



# Wise Words

the latest financial news from Aaron Tawny

## The power of purposeful wealth

*Most people would agree that wealth is not about hoarding money but the financial freedom and flexibility it affords to help us achieve our passions and goals. Wealth essentially has the capacity to create a powerful purpose within our lives, provided we are able to unlock its true value.*

### *Understanding your 'why'*

A good starting point for unlocking the value of wealth is to develop a clear understanding of what you want from life and what mark you want to leave. Do you want to travel; start your own business; support your family; create opportunities for others, or leave a legacy? Establishing the type of things that you really care about can provide a genuinely powerful purpose to wealth.

### *Sharing your wealth*

One of the best ways to find fulfilment in your wealth is by sharing it; there is certainly no joy in holding onto wealth you will never use. Using wealth to help family, for instance, can be a particularly rewarding experience that allows you to positively change loved ones lives. Indeed, as the cost-of-living crisis continues to weigh heavily on household budgets, there has perhaps never been a better time to offer financial support to family members.

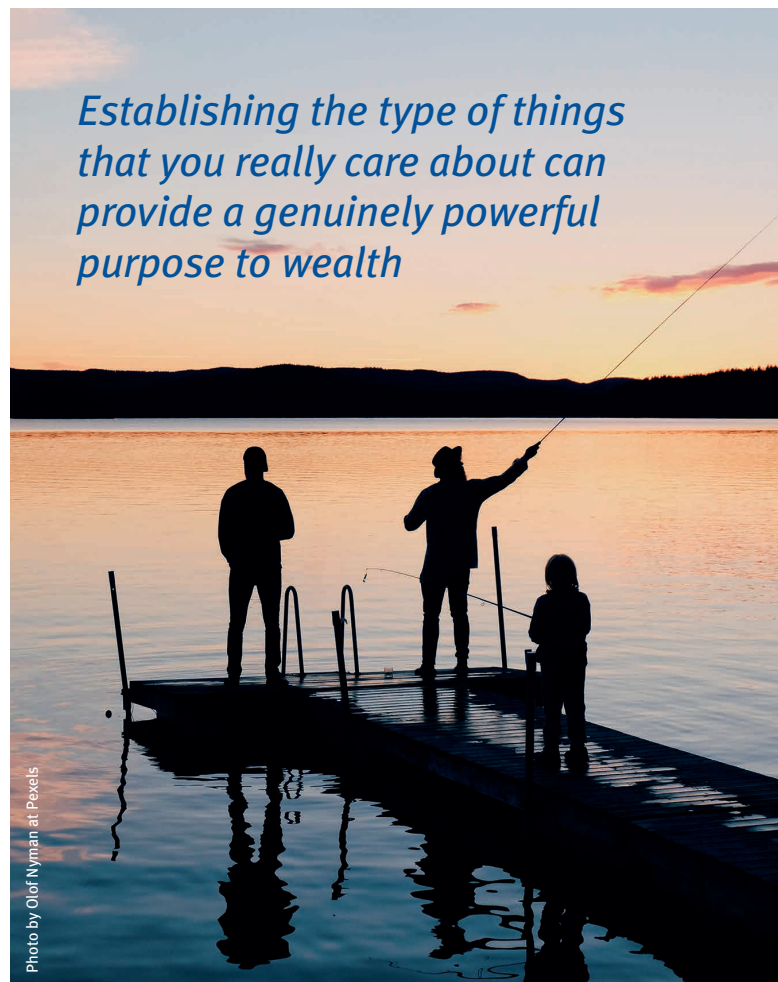
### *Intergenerational planning*

Families with a financial adviser will often use the same financial adviser for all generations with many turning to them for help with wealth transfers and planning. As well as cost-of-living pressures, the increasing need for intergenerational advice has also been fueled by the Chancellor's decision to freeze Inheritance Tax (IHT) allowances until at least 2026, which will result in a growing number of people becoming liable for death duties.

### *Unlocking the real value of your wealth*

We can help you develop a clear understanding of what you want to achieve with your wealth and then provide the support and advice required to fulfil those goals.

*Establishing the type of things that you really care about can provide a genuinely powerful purpose to wealth*



# Revisiting your Inheritance Tax (IHT) strategy

*Latest information from HM Revenue & Customs (HMRC) revealed IHT receipts for April 2021 to March 2022 were £6.1bn, 14% (£0.7bn) higher than in the same period 12 months earlier.*

## Factors at play

Receipts have increased partly due to higher death rates during the pandemic, as well as due to the rise in property prices which has seen more families coming into scope for IHT. With thresholds frozen at current levels – the nil-rate band is £325,000 and the main residence nil-rate band is £175,000 – IHT is effectively a stealth tax.

