Your

Finance Matters

Financial Magazine

Vegan Mortgage Adviser

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Dan Blowers
veganmortgageadviser.co.uk
01702 59 69 59

To find me online search:
Vegan Mortgage Adviser

YOUR FINANCE MATTERS

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YOUR PLANS FOR 2018 AND BEYOND – FOCUS ON THE LONG GAME

A New Year brings a fresh mind set – an opportunity to take stock and re-focus for the year ahead, in both our personal and financial lives.

The year starts with the Winter Olympics in South Korea and in February we enter the Chinese New Year of the dog, symbolising loyalty and honesty. With a royal wedding and Commonwealth Games in the springtime – anticipation hangs in the air, before the World Cup in Russia kicks off in June – exciting times ahead.

Take stock

It's also a time for reflection. Geopolitical and economic uncertainties have become consistent features that will not dissipate overnight, as Brexit negotiations continue. Despite uncertainty being the order of the day over the past year, all major stock markets have generated healthy positive returns.

The performance of the UK stock market has defied investors' concerns. The UK remains home to some of the world's most successful businesses that have demonstrated an ability to thrive, regardless of the economic and political backdrop.

Looking globally, in the US, economic fundamentals are supportive. Europe has performed strongly, encouraging elections (albeit inconclusive in Germany's case) boosting investor sentiment, the outlook for the region remains bright. Elsewhere, against an improving global economic backdrop, investor sentiment towards Asia and emerging markets has seen a resurgence, rapid growth and multiple market opportunities.

Be clear on what you want to achieve

What's important is that as an investor, you regard the New Year as the perfect time to revisit your investment objectives. By visualising your objectives as connected to your aspirations and hopes, you can engage with your future wealth; a great motivator.

Think about your attitude to risk and capacity for loss. Have they altered? If so, this will need to be reflected in the allocation of your assets. Clear communication of these changes is key.

Think holistically – the bigger picture

Think about all of your investments collectively to ensure the full allocation of assets, including cash, does not duplicate and is a true reflection of your risk requirement; portfolio diversification is crucial. Long-term investment should transcend short-term concerns – don't let events cloud your judgement. Investors would do well to understand the broad, historical context of the stock market and fund managers' long-term histories.

Bottom line

Investing in a changing world presents different opportunities and exciting new themes. Get re-energised for the year ahead and take control of your investment strategy. Displaying the same attributes as the loyal and honest dog – you can rely on us to guide you through your investment journey.

Geopolitical and economic uncertainties have become consistent features that will not dissipate overnight, as Brexit negotiations continue. Despite uncertainty being the order of the day over the past year, all major stock markets have generated healthy positive returns.

Could you be an ISA millionaire?

Individual Savings Accounts (ISAs) are a great way to invest free of tax on the income and any capital gains. The amount you can put in each year has gradually increased. A growing number of people are becoming 'ISA millionaires' as a result of rising stock market prices, and the steady increase in the annual ISA allowance.

Generous annual limits

The allowance for the 2017–18 tax year is set at £20,000, meaning that couples can put away up to £40,000. Sadly, it seems that the ISA message hasn't filtered through to everyone. HMRC has produced data that shows only two thirds of those earning more than £150,000 a year use up their ISA allowance each year.

With pension contributions subject to annual and lifetime limits, ISAs represent an excellent way of topping up retirement income, although the cash or shares could be subject to inheritance tax on death, unlike the types of pension that can be passed on to beneficiaries more tax-efficiently.

Making it to a million

If you were able to invest your full ISA allowance in a stocks and shares ISA every year, the ISA limit increased by around 2% each year, and your investments made an annualised return of 5% after fees, you too could join the elite band of ISA millionaires in 22 years (purely an example for illustrative purposes). Of course, we must underline that this is not guaranteed, because stock markets can, and do, go down as well as up.

Planning for your future

If you're planning to invest this tax year, it's a good idea to put plans in place as early as possible. The longer your money is invested, the more time it has to produce tax-free returns.

You can't carry any unused ISA allowance into the next tax year, so don't risk missing out on the valuable tax breaks available. We can help you investigate the choices on offer, and help ensure you use your allowance wisely.

