Winter 2021

Wise Words

the latest financial news from Aaron Tawny

Equity Release -

have you seen the potential benefits of medical underwriting?

Some people get a better deal using medical underwriting linked to an equity release application.

If they have any health issues or lifestyle factors, they could borrow more or get a better interest rate with medical underwriting.

An example of this was a client was offered reduced interest because medical underwriting meant the interest rate was lower.

Medical underwriting means answering some simple health and lifestyle questions at the time of application. You will not be worse off, and you might be pleasantly surprised at the results.

If you know of anyone who needs to access money from their home and is over the age of 60 we are the team to help.

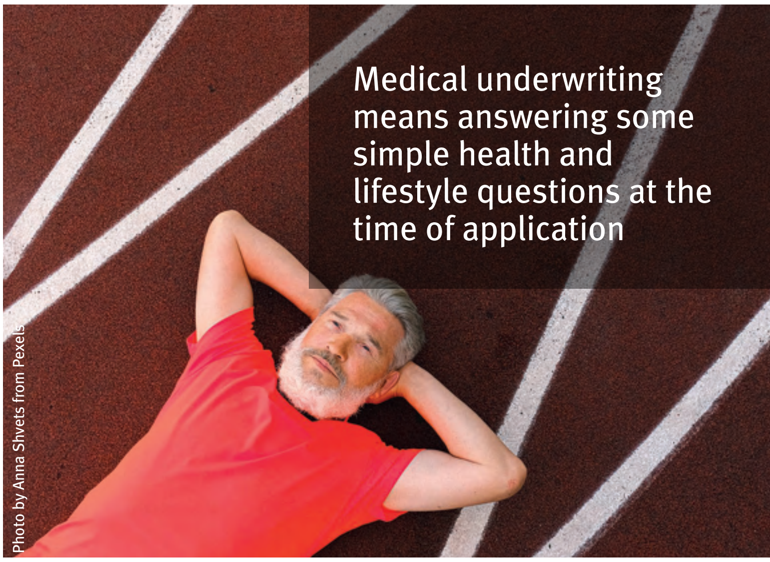


Photo by Anna Shvets from Pexels

Help to Buy ISAs explained

Help to Buy ISAs were launched at the end of 2015 to give people the incentive to save for a property, with some extra help from the government. You can save a maximum of £12,000 into a Help to Buy ISA and, in return, get a total £3,000 in bonuses. You're restricted, however, to paying in £200 per month, topped up with a £50 bonus from the Government.

The Help to Buy ISA is now closed to new applicants, but existing account holders, have until 1 December 2030 - another 9 years to claim their bonuses.

You have to get a mortgage (so you can't get the bonuses if you're buying the property outright in cash) but, crucially, you don't have to take out a loan with the provider of the ISA you've opened.

You cannot have a Help to Buy ISA if you're an existing homeowner, but that doesn't prevent you from buying a property with someone who is a First Time Buyer, who can use this savings scheme when buying with you in the future. In this scenario, the First Time Buyer can continue to save into the ISA and receive the bonus.

When does the bonus become payable?

The bonuses only become payable on completion of the property. When you are ready to buy, tell the bank and close your ISA account and you should be given a closing letter. When this is handed to your conveyancer or property solicitor, they will apply for the bonuses, which will be used to complete the purchase of your property with your cash deposits and the bonuses.

Photo by Andrea Piacquadio from Pexels

The thing to remember here is that your bonuses are paid only right at the end of the transaction, so it is important to tell your property solicitor as early as possible that you hold a Help To Buy ISA.

If you have any questions regarding Help to Buy ISAs or are thinking of buying a property for the first time please give the office a call.

Retirement awaits George!

At the start of 2021, George reduced his hours in preparation for his retirement... and now the time has finally arrived. On Wednesday 22nd December, George will hang up his financial adviser hat and head into retirement.

He has been working alongside Darren Ward this year to allow a smooth transition. Darren is a fully qualified Independent Financial Adviser and is able to offer assistance to both new and existing clients on all areas of financial advice. Should you have any queries or require financial advice Darren will be happy to deal with any questions you may have.

