Issue 7 Spring 2014

Financial Viewpoint

What are the chances?

You will probably know someone who has had to take sick leave from work, been diagnosed with a serious illness or has died unexpectedly.

It's unlikely to be something you will want to think about, but have you ever considered the likelihood of one those things happening to you before the age of 65? New research from insurer LV= offers a view of what those chances are.

The risks – according to age

The findings from the research make for surprising reading. For instance, if you are a 25 year-old non-smoking female, the risk of you being unable to work for two months or more before the age of 65 is a massive 49%.

The table opposite shows the risk of certain events happening to the average person before age 65.

It could happen to you

If you think it won't happen to you, the chances are that you haven't considered taking out life insurance, critical illness cover or income protection. Seeing the stark figures opposite, highlighting the risks we all face, helps demonstrate just how important it is to protect your income – and those who rely on it.

Please note: These results indicate the chance of something happening to someone up to age 65 using various population and insurance industry statistics. They do not reflect the chances of something happening to someone at any given point in time. As the age of the individual increases so the length of time to reach age 65 reduces. Therefore the risk of an event occurring before then may reduce. The analysis of data and tools used to calculate these results have been created by LV=.

Males	Risk of being unable to work for two months or more*	Risk of suffering a serious illness*	Risk of death*	Likelihood of any of these events happening*
Age 25	33%	17%	8%	49%
Age 35	30%	16%	8%	46%
Age 45	26%	15%	7%	41%
Age 55	17%	11%	5%	30%

Females	Risk of being unable to work for two months or more*	Risk of suffering a serious illness*	Risk of death*	Likelihood of any of these events happening*
Age 25	49%	13%	6%	58%
Age 35	45%	13%	6%	55%
Age 45	38%	11%	5%	48%
Age 55	25%	7%	4%	33%

**Results are based on the risk of each event happening before age 65, to a non-smoking individual, of the age stated.*

If these results have made you wonder what your own personal risk results might look like, get in touch and we'll be happy to provide you with a personalised report.

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Budget 2014

Accessing your pension funds

The Chancellor has proposed a series of radical reforms to the pension system, giving you unprecedented freedom over how you draw your pension.

These changes have been described as the most significant pension changes ever.

Currently, if you are aged 55 or over, you can normally take up to 25% of your pension as tax-free cash and a taxable income from the rest. There are, however, rules that determine the maximum income you can draw each year.

George Osborne has proposed these restrictions be removed. From April 2015, you will be able to take the whole of your pension as a lump sum, at age 55 if you wish.

To find out more about how the 2014 Budget affects you please get in touch.

The new proposals

The first 25% of your pension will be tax free. The rest will be subject to tax at your marginal Income Tax rate.

While this is really positive news, it's still important you receive professional advice on the most appropriate way to access your pension savings.

Interim changes

In the meantime, the Chancellor has announced some interim changes that took effect on 27 March 2014.

New higher income drawdown limits

A drawdown investor currently has a yearly limit to the income they can draw. The maximum rate has increased from 120% to 150% (compared to the corresponding annuity rate) for investors opening a drawdown account. For instance, if you are aged 65 with a £100,000 pension today, you can now draw a maximum income of £8,850* (before 27 March, this was £7,080).

**This is based on a fund of £100,000 and uses the current Government Actuary Department tables for March 2014 to show maximum incomes for a 65 year old. The underlying gilt yield can change. Male and female incomes are equal, with effect from December 2012.*

Flexible drawdown

Flexible drawdown allows you to make uncapped, unlimited withdrawals from your pension. There are, however, strict qualifying criteria: you must already have a secure pension income of at least £20,000 a year in place (including any state pension). From 27 March 2014, this limit reduced to £12,000 (including any state pension), meaning this option may be available to you when it would not have been previously.

More flexibility for investors with smaller pots

If you are aged 60 or over, with total pension savings under £30,000, you are now allowed to draw it as a lump sum. The first 25% will be tax free, and the rest taxed as income.