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ONE IN THREE RETIREES WILL HAVE TO RELY ON THE STATE PENSION

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The Financial Conduct Authority recently carried out research[1] into the financial arrangements of just under 13,000 consumers in the UK. The results make for worrying reading. One of the findings that really stands out is that 31% of UK adults have no private pension provision, meaning they may have to rely solely on their state pension in retirement.

The report highlights that many people find pensions very confusing and have no idea what they will have to live on when they retire. The full state pension is currently £159.55 per week, but is only available to those who have a complete record of National Insurance contributions. The study also revealed that only 35% of 45 to 54-year-olds have given serious thought to how they will manage in retirement. The sad fact is that the longer people leave it before addressing their pension needs, the harder it is to achieve a reasonable level of income in retirement.

Putting pensions into perspective

Pensions auto-enrolment has been a very positive initiative that has resulted in far more young people paying into a pension than ever before. However, if workers only put in the minimum amount, this is unlikely to be enough to build up a sizeable pension.

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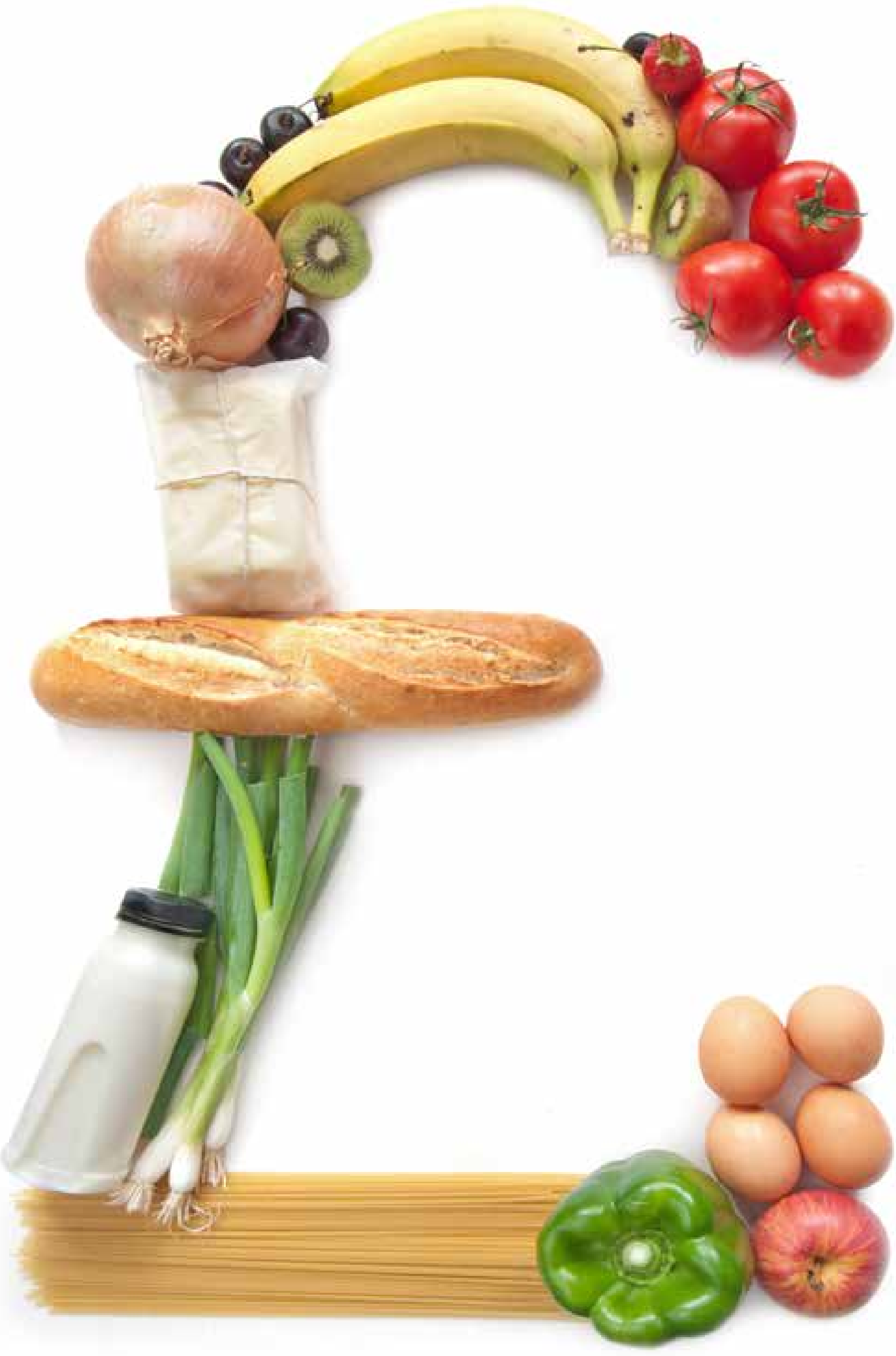
So, if you're self-employed, an employee, work part-time, run your own business or have accumulated pension pots with past employers, we can offer you advice about saving for a pension. After all, retirement should be an enjoyable and fulfilling stage of life, not a time spent worrying about money.

