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Financial Viewpoint

Interest Only
A ticking time-bomb

There's been plenty of press coverage recently on Interest Only mortgages. But what's all the fuss about?

If you have an Interest Only mortgage, your monthly payments will only cover the interest payable on the capital sum (the amount you borrowed).

That capital sum will remain the same and will need to be repaid, in full, at the end of your mortgage term. If you don't have a clear repayment strategy in place to clear this debt you may well find yourself unable to repay the capital sum at the end of the term. This could lead to the repossession of your home.

Who's affected

The issue is so widespread that some have likened it to a ticking time-bomb. The new consumer watchdog for the financial services industry, the Financial Conduct Authority (FCA), estimates 2.6m borrowers have Interest Only mortgages maturing in the next three decades. Of these, around half may not have enough money to pay off their loan.

Those with Interest Only mortgages due for repayment before 2020 are being urged to act now, to make sure they can repay.

If you'd like to review your mortgage, please get in touch.

The Interest Only boom

In the past, many borrowers took out a separate investment, or combination of investments, to repay the capital at the end of the term. Others chose Interest Only mortgages to keep monthly mortgage payments affordable, with a view to switching to a repayment mortgage at a later date. Up until the credit crunch and subsequent recession an increasing number of people gambled on the growth in house prices as their sole repayment strategy. Ultimately, that gamble now seems unlikely to pay off both for the borrowers and lenders involved.

Alternatives to Interest Only

A Repayment mortgage is the most appropriate method for repaying a residential mortgage. With a Repayment mortgage, your monthly payments comprise a portion to pay the interest and a portion to repay the capital sum. The benefit of capital repayment is that you can see the mortgage reducing each year (although very slowly in the early years). You are also guaranteed to repay the debt at the end of the mortgage term, as long as payments are maintained.

Take action

If you have an Interest Only mortgage, it is your responsibility to ensure you have sufficient funds to repay the mortgage at the end of the term.

The recent recession and the current economic climate may have knocked you off track in terms of planning your repayment strategy. But, with interest rates remaining at a low level, now may be the right time to revisit the issue – or switch to a Repayment mortgage.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

For this service a fee of £395 is payable prior to application.

A matter of Trusts

Taking out a Life Insurance policy gives you peace of mind: you know you've protected your family against financial hardship, should the worst happen.

But how can you make sure your policy will pay out quickly, to those who'll need it most, should you die?

What is a 'Trust'?

A Trust is a legal document that allows you to specify what will happen to your money after your death.
If your Life Insurance policy is written in Trust any payout will go to the Trustees you've chosen, who will then ensure the funds are distributed to the people you'd like to benefit from the policy (the beneficiaries).

Why is it so important?

Every year, many people die without having put their Life Insurance policy in Trust. As a consequence, the payouts become subject to the delays caused by the processing of a Will.

Where there is no Will the complex laws of intestacy come into play. This can result in the policy proceeds not necessarily going to those the deceased intended. The taxman may also be entitled to take a big slice by way of Inheritance Tax.

Life Insurance is usually put in place to prevent those left behind from struggling financially. But without the correct legal arrangements in place, the intended beneficiaries may actually end up facing costly delays and a reduction in the amount they ultimately receive.

The benefits

Putting your Life Insurance in Trust avoids delays at a stressful time for your loved ones, and protects any claim settlement from the taxman.

A Life Insurance policy that has been 'written in Trust' does not form part of your legal estate and is not subject to Inheritance Tax.

This allows the entire policy payout to pass to the people you intended to benefit from it. The claims settlement can usually be paid out much faster too, which can be a welcome relief for those left behind.

Even if your partner is the named beneficiary of your policy (and therefore the claims payout would be exempt from Inheritance Tax under the current rules), it can still be worthwhile putting your cover in Trust to speed up the policy payout.

Writing your policy in Trust

Policies can be written in Trust when they are first taken out. There's normally no charge for this service if it's arranged at outset. Alternatively a Trust can be applied to an existing policy at any time while the policyholder is alive.

There are different types of Trust and each have a defined purpose. Not all types of Life Cover are suitable to be written in Trust. We can help you decide whether a Trust arrangement is the right approach for you.

To find out more, please get in touch.

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

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Offset mortgages explained

As with many financial products, Offset mortgages are familiar in name but rarely understood. Here’s a quick guide to their features and benefits.

What is an Offset mortgage?

Usually linked with one bank account (but sometimes more), an Offset mortgage allows the money in your savings account to be counted as temporary overpayments towards your mortgage. However, your savings remain accessible so you can still get to them if you need to.

Taking out an Offset mortgage enables you to use your savings to reduce your mortgage balance - and therefore the interest you pay on it. For example, if you borrowed £200,000, but had £50,000 in savings, you would only be paying interest on £150,000.

Offset mortgages can be more expensive than standard deals but can reduce your monthly payments, while still giving you access to your savings.

