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Financial Viewpoint

Your latest newsletter from The Orchard Practice

The value of mortgage advice

With so many mortgage lenders offering their products on the high street and online, it can be tempting to cut out the middleman and 'go direct'.

But when you're making such a huge financial commitment, the guidance you can get from a qualified mortgage adviser can be invaluable.

Here are five ways we can make a difference to your mortgage search:

1. We know what a good deal looks like

It's easy to underestimate the costs involved when buying a property or remortgaging. An attractive rate may appear good value, but this could change once you factor in things like fees and loan conditions.

We will compare a wide range of lenders and thousands of mortgages on your behalf; looking beyond the headline rate so that you understand how the length and type of loan will affect how much you pay over the longer term. We'll highlight any additional costs you should be aware of (like administration fees, booking fees and valuation costs).

2. We know the market

If your mortgage needs or circumstances are 'out of the ordinary', you may find it more difficult to find a mortgage. We can save you time and hassle and help you find a suitable lender.

3. We can do the hard work for you

Selecting the right mortgage is just the start. We will work with you to complete all of the necessary application forms, liaise on your behalf with solicitors, valuers and surveyors, and help make the process as smooth as possible.

4. We are professionally qualified

Unlike many branch and telephone-based mortgage sellers in banks and building societies, we are able to advise you on a broad range of lenders and products. This means you benefit from genuine choice coupled with quality advice.

5. We look beyond the mortgage

We consider the bigger picture when it comes to advising you on your mortgage. For example, we can help you safeguard your home by recommending products that can financially protect you and your family, should the unexpected happen. We can also recommend providers that can help with other elements of the home-buying process, including solicitors and surveyors.

And, if you want us to, we can stay in touch with you into the future, to ensure your mortgage and protection arrangements remain appropriate for your needs.

Conveyancing is not regulated by the Financial Conduct Authority.

Whether you're looking for a mortgage on your first home or dream home, we can help.

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

OW0445 Exp. 19/12/17

Achieving your financial goals

We lead complex lives in an increasingly complex world. As your financial adviser we can help you better understand your financial challenges, goals and needs, and help you find appropriate ways to meet them.

Even a seemingly straightforward financial goal can involve numerous decisions and a lot of time and effort getting it right. Whether it's buying a home, investing for the future or protecting the people and things you cherish, we're here to help you make the right choices for your needs. Here are some of the services we provide, which our clients have told us they value the most.

Mortgages

With so many mortgage lenders offering products on the high street and online, it can be tempting to cut out the middle man. But when you're making such a huge financial commitment, professional guidance can be invaluable, particularly if your needs are out of the ordinary. As well as arranging your mortgage we can also recommend specialist professional services that can help with other elements of your home-buying process, including solicitors and surveyors.

Protection

When using comparison sites and direct insurers, how can you be sure their "off-the-peg" solutions meet your specific needs? Using our expert product knowledge we can help you find the right solution for you. Whatever your particular need – be it income, family, mortgage or business protection – we can access high quality products from a range of handpicked providers; providers we have selected because they are proud to stand behind claims when it matters the most.

Investment planning

As well as your pension, you may have opportunities to invest lump sums – such as an inheritance or bonus – but are unsure about what strategy is best. As with all areas of financial planning, it pays to have a clear objective or vision. We can talk you through the important things to consider and help you create a balanced and diversified portfolio, taking into account your financial goals, attitude to risk, and any appropriate tax planning.

Retirement planning

The onus to create a comfortable retirement is falling increasingly on the individual, and the new pension regulations, whilst bringing welcome freedoms, introduce additional complexity to your at-retirement choices.

The right financial plan could help secure a more comfortable retirement – not just for you, but also for your loved ones and heirs. We can help you navigate the complexities of the new rules. Knowing what can be achieved and establishing the right strategy as early as possible can help you prepare for the future.

Inheritance planning

Passing our hard-earned wealth to loved ones often forms a big part of our ambitions. The right forward planning can help you maximise your heirs' inheritance by minimising tax liabilities. We can help you put the right structures in place.

Of course, your needs in any and all of these areas will change over time, and regulatory changes can impact the effectiveness of any structures already in place, so we recommend a regular review to ensure that your plans remain on track and relevant.

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

The value of investments and any income from them can fall as well as rise. You may not get back the amount originally invested.

To find out more about how we can help you, please get in touch.

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

OW0429 Exp. 31/06/17

Maximise your ISA allowance

If you haven't used up your Individual Savings Account (ISA) allowance for 2016/17, you have until 5 April to do so.