[1]FCA, Financial Lives Survey, Oct 2017



Cash-strapped consumers are struggling with the combination of lacklustre growth in their wages, which is providing modest support to disposable incomes.

A GAME OF ENDURANCE AS DISPOSABLE INCOMES HIT SIX-YEAR LOW

The average household in Britain is currently enduring the lengthiest dip in disposable income for six years. Cash-strapped consumers are struggling with the combination of lacklustre growth in their wages, which is providing modest support to disposable incomes, and inflation. This is taking its toll on the pound in their pocket as the cost of everyday items increase.

Recent data from the Office for National Statistics (ONS) revealed real household disposable income fell by 1.1% per head in the second quarter of 2017, meaning disposable incomes have declined for four consecutive quarters, marking the longest period of negative growth since the tail end of 2011.

The data from the ONS coincides with a study[1] disclosing that for the first time in two years, households said they thought their personal financial situation had deteriorated. This perception will no doubt have a negative impact on people's saving and spending habits.

It is anticipated that the interest rate rise in November could help temper rising inflation, which has been fuelled further by the Brexit-hit pound. Watch this space.

[1]Eurobarometer Consumer Survey, Oct 2017

If you would like any advice or information on any of the areas highlighted in this newsletter, please get in touch.

Over £40m stolen from pensioners

Police reports show that since the introduction of the pension freedoms, more than £43m in retirement savings has been lost to fraud. Concerns have been raised in parliament, and the Work and Pensions Committee has held an inquiry that, amongst other things, heard evidence as to what might be done to prevent these potentially devastating losses. The Financial Conduct Authority has promised to publish a strategy to tackle the problem.

Research has shown that scammers frequently search for information in social media profiles, emails and texts, that can help them sound genuine and authentic when they cold-call their victims. Fraudsters gather their information from fake online forms, and phishing emails that fool recipients into giving away vital personal information. This means that when they call, they can sound very convincing.

Be on your guard

The much-anticipated ban on pensions cold-calling, that will also include texts and emails, is likely to go before parliament in the first half of 2018. Companies that do not have prior permission to contact consumers, or do not have an existing client relationship with them, will face fines of up to £500,000.

In the meantime, everyone needs to be aware of the signs to look out for. The Pensions Regulator urges savers to protect themselves against pension fraudsters in several ways. It recommends hanging up on anyone who calls out of the blue to discuss pension opportunities. They warn about the dangers of any firms that offer high guaranteed returns, especially on unregulated offshore investments, and recommend that they check that any companies they are thinking of dealing with are regulated by the Financial Conduct Authority.

Signs that a cold-caller could be part of a scam and trying to trick consumers out of their pension savings include suggesting that what is on offer is only available to sophisticated investors, and will only be available for a short period of time, meaning that decisions must be taken quickly. Be scam savvy – don't let it happen to you.

DON'T LEAVE YOUR LOVED ONES FACING FINANCIAL RUIN

Many people take out a life policy, perhaps when they take out a mortgage, put it away in a drawer and don't think any more about it. This can be a mistake, as the level of cover you took out a few years back may now not be enough to cover your current situation, and you could risk leaving your loved ones facing major financial difficulties if you were to die.