We wish George a happy retirement to enjoy quality time with his wife, family and grandchildren. May he remain young at heart, but slightly older in other places!

ESG assets to top $50trn by 2025

ESG assets are forecast to exceed $50trn (£36.5trn) – over a third of projected global assets – by 2025, according to Bloomberg Intelligence. The analysis comes as environmental, social and governance factors are becoming increasingly important to investors across the globe.

IHT receipts soar in 2021

HMRC data has revealed that the government collected £5.4bn in Inheritance Tax (IHT) receipts in the 2020-21 tax year – £0.2bn (almost 4%) up on the previous tax year. Typically, more than 20,000 deaths per year result in an IHT charge. There are steps that can be taken to keep an estate out of range of IHT or at least reduce any IHT due upon death.

Amendment to minimum pension age rules

On the 4th November, the government published the Finance Bill 2021/22 which includes an amendment to the normal minimum pension age rules that apply in advance of the change from 55 to 57 in 2028.

The minimum age at which people can access their pension will increase from 55 to 57 from 6 April 2028, except for those with a protected pension age and members of pension schemes relating to some uniformed services.

The draft legislation gave a window of opportunity for clients that would not have a protected pension age under any pension scheme, to find and join a pension scheme that would give them the ability to access from age 55, and, would also allow them to transfer in other pensions. The window was intended to run until 5 April 2023.

The Finance Bill issued on 4 November 2021 closed this window at midnight on 3 November 2021 as a result of feedback from the pensions industry stating that the proposed rules were too complex and could potentially lead to poor outcomes as individuals looked to transfer benefits solely for the purposes of obtaining a lower normal minimum pension age (NMPA). The risk of individuals falling victim to pensions scams was also likely to be increased.

Sudden Wealth Syndrome: *dealing with a financial windfall*

If you received a large windfall suddenly or unexpectedly, you'd likely expect to feel happy and excited for the opportunities it presents. Whether you're a successful entrepreneur, perhaps selling your business or inheriting, sudden wealth can feel overwhelming.

Far from being a happy event for some, coming into a large sum of money can prove a massive emotional shock. In fact, it can even result in a recognised psychological condition called 'Sudden Wealth Syndrome'. The symptoms of this syndrome will vary from person to person, but can include feeling isolated from friends and family, guilty about the good fortune, uncertain about the future, or afraid of losing new-found financial stability.

Avoiding the negative impacts of sudden wealth

While we can't always plan for it, or even avoid some of the negative feelings associated with coming into money, there are things we can do to keep our finances safe.

- Don't make any hasty decisions – put your windfall into an easy-access savings account(s) (within Financial Services Compensation Scheme limits), where it can accrue interest, until you have decided what to do with it.
- Keep it on the down low – Sudden Wealth Syndrome can cause paranoia and anxiety that people only like you because you have money. Keeping things discreet will help alleviate these feelings and help with clear decision-making.
- Take professional advice – spending or investing large sums of money without advice can be disastrous for your finances. Investment and tax planning advice are crucial. We're on hand to help you make wise decisions that will ensure your new-found wealth works hard for you and your family.

'Noise' blocking - good for your portfolio

It's easy to feel bombarded by the constant cycle of negative news headlines or 'noise', which can add to your anxiety about how your investments are doing and uncertainty as to whether your investment strategy is on the right course. It's important to try and block out this noise which could influence you to make hasty or erratic investment decisions.

Set and revisit your goals

Keeping a record of your reasons for investing can help temper any inclination to hastily change your plans. Revisiting your initial decisions allows you to assess whether your long-term priorities remain the same.

Avoid continuous monitoring

Our mobile phones allow us to keep completely up to date, which is obviously important for things like keeping in touch with family, but when it comes to investing, it's best to avoid the temptation to set up alert notifications for funds or companies that you are invested in. Warren Buffett had this advice in 2016 after a period of extreme market volatility saying, "Don't watch the market closely"; advice that still rings true today.

Photo by Karolina Grabowska from Pexels

Time in the market

Shutting out the noise to concentrate on the long term, gives your investments a greater chance of yielding positive returns and benefiting from compounding, although there are obviously no guarantees.

