Wise Words

the latest financial news from Aaron Tawny

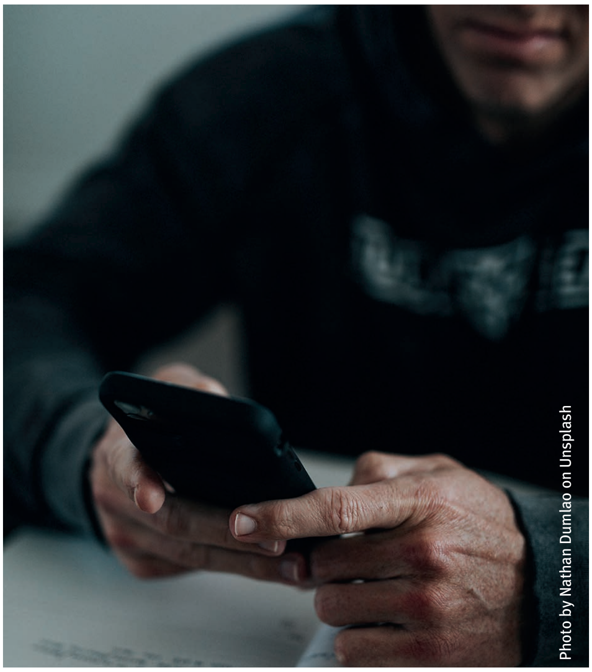
Personal Finance Portal

In April 2021 we updated our back office system to Intelligent Office to help us become leaner and more efficient.

One of the features of Intelligent Office is an online client portal called the Personal Finance Portal (PFP) where you can view financial information, update your personal information and upload any documents securely.

This has been a great success and if you have not already registered then you can do so by visiting our website, scroll down to the bottom of the page and click on CLIENT LOGIN. On the top right-hand corner click on the register button and follow the instructions. An email address is required to activate PFP.

Should you have any queries or require any assistance in registering, please contact the office.



Normal Minimum Pension Age (NMPA) rise could catch out more than 80% of people in their 40s

Government has failed to make the general public aware of a significant change in policy

Some 82% of people who are most likely to be impacted by the rise in the normal minimum pension age Normal Minimum Pension Age (NMPA) do not know about the increase, latest research from the Pensions Management Institute (PMI) reveals.

The institute said the provisions to increase the NMPA as set out in the 2021/22 Finance Bill will directly affect the retirement options for those currently in their mid to late forties.

But it found only 18% of working people aged between 40-49 are aware that the NMPA is set to increase from 55 to 57 in 2028.

Best to check for errors whilst still employed

What should I do about the gaps in my state pension record that the official website says it is still 'checking'?

When you go on to the gov.uk website to check your state pension you are given a year-by-year account of your National Insurance record. We would encourage everyone of working age to do this, as it is much easier to spot errors while you still have payslips and other recent paperwork rather than leaving it until you retire.

In most years you are likely to see that the year in question is described as a 'full year'. This means that you paid (or were credited with) enough National Insurance Contributions for that year to count as a 'qualifying year' towards your state pension. Where a year is currently shown as 'not full', there are some situations in which that may change in future. If the year in question is very recent (2020/21) it may be the case that they have simply not yet loaded the most recent National Insurance information. For example, if you check your records at the start of a new financial year in April or May, it would not be uncommon for the previous year to be temporarily shown as 'not full'. But if you check again later in the year you will find that this has changed.

A second reason why a recent year might not be showing relates to those who are self-employed. The National Insurance Contributions of the self-employed are in many cases now collected via the tax return process rather than through paying a weekly 'stamp' as was once the case. Because tax returns are filed well after the end of the relevant year it can take a while for the NI contributions of the self-employed to show up. However, for anything older than this we would be surprised if a year shown as 'not full' suddenly turned into a complete year without action on your part.

There are two main ways in which an older year can move from being 'not full' into being a qualifying year towards your state pension, but both require action on your part.