If you have individual pension pots smaller than £10,000, you will be allowed to draw up to three of them as a lump sum from age 60. Again, the first 25% will be tax free and the rest taxed as income.

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ISA LIMIT NOW UP TO

£11,880

If you are looking to invest or save money, then an ISA should always be your first port of call.

Budget 2014
The headlines

In addition to the reforms to the pensions system, here are some other changes from the Budget.

Nil rate band

The nil rate band reached its current level of £325,000 in April 2009. It has been frozen since then and last year's Budget confirmed that the freeze would last until at least April 2018. A frozen nil rate band drags more estates into the Inheritance Tax (IHT) net and, if you are already caught, adds to the amount of tax that will be levied.

IHT yearly exemptions

The extended nil rate band freeze makes your yearly IHT exemptions all the more important:

- **the £3,000 annual exemption.** Any unused part of this exemption can be carried forward one tax year but it must then be used after the £3,000 exemption for that year
- **the £250 small gifts exemption.** You can make as many outright gifts of up to £250 per individual per tax year as you wish, free of IHT, provided that the recipient does not also receive any part of your £3,000 annual exemption
- **the normal expenditure exemption.** Any gift that you make is exempt from IHT if all of the following apply:
  - it forms part of your normal expenditure
  - it is made out of income
  - it leaves you with sufficient income to maintain your usual standard of living

Investors and savers

The personal allowance (Income Tax)
Last year's Budget revealed that the 2014/15 personal allowance would be £10,000. That said, many people do not even use the current personal allowance (£9,440 in 2013/14). At the other end of the income scale, roughly half a million taxpayers have no personal allowance because their income means it has been tapered to nil.

If you or your partner do not use the personal allowance, you could be paying more tax than necessary. There are several ways to make sure you make use of your allowances:

- choose the right investments: some investments do not allow you to reclaim tax paid while others are designed to give capital gain not income
- couples should consider rebalancing investments so that each has enough income to cover the personal allowance
- make sure that in retirement you (and your partner) each have enough pension income. The basic state pension (£113.10 a week in 2014/15) alone is not enough

Individual Savings Accounts (ISAs)

The annual ISA investment limit for 2014/15 will initially rise by £360, to £11,880 (of which up to £5,940 may be in cash).

From 1 July, more radical change will occur:

- all existing ISAs will become new ISAs (NISAs), with a total contribution limit of £15,000 in 2014/15, a further increase of £3,120
- the rule which prevents more than 50% of the total limit being placed in a cash ISA will be scrapped. Thus in 2014/15, 100% of the £15,000 NISA contribution can go into cash deposits
- at the same time, the ban on transfers from stocks and shares ISAs to cash ISAs will be removed, introducing full two-way transferability (transfers from cash to stocks and shares have long been possible)

A stocks and shares ISA is a medium to long-term investment which aims to increase the value of the money you invest for growth or income or both. The value of your investments can fall as well as rise. You may not get back the money you invested. Tax concessions are not guaranteed and may change in the future. Tax-free means the investor pays no tax.

Please get in touch if you would like advice on topping up or taking out an ISA.

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.

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

Self-employed face protection ‘gap’ risk

An increasing number of people have become self-employed in recent years. If you are among them, you may have found the switch has left you without the employment benefits you previously took for granted.

Between 2008 and 2012, the number of people whose main job was self-employed rose by 367,000. Sixty per cent of this increase occurred between 2011 and 2012[1] – a possible result of the recession.

The number of self-employed people in the UK now stands at 4.37 million, representing 14.5% of the working population[2].

Making the change from being employed to self-employed is clearly a big step – and it’s one more people are taking. But while some may find their income rises, it can be easy to forget about replacing lost employee benefits including sick pay and life insurance.

Lost employee benefits

Many employed people automatically benefit from life insurance, arranged on their behalf by their employer. This would pay a multiple of their annual salary were they to die, which could then be used to pay off a mortgage or provide funds to support their family in the future.

