Issue 17 Autumn 2016

Financial Viewpoint

Your latest newsletter from The Orchard Practice

Are you considering remortgaging?

With continuing low interest rates, you may be considering remortgaging to save money.

Even if your mortgage provider has recently reduced its Standard Variable Rate (SVR), moving to a new mortgage deal could save you money. But before you're tempted by an attractive introductory rate, it's worth considering the bigger picture.

Should I stay or should I go?

It's true that moving to a new deal could save you money, just remember to check that you won't incur an Early Repayment Charge (ERC) if you change your mortgage before the end of your current deal. It's also worth factoring in any potential legal, valuation and administration costs that may be associated with signing up to a new mortgage deal.

Tougher lending rules

Mortgage regulation may also have changed since you took out your current deal.The EU Mortgage Credit Directive of 2015 introduced stricter lending criteria which has led to mortgage lenders having to take greater steps to check affordability – including on remortgages. You can expect to be asked to show evidence of your income, such as payslips and bank statements, and your outgoings, including other debt repayments, household bills and living costs such as travel, clothing, entertainment and childcare.

Changing the type of deal

When looking at new deals, you may want to consider a different type of mortgage arrangement to your current deal.

For instance, you may decide you would benefit from the option of payment holidays, or a more flexible repayment arrangement. If you have significant savings, you may want to switch to an offset or current account mortgage, where you use your savings to reduce the proportion of the loan on which you pay interest.

Are you still covered?

If you're thinking of changing your mortgage, remember to review your protection arrangements at the same time – especially if you don't already have cover in place, or your circumstances have changed since you last reviewed your cover.

The value of personal, family, or income protection should not be underestimated if it means keeping the roof over your heads when you need it most.

With so many areas to consider, it makes sense to seek professional mortgage advice. We can help you weigh up the financial benefits of remortgaging, choose the most appropriate deal, handle your mortgage application and ensure your loan is properly protected.

If you'd like help choosing the right mortgage, please get in touch.

Your home may be repossessed if you do not keep up repayments on your mortgage

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Buy to Let tax revamp

Tax changes in the Buy to Let market announced in the 2015 Budget will impact on a landlord's tax bill and potentially hit profits.

- From April 2016 Stamp Duty Land Tax for Buy to Let property purchase increased by 3%.
- From April 2017 landlords will only be able to claim relief back on their mortgage finance costs at the basic rate of 20%, although the withdrawal of the higher rate reliefs will be phased in over four years.
- The 10% 'wear and tear' tax relief was replaced in April 2016. Landlords can now only claim tax relief when they replace furnishings.

Tax relief to be slashed over four years

While the extra 3% stamp duty on Buy to Let properties wouldn't have gone down well with landlords, perhaps the biggest change affecting people with property portfolios relates to the relief restriction on loan interest.

At the moment, landlords can deduct mortgage interest from their profits, which can significantly reduce their tax bill. From April 2017, however, this tax relief will reduce, until April 2021 when it will be restricted to the basic rate of income tax (currently 20%). This means those on higher incomes will find themselves losing much more in mortgage interest payments.

According to the estimates from Nationwide building society, an investor with a £150,000 Buy to Let mortgage on a property worth £200,000 attracting a monthly rental income of £800, is likely to see his or her net annual profit drop from £2,160 a year to just £960.

The changes in income tax relief are being phased in from 2017 to 2021, which allows a period of time to adjust to the impact. That said, it will make a fundamental difference in the economics of property investment; rather than lock into a five year fixed rate today, landlords may be tempted by shorter-term fixed rate deals to get lower rates of interest.

A level playing field

While the major players in the Buy to Let market will see their profits shrink, it might mean less competition for landlords on a lower income, or those new to the market.

If you're considering a first time Buy to Let purchase it's important to plan carefully. Make sure you:

- know what you want from your investment and plan thoroughly
- research the market, the area and the property before you buy
- identify the type of tenant you'd want living in your property
- ask us about the right Buy to Let mortgage deal for your circumstances

Buy to Let mortgages are not regulated by the Financial Conduct Authority.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

If you're a Buy to Let landlord or you'd like help investing in your first Buy to Let property please get in touch.