One would be if a National Insurance credit is claimed for the year in question, albeit some years after the event. For example, grandparents and other family carers who look after a child so that the child's mother or father can go back to work may be entitled to claim a National Insurance credit. For those who have been family carers for a long time, these claims can be backdated up to when the scheme was first introduced a decade ago.

Photo by John Schnobrich on Unsplash

It is much easier to spot errors while you still have payslips and other recent paperwork

A successful backdated claim for this credit could result in a number of older years turning from 'not full' to 'full'.

Another way of turning old years into qualifying years would be to pay voluntary NI contributions for the year in question.

For the self-employed these can be paid at the Class 2 rate and for others they can be paid at the Class 3 rate, but both are subsidised by the government and generally represent a relatively cost effective way of boosting your pension if you would not otherwise get a full state pension. There are however deadlines on paying these contributions (in most cases six years) so we would encourage you not to delay if you are short of the contributions that you need to maximise your state pension

But you should also be careful to make sure that any contributions you pay do actually boost your pension. In particular, contributions for years before 2016/17 may not increase your pension, depending on the details of your contribution record.

Workplace pensions

- Unpaid pension contributions

The Pensions Ombudsman in collaboration with MoneyHelper and The Pensions Regulator has published a new factsheet ' Workplace pensions – Unpaid pension contributions' .

This factsheet looks to provide customers with a clearer understanding of what to do if their employer is not paying contributions into their workplace pension scheme. The factsheet is designed to signpost customers to the organisation(s) that are best placed to assist them if customers cannot resolve their concerns with their employer.

In many instances concerns can be resolved with a clear explanation of how pension contributions are calculated and when they should be paid into a workplace pension. However, where the matter remains unresolved, an individual may want to report their employer to The Pensions Regulator (TPR) if it is not complying with the law and/or make a complaint to The Pensions Ombudsman (TPO) who can investigate the complaint and provide a remedy if the employer is found to be at fault.

More details of the respective roles of the MoneyHelper service, TPR and TPO are set out in the factsheet.

Flexi-retirement trend emerges as two-thirds plan to keep working

Two-thirds of people due to retire in 2022 intend to keep working in some form to help combat the cost-of-living crisis or simply to keep busy.

Two thirds (66%) of people retiring in 2022 planned to remain employed in some form compared to 56% in 2021 and 34% in 2020.

Flexible friend

24% of the Class of 2022 will go part-time with either the same job or a new one, 15% will continue to work for their own business, and just over 12% plan to become entrepreneurs and start their own business.

The main reasons cited for 'flexi-retirement' include needing the income (31%) and wanting to keep busy (32%).

Choosing to work really underlines the importance of taking a holistic approach to retirement and how sensitive plans can be to external issues, such as the surge in the cost of living or the pandemic.

Of those who planned to reduce their hours or get a part-time job in retirement, about a third had taken financial advice about the step and only a quarter were aware of the potential tax implications around dipping into their pension while still working and still saving more into their pension.

Photo by Greta Hoffman on Pexels

Working in retirement can have wider financial implications, all of which need to be planned for. This can seem complicated, but that's where preparation and speaking to an expert can help.

Small Self Adminstered Scheme (SSAS)

Passing wealth down the generations

A Small Self Adminstered Scheme (SSAS) can be an excellent pension for succession planning in a family run business, especially where a commercial property, or land, is bought and becomes a key asset within the SSAS which the family wish to pass down to future generations.

The SSAS has been a pension of choice for family run businesses for decades. A key attraction is the flexibility a SSAS provides to hold assets, in particular the business' trading premises, for the benefit of future generations.

Some tax considerations

Rental payments from the business can present an excellent consistent investment return. These can qualify as a business trading expense on the tenant's business, helping to reduce corporation tax on company profits.

Any uplift in capital value of the property is of course free of Capital Gains Tax (CGT) in a pension scheme. All SSAS assets are free of Inheritance Tax (IHT) – another very important tax benefit for family businesses.

Other reasons why a company's trading premises is owned by the director's pension

Property held as an asset of a SSAS or SIPP (Self Invested Personal Pension) would be free from creditors, so should the business run into trading difficulties, the client's pension will be protected from liquidators\receivers.