Winter: Time to hunker down and get organised

As the year progresses to the season of 'frosty mornings and snuggling up by the fire', thoughts inevitably turn to hunkering down with hot chocolate and toasted marshmallows as the nights draw in. Winter is a season traditionally associated with themes of comfort, preservation and protection; a time to get things in order.

Time to prepare

In many ways, winter is the perfect time to get things done and that is certainly the case when it comes to finances. Its an ideal time to consider your ISA or JISA investments and any other tax-related issues. It's also an opportune time to look at pension arrangements and check your protection needs are fully met.

Don't procrastinate!

While we all know the importance of keeping on top of our finances, it is easy to pop such tasks on our 'must-do list' and then proceed to forget all about them. A recent poll found 84% of the UK population put off key tasks by either doing nothing or doing something more enjoyable or completely unrelated, and a staggering one in five do this on a daily basis! Sound familiar?

Engage with your finances

It is extremely important to sort out financial arrangements long before you 'need' to. This is particularly the case with retirement planning, although research suggests relatively few people do actually engage with their pensions: more people knew the value of their house (58%), car (55%) and television (63%) than the value of their pension (38%) with almost as many knowing the value of their wardrobe contents (34%).

Apparently, statistics don't lie, so it is clearly only human to procrastinate. However, it's also true there's no time like the present. It's our business to make sure your finances are in good shape. We can help you tick a few more tasks off your 'must-do list'.

UK investors plan to continue lockdown habits

During the pandemic, many people have been able to significantly increase their investment contributions, as spending on travel, leisure and hospitality plummeted.

Far from reducing their investment contributions as restrictions loosen, 76% of UK investors intend to keep up their lockdown habits, with half planning on reducing everyday spending in order to continue investing the same amount or more.

On average, investors plan to contribute 19% more each month post-lockdown, increasing to 36% for younger generations. By contrast, just 6% plan to reduce their contributions.

The pandemic spawned a new generation of investors, but it was easy to assume it was just a temporary craze spurred on by lockdown boredom. These findings suggest otherwise and show a permanent change in the UK's attitude towards spending, saving and investing. The rise in investing makes particular sense when set against a backdrop of rock-bottom interest rates.

Get started on your investment journey

While it is never guaranteed, investments have historically delivered better returns than savings over the long term. For assistance in building a diversified portfolio aligned to your risk profile, please do get in touch.

Inflation debunks 'cash is king' mantra

A modest level of price inflation is generally seen as acceptable and even as a sign of a healthy economy. For some years, the Bank of England's target for annual Consumer Prices Index (CPI) growth has been 2%; not a steady 2%, as short-term fluctuations are inevitable, but an average of about 2% over several years.

Few economists are talking about double-digit inflation, but the upward trend may prove persistent.

Inflation rates matter to savers and investors because a high inflation rate erodes the spending power of money. For those with a lot of cash in the bank, interest rates lower than the inflation rate mean they will see their cash eaten away by an invisible but corrosive force, the wider the rate differential, the worse the impact on cash holdings.

Bank interest rates have been very low for the decade or more since the global financial crisis; the inflation rate indicated by CPI growth has also been subdued. This year, however, has seen inflation indices rise faster as the economy recovers. Few economists are talking about double-digit inflation, but the upward trend may prove persistent.


Photo by Ann H from Pexels

Cash savings in reverse gear

All of the above makes it seem odd that a survey of 2,000+ participants by NatWest Group found that, of the 76% of parents/guardians of under-18s that are saving or investing for them, four in five are doing so exclusively in cash. Praising those that put money aside for their children, NatWest said, 'The purchasing power of these 'safe' cash balances actually goes backwards over the longer term.'

A healthy bank balance of course has its place as a reassuring buffer against unexpected expenditure (appropriate insurance policies reduce the risk of this), but it is rarely the best long-term home for larger sums.

Triple lock changes for 2022–23

After much speculation, in September, the Secretary of State for Work and Pensions, confirmed suspension of the average earnings component of the pension triple lock to avoid a disproportionate rise of the State Pension following the pandemic. For the 2022-23 tax year only, the new and basic State Pension will increase by the higher of either 2.5% or the consumer rate of inflation.