✓ Advantages

- As you pay less interest, Offset mortgages can help reduce your monthly repayments, or enable you to repay your loan early.
- You can still access your money if you need to.
- Deals can be quite flexible, allowing you to offset both savings and current accounts against your mortgage.

✗ Disadvantages

- Money held in Offset accounts won't earn you interest.
- If you don't have much saved you won't save much on the mortgage, meaning it may be better choosing an alternative deal with a lower interest rate.
- Offset mortgages are usually more expensive than standard deals.

When is it worthwhile?

You don’t necessarily need a high savings balance to benefit from offsetting. If you have a mortgage rate that is higher than your savings rate (after tax), you may find yourself better off by offsetting.

In addition, you have the added security of being able to access the savings at any time (unlike making overpayments on a traditional mortgage).

An Offset mortgage may be even more appealing to you if you’re a higher rate tax payer. As there is no savings interest paid on the money in an Offset savings account there is no tax liability.

Offset mortgages can offer real financial benefits if you have a mortgage and some savings. By seeking professional advice you will gain a clearer picture about whether offsetting is the right choice for you.

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For this service a fee of £395 is payable prior to application.

To discuss your mortgage, please get in touch.

A new name for our regulator

On 1 April 2013, the Financial Services Authority (FSA) was replaced by two new organisations.

The first of these is the Prudential Regulation Authority (PRA), which is part of the Bank of England. Its job is to ensure the stability of financial services firms.

The Financial Conduct Authority (FCA) is the new behavioural watchdog, taking over from the FSA as our new regulatory body.

What does the FCA do?

The FCA is an independent body, funded by the firms it regulates. Despite the name change, it does a broadly similar job to its predecessor. It makes sure consumers understand and are happy with the financial products and services they use, and that advisory firms, like ours, are placing customer needs at the centre of everything we do.

To find out more about the FCA, visit their website: www.fca.org.uk

Get a better deal on your pension income

Research from the Association of British Insurers suggests more than 30% of retirees fail to 'shop around' for the best annuity deal.

With around 650,000 people turning 65 in the UK every year, this suggests a significant number may be missing out on a higher retirement income, potentially losing thousands of pounds over the course of their retirement.

Understand your options

If you plan to retire in the next few years, you should start thinking about how to get the most income from your pension fund.

There are several options available to you – we've illustrated the most common ones opposite.

Of course, we can help you determine the most appropriate option for you.

Retirement options at a glance

	Lifetime annuity	Investment Linked annuity	Phased annuity	Income Drawdown	Phased Drawdown	Short Term annuity
Tax-free cash	Must be taken at outset	Must be taken at outset	Taken each time funds are realised to provide an income	Must be taken at outset	Taken each time funds are realised to provide an income	Must be taken at outset
Is the income secure? *No investment risk*	✓	✗	✓	✗	✗	✓
Enhanced / Impaired income available	✓	✓	✓			
Type of drawdown				Capped or Flexible	Capped or Flexible	
Taxation of income	Taxed at source under PAYE (Pay As You Earn)	Taxed at source under PAYE	Income from the annuity is taxed at source under PAYE. Tax-free cash can form part of the income in the early years	Taxed at source under PAYE	Income from the drawdown is taxed at source under PAYE. Tax-free cash can form part of the income in the early years	Taxed at source under PAYE
Benefit flexibility	Once set up the annuity is fixed and cannot be changed	The annuity type is fixed, but income will vary. You may normally switch funds or convert to a conventional annuity	A different kind of annuity can be chosen each time funds are vested. Annuities once purchased cannot be altered	Income can be varied, subject to maximum limit if capped drawdown. A lifetime annuity can be bought at any time	Income can be varied, subject to maximum limit if capped drawdown each time funds are vested. A lifetime annuity can be bought at any time	Once set up, the term, along with the amount of income, are fixed and cannot be changed
Investment choice	No investment choice	Choose from the provider's range of funds	The remaining fund (non-invested element) can be invested in a wide range of investments	The fund can be invested in a wide range of investments	The fund can be invested in a wide range of investments	No investment choice
Ongoing reviews needed?	✗	✓	✓	✓	✓	✓
Flexible death benefits	✗	✗	✓	✓	✓	Not during the term

The guidance in this booklet is based on Openwork's understanding of current legislation. UK Government reserves the right to change / amend this in the future. 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 need help with your retirement planning, please contact us.

Online banking: the next chapter

More and more of us are now banking online. A recent government report on internet access estimated 47% of all adults in the UK now make use of internet banking (rising to 69% among 24-35 year-olds).

To discuss the investment options available to you, please get in touch.

Many people value the convenience of being able to check their balance, pay bills, view statements and recent transactions, and manage standing orders and direct debits online.

A new way to manage your investments

If you use online banking, you may be interested to know that a similar online arrangement is available for your pension and investment assets.

If you have existing ISAs, pensions or other investments, or want to start saving for your future, you might benefit from gaining access to an investment platform.