SSAS liquidity considerations and possible solutions

Any SSAS with property asset(s) does need to consider the liquidity of the scheme, for when retirement benefits are required.   Where a commercial property forms a material part of the pension assets there are options that help maintain the property within the scheme while releasing retirement funds. For example:

1. The SSAS could consider borrowing money to raise liquidity within the scheme. Of course, rental income would need to be diverted to repay the mortgage and the scheme would need to pay interest to the scheme lender. The lender would likely take a 1st legal charge on the SSAS property asset and so the terms of the lending would need careful consideration for situations where the lender, for whatever (unlikely) reason, required early repayment.
2. There could be the option to sell part of the property to raise the liquidity level in the scheme, with property then jointly owned between the scheme and a third party. The timing and market conditions are key considerations.
3. The sponsoring employer may be able to make additional company contributions to the scheme for the current members. Though this will depend on the available annual allowance for the members and liquidity position in the Ltd company at that time. Further contributions may also be limited by the member's Lifetime Allowance (LTA) position including any LTA protections in place.
4. Add new members to the scheme who bring transfers in or make new contributions to the scheme. This can be particularly advantageous if the new members added are also family members.

These can all help the SSAS and its more senior members retain the property asset as they progress into drawdown by maintaining their membership within the SSAS. This way they continue to benefit from future rental income entering the scheme, as well as any future uplift in the capital value of the property (when it is realised).

Adding family members who are beneficiaries of existing scheme members

If a new member added is an existing SSAS member's chosen beneficiary this could aid an easy transition of the scheme property asset (and wider SSAS assets) to other member(s) of the scheme without the need to sell the property and wider scheme assets (or possibly transfer the property to the beneficiary's own SIPP/SSAS pension scheme)

Extra money brought into a scheme via new members can help to diversify the scheme investments which all members of the scheme can benefit from, relieving any over reliance existing members may be exposed to via the property investment.

Could we be facing a savings slump?

High inflation is causing everyday living costs to soar, with many savers saying they are rapidly eating into the additional savings they made during lockdown. Little wonder that nearly three-quarters (74%) of UK adults are worried about rising living costs, with 35% saying they feel more anxious about the future than before the pandemic. This percentage increases to 42% for 45 to 54-year-olds.

A significant proportion of adults are eating into their lockdown savings fast. In fact, one-fifth say they have already spent their lockdown savings while a further quarter predict their savings will be gone before the year is out. With normal life resuming, the balancing act between spending and saving, particularly for those approaching retirement, is becoming ever more delicate. And, while you're unlikely to save the same amounts now as you were in lockdown, even putting away a more modest sum each month can soon add up.

Photo by alex rainer on Unsplash

Green mortgage products rise by nearly a fifth in six months

The total number of green mortgages has increased by 18% in the last six months, driven by the growth in buy-to-let products.

There are approximately 648 green mortgages available, up from 550 in October. Green mortgages offer preferential terms to properties with better environmental standards, and are often offered on properties with an EPC rating between A and C. The products can be used on new builds but can also be eligible for properties if their EPC rating or energy efficiency is improved.

The number of buy-to-let products has tripled from 85 in October to 292 now. This is being driven by potential legislation which state new tenancies might need to have an Energy Performance Certificate (EPC) of C or higher by 2025.

However, residential green mortgages has fallen by a quarter to 465. Generally, newer homes will meet the criteria as they are built with modern regulations in mind, but older properties may need to be updated to ensure they are energy efficient. The cashback incentives typically offered with these 'green' mortgages can make it worthwhile as opposed to the standard mortgage range.

Photo by cleo stracuzza on Unsplash

What's on your playlist this year?

Over the years, several studies have proven that investors can enter emotional relationships with the stocks in which they invest. Research has reinforced the concept that equity prices are not only driven by analysis of a company's prospects but also by external factors which can directly impact investor mood. For example, correlation has been found between improved stock market performance on sunny days or poor performance after a country loses a crucial football match.