Figures from a major insurer show that 40% of Britons only have enough life insurance in place to cover their mortgage[1], which could result in financial strain on their families, as they would still have to meet all their other household bills and expenses.

Regular reviews matter

Everyone should think about reviewing their life insurance cover on a regular basis, especially if they've experienced a major life event like starting a family. Having cover just to pay off your mortgage might have sufficed before you had the added responsibility of being a parent, but now you'll want to ensure there's sufficient insurance in place not only to pay off your mortgage, but also to provide additional funds to ensure your loved ones could continue to have a reasonable standard of living if you were to die.

When they have a growing family to provide for, many people also opt to take out critical illness insurance. This is designed to pay out a tax-free lump sum in the event of a diagnosis of a serious illness (as defined in the policy). Income protection cover can also be appropriate, as it would pay out a monthly income, tax-free, if you were unable to work due to an illness or injury.

Protection policies can safeguard your finances, your home and your family in the event of incapacity, a serious illness, accident or death. We can help make sure that as your life changes, your cover changes to match your circumstances.

[1]Direct Line, 2017

HIGHLIGHTS FROM THE AUTUMN BUDGET 2017

- Stamp duty abolished immediately for first-time buyers purchasing properties worth up to £300,000
- To help those in expensive areas, the first £300,000 of the cost of a maximum £500,000 purchase will be exempt from stamp duty, with the excess of up to £200,000 incurring 5% duty
- Not applicable in Scotland unless Scottish government decides to follow suit
- Pension lifetime allowance to increase in April 2018 to £1,030,000
- Higher-rate tax threshold to increase to £46,350 from April 2018 (Scotland may differ)
- ISA limit for 2018/19 to remain at £20,000
- JISA and CTF allowance will be uprated in line with CPI to £4,260 in 2018/19
- The National Living Wage and the National Minimum Wage will increase from April 2018
- The tax-free personal allowance will rise with inflation to £11,850 from April 2018
- An extra £3 billion to prepare for Brexit over the next two years
- £6.3 billion of new funding for the NHS in England
- Fuel duty will remain frozen for an eighth year
- A new railcard for those aged 26 to 30
- Business rates will switch to being increased by the Consumer Prices Index (CPI) two years earlier than planned
- Capital gains tax relief for overseas buyers of UK commercial property to be phased out

If you employ a nanny or a cleaner, you may need to set up a pension fund

Whilst you might not think of yourself as an employer, if you have a carer, gardener, nanny or cleaner, you may find yourself classed as that under government pension rules. As part of the government's auto-enrolment scheme, designed to encourage pension saving, almost every worker in the country must have a pension fund set up and paid into by their employer.

So, if you pay a nanny or cleaner directly, you'll be expected to provide for their pension. However, if you employ staff from an agency, then it's the agency's responsibility to make pension provision for them. If you drop your children off with a childminder, these rules normally don't apply, as most childminders are self-employed, as are many gardeners.

Figures released by the Department for Work and Pensions show that there are still 400,000 employers that haven't yet registered their staff. Failure to do so could result in a fine.

Who qualifies?

Employees aged between 22 and state pension age who earn more than £10,000 a year (or £833 a month, or £192 a week) must be automatically given a workplace pension.

If you employ someone who earns more than £5,876 a year, or someone who is older or younger than the age range, they have the right to 'opt in' to a workplace pension and receive employer contributions. Anyone earning less than £5,876 a year can still choose to opt-in to a workplace pension, but employers don't have to contribute to their pension.

If you employ someone who qualifies for auto-enrolment, you need to find them a pension provider, enrol them and then make regular contributions to the scheme. The current total minimum contribution of 2% will increase on 6 April 2018, to 5%, and on 6 April 2019, reaching a total minimum amount of 8%.

> ...if you employ staff from an agency, then it's the agency's responsibility to make pension provision for them.

Older workers facing the pressure of intergenerational needs

It's estimated that around 1.9m workers aged over 50 find themselves juggling the competing needs of the younger and older generations, sometimes overlooking their own financial planning requirements. As a result, many feel under pressure to go on working for longer; others sacrifice saving for their retirement to help other family members.