They may have also received a proportion of their salary for a period of time (that exceeded the statutory sick pay levels) if they were unable to work due to illness or injury, and benefitted from access to private medical treatment. Clearly moving from employment to self-employment would mean these benefits cease, potentially leaving a protection ‘gap’.

Plugging the protection ‘gap’

Fortunately, the insurance cover you may have benefitted from as an employee is also available to you as a self-employed individual – and it may be more affordable than you think.

Income protection insurance will pay you a monthly income to cover your living expenses should you be unable to work through illness or injury, and should be considered an essential piece of protection. It can help prevent your family suffering financial hardship, and help you recover more quickly without the burden of financial worry. Many insurance companies also provide support for customers to help them return to fitness as quickly as possible.

A life and critical illness plan will pay either a tax-free lump sum or a regular income should you suffer a serious illness, or die, and can help secure your family’s financial future.

Private medical insurance may be considered less of a priority than either income protection or life insurance, given the treatment you are entitled to from the NHS.

For those seeking to replicate all the benefits they may have enjoyed when employed, there are a range of policies available at varying price levels.

Are you covered?

If you are self-employed, it is easy to ensure that your employment status doesn’t put your long-term financial security – and that of your family – at risk.

To discuss your protection needs, please get in touch.

[1]Office for National Statistics 2013

[2]Office for National Statistics Labour Market Statistics, February 2014

Reducing the risk

The events of the past few years have made investors more aware of the risks posed by market volatility. While investing always carries risk, there are ways to help reduce it.

One of the most effective strategies is known as 'multi-asset investing' – or, put simply, not putting all your eggs in one basket.

Why does multi-asset investing work?

The principle behind this is to invest in a variety of assets, each of which reacts differently to changes in the economic and market background. A drop in value of one asset class may then be offset by increases in other asset classes, leading to smoother overall performance.

If you would like to discuss your investment options, please get in touch.

In order to show how difficult it is to second-guess what might happen, take a look at the example of European Equities:

- between 2003 to 2007 it occupied the number one or number two spots, with positive growth for five successful years
- in 2008, this asset class was the second worst performer, suffering a large fall
- in 2009, it rebounded to be the second best performer
- in 2010, European Equities was the second worst performer and then became the worst performer in 2011
- it rebounded again in 2012 to be the top performer
- in 2013 this trend continued, with European Equities being the second best performer, sandwiched between US Equities and UK Equities

Spreading your investments across multiple asset types can help to reduce the risk. Whatever your level of investment experience, we have access to a range of risk-rated funds and new Openwork Graphene Model Portfolios, which will enable you to spread your investment (however large or small) across a variety of assets.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Commodities 11.2%	Euro equities 29.8%	Property 18.9%	Commodities 37.0%	Euro equities 20.1%	Commodities 18.5%	Global bonds 45.1%	UK equities 30.1%	Commodities 27.4%	Gilts 15.7%	Euro equities 17.8%	US equities 29.9%
Property 10.4%	UK equities 20.9%	Euro equities 13.8%	Euro equities 24.1%	Property 18.1%	Euro equities 15.7%	Gilts 12.8%	Euro equities 20.1%	US equities 20.0%	Property 8.3%	UK corp bonds 13.1%	Euro equities 25.2%
UK corp bonds 10.0%	US equities 15.7%	UK equities 12.8%	UK equities 22.0%	UK equities 16.8%	Global bonds 9.5%	Cash 5.7%	Commodities 19.8%	UK equities 14.5%	Global bonds 7.4%	UK equities 12.3%	UK equities 20.8%
Gilts 9.3%	Property 11.2%	UK corp bonds 6.7%	Property 18.8%	Cash 5.0%	Cash 6.2%	Commodities 5.6%	US equities 12.6%	Property 14.3%	UK corp bonds 6.9%	US equities 11.1%	Property 10.9%
Global bonds 7.9%	UK corp bonds 5.4%	Gilts 6.6%	US equities 17.3%	US equities 1.6%	UK equities 5.3%	UK corp bonds -4.1%	UK corp bonds 10.8%	Global bonds 9.8%	US equities 2.5%	Gilts 2.7%	UK corp bonds 0.9%
Cash 4.1%	Global bonds 4.0%	Cash 4.5%	UK corp bonds 9.0%	UK corp bonds 0.7%	Gilts 5.3%	US equities -12.8%	Property 2.2%	UK corp bonds 8.4%	Cash 0.9%	Property 2.4%	Cash 0.5%
UK equities -22.7%	Cash 3.8%	Global bonds 4.3%	Gilts 7.9%	Gilts 0.7%	US equities 3.7%	Property -22.5%	Cash 1.3%	Gilts 7.2%	UK equities -3.5%	Cash 0.8%	Gilts -3.9%
Euro equities -27.1%	Gilts 2.1%	Commodities 3.7%	Global bonds 7.3%	Commodities -0.4%	UK corp bonds 1.8%	Euro equities -24.0%	Gilts -1.2%	Euro equities 5.8%	Commodities -6.7%	Global bonds -2.6%	Global bonds -6.3%
US equities -29.6%	Commodities -2.1%	US equities 3.4%	Cash 4.9%	Global bonds -4.7%	Property -5.5%	UK equities -29.9%	Global bonds -7.6%	Cash 0.8%	Euro equities -14.7%	Commodities -5.4%	Commodities -11.2%