Photo by C D-X on Unsplash

One recent study introduces a novel measure of investor sentiment, which it suggests captures actual sentiment rather than shocks to sentiment. A significant correlation has been determined across 40 national stock markets between weekly equity returns and the emotional content of that week's top 200 songs on Spotify. The findings suggest that stock markets perform better when a country is listening to happier songs!

Whatever's on your playlist in 2022, you can rely on us to take the emotion out of your investment decisions.

Global attitude to risk variance


Photo by Jeremy Beadle on Unsplash

Affluent to ultra-high-net-worth UK investors are more conservative than their international counterparts. Over half (54%) of UK respondents rated themselves as conservative in their approach to risk, with the lowest percentage (10%) saying they take an aggressive approach. In stark contrast, almost half of Chinese respondents rated themselves aggressive in their approach to risk, with just 19% conservative. Possibly reinforcing the lower risk, long-term mindset, the main reason for two-thirds (66%) of UK respondents for investing and saving is for their retirement, with 35% citing future healthcare costs and entrepreneurial activities (17%).

Claim the relief

Over 1.5 million of the UK's highest earners failed to claim an estimated £810m in tax relief in the 2018/19 tax year, totalling around £2.5bn between 2016/17 and 2018/19. Higher rate taxpayers benefit from 40% tax relief, yet eight in ten didn't use their Self-Assessment tax return to claim it; similarly, over half (53%) of additional rate taxpayers failed to claim the 45% tax relief for which they are eligible.

Climate disclosures

- high on corporate agendas in 2022

To protect investors from greenwashing, the International Monetary Fund (IMF) is urging regulators to do more to prevent financial companies from making misleading claims concerning their environmental credentials - 'Proper regulatory oversight and verification mechanisms are essential to avoid greenwashing.' Achieving the scale of expansion needed to meet the goal of reducing worldwide carbon emissions to net zero by 2050 will demand that investors properly understand how their money is used.

The UK's largest companies were required to make climate-related financial disclosures from April this year. Firms with a turnover in excess of £500m and at least 500 employees were expected to publish the climate-related risks they face.

Disclosure requirements will be aligned to the Task Force on Climate-Related Financial Disclosures, which is backed by over 1,000 global financial institutions, and is responsible for $194trn of assets. The new rules mean companies will need to "focus on the effects of climate change on their business" and communicate to investors how these are being managed.

Protect your retirement from the risk of mental decline

Retirement – that magical time when we can finally live our lifelong dreams. Increased life expectancy means that many of us can now expect a longer retirement, but this comes at a cost: the increasing prevalence of age-related cognitive decline, which could leave us vulnerable to costly financial errors.

There are almost 885,000 people living with dementia in the UK, and estimates suggest that between 5% and 20% of over-65s suffer from mild cognitive impairment (MCI), a condition in which someone has minor problems with cognition, such as memory or thought process.

Protecting your finances

Planning for the possibility of cognitive decline is an essential part of preparing for retirement. Although many people still have the capacity to live independently and make decisions for themselves, MCI has been linked in scientific studies to poorer financial capacity and an increased susceptibility to scams.

Getting the timing right

Some investors thought the ideal time to transfer financial control would be 'sometime after they had begun to experience some cognitive decline but before they became completely incapable.' Respondents thought there was a higher than one-in-three chance of a mistimed transfer, partly attributable to a reluctance to relinquish control, which exemplifies the need to start planning sooner rather than later, so that any future transfer takes place on your terms.

Opening up conversations

Although it may feel awkward, preparing for the possibility of cognitive decline requires careful planning, not only having legal documents in place but also starting conversations with your family and those you trust about money and your goals for the future, in advance of its possible onset. This means that everything is out in the open and close connections are more likely to notice if you begin making decisions about your money that appear to contradict your objectives.

We can assist you with planning and in starting these conversations with your family well in advance and help you better plan for the future, giving you a greater sense of ownership and control over your plans.

Rise of the 'Late Financial Bloomers'

A new group of consumers – Late Financial Bloomers – are set to change the face of retirement.

Marriage and divorce

A series of socioeconomic factors, including later home ownership, are the main drivers behind this shift. Marriage and divorce trends are also key contributors: on average, first marriages now take place four years later than they did 20 years ago; similarly, divorce rates peak 20 years later than they did two decades previously.