The problem is likely to intensify as the younger generation increasingly look to the 'Bank of Mum and Dad' to help with major expenditure such as house purchase. Elderly parents are living longer and need more care. This means that many over-50s are squeezed in the middle and find themselves taking the financial strain. Government statistics show a record number of over-50s remain in work, some from choice, others out of necessity.

Support for children

According to a recent report[1], almost two in five workers aged over 50 with dependants say they will retire later than they had originally anticipated because their children still need their financial support. Almost a third say their adult children's financial needs are the only reason they're still working.

Looking after parents

Many older workers also find themselves helping their parents financially and with their care. More than two in five respondents mentioned concerns about being able to balance their work commitments with their responsibilities as carers.

Pension provision set aside

Worryingly, almost a quarter of over-50s with financial dependants admitted that they had sacrificed saving for a comfortable retirement to provide financial support for adult children, while 12% of respondents said they had stopped saving completely to support the children and parents who depend on them financially.

Getting the right advice

Whatever age they are, everyone should make provision for their later years. Even small sums saved regularly will go some way towards providing a pension income. Getting good advice will help you work out how much you will have available to live on in retirement, and how you can improve your pension outlook.

[1]Aviva, Real Retirement Report, 2017

PENSIONERS IN DRAWDOWN FEAR RUNNING OUT OF MONEY

Since the introduction of the new pension freedoms in April 2015, more and more retirees have opted to take flexible withdrawals from their pension funds by going into what's referred to as drawdown. The Financial Conduct Authority recently reported that drawdown has become much more popular, with twice as many pots moving into drawdown than go into annuities.

Income drawdown is where you leave your pension pot invested and take an income directly from it, instead of using the money in your pot to buy an annuity (a regular guaranteed payment from an insurance company). With drawdown, the money left in your pot will continue to benefit from any investment growth.

Making the right decisions

Whilst being in control of their pension pots has given retirees more options as to how and when they access their funds, making the right choices about their money can be a daunting task for those unaccustomed to dealing with pension and investment issues. Understandably, many people fear running out of money in later life.

Getting the right advice

If you're thinking about accessing your pension savings, you need to be aware that although the first 25% of funds withdrawn from a pension pot are normally tax-free, if you take more than that, it will be regarded as income for tax purposes and could push you into a higher tax bracket.

We will be able to put together a plan that will help ensure you make the best use of your savings. Being aware of your likely cash flow in retirement will help you avoid the risk of using too much of your pension pot too soon.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

ADDRESSING YOUR PERSONAL FINANCE WEAK SPOTS

No matter what age you are it's likely you have a financial weak spot. In fact, it's pretty much inevitable, no one's financial armour is infallible. What steps can you take to shore up your defences?

Money's too tight to mention

Younger people are often struggling to save, let alone contribute towards a pension, whilst trying to afford a foot on the housing ladder and possibly paying off student debt. The repercussions of the financial crash, staggeringly high house prices and pay stagnation, are just some of the pressures this demographic has to contend with.

Classic weak spots for millennials tend to include budgeting and saving, mortgage affordability and debt. A recent study[1] delved into millennials' attitudes and behaviours around saving for retirement. The research found that only 8% ranked pension savings in their top two savings priorities.

Top tips include spending time working on budgeting skills, start small and often with savings and pension contributions, you'll be surprised how quickly they add up. Don't opt out of a workplace pension, look to maximise contributions if possible. Work hard to reduce any debt, this is key to a successful mortgage application.

Squeezed middle

For the squeezed sandwich generation, struggling with the pressures of caring for children and possibly elderly parents, weak spots can include credit card debt, protection insurance and mortgage debt, plus retirement planning.

Debt levels are usually high, combined with high living expenses, often stifling savings opportunities. Retirement planning is a low priority and some mortgage holders are financially stretched with little protection if their income falls.

The best approach here is to take advice – by taking an holistic view of your finances, including your mortgage, savings, insurance, investments, pensions, and savings and protection, you are able to take control of your finances in one; an ultra-efficient approach.

Also work on building savings, paying off debt, rediscover small pension pots you may have left behind when you switched jobs and consider consolidation. If you haven't started a pension, it's better late than never.

Over 55 and beyond

With the ability to access your pension from age 55, confronted with a range of options, you become the prime target for scammers. Often with healthy funds available, as time progresses financial vulnerability can creep in. Weak spots therefore include confusion regarding pension options, scams and losing confidence.