National Insurance and dividend tax rises

A new health and social care tax will be introduced across the UK from April 2022. The tax will initially begin as a 1.25 percentage point increase in National Insurance, paid by both workers and employers. From April 2023, it will become a separate tax on earned income, calculated in the same way as National Insurance and ring-fenced as a health and social care levy. Tax on share dividends is also scheduled to increase by 1.25 percentage points.

Investing through the ages

Creating plans and setting goals are important at all stages of life, even if they inevitably change as we progress through life's journey. Similarly, investment strategies also need to adapt as we move from one life stage to the next.

Twenty and thirtysomethings

Arguably, financial decisions made in early adulthood are more important than any other and the key one is undoubtedly to start saving. While retirement may seem a distant prospect, financial habits formed during these years will ultimately determine whether you enjoy a comfortable retirement or have to work later in life.

A relatively long time-horizon means this group can tolerate greater risk as there is more time to recover any potential losses. A majority of savings should therefore typically be allocated to equity investments which offer the greatest growth potential. Some savings, however, do need to be readily available for unexpected expenses or shorter-term projects such as a house deposit.

Forties and fifties

During these peak earning years, building up a pension and investment portfolio is paramount. Establishing a sound, tax-efficient plan is also key, while arranging regular financial reviews can ensure plans remain on track. As retirement looms, a more conservative approach may be appropriate, with funds switching from equities to more stable asset categories like bonds.

When I'm sixty-four

Changes to the State Pension age mean more people now continue to work and invest well into their sixties. At this stage, attention will increasingly shift to income-generating products and ensuring projected income levels are sufficient to live on. Focus will also inevitably move to wealth protection and issues relating to wealth transfer.

Whatever your age, we'll help you make the right investment choices at the right time.

Interest in equity release

More than half (57%) of homeowners have expressed interest in releasing equity from their property, according to the Equity Release Council. Across all ages, the most popular reason is to boost pension income and savings, followed by paying for care support at home.

Photo by Darina Belonogova from Pexels

Housing and mortgage recovery to remain strong

Despite challenges presented by the pandemic, the housing and mortgage market is expected to remain robust, with gross mortgage lending projected to reach £285bn this year. The revised figure from the Intermediary Mortgage Lenders Association (IMLA) has been uplifted from a previous forecast of £283bn.

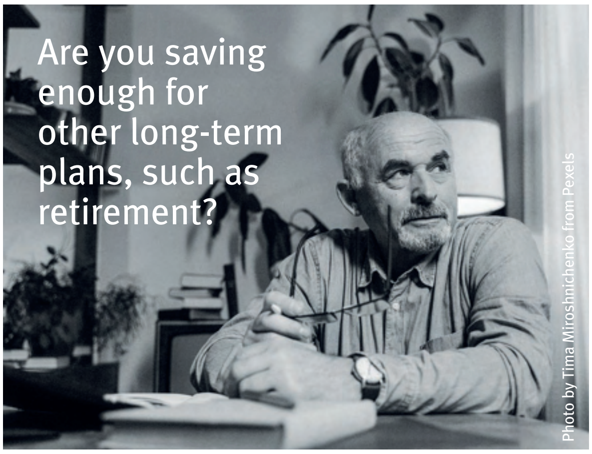
The predictions follow a surge in mortgage lending, stimulated by the strength of the housing market. In the first five months of 2021, lending for house purchase was not only 87% above the same period the year earlier, but 51% above the same period in 2019. Buy-to-let lending has also increased, propelled by house purchase transactions.

Should you overpay on your mortgage?

Some families have found it easier to save more than normal during the pandemic, due to reduced outgoings on things like commuting, holidays and entertainment. If you have a mortgage, overpaying is one option worth considering.

Benefits of overpaying

In a low-rate environment, savings rates are likely to be lower than your mortgage rate, so any overpayments are likely to save you more in interest payments than you could earn in deposit savings. Even small mortgage overpayments could result in a significant saving in interest payable, as well as reducing your mortgage term.