Saving into an ISA is a great way of making your savings work harder. Whether you're looking to supplement your retirement income, build up funds for a property purchase or you simply want a 'rainy day' nest egg, ISAs offer an array of tax-efficient savings options. But with the tax-year end fast approaching, the clock is ticking for you to use your full 2016/17 ISA allowance of £15,240.

Why is it so important to use up your allowance? Here are some great reasons:

Your ISA is tax-efficient

Unlike some other investments, your returns are not subject to tax. That means every extra pound you save (within your allowance) will be sheltered from the taxman. This tax year, you can invest up to £15,240 tax-free.

You can't 'carry over' your ISA allowance

You cannot carry any unused ISA allowance over to the following tax year unlike some other personal allowances (such as your pension annual allowance). That makes it doubly important to invest your full allowance, if you can afford to. You also have the freedom to take money out and put it back in later in the same tax year, without losing any of your tax-free entitlement. That means you needn't worry about missing out on lost interest if you need to make a short-term raid on your savings, but can afford to replace it later.

The miracle of compound interest

Maximising your ISA savings can deliver huge benefits over the longer term. For instance, assume you invested the current maximum allowance of £15,240 in a Cash ISA, every year, for 25 years. Even if your investment grows at a modest 2.5% each year, your investment would have grown to £555,841.15.

Inheriting an ISA

Before April 2015, any savings held in an ISA automatically lost their tax-free status on the death of the ISA holder. Since April 2015, however, the Additional Permitted Subscription allows the spouse / partner to retain the tax benefits in the form of a one-off ISA allowance equal to the value of the ISA at the date of the holder's death. For example, if your partner had £40,000 in ISA savings including interest, your ISA allowance for that tax year would be £55,240 (the value of your partner's savings and your own ISA allowance for the 2016/17 tax year).

The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on the individual circumstances. The value of your stocks and shares ISA and any income from it may fall as well as rise. You may not get back the amount you originally invested.

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TO OPEN AN ISA, YOU MUST BE:

- 16 or over (for a cash ISA)
- 18 or over (for a stocks and shares ISA)
- Resident in the UK
- A Crown servant (eg. diplomatic or overseas civil service) or their spouse or civil partner if you don't live in the UK

Contact us for more information or advice about the different kinds of ISA investments. We will help you to make the best choice for you and your family.

OW0471 Exp. 31/03/17

What makes a good Buy to Let investment?

With property prices continuing to rise, Buy to Let can be an attractive way to invest. But whether buying your first Buy to Let property, or adding to your portfolio, it's important to consider what's involved.

Being a landlord

As well as the obvious duties of finding tenants and making sure they pay their rent on time, there are also a number of legal requirements that you need to meet as a landlord. For instance, you'll need to use a deposit protection scheme, have the right Energy Performance Certificates and arrange annual safety checks and certificates for the utility supplies. You'll also need to keep the property well maintained and respond to requests from your tenants if and when an issue arises.

Managing your finances

Then there's the question of managing your commitment to the mortgage lender. Interest rates may be low now, but if you're on a tracker mortgage and rates go up, could your income stand the rise? What if you have a gap in tenants and the rent dries up temporarily?

In the short term, landlords can still deduct mortgage interest from their rental income before calculating how much tax they should pay. However, from April, tax relief on Buy to Let mortgage interest will gradually be reduced. The restrictions will be phased in over four years, resulting in tax relief only being available at the basic rate of income tax (currently 20%) from April 2020. This could impact on any profit you're expecting to make on your investment so it's important to take it into account now.

Research before you buy

In terms of the property itself, have you thought about the location you're buying in? Take the time to look around the area you're considering. Is it up and coming or going down and out? If you're looking to rent to a young family, do the local schools have a good reputation? Does it have good commuter links for young professionals? It may sound obvious, but it's a good idea to put yourself in the shoes of your potential tenants and ask yourself what they would want. Their requirements may be quite different to yours.

Work out all the costs

Buy to Let lenders may require the rent you charge to cover up to 145% of the mortgage repayments, with many now requiring 25% deposits, or even larger. Once you know your mortgage rate and the monthly rent you're going to charge, you should also factor in maintenance costs.

And with stamp duty 3% higher than on a residential property, make sure you cover all the costs involved in buying your investment property – especially in view of the diminishing tax relief.

Protect your investment

It's important to protect your property, its contents, and your ability to keep up with your mortgage repayments should the unexpected happen and there are a range of different insurance products designed to meet these requirements:

- Buildings insurance
- Contents insurance
- Landlord's insurance
- Life insurance
- Mortgage payment protection insurance (MPPI)
- Critical illness insurance
- Income protection

Which product is right for you will depend on your individual circumstances, so it's important to get professional advice as part of the process.