## Time for a refresh? IHT top tips

**Gifts** – use your £3,000 annual allowance before the end of each tax year. You can also make gifts of up to £250 per person per tax year. Higher value gifts can also be made in the event of marriage



**Trusts** – for example putting money into a trust to pay for a grandchild's education or to support another relative

**Make a Will** – and keep it up to date

**Leave money to charity** – if you leave at least 10% of your net estate to charity, the IHT rate reduces from 40% to 36%

**Take out life assurance** – this won't reduce your estate but instead provides a lump sum to your beneficiaries to pay the IHT bill. The policy should be written under a suitable trust

**Take advice** – sensible IHT planning can help to reduce the amount of IHT your beneficiaries will have to pay and safeguard your wealth for the future.

# Huge rise in individuals exceeding pension Annual Allowance

*In the past five years, the number of individuals whose yearly pension contributions breached the Annual Allowance (£40,000) has soared by more than 67 times.*

In the 2015-16 tax year, 5,460 people reported pension contributions exceeding the Annual Allowance in their self-assessment forms.

For the 2019-20 tax year, the figure stood at 42,350. Meanwhile, the value of pension contributions breaching the Annual Allowance rose by 564% during the same period.



We advise pension contributions and for individuals the limit is a maximum of £40,000 a year. More can be contributed by carrying forward unused allowance from up to the previous 3 years or employers can also contribute as well.

The limits have been breached by more individuals but this may be in line with the advice they have received.

# Property Trends Shaping 2022

## *Up and up and...?*

2021 was a record year for house prices and this soaring growth has continued in 2022. The numerous property price indices mostly concur that year-on-year growth in April 2022 was about 10%. After such frenzied activity, many experts now expect house price growth to slow for the remainder of the year.

## *Supply, meet demand*

Part of the reason for slowing house price growth is likely to be increased supply. The number of new homes listed for sale has risen for the first time in a year. Meanwhile, new buyer enquiries are increasing making this the closest supply has been to demand since the pandemic.

*Year-on-year growth in April 2022 was about 10%*



Photo by MOHD AZRIN on Unsplash

## *Chain-free record*

Finally, 2022 is already setting new records; 73% of property buyers so far this year have been chain-free.

## Considerations when buying new builds



Photo by James Kovin on Unsplash

*Demand for new builds is on the up due to more people seeking energy efficient homes, but research has revealed other factors people wish they had considered before purchasing a new build.*

Top of the list (36%) is researching the property manager as well as the developer, closely followed (35%) by checking out the parking arrangements, including the on-street parking situation.

A common problem on developments can be drainage; 19% of respondents recommended checking this out. Other top tips include booking in a snagging survey early on (18%) and visiting the property at different times of day (15%) to check noise, lighting and mobile reception. Ten percent of respondents wished they had checked the terms and conditions more carefully, while 9% wish they had communicated proactively with the developer and ensured they had everything in writing.

## The great bungalow shortage

Demand for bungalows has increased over 60% in 2022, while supply has flattened, meaning prices for single storey properties has risen at double the market rate in some areas. Popular because of their large gardens and potential to extend, families are now keen to make offers, debunking the myth that only older generations favour single storey living. Downsizees are now becoming embroiled in fierce competition for bungalows with all other demographics.



*Prices for single storey properties has risen at double the market rate in some areas*





# Five common mortgage myths

*Getting a foot on the property ladder is an aspiration that dates back generations. Unfortunately, some mortgage myths are just as old. If you're looking to buy, it's important to know fact from fiction.*

## 1 MYTH: You need a perfect credit rating

A bad credit history can have a negative impact on your mortgage application, but it doesn't make getting a mortgage impossible. Indeed, there are specialist lenders who offer mortgages to people with less favorable credit histories.

## 2 MYTH: You can't get a mortgage if you're self-employed

It's also a myth that being self-employed means you can't get a mortgage. You might have to jump through a few extra hoops to prove your income, but with the rise of freelance and flexible work, many lenders are now better suited to assess different employment situations.

## 3 MYTH: You should choose a home before thinking about mortgages

The opposite is true! It's a good idea to meet with a financial adviser before finding your dream home. Securing an Agreement in Principle will speed things up once you have an offer accepted.