Considerations

- Before overpaying, make sure that you have a financial safety net that would cover your outgoings if your circumstances suddenly change
- Some mortgages will have a charge for overpaying, so make sure you check the mortgage terms first
- Do you have other debts, such as credit cards or loans, that are likely to have a higher interest rate?
- Are you saving enough for other long-term plans, such as retirement?

Although it can often make financial sense to overpay on your mortgage, this option won't be right for everyone. We can help you to understand your mortgage options.

Are you up to date with the latest EPC regulations?

Since April 2018, landlords have been required to achieve a minimum rating of E on the Energy Performance Certificate (EPC) for their rental property for new tenancies or tenancy renewals.

From April 2020, this was extended to cover existing tenancies, meaning all rented properties now need to have an EPC rating of E, even where there has been no change in tenancy.

Under Government proposals, by 2025, homes in the Private Rental Sector (PRS) will need a minimum EPC rating of C for new tenancies and in 2028, this will extend to all homes in the sector.

Best ways to add value to your home

Several months of double-digit house price growth has benefited homeowners looking to sell. However, if you want to boost the asking price of your home even further, it's important to understand which projects will add the most value once you've factored in the cost of the job itself.

The most valuable projects

Loft conversions can add valuable space to a property and can also boost a home's value by as much as 20%.

For a simpler project, such as a downstairs toilet, new kitchen or bathroom, boiler or central heating, new roof, double glazing or conservatory can all add value.

The cost of the works does need factoring in.

Young adults struggle to understand the mortgage process

It is hardly a secret that young people face significant barriers on their way to purchasing their first home. Quite apart from prohibitive house prices and stringent affordability criteria, a lack of understanding of how the mortgage process works is also holding them back.

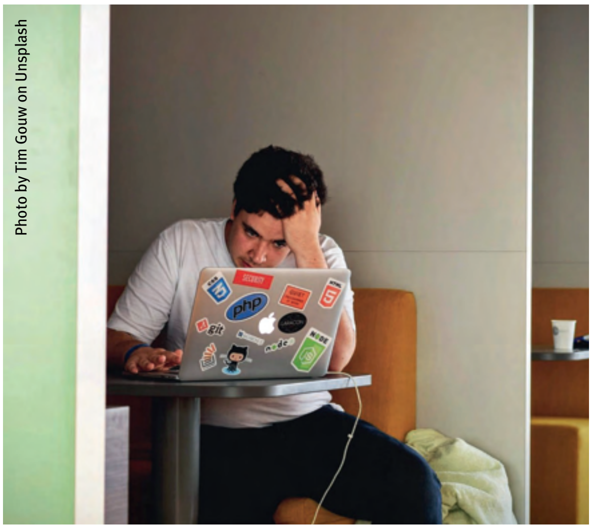


Photo by Tim Gouw on Unsplash

According to a survey by Paymentshield, 52% of adults aged 18–34 say they have a fairly or very bad understanding of the whole mortgage process, while a similar number (53%) also said they had a fairly or very bad understanding of different types of insurance and when they might need them.

Jargon busting

The language used to explain financial products and services may be to blame here. A third (33%) and just over a third (37%) of 25 to 34-year-olds and 18 to 24-year-olds, respectively, said they were not very or not at all confident that they'd understand the relevant terminology.

These results suggest that many young adults do not have the knowledge and understanding they need to make sensible and informed decisions about the best mortgage and protection products for their circumstances.

Here to advise

Not understanding how mortgages work is nothing to be ashamed of – nobody knows everything! That's why we're here. We can guide you through the process from start to finish, explaining everything you need to know in plain English – so please get in touch, whatever your age!

Proposed changes to NHS member contributions

The Department of Health and Social Care has published a consultation on changes to member contributions to the NHS pension scheme.

The proposed changes would commence from 1 April 2022 in line with the McCloud changes.

To provide a bit of background, in 2008 tiered contribution rates were introduced to reflect the fact that higher earners were likely to receive proportionally more benefits than lower earners over the course of their retirement, due in part to their final salary link.

To ensure the cost of the NHS Pension Scheme was fairly distributed and affordable for all members, these tiered contribution rates asked higher earners to pay proportionally more than lower earners to access the valuable benefits of the scheme.