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OW0224 Exp. 31/03/17

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Britain's happiest places

Leigh-on-Sea tops Rightmove's Happy at Home Index, with Harrogate dropping to third.

Rightmove's annual study asks 24,000 people across England, Wales and Scotland to rank where they live against 12 factors relating to their local area. The factors range from neighbourliness and how much there is to do in the area, to how safe people feel.

What makes one person happy may not be the case for another, but the report is able to conclude that things like park areas and green space, as well as friendly neighbours and good local amenities, score highly when it comes to making somewhere a nice place to live.

Where's happiest?

Rightmove's top five span the south east corner of England to the west coast of Scotland and three of the five are on the coast:

Overall happiness	
1	Leigh-on-Sea, East of England
2	Troon, Scotland
3	Harrogate, Yorkshire & the Humber
4	Hertford, East of England
5	Lytham St Annes, North West

National capitals Cardiff and Glasgow ranked mid-table, with Swansea taking Wales's top spot, while London's regional results varied wildly: Richmond upon Thames (39th place) topped the regional list while four other London places ranked in Britain's bottom 10.

What matters most?

The twelve factors	Happiest	Least happy
Community Spirit	Stanford-Le-Hope	Walsall
Sense of belonging	Troon	Barking & Dagenham
I can be myself	Troon	Wallsall
I feel safe	Troon	Wellington
I earn enough to live comfortably	Ayr	Blackpool
The people are friendly and polite	Shrewsbury	Barking & Dagenham
Sports and recreational activities	Leigh-on-Sea	Spalding
Arts and culture	Leigh-on-Sea	St Helens
Opportunities to develop skills	Leigh-on-Sea	St Helens
Nature and green spaces	Harrogate	Spalding
Essential local service eg. GP surgeries, schools	Wellington	Grays
Non-essential amenities eg. restaurants, pubs	Leigh-on-Sea	Bracknell

Looking for a happier place to live?

If you're thinking of moving it's worth taking the time to explore the area you're considering. Check if there are parks or green space that you can enjoy spending time in and talk to neighbours to get an idea of the people that make up the community you'll be joining. Have a drive around to see what amenities are close by and drop into the local pub or restaurant to get a sense of how a Friday evening after a long day at work might feel.

If you'd like to see how your region or town performed, or you think it could help you decide your next property move, you can find full details of the Happy at Home index at rightmove.co.uk/news/happy-at-home

Looking for a new place to call home? Talk to us for advice on finding the right mortgage deal for you.

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OW0225 Exp. 27/03/17

New State Pension: what's your entitlement?

Between December 2015 and May 2016 around 400,000 people accessed their State Pension statements, a 40% increase on 2015 when there were 400,000 requests in total for the entire year.

This significant increase is down to the launch of a new online system which calculates your likely State Pension entitlement based on your National Insurance records. Previously, only people aged 50 and over could get a forecast by applying over the phone or by post to the Department for Work and Pensions (DWP).

Calculate your entitlement

To access the new online system, go to www.gov.uk/check-state-pension and follow the prompts. You'll need to confirm your identity using the Government Gateway.

The service gives you a personalised statement showing an estimate of what you might receive once you reach State Pension age, based on your National Insurance Contributions (NICs). It's a quick and easy way of highlighting what you're eligible for and it can help show you how much you need to save elsewhere, as part of your retirement planning.

It is particularly helpful given the launch of the new State Pension in April 2016, which introduced a new flat rate of £155.65 (2016/17 tax year), sparking confusion amongst workers over whether they would be better or worse off under the new regime.

The new State Pension

If you're male, born after 6 April 1951, or a woman born after 6 April 1953, you are eligible for the new State Pension, however, you must have a minimum 10 years' of NICs.

You need 35 years' NI record to qualify for the full £155.65 (an increase of five years on the old entitlement) and if you've built up entitlement to additional State Pension under the old system, you may get more or less if you were 'contracted out'.