You should not use past performance as a suggestion of future performance. It should not be the main or sole reason for making an investment decision.

Source: Threadneedle, Datastream and iBoxx, in GBP as at 31 December 2013. UK equities is the FTSE All Share Index, European equities is the FTSE World Europe ex UK Index, Commodities is the Dow Jones-UBS Commodity Index, UK corporate bonds is the iBoxx Sterling Non-Gilts Index (linked with UBS W All Stocks Investment Grade pre 30 June 2003), US equities is the S&P 500 Composite Index, Gilts is the FTSE UK Gilts Government (All) Index, Property is the IPD Monthly Index (total return), Global bonds is JPMorgan GBI Global (trade) (GBP Unhedged) Index. Cash is 3M £ Libor.

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The Mortgage Market Review

The Financial Conduct Authority (FCA) is the body that regulates residential mortgages in the UK. It has been looking closely at the mortgage market to make sure it works well for consumers, a process it has called the Mortgage Market Review (MMR).

Having completed the review, the FCA wants the industry to take greater steps to demonstrate affordability. This will ensure consumers are offered, and are able to take out, a mortgage they can genuinely afford. The new rules come into effect on 26 April 2014.

Why the need for a review?

The UK mortgage market works well for most people but in the run-up to the recent financial crisis there were some risky lending practices. In addition, the assumption that house prices would continue to rise meant too many borrowers taking on home loans they ultimately could not afford.

What's changing?

In the long term, the new rules aim to ensure poor practices do not return. The changes won't prevent people who can afford a mortgage from getting one but lenders will be taking greater steps to check that borrowers can afford the mortgage they are taking out. This will mean all mortgage applicants will need to provide detailed evidence of their income. Lenders must also consider whether a borrower will be able to afford the interest rate rises expected in coming years (to stop people taking out a home loan they can only afford while interest rates are low, as they are now). For interest-only mortgages, lenders must check that borrowers have a credible plan to repay the capital at the end of the loan.

The new rules also reinforce the importance of 'advice' when looking for the right mortgage. Lenders will no longer be able to offer mortgages on a non-advised basis, which means consumers should seek out a professionally-qualified adviser.

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

Benefits of advice

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
With access to a wide range of lenders, and thousands of mortgage deals, we can find a rate that suits you. But we also look beyond the rate. Lender administration and booking fees, length and type of loan, valuation costs and repayment methods can all affect the total amount you pay. By considering these elements together, we can recommend a solution that best meets your individual circumstances.

2

We know the market
If your needs or circumstances are 'out of the ordinary', it may be much harder for you to find a mortgage now than it was five years ago. We can save you the time and hassle of trawling the market, and help you find a lender willing to provide your loan.