As the NHS Pension Scheme has moved from final salary linked to a career average revalued earnings (CARE) model, all members will build up CARE benefits from 1 April 2022. This change ensures that the costs and benefits of the scheme are more evenly shared, and will be introduced as part of the McCloud remedy.

The proposals presented for consideration in the consultation document include:

1. Members' contribution rates would change to be based on actual pensionable pay instead of members' notional whole-time equivalent pay. The effect would be that many part-time members would see their contribution amounts reduce.
2. The structure for member contributions would change, with a reduction in the number of tiers to 'flatten' the contribution model.
3. The thresholds for the member contribution tiers would be increased in line with annual Agenda for Change pay awards.
4. The proposed member contribution structure would be phased over two years starting 1 April 2022, with the final changes made from 1 April 2023.

Net pay pension schemes and tax relief remedies for lower earners

In order to better align outcomes for low-earning individuals saving in net pay pension schemes, a system will be introduced to make top-up payments directly to such individuals from 2024/25 onwards.

This issue relates to occupational pension schemes (defined benefit and occupational money purchase schemes) operating the net pay method of tax relief, i.e. where employee contributions are deducted from pay before tax is applied.

With a net pay scheme, where employee contributions are made from salary that wouldn't be subject to tax, that person isn't receiving any tax relief on them, whereas a person with the same salary would receive 20% relief at source if the contributions were made to a personal pension plan or other plan offering relief at source.

For example, an employee earning £12,000 pa and making employee contributions of £600 pa, would receive no tax relief in a net pay scheme but 20% tax relief in a relief at source scheme. If their salary was £13,000 and their contributions £600 they would only receive tax relief on the contributions in excess of the personal allowance in a net pay scheme but tax relief on the full amount would be received in a relief at source scheme.

The government will introduce legislation in a future finance bill to make top-up payments directly to these individuals. These top-ups will be payable on pension contributions from the 2024/25 tax year onwards and will be made in arrears.

These payments will help better align outcomes with equivalent individuals saving into pension schemes using relief at source. No changes will be made to how individuals save into pension schemes using net pay arrangements, with no change to take-home pay or pension contributions.

Up to 1.2 million individuals, 75% of whom are women, could benefit by an average of £53 a year.

HMRC is currently developing and changing its systems and expects the first payments to be made towards the end of the 2025/26 tax year. HMRC will contact and pay eligible individuals directly, and communications issued will emphasise this.

Do you know your Standard Variable Rate (SVR)?

As a nation, we aren't great with our financial acronyms and terminology. Life is busy enough, without having to worry whether we know our ERC from our LTV!

If you are a mortgage holder, it could be a good time to become familiar with one important acronym worth knowing – SVR or Standard Variable Rate.

You may find that you are automatically switched to a Standard Variable Rate (SVR) when your existing mortgage deal comes to an end. Whether that be a tracker, fixed rate or discounted mortgage. This could mean you end up paying over the odds, perhaps without even realising, because SVRs rarely offer the most competitive rates and the SVR interest rate is usually linked to a percentage above the bank's base rate, meaning the rate can rise and fall. This makes you more vulnerable to potential interest rate rises in the future.

Cut through the jargon

In a complex environment, getting good, clear advice can really pay. If you're currently locked into a mortgage deal that has exit charges, you don't have to wait until it has come to an end as we help you find a deal three or six months before your lock-in period finishes. After two Bank of England base rate cuts last year, mortgage rates have remained at record low levels, so it makes sense to see if you can save money by switching to a better rate.

Just in case you were wondering, LTV is 'loan-to-value', and an ERC is an 'early repayment charge.'

Clients with a Power of Attorney in place

Estate planning options can be limited where a power of attorney is in place. Any decisions made by the attorney will need to be in the best interest of the donor on whose behalf they're acting. Planning will of course depend on the donor's circumstances and wishes but making lifetime gifts or settling assets into trust is typically difficult, especially for inheritance tax planning.