Taking the plunge?

Like any investment, there are no guarantees with Buy to Let. But, despite tax changes and potential mortgage rate rises, strong demand from tenants and rising property prices mean many investors are still tempted to take the plunge.

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

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

If you'd like to find out more about Buy to Let investments, please get in touch.

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

OW0482 Exp. 07/06/17

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New Year's resolution

Many of us will have over-indulged during the festive season and will start the new year wanting to get healthier.

Whether it's stopping smoking, losing weight, eating more healthily or getting fitter, most of us will make at least one New Year's resolution, but how many of us will actually go on to achieve it?

How long do New Year's resolutions last?

According to research, 63% of UK adults fail to keep a New Year's resolution – two thirds giving up even before the end of January!

If you're eager to stick at it, you're more likely to succeed if you break your resolution up into smaller, specific goals. So, if one of your resolutions for 2017 is to have healthier finances, we've broken this down into easy (and, hopefully, more manageable) steps for you.

Budget

Keeping track of your income and expenses will give you an objective view of your finances. It can also highlight areas where you can trim your expenses or make the most of your income. You can break this down even further into specific tasks, like writing a groceries list before you go shopping, or setting a weekly budget for luxuries.

Protect

Whether it's updating your home insurance policy to cover any new Christmas gifts, or making sure your Income Protection policy covers any recent change in salary, the new year is a good time to review your insurance needs. That way, if you need to make a claim, you know you'll be properly covered.

Save

As well as securing the living standards you want when you're working, it's also important to think carefully about putting some of that income aside for your future. Research from Aviva has found that 59% of UK adults surveyed are worried about having enough money to last them in retirement, with only 13% comfortable that their savings will last. Generally speaking, the more you save and the earlier you start saving, the better shape your financial assets are likely to be in when you need to draw on them.

Invest tax-efficiently

The ISA allowance for 2016/17 is £15,240. You have until 5 April 2017 to take advantage of the current allowance as you cannot carry any unused ISA allowance over to the following tax year. Over the longer term, the effect of compound interest can make a big difference to your overall savings, so it makes sense to save as much as you can in a tax-efficient way.

Seek advice

Discussing your financial needs with an expert can make managing your finances simpler.

We can help you establish a financial plan that's designed around your specific needs, make sure it stays on track, and provide ongoing advice that will help you achieve your goals.

OW0439 Exp. 31/03/17

At retirement: the runners and riders

With the much-lauded pension freedoms, we now have a range of options when deciding how to fund our retirement.

Whilst many newspaper headlines warned that new retirees would blow their entire pensions savings on Lamborghinis, it appears that most have taken a more measured approach. Data from the Association of British Insurers (ABI) shows that in the first year following their introduction 57% of new retirees took less than 1% of their pot and fewer than 4% of retirees took out more than 10%. The majority of these were in the first few months following the changes.

But not everyone is affected by the new freedoms.

Those who are, or have been, members of a final salary/defined benefit scheme **won't be affected by the new regulations**. These schemes provide a pension based on your years of service and your salary when you left the scheme, or, if it is no longer operating, the point at which it closed.

Those with a defined contribution scheme – or who have made additional contributions into a free-standing pension plan – **will benefit from the new freedoms**. You can buy an annuity, draw income from your savings, or withdraw lump sums as you need them.

Annuities

Buying an annuity is the traditional means of converting your savings to a guaranteed income stream. This could include an income for your spouse on your death and/or inflation proofing. However, annuities have had a bad press in recent years as the returns on bonds – the investments that underpin the income stream – have collapsed. This has made them seem poor value for money.

Flexi-Access Drawdown

You can elect to remain invested and withdraw income from your pension savings. However, the income from investments is variable and the value of the underlying investments may vary over time.

Uncrystallised Pension Fund Lump Sums

This rather inelegant term describe, a newly-introduced freedom. If you have more than one defined contribution scheme and one that you have not touched (ie. elected to buy an annuity or elected to withdraw income), you can use it to 'top-up' your retirement by taking occasional lump sums.

Horses for courses

The table below summarises the key features of the three options now available to retirees. With options comes choice, and choices can be hard to make – particularly in an area as important as your pension.

The likelihood is that those retiring today will have a combination of income sources at their fingertips: the State Pension, an element of defined benefit and an element of defined contribution. Some may elect to continue working in a part-time or advisory capacity or on a consultancy basis.

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This will be one of the most important decisions of your life as it determines the kind of retirement you can afford. Further, managing your tax liabilities when you have more than one source of income open to you can be complicated. The right solution for you will depend on many variables, so please do get in touch before making any decisions.