3

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

4

We're professionally qualified
We're qualified to advise you on a broad range of lenders and products. This means you benefit from genuine choice coupled with quality advice.

5

We go beyond the mortgage
We can help you safeguard your investment by advising on a range of products that can protect you, and your family, should the worst happen.

Please get in touch for a full mortgage assessment.

For arranging a mortgage a fee of £395 payable upon agreement to use our services.

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

The real cost of raising a child

Have you ever thought about how much it costs to raise a child from birth to age 21? According to the latest research from LV=, the average cost is an astonishing £227,266[1].

The overall cost of raising a child has increased by 62% since the insurer's first report in 2003, while the cost of a child's first year has risen by 50% (£11,025, up from £7,372) in the same period.

Education and childcare remain the biggest costs - the report suggests parents now spend £66,113 on the latter. Meanwhile, 71% of parents report that they have been forced to make cuts to meet the financial demands of raising their family.

Key facts

- Parents are paying nearly £5,000 more to raise a child than they were 12 months ago
- One in five parents (21%) are delaying having another child due to Child Benefit cuts and the increasing cost of raising a family
- Parents now spend 28% of their annual household income on raising a child
- Single parents have been hardest hit by rising costs

Protecting the family finances

The need to make the family finances stretch has meant a reduction in the amount parents are likely to save for the future. One in three (34%) say they've had to reduce the amount they save, while one in 10 (10%) have had to cancel or review their insurance policies to help with family budgeting. In fact, 41% of parents now have no life insurance, critical illness or income protection cover at all.

But although the cost of bringing up a child is increasing, it's important to maintain your insurance policies. Bringing up a family has never been more expensive and the costs are set to remain a pressure point for many families across the UK.

Understanding the total cost of raising a child helps to highlight the need to secure your family's financial future, should anything unexpected happen.

Category	This year	% difference from last year	% difference from first report
Childcare & Babysitting	£66,113	3.7%	66.9%
Education*	£73,803	1.3%	126.4%
Food	£19,804	2.8%	32.8%
Clothing	£10,935	1.5%	-3.7%
Holidays	£16,506	1.9%	44.1%
Hobbies & Toys	£9,433	1.3%	6.5%
Leisure & Recreation	£7,419	0.9%	16.5%
Pocket money	£4,553	2.1%	34.5%
Furniture	£3,453	-0.3%	66.5%
Personal	£1,157	0.2%	25.1%
Other	£14,091	1.3%	59.3%
Total	**£227,266**	**2.2%**	**61.9%**

*Does not include private school fees but does include day-to-day costs associated with going to school (eg. school trips, text books, uniform and school lunch) and university fees.

[1]LV= Cost of a Child: From cradle to college report 2014 www.lv.com/assets/life/pdfs/press/coac-report.pdf

To discuss your protection needs, please get in touch

0.5%

INTEREST RATES ARE NOT ALWAYS THE NORM!

Every month when we anticipate the decision on the Bank of England base rate, we do so with an expectation that nothing will change.

However, given the speed with which the new Bank of England governor – Mark Carney – had to change his 'forward guidance policy', it's clear that the economy is moving again, and doing so rather faster than most expected.

The question is not, therefore, if interest rates move, but when. Most commentators are now predicting a change late in 2014 or early 2015 and that any change will be gradual. These seem sensible predictions, but a more rapid economic recovery could see earlier and more dramatic change.

In 2001, rates moved seven times in only 12 months, while in 2009 there were a number of rapid moves. Indeed it took less than a year for rates to move from 5% to 0.5%.

For borrowers, we believe we've probably already seen the very cheapest loans, but mortgages by historic standards remain exceptionally competitive. It is likely that rates will increase in anticipation of a base rate rise, so if you are looking to remortgage, now is a good time to consider your options.

Please get in touch for advice on remortgaging.

For arranging a mortgage a fee of £395 payable upon agreement to use our services.

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