## 4 MYTH: You should always pick the lowest interest rate

Although it's natural to focus on the headline figure, a low initial rate does not necessarily mean a cheaper mortgage. If you're on a tracker mortgage,

*It's also a myth that being self-employed means you can't get a mortgage*



for example, the rate can rise at any time. So, a higher fixed rate might end up cheaper in the long term. Different fees can also come into play; we can weigh up your options.

## 5 MYTH: You need to get a mortgage from your current bank

There's no obligation to get a mortgage from your current bank. Some lenders deals are not competitive at all. In fact, it's a good idea to compare multiple providers to find the best deal for your needs – that's where we come in!

## Equity Release product standard introduced

*All Equity Release plans sold to new customers must feature penalty-free partial loan repayments, enabling customers to reduce their loan size and save money on interest.*

*The new standard introduced by the Equity Release Council (ERC) could save customers millions of pounds.*

*Other standards include the obligation to either offer fixed interest rates or capped variable rates, the right to remain in the property for life, and a 'no negative equity guarantee.'*



# Demand for energy-efficient properties strengthens

*A growing proportion of house hunters are focusing on energy-efficient considerations when looking to buy a new home.*

Research suggests that rising energy prices and the cost-of-living crisis are having a significant impact on how buyers prioritise various desirable features, with an increasing number focusing on aspects related to energy efficiency.

## Key features

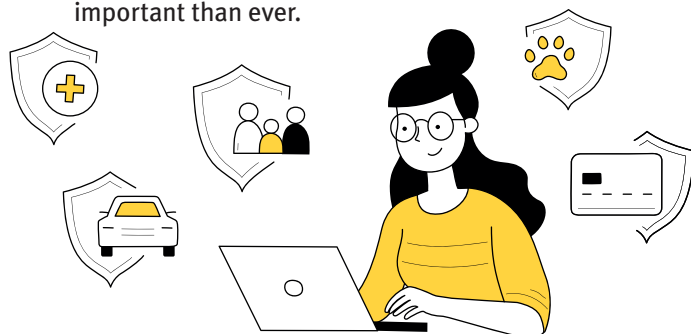
Cavity wall insulation was this year's biggest mover of the top 20 features, rising five spots from 20th in 2021 to 15th in the current rankings. In addition, a good energy efficiency rating rose three spots to sixth place, while a new boiler or central heating system was four positions higher than last year in ninth.

## Your protection, your peace of mind

*We all know financial commitments are a fact of life. Mortgage repayments and household bills aren't glamorous expenses, but they are unavoidable in spending our hard-earned cash. Protection insurance too should be seen as a certainty in your financial plans.*

With living expenses rising considerably, many people are having to tighten their spending reins. Cutting back on protection, however, is not like spending less in the shops. With the right protection, you are paying for peace of mind in the knowledge that you and your loved ones should not suffer severe financial hardship due to any setback covered by your policy. It's important to know that protection policies can cater to all budgets, so we can find a policy with an affordable premium.

In turbulent economic times, protection is more important than ever.



## Top spot

Interestingly, the top five must-have house attributes remained the same this year as last, with a private garden and central heating tied at the top of the table. Double glazing, secure doors and windows and a reliable broadband connection also remained high up on the list of desirable features.

## Approach mortgages for over-65s positively

*Are you over sixty-five and finding it challenging to get a mortgage? You're certainly not alone.*

Getting a mortgage as an older borrower is not mission impossible



Photo by SHVETS production at Pexels.com

With the number of people in the UK aged over 65 soon expected to surpass those aged 18 and under, just 37% of potential borrowers aged 65 and over are offered the size of loan requested, compared with 75% of younger borrowers; despite the average loan request being much lower for older borrowers (£100,000 for older borrowers versus £216,750 for those aged under 65 – March 2022).

Lenders are looking for evidence that you will be able to make the repayments for the entire term of your mortgage. It's also important to be able to demonstrate that you're a responsible borrower with a stable income. Getting a mortgage as an older borrower is not mission impossible, whatever your circumstances. We have had great success in securing mortgages for the over 65s.