The value of advice

Whatever your entitlement to the State Pension, your retirement planning is too important to ignore. We can help you assess what you might be eligible for and what you need to do to achieve a level of income in retirement that you'd be happy with.

To discuss your pension planning in more detail please get in touch.

OW0232 Exp. 31/05/17

Managing your money as a freelancer or contractor

Research carried out by the Small Business Research Centre at Kingston University revealed there are an estimated 1.9 million freelancers in the UK, representing 36% growth over the past eight years.

Almost two thirds of all freelancers work in four main industry groups:

- Education, health and social work (21%)
- Professional, scientific and technical (20%)
- Arts, entertainment and recreation (12%)
- Information and communication (10%)

In terms of age profile, 25% of freelancers are aged 40 - 49 compared to 21% aged 60 and over. However, inadequate pension provision and increases in the State Pension Age would suggest this will change and more over 60s will choose to set up as freelance in order to supplement their 'retirement' income.

Self-employment attractive to many

Freelancers, consultants and contractors are often self-employed and make a significant contribution to the UK economy. In fact, the latest labour force figures from the Office for National Statistics show a record 4.79 million, 15.1% of the workforce, are self-employed.

Self-employment is attractive to many people because of the flexibility it offers, however, it shouldn't be considered an easy option. Self-employed people will worry about a lack of clients – or too many clients – and uncertainty over where the next contract is coming from. They also have to create their own marketing and find new business, and manage their finances, including tax, National Insurance and pension contributions.

Protect your earnings

Even if you've been successfully self-employed for years there may be times when the phone stops ringing and the work slows down. Households in the UK have on average 18 days until their savings run out and they could be on the breadline financially unless they have another income to rely on.

An Income Protection policy provides an important safety net in this situation and will provide you and your family with a replacement income if you're unable to work due to illness or injury.

Save for your retirement

If you're self-employed, you may find that saving into a pension can be a more difficult habit to develop than it is for people in permanent employment. There will be no employer contributions and irregular income patterns can make regular saving difficult; but planning for retirement is crucial if you want to be able to relax and enjoy it when the time comes.

If you are self-employed, freelance or contractor and would like advice on how best to manage your money and plan for retirement, please get in touch.

OW0231 Exp. 27/03/17

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The search for a reliable retirement income

The April 2015 pensions changes scrapped compulsory annuities, giving pensioners greater choice over how to take their retirement income.

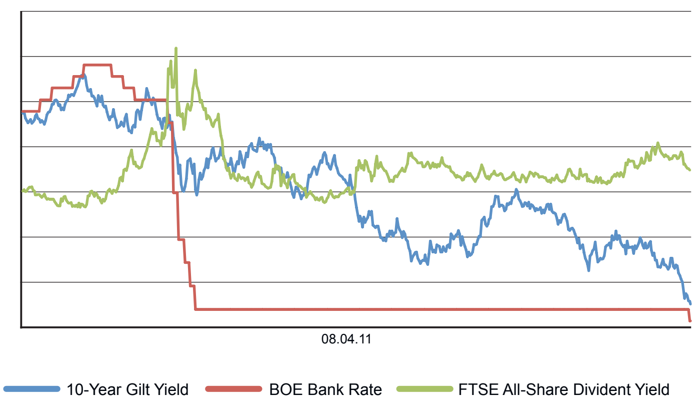
In principle, this historic change to UK pension legislation opened up a range of investment opportunities. With increased control of their pension, investors can seek to position their portfolios to deliver the income required, while retaining – and perhaps even growing – their invested capital.

Generating income in a low interest-rate environment

While these pension changes offer many opportunities, generating investment income remains difficult – particularly in view of the historically low interest rates.

As the chart below shows, the Bank of England's target interest rate had been stuck at 0.5% for more than seven years, and it was cut to 0.25% in August 2016 and held in September 2016. Meanwhile, the income that can be earned through holding UK government bonds – a traditional staple instrument of low risk, income-focused investment portfolios – has shrunk from over 5% before the 2008 financial crisis, to less than 2% now.