Childbirth plays a role too. More women over 40 now give birth each year than those under 20, which means a growing proportion of the population will be supporting children through education later in life rather than focusing on retirement planning.

Plan ahead

Currently, Late Financial Bloomers account for just 6% of retirees, but this figure is set to rise significantly over the next 15 years. This shift towards later financial security means more people will face complex retirement journeys, thereby increasing the need to plan ahead.

Lights, camera, action!

Jackie Chan's Stunt Team may be blacklisted by all insurance companies, but for most people life insurance is an easier task to tick off the to do list, no excuses.

With one in three people more likely to buy protection insurance because of experiences during the pandemic, the devastating impact of COVID has clearly led many to reassess their priorities. The reassurances provided by protection insurance have seemed more appealing for many amidst the turbulence of the last couple of years. Witnessing the pandemic's impact on the health of others was cited as the main reason people were now more likely to take out protection insurance.

It's a small price to pay for the peace of mind it provides

Photo by Catrin Johnson on Unsplash

Affordability issues

Perceived cost, however, remains a barrier for some. Indeed, almost a third of people say they haven't taken out protection because they think it would be too expensive.

It's a wrap

Protection is a crucial component of a balanced financial plan and, with policies starting at just a few pounds a month, it is a small price to pay for the peace of mind it provides.

Saving for your child's future

Many parents give their children a flying financial start by saving or investing throughout their childhood. Mothers typically take the lead in this area, while cash remains disproportionately popular.

Mum's the word

Responsibility for children's savings is particularly borne by mums: 60% of those actively contributing to a child's savings and investments were found to be women. Researchers noted that this fits a broader theme whereby women tend to connect investing to outcomes for their family more than to their own needs.


Photo by Jonathan Borba on Unsplash

The survey also highlighted a drop-off in contributions as children get older. While 67% of new parents start saving or investing for their new-borns, this figure falls to 54% by the time children reach secondary-school age.

Cash is king?

The efforts of parents to save for their children is clearly admirable, but it is important to make that money work hard. Most financial products held for children are in cash, with stocks and shares Junior Individual Savings Accounts (JISAs) making up just 3% of all accounts. The JISA recently celebrated its tenth birthday, and the allowance has increased over the years from £3,600 in April 2011 to £9,000 today.

In a high-inflation environment the real value of cash savings is likely to be eroded over time, especially with low interest rates. While not guaranteed, investment products like the junior ISA have historically delivered better returns over the long term.

Investment terms trigger emotional response

Jargon is common in the world of investments and pensions, which can make them seem impenetrable and intimidating. If the thought of 'Equities' and 'Investment ISAs' makes your heart race, you're not alone, financial terms really can make people anxious.

Jar-gone

Researchers used a variation of the Emotional Stroop Test, which measures information processing speed when naming the ink colour of different words, to compare response times for neutral words like 'pencil' with investment-specific terms like 'FTSE.'

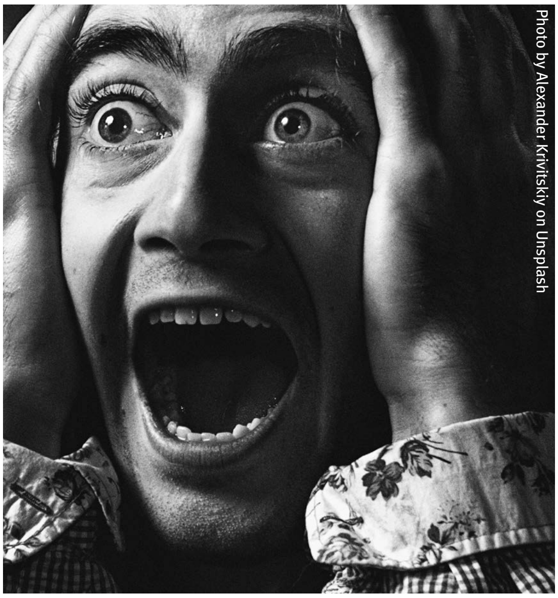


Photo by Alexander Krivitskiy on Unsplash

Nearly two-thirds of participants had slower response times and higher error rates for financial trigger words, suggesting they may be susceptible to a stress response. Additionally, 44.3% experienced an increased heart rate and 11.5% reported breathlessness.