## Collective Defined Contribution (CDC) pension schemes are launched

*The pensions sector has received an injection of innovation as a brand new type of pension scheme has officially opened for applications in Great Britain.*

*Collective Defined Contribution pension schemes, or CDCs for short, will offer an alternative to the UK's two primary pension scheme models, Defined Contribution (DC) and Defined Benefit (DB).*

*CDCs have the potential to provide improved retirement returns for savers, with more predictable costs for employers. Both employers and employees contribute to a collective fund from which individual retirement incomes are drawn, with trustees responsible for oversight to ensure schemes are viable and can meet their legal requirements and commitments to members.*

## Landlords and the new EPC rules

From 2025, all newly rented properties will be required to have an EPC rating of C or above, more stringent than the current requirement of E or higher.

Existing tenancies will have until 2028 to comply with the change, after which millions of properties could risk becoming unrentable if landlords don't make necessary changes.



Photo by SHVETS production at Pexels.com

## Pay-outs for protection claims top £18.6 million a day

A record £6.8 billion was paid out in individual and group life insurance, income protection and critical illness claims in 2021, according to the latest figures from the ABI and Group Risk Development (GRID).

The bumper increase in individual protection claims occurred despite a 1.6% drop in the total number of new claims paid. This is due to more individual term assurance and critical illness claims, which have much higher values. The average claim payment for term assurance was £61,944 and £67,500 for critical illness, which is consistent with 2020.

This is the third year in a row that the average individual pay-out has increased.

Pay outs for COVID-19 related individual claims almost doubled in 2021, to £261 million, despite the number of claims paid remaining almost identical to 2020.

This was due to a 69% increase in term assurance claims where the average payment was £69,760.

Continuing the trend of the last three years, 98% of both individual and group claims were paid in 2021. The main reason behind an individual protection claim being rejected was 'non-disclosure'. So you do need to tell the insurer all the relevant information when applying.



# Your retirement today

The last couple of years have impacted people's plans, with people reassessing what retirement looks like to them. Less people are giving up work entirely, choosing to adopt a more staggered approach to retirement. Two thirds (66%) plan to continue working in some capacity during retirement; of this number some plan to move to part-time hours, others intend to continue working for their own business, start their own new business or volunteer. Therefore, a third of retirees plan to give up work altogether, down from 44% of 2021 retirees.

## Financial readiness

Confidence in financial readiness to retire has fallen, with only 25% feeling financially ready to retire, versus 30% in 2021. A key factor in this fall being the rising cost of living, with 28% of respondents unsure how to mitigate the impact of rising inflation on their retirement income – a prime concern for those with large cash holdings.

## Pass it on

With over a half (56%) of retirees planning to pass on wealth to their loved ones, just 23% feel confident about how they will pass on any leftover assets to loved ones. Only 9% have started gifting wealth to reduce their Inheritance Tax (IHT) liability. Interestingly just 30% have had conversations with their partner about passing on their estate, while just 26% have spoken to their children about it.

## The new State Pension – *act now*

The State Pension provides a guaranteed, index-linked income and so it's essential that clients maximise this benefit, where possible. If there are any gaps in their NI record, they may be able to pay voluntary contributions in order to boost their entitlement.

Many individuals can currently fill gaps going right back to April 2006 – normally you can only do this for the previous six years. This window of opportunity closes at the end of this tax year.

Check your state benefit entitlement by going to the gov.uk website.



66% of people plan to continue working in some capacity during retirement

## No two retirements are the same

Retirement is a thriving new beginning to plan for. Whether you're thinking about a gradual retirement or full retirement how do you visualise your retirement years? Have you thought about your income requirements or tax implications? Have you started a conversation with family about how you want to use your wealth to help them? Advice can help you seek clarity and provide focus and direction.

## New Team Member - introducing Samantha Butler.

We are delighted to welcome Sam Butler to the team, who joined us in August as a Trainee Mortgage and Protection Adviser.

Sam will initially work with the mortgage team whilst she completes her training to obtain her competent adviser status.

Sam comes from an estate agency background and once qualified, will specialise in arranging mortgages and protection for clients, with the interest of exploring other areas of financial advice in the future and aims to become a fully qualified IFA.

In Sam's down time, she has a love of dogs and running and is a keen baker.

Welcome to the team Sam!

# KEEPING IT LITE

*"I have bad news and worse news..."  
a bank manager says to his client.  
"Which would you like to hear first?"  
"The bad news" the client says.  
"All your money will be gone in  
24 hours"  
"Oh my gosh" the client says.  
"So what's the worse news then?"  
"I should have made this call yesterday".*



*I'm not saying my bank adviser is bad at their job... but when I went into their bank and asked them to check my balance, they tried to push me over.*



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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