Investments that qualify for Business Property Relief (BPR) are a potential solution for donors who have expressed wishes to plan for their estate. That's because a BPR-qualifying investment stays in the donor's name and may qualify for up to 100% 'relief' from IHT if certain criteria are met.

Should you have any concerns, please contact the office.

KEEPING IT LITE

A man received the following text from his neighbour:

I am so sorry Bob. I've been riddled with guilt and I must confess. I have been helping myself to your wife day and night when you're not around. In fact, more than you. I do not get it at home, but that's no excuse. I can no longer live with the guilt and I hope you will accept my sincerest apology with my promise that it won't ever happen again.

Bob in complete shock, didn't know what to do...

A few moments later a second text came in: Sorry about the spell check! I meant "wi-fi".

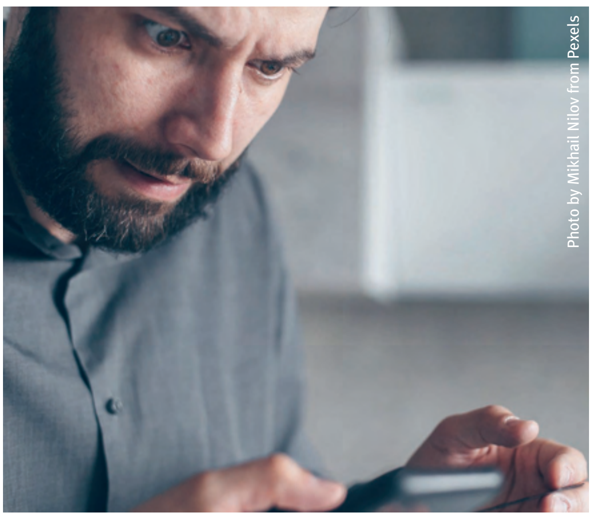


Photo by Mikhail Nilov from Pexels

Christmas Donation

This year we are donating:

£100 to BACZAC, which is a charity set up to help teenagers and young adults who suffer from cancer.

They support the families by giving small grants and young adults with vouchers for food or parking and gift cards as a treat. They are also fund raising to buy a property near the coast as a respite holiday home where the young people can make memories.

£100 to Macmillan Cancer Support for the amazing support they provide to both cancer patients and their families.

BacZac His Legacy

WE ARE MACMILLAN. CANCER SUPPORT

UK's first green gilt smashes records with £90bn of demand

The UK's first green gilt is on track to beat all previous records for British government debt sales. Investors are said to have placed more than £90bn in orders for the 0.875% July 2033 green gilt in September, with price guidance for the green government bond tightened to 7.5 basis points over the benchmark June 2032 gilt. Earlier this year the Treasury said the debut green bond was a 'core part' of the Chancellor's vision to establish the UK as a leader in sustainable finance.

KEEPING IT LITE

A father put his 3 year old daughter to bed, told her a story and listened to her prayers which ended by saying, “God bless mummy, God bless daddy, God bless grandma and good-bye grandpa.”

Photo by Olenka Sergienko from Pexels

The father asked, ‘Why did you say good-bye grandpa?’ The little girl said, “I don’t know daddy, it just seemed like the thing to do.”

The next day grandpa died. The father thought it was a strange coincidence.

A few months later the father put the girl to bed and listened to her prayers which went like this,“God bless mummy, God Bless daddy and good-bye grandma.”

The next day the grandmother died. “Oh no” thought the father, “this kid is in contact with the other side.”

Several weeks later when the girl was going to bed the dad heard her say, “God bless mummy and good-bye daddy.” He practically went into shock. He couldn’t sleep all night and got up at the crack of dawn to go to his office. He was nervous as a cat all day, had lunch and watched the clock. He figured if he could get by until midnight, he would be okay.

He felt safe in the office, so instead of going home at the end of the day he stayed there, drinking coffee, looking at his watch and jumping at every sound. Finally, midnight arrived; he breathed a sigh of relief and went home. When he got home his wife said, “I’ve never seen you work so late. What’s the matter?”

He said, “I don’t want to talk about it, I’ve just spent the worst day of my life.” She said, “You think you had a bad day; you’ll never believe what happened to me. This morning my boss died in the middle of a meeting!!!”

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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