The terms 'Stockbroker', 'Asset Management' and 'Investment Risk' produced three of the slowest reaction times. Other investment-related words like 'Bond Fund' and 'Equities' also took longer than average.

Don't fear 'FTSE'

Stripping back jargon can help people think more clearly about investments and pensions. 71% of respondents don't feel confident enough to invest money in the stock market, with a quarter feeling 'frightened' by the idea.

Despite these fears, people do want to improve their financial knowledge, with three in five participants keen to learn more about financial terminology.

At Aaron Tawny we do try to minimise the jargon that we use to help your understanding. Please ask your advisor to clarify any terms you are struggling to understand.

BoMaD boom

Half of all first-time buyer transactions were supported by the Bank of Mum & Dad (BoMaD) in 2021. BoMaD contributions of £9.8bn helped 169,000 first-time buyers onto the housing ladder. Surging BoMaD contributions could become the norm, after Help to Buy is withdrawn completely from March 2023 onwards.


Photo by MOHD AZRIN on Unsplash

Fix it?

Almost half of people (49%) have never remortgaged their home, despite the average Briton having held a mortgage for over 13 years. By failing to consider their mortgage options, for example, securing a fixed term instead of a variable rate, just under a third (32%) know it could probably save them money.

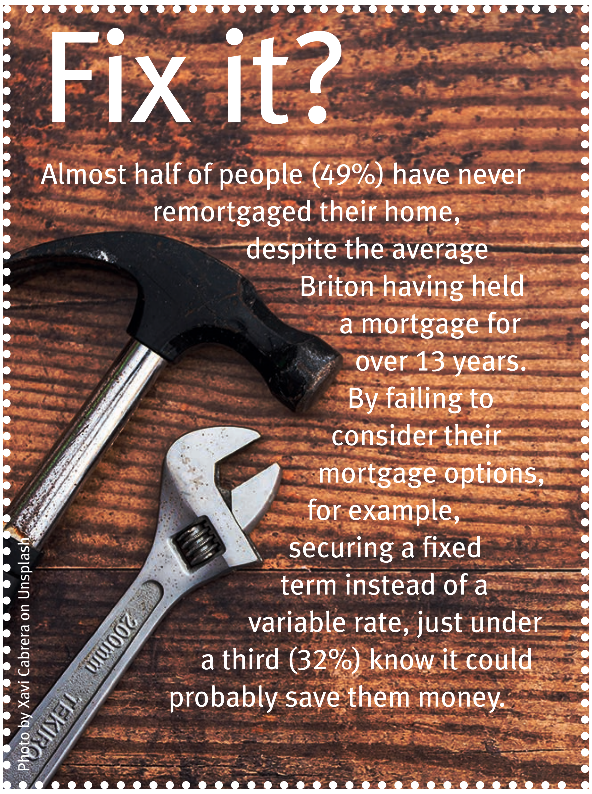


Photo by Xavi Cabrera on Unsplash

Avoiding collapse:
managing your property chain in 2022

You've found your ideal property, you're just about ready to exchange contracts, and then you get the call: your buyer has pulled out, leaving your own transaction in jeopardy.

Unfortunately, many property transactions are interlinked in this way, with the decision of one buyer having a knock-on effect on the whole chain, with the worst possible scenario seeing every single buyer losing out on their new home. However, there are actions you can take to speed up the process and reduce the risk of things going wrong.

Go chain-free

You can avoid a chain altogether by finding a seller whose own transaction isn't dependent on the sale of their property. However, this does limit your options, so what steps can you take if you do find yourself in a chain?

Rent for a short period

Depending on your circumstances, it may be possible to sell your home and rent for a little while so that you're not dependent on a buyer. Likewise, if your seller's transaction falls through, you may be able to ask them to rent on a short-term basis so that you can still complete your purchase.

