unions to the tune of £85,000 per person. However, there is additional protection for consumers who temporarily have high balances of up to £1m. Having such a large balance for a relatively short period of time could be unavoidable for reasons such as a house sale, divorce settlement, insurance payout or redundancy.

These temporary high balances are normally protected for six months and the FSCS would automatically pay compensation if the financial institution failed. From 6 August 2020, the FSCS has extended its coverage to 12 months, with the scheme reverting to a six-month cover period from 1 February 2021.

The FSCS has introduced the temporary extension due to consumers' concerns that money could be on deposit for longer, due to a slowdown in the banking system and reduced access to banking services for many people.

Dividend cuts - not all bad?

UK dividends experienced their biggest quarterly fall on record in Q2 2020, dropping by over £22bn (57%) to give a total payout of £16bn. Dividends were cancelled by 176 companies and reduced by at least a further 30. BP cut its dividend for the first time in a decade, with a 50% reduction to 5.25 cents a share, compared to 10.5 cents in Q1.

Despite an array of dividend cuts in the wake of the pandemic and the subsequent impact on income, a contingent of fund managers see these cuts as prudent moves by the businesses who have made them to preserve their capital expenditure in the short-term.

Are you on your best behaviour?

In uncertain times, where we' ve witnessed periods of stock market volatility, it' s easy to let emotions influence investment decisions, but a good strategy for investors to adopt is not to react hastily. Human instinct is to be responsive, so traversing these behavioural biases can be challenging, but once mastered, resisting the urge to flight can be rewarding.

Unlike prehistoric times, when the fight or flight reaction meant the difference between life and death in the face of a carnivorous predator on the prowl, survival depended on quick pattern recognition and decisive action. As an investor, controlling these hard-wired behavioural biases and learning to resist the urge to panic, can bear fruit.

Photo by Chase Clark on Unsplash

Take stock market volatility in March this year as an example. Retail investors sold investment funds worth £10bn in just one month, with many selling just as the stock market was falling to its lowest level in eight years. In doing so, they missed out on the subsequent market bounce of almost 30%. If hindsight is a marvellous thing, by its very definition, foresight is insight gained by looking forward. In other words, when it comes to investing, look forward, because markets tend to bounce back over time, though it can't be guaranteed.

Different drivers

A number of factors lead people to respond differently to market occurrences – what your objectives are, your risk tolerance, beliefs, preferences, emotions and past experiences, can all result in different investor behaviour. One event, such as a market fall, can lead to different behaviours; ceasing investing until markets stabilise, selling in case it's the beginning of a market downturn, or contrarian investors may see the correction as an opportunity to invest. Some beliefs could lead to successful investment outcomes, others could result in behavioural biases that are counterproductive and endanger the prospect of successfully achieving your objectives.

Foresight is insight gained by looking forward

Managing behavioural biases

As humans, we all suffer from some biases. The best defence mechanism to safeguard from knee-jerk reactions and defend against the influence of your biases, is to follow a robust, objective and disciplined process, and that's where we come in. In addition to having a well-thought-out investment process, investing with a clear idea of what you want to achieve, will determine how we structure your investments. Whether you are building your retirement nest egg or a fund to put children through university, you have a better chance of achieving your goals if they are used to frame all investment decision-making.

Foresight

You can rely on us; we take the time to understand your objectives, apply a rigorous investment process and advise you on the investment strategies and products most appropriate for you.

Tackling the growing number of small pension pots

The Pensions Policy Institute (PPI) has published a report examining the growing problem of small deferred pension pots and how the issue might be addressed.

The number of deferred pension pots in the UK is likely to rise from 8m in 2020 to around 27m in 2035. Member charges often erode small, deferred member pots over time and small pots can be uneconomical for providers to manage.

Extra management costs may eventually be passed on to members through increased charges.

Policies aimed at consolidating pots are likely to provide a better long-term solution than tackling charging structures.

The PPI report considers the potential impact on small pots of the following policy options:

- Dashboards: platforms that allow members to view all pots with different providers in one place and could facilitate more consolidation (though this is not the sole intention of dashboards, which are designed to enable informed pension decision-making).
- Same provider consolidation: returning members are re-enrolled into their deferred pot.
- Pot follows member: pots move with members to new employer's schemes.
- Member exchange: a form of pot follows member, which allows for the reassignment between schemes of all existing pots into the current active scheme.
- Lifetime provider: members remain with the same provider throughout their working life.
- Default consolidator: pots deferred for a year, transfer to a consolidator provider, with members being given an opportunity to opt out.

Child Trust Funds' coming of age

Child Trust Funds (CTFs) are long-term tax-free savings accounts that were set up by the government for every child born between 1 September 2002 and 2 January 2011. Over 6 million CTFs were opened, with the first of these maturing in September 2020. Every year between now and January 2029, the government estimate that 800,000 18 year olds will receive access to their matured funds. Parents or guardians of qualifying children were sent a starting payment voucher from the government of either £250 or £500, depending on the household income, for investment. Children whose seventh birthday fell between September 2009 and July 2010 also received a second payment of a similar amount, while parents, family and friends have been able to make additional contributions. Although most accounts are likely to contain a few hundred or a thousand pounds, in cases where extra contributions were made, sums will be higher. We can help recipients assess their options at maturity.

Photo by Tom Cochereau on Unsplash

A turning point for Enviromental, Social and Governance investing?

Investing according to environmental, social and governance principles (ESG) has been a fast growth area, according to figures, UK-based ESG funds saw record inflows between March and July 2020, with £362m invested in July alone.

Photo by Dan Meyers on Unsplash

What is ESG?

The acronym, ESG, refers to three key factors used by investment companies to evaluate corporate behaviour:

- Environmental criteria - such as: carbon emissions, waste management and air/ water pollution
- Social criteria - such as: human rights, labour standards and data security
- Governance - such as: board diversity, business ethics and executive remuneration.

By assessing these factors, investment companies measure the sustainability and ethical impact of an investment.

ESG has developed from Ethical Investing using positive screening to be a focus for individual companies, countries and therefore for investors.

Risk and performance

In the early days of sustainable and ethical investing there was a perception that investors were putting principles before profit, with such investments generally considered to be higher risk than their traditional counterparts. Nowadays, with a much wider choice of ESG products available, this style of investing is capable of generating long-term stable and sustainable returns.

A matter of principle

Selecting investments based on ESG principles offers no guarantee of performance but, as part of a diversified portfolio, they can allow you to make a positive impact without having to give up on the hope of good returns.

KEEPING IT LITE

Two ladies talking in heaven

1st woman: *Hi Wanda!*

2nd woman: *Hi, Sylvia! How'd you die?*

1st woman: *I froze to death.*

2nd woman: *How horrible!*

1st woman: *It wasn't so bad. After I quit shaking from the cold, I began to get warm and sleepy, and finally died a peaceful death. What about you?*

2nd woman: *I died of a massive heart attack. I suspected that my husband was cheating, so I came home early to catch him in the act. But instead, I found him all by himself in the den watching TV.*

2nd woman: *I was so sure there was another woman there somewhere that I started running all over the house looking. I ran up into the attic and searched, and down into the basement. Then I went through every closet and checked under all the beds. I kept this up until I had looked everywhere, and finally I became so exhausted that I just keeled over with a heart attack and died.*

1st woman: *Too bad you didn't look in the freezer – we'd both still be alive.*

Photo by Kaushik Panchal on Unsplash

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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