The benefits

As well as offering easy access to a wide range of investment funds, an investment platform also provides a transparent charging structure. This allows you to clearly see the costs involved with any decision you make, which you can discuss with us in advance before taking any decisions.

It also offers:

- **a single point of access for all of your investments**
- **instant valuations**
- **options to make changes to your investments at any time.**

Most importantly, bringing all your investments together online gives you and your Financial Adviser more time to deal with the important things. This means more attention can be given to managing your finances on an ongoing basis (to ensure your strategy remains in line with your objectives) – and less time dealing with the paperwork.

Your platform access may depend on the ongoing servicing level you have agreed with us.

Adviser decline sparks increase in ‘contracting’

The number of Financial Advisers operating in the UK at the start of 2013 was more than 20% lower than the previous year, with the number of bank advisers also falling by an astonishing 44%.

It’s estimated that only 31,000 Financial Advisers are now trading, compared to more than 40,000 at the end of 2011.

What this means for you

Having access to a qualified Financial Adviser has become increasingly precious to many people, as a dwindling advice market struggles to meet consumer demand.

This is a particular worry for those individuals who may need professional advice at short notice, perhaps in response to a sudden change in their circumstances.

To counter this, a growing number of clients are choosing to ‘contract’ with their Financial Adviser on an ongoing basis. By putting a contractual service agreement in place, you retain access to your Financial Adviser. The cost of the service will normally be 1% a year of your total investments (or less).

What are the benefits of contracting?

If you have savings, investments and pension plans in place, a contractual approach might be right for you. The specific range of services that will be included in the advice contract is likely to vary, depending on the service level you select, but it could include:

- an invitation to annual review meetings
- financial planning reports, including investment updates and valuations
- changes to your investment portfolio, in line with your attitude to risk and investment objectives
- access to an online investment platform
- ongoing access to your Financial Adviser
- regular newsletters and/or economic and market updates.

Your contract will set out the services you can expect to receive from your Financial Adviser, in return for an agreed fee.

Obviously, contracting isn’t the right solution for everyone (‘ad hoc’ arrangements are available in many cases). But, with adviser numbers on the decline, a contractual arrangement may provide reassurance that your Adviser will be on hand to help you when you need them most.

To review your servicing arrangements, please get in touch.

Are you getting the best deal online?

If you're like the majority of Brits you probably use online comparison sites to seek out the best price on financial products, like car or home insurance.

The rapid growth of these tools has helped push 'price' to the top of the agenda for most consumers when it comes to selecting an insurance product or provider. But at what cost?

Do you understand your policy?

It seems the temptation to focus purely on price is driven partly by a lack of understanding of insurance products amongst most British adults. Even what we might consider basic insurance products, such as Buildings Insurance, can be confusing.

Supporting this view is research from insurance provider, Paymentshield. It found that one-third of consumers don't understand the product they've bought, despite needing it to protect what is probably their biggest single investment!

The risks of prioritising price

If you tend to prioritise low premiums above all other factors, you might not be getting a product that's right for you. As consumer body Which? recently highlighted, many comparison sites make assumptions about your needs, based on 'standard' norms, that may not actually reflect your own circumstances.

If you don't amend these standard options to match your circumstances you may end up being over-insured; in other words, paying for benefits that you simply don't need.

But the consequences could be much more serious. Purchasing an inappropriate policy could leave you under-insured (you may not be covered for items outside of the home, or for things like Accidental Damage), or leave you exposed to significant voluntary and compulsory excess fees in the event of a claim.

In the worst case scenario, it could even lead to your claim being rejected by the insurer.

Seek professional advice

You're fully aware of the value of advice when it comes to things like arranging your mortgage, life assurance or pension.

To identify the most appropriate solution for your Home Insurance you should apply the same care and consideration. Your policy is there to help protect the largest single investment you will ever make; seeking professional advice can help ensure it delivers when you need it most.

Do you run your own business?

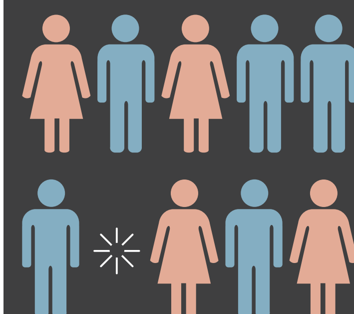
If you do, you probably have one or more key employees that are integral to its success. They may even possess the skills, knowledge, experience or leadership that makes a vital difference to your bottom line.

But have you considered what would happen if they suddenly died, or suffered a critical illness that forced them to be absent from work for a long period of time? If the unexpected happened it could pose a serious risk to your business.

Key Person Protection

You may have covered the tangible assets of your business, but have you protected the most important assets: the people that directly contribute to your profits?

Key Person Protection is a simple way for you to insure your business against the losses you might suffer as a result of the death, or critical illness, of a key individual.



To find out more about our full range of Business Protection products, please get in touch.

If you would like help reviewing your insurance needs, please get in touch.

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