	Annuity	Drawdown	Lump sums
Guaranteed income	Yes	No	No
Up-front tax-free lump sum	25%	25%	N/A
Additional withdrawals	No	Subject to normal personal income tax rules	25% tax free The remainder subject to personal income tax rules
Death before 75	Spouse's annuity paid tax free	Tax free lump sum or Tax free drawdown	Tax free lump sum or Tax free drawdown
Death after 75	Spouse's annuity taxed as income	Lump sum taxed at highest marginal rate Drawdown subject to normal income tax rule	Lump sum taxed at highest marginal rate Drawdown subject to normal income tax rules

OW0437 Exp. 31/03/17

Keeping your heart healthy

Dementia and Alzheimers have replaced heart disease as the leading cause of death in England and Wales, but the latter still accounted for 11.5% of all deaths in 2015. In fact, every three minutes someone in the UK has a heart attack and 30% of those are fatal.

The good news is there's a lot you can do to keep your heart healthy.

Watch your weight

Research shows keeping to a healthy weight cuts your risk of heart disease. The British Heart Foundation offers support on eating well and being physically active which can help you manage your weight and keep your heart healthy. Find out more at www.bhf.org.uk

Stop smoking

Smokers are almost twice as likely to have a heart attack compared with those who've have never smoked. It's a difficult habit to break, but stopping smoking is the single best thing you can do for your heart's health. If you smoke:

- ask your doctor, practice nurse or pharmacist for advice on how to stop.
- make a date to give up and stick to it.
- tell your family and friends that you're quitting and ask for their support.
- keep busy to help take your mind off cigarettes.

Don't drink too much

Drinking more than the recommended amount of alcohol can also have a harmful effect on your heart and general health. If you drink alcohol it is important to keep within the guidelines and drink no more than 14 units each week.

Manage cholesterol, diabetes and high blood pressure

If you have too much cholesterol in your blood, have diabetes or high blood pressure, this can increase your risk of heart disease and other cardiovascular diseases. Eating healthily and exercising regularly can help lower cholesterol, reduce your risk of developing type two diabetes and reduce blood pressure.

Get financial protection

Life and Protection Insurance offers a financial safety net for you and your loved ones, should heart disease strike. In fact, Scottish Widows recently revealed that heart-related disorders were the second only to cancer as the most common reason for a policyholder to claim on their life cover and critical illness plan. They can provide a regular income or cash payout to ease the financial burden caused by serious illness or untimely death:

- *Life Insurance* can provide financial security to those who depend on your income when you die. It could pay off your mortgage, or provide an income to help cover things like regular household bills
- *Critical Illness Insurance* pays out a tax-free lump sum on the diagnosis of certain life-threatening or debilitating conditions, like cancer, heart attack or stroke.
- *Income Protection Insurance* pays out a regular, tax-free income if you become unable to work because of illness, injury, and in some cases, unemployment. It could help you keep up with your mortgage or rent payments, as well as other living costs, until you're able to return to work.

You may already have one or more of the above in place, but it's still worth reviewing your current cover levels. Personal circumstances can change regularly so it's important to ensure your level of cover remains appropriate.

Contact us today for a Life and Protection Insurance review.

OW0469 Exp. 02/06/17

Automatic enrolment and you

Auto-enrolment is a Government initiative where all workers will be automatically enrolled into a workplace pension.

New figures show that by 2020 over 10 million people are expected to be newly saving or saving more as a result of automatic enrolment. This means that an additional £17 billion a year is projected to be saved into workplace pensions by 2019/20.

By 2018, all employers will have been required to enrol their eligible workers into a workplace pension scheme if they are not already in one. So far, over 6.7 million people have been automatically enrolled into a workplace pension by more than 250,000 employers.

Employers' duties

Three quarters of the total working population are now estimated to meet the age and earnings criteria for automatic enrolment ie. that:

- you're not already in one
- you're aged between 22 and State Pension age
- you earn more than £10,000 a year (£833 a month, £192 a week)
- you work in the UK

Employers must enrol and make a contribution for all staff who meet the criteria. You can choose to opt out of the scheme, but your employer is obliged to enrol you back in automatically every three years. You can opt out again if you still don't think it's for you, but you should think carefully before you do – especially if you don't have any other pension savings.

Paying in

How much you'll save will depend on your salary and the specific scheme you've been signed up to. By 2018 the minimum contributions will rise to the equivalent of 8% of a worker's earnings – this will be made up of a 4% employee contribution, 3% from the employer and 1% from tax relief. You can however choose to increase your own contribution for a bigger final pot when you are ready to retire.

If you'd like expert advice on your retirement choices, please get in touch.

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