UK interest rates, gilt yields and dividend yields (%)



Source: Bloomberg Finance L.P

Equity markets risk income stability

The chart also shows that the dividend income available on UK equities has risen somewhat, making them an attractive proposition for many investors.

However, income-seekers should be wary of rushing headlong into equities in search of the returns that have been eroded in other asset classes. Investing in equities entails a degree of risk, particularly for those relying on their investment portfolio for their means of living.

Should equity markets suffer a setback, retirees may find their pension fund much reduced in size, and incapable of generating the necessary income.

Taking a diversified approach

A robust income strategy should not be overly reliant on a single asset class. But making a decision on which asset class to hold is tricky – the top performer changes regularly and the returns are very volatile.

Investors who are over-committed to one asset class run the risk of disproportionate losses should that asset class underperform.

An alternative approach is to take a much wider view and consider other potential sources of income from a broader range of asset classes and capital structures, across many different countries and regions.

Taking a more diversified approach means that a drop in the value of one asset may then be offset by increases in other asset classes, leading to smoother overall performance – and a potentially more stable source of retirement income.

You should not use past performance as a reliable indicator of future performance. It should not be the main or sole reason for making an investment decision. The value of investments and any income from them can fall as well as rise. You may not get back the amount you originally invested.

To find out more about the investment and income solutions we can offer, please get in touch.

OW0235 Exp. 31/03/17

The value of Income Protection

We work hard to provide for ourselves and our families and enjoy spending our monthly earnings on holidays and leisure – as well as the more mundane (but essential) things like bills and mortgage payments of course. So you'd think we'd place huge importance on protecting an asset as valuable as our income.

According to research from Zurich, however, this is sadly not the case. In fact, only 20% of the people surveyed had protected themselves against a loss of earnings in the event of illness or disability.

Risk versus reality

Perhaps more surprisingly, 43% said the chances of them becoming ill or disabled and unable to work were extremely unlikely – even though a similar number (42%) had already experienced a loss of income for this very reason.

This apparent discrepancy between perception and reality is particularly worrying as a third of people believe they don't have enough savings to cover expenses for more than one month.

Protect your greatest asset

Income Protection pays out a regular replacement income if you are unable to work due to an accident or illness or, with certain policies, unemployment. For a monthly premium that can be adjusted to suit your budget, this valuable insurance could keep the roof over your head while you are unable to work.

Even if you have Income Protection insurance already in place, it's still worthwhile reviewing your current cover levels. Personal circumstances can change regularly so it's important to ensure your level of cover remains appropriate.

Most of us don't think twice when it comes to protecting our vehicles or treasured possessions, and yet it's our income that enables us to enjoy these luxuries.

Talk to us today about Income Protection insurance to make sure your income is properly protected in the event you're unable to work.

OW0236 Exp. 27/03/17

Home truths

The LV= Home Truths Report has revealed that homemakers are happier than people working in any other occupation, despite working longer hours than most people think.

Flexible hours, being able to spend time with the children and relatively low stress levels all contribute to homemakers generally feeling happier than those in full time jobs, even though they work, on average, 66 hours in a five day week.

It all adds up

As well as being crucial to the home and family, the role of the homemaker also contributes to the economy. In fact, the Office for National Statistics suggests an equivalent salary for a homemaker would be £38,162 a year, covering tasks like childcare, cooking, cleaning, transportation, shopping and doing the laundry.

Perhaps we underestimate the value of a homemaker though, as only 7% have taken out Income Protection insurance that would replace some, or all, of the £733 a week needed to pay for alternative cover.

Deadline to the breadline

To make things worse, families would only be able to manage to pay for help for just 18 days, on average, before they ran out of savings or had to borrow money – even though their first priority would be making sure their children are looked after.

It goes to show that there's often a gap between our aspirations for our children and the steps we will take to ensure they can be realised.

While none of us want to think that an accident or illness will happen to us, life's nasty surprises can (and do) happen to anyone and at any time.

If you have children, or a partner who rely on you or your income, it's important to review your personal protection plans and make sure you have sufficient cover in place. We can help. Talk to us and we'll make sure you have the right cover for your circumstances.

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OW0229 Exp. 27/03/17