Organisation, organisation, organisation

Getting your transaction over and done with as quickly as possible limits the chances of your chain collapsing. Be proactive in instructing your solicitor and other professionals, ensure you're completing forms and sending them back as quickly as possible, and chase up any delays.

Let us help

Another way you can speed up your transaction and protect your chain is by securing an agreement in principle with a mortgage provider before beginning your search.

Getting a mortgage in retirement

These days, it's not uncommon for people to become homeowners later in life. But can you get a mortgage even if you're retired? If so, what's the maximum age?

First things first: we're not going to pretend that getting a mortgage past the age of 55 is easy. For a start, it is more difficult to prove retirement income than it is a salary. And secondly, mortgage providers want to be sure you'll be able to pay off the loan during your lifetime.

Some lenders are willing to provide mortgage finance to older people and even retirees

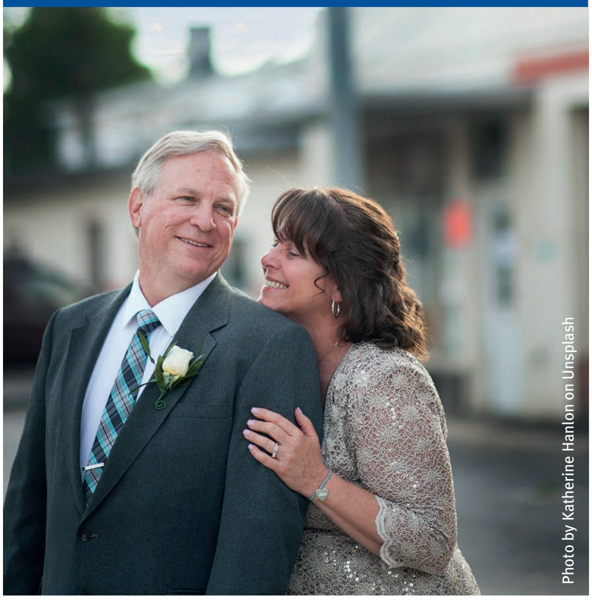


Photo by Katherine Hanlon on Unsplash

It can be done

Difficult, yes. Impossible? No. Some lenders are willing to provide mortgage finance to older people and even retirees, provided they can prove their income. This may be a private or workplace pension, or a mixture of the two, as well as any savings you may have. These details, as well as an outline of your expenditure, will help prove you will have enough to live on and to pay your mortgage for the duration of the term.

Depending on the lender, and your age, you may have to accept a shorter mortgage term or a higher interest rate. This is because most lenders have a maximum age by which they will want the mortgage to be paid off, which can be as high as 85 and as low as 70.

Lifetime renters pay over £330k more

While getting on the housing ladder is becoming increasingly difficult, doing so could leave you richer to the tune of nearly £330,000.

Photo by Samantha Garrote on Pexels

Today's homebuyers could save hundreds of thousands of pounds - £326,214, to be exact – over a period of 30 years compared to lifetime renters. This is before house price growth is even factored into the equation!

And yet, more than half (54%) of people who are not yet homeowners believe it is 'unrealistic' that they will ever be able to do so.

It's worth your while

Working to build up the funds for a deposit, although difficult, is very much worth the effort. Over two-thirds (68%) of homeowners say they feel confident about their financial future, against 45% of renters.

Homeownership, is becoming ever more critical to financial wellbeing and being able to achieve one's long-term financial goals.

Giving you the best start

When you're looking to get onto the property ladder, the chances of success will be greater with sound advice.

KEEPING IT LITE

Brenda and Terry are going out for the evening. The last thing they do is put their cat out.

The taxi arrives, and as the couple walk out of the house, the cat scoots back in.

Terry returns inside to chase it out. Brenda, not wanting it known that the house would be empty, explains to the taxi driver, "My husband is just going upstairs to say goodbye to my mother."

Several minutes later, an exhausted Terry arrives and climbs back into the taxi saying, "Sorry I took so long, the stupid idiot was hiding under the bed and I had to poke her with a coat hanger several times before I could get her to come out!"

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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