It's really important to take time to understand the different options for withdrawing a pension by taking professional advice, never under-estimate the value of advice. Be scam savvy, never respond to unsolicited approaches regarding your pension.

Self-employed

Not to be overlooked, the self-employed can belong to any generation. The UK now has a record number of self-employed workers, 4.86 million, representing more than one-in-seven of all in employment[2]. Recent HMRC figures reported that personal pension saving amongst self-employed workers has fallen to an all-time-low of just 350,000. Pension saving for the self-employed is clearly a weak spot which needs prioritising.

[1]Royal London, The Millennial Mosaic, Nov 2017
[2]Aviva, Oct 2017

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.

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WHERE WILL YOU LIVE IN RETIREMENT?

Later-life housing is a growing market, with around 60% of projected growth in households over the next two decades set to be among those aged 65 and over[1]. Moving home at any age is almost always a stressful and emotionally-challenging time, and arguably the longer you leave it, say in your late 70s or 80s, the more challenging it is likely to become.

Many people who move into retirement housing do so reactively, perhaps because of a decline in fitness and health, rather than part of their forward planning. This has led many to the view that we should all think more carefully earlier in our lives about where we might want to live in our retirement years, and plan for this in the same way that we plan our retirement income. Some experts think consideration should commence in your 40s.

Lobbying for change

It's estimated that although nine out of ten of those aged 65 to 79 live in under-occupied housing, and could free up much-needed family homes if they were happy to move to a smaller retirement unit, there are only around 515,000 units of specialist retirement and 'extra care' housing in England. This figure only equates to enough specialist housing to accommodate 5% of those aged over 65.

Being able to downsize to a smaller, easier to maintain property can allow people to remain living in their own home for longer, easing the pressures on the residential care sector. Obviously, people should be free to choose how and where they live in retirement. However, there are clearly many people who would like to downsize, but are put off both by the cost and the lack of suitable accommodation.

Policymakers are said to be actively considering various moves, like scrapping stamp duty on retirement homes, the development of purchase plans for the elderly, similar to the current Help to Buy scheme, and offering help with costs associated with moving home.

[1]International Longevity Centre UK, 2017

Do we need targets to help us save more for retirement?

The Pensions and Lifetime Savings Association (PLSA) has come up with a suggestion to help people keep their pension plans on track. It has called for savings targets to be put in place to help individuals save enough for a good pension for their retirement years.

According to their research[1],13 million people haven't made sufficient pension provision and 78% of those aged between 18 and 64 don't know how to go about finding out how much pension they will receive when they retire.

The PLSA is considering developing a new set of benchmarks that will help savers by providing target figures for them to aim for. Retirement income targets are commonly used in Australia, and can help people become more informed about their pension by explaining how much they need to save to achieve different standards of living in retirement – such as minimum, modest and comfortable.

Getting the right advice

Whilst most people know that they should save regularly throughout their working lives to accumulate enough to retire on, fewer people are aware of how much they might need to live on, or whether their current pension arrangements are on track to achieve their goals.

Research[2] has shown that the average person in the UK thinks that they will need an income of £29,700 a year when they retire; what they are often not so clear about is that to achieve this level of income, they would need to have accumulated a pension pot of around £364,000 on top of a full state pension.

This is where getting advice can really help. We can provide valuable insight into how much your current pension savings are worth, what level of income you can expect to retire on, and what steps you can take to improve your standard of living in your later years.

[1]Pensions and Lifetime Savings Association, Nov 2017
[2]One Family, Nov 2017

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GLOBAL MARKETS WERE SURPRISINGLY BULLISH

Investors found much to be cheerful about in 2017, a year which was characterised by a general upswing in the global economy. Several stock markets worldwide traded at all-time highs, European manufacturing bounced back and the Bank of England finally increased interest rates.

It's now over a year since Donald Trump was elected, and while his administration has been dogged by political scandal, all has been relatively quiet on the investment front. Just a few days after Trump's inauguration in January 2017, the Dow reached a new symbolic high of 20,000 and continued to go on rising.

It was the same picture in the UK. The shock election vote failed to dent the rise of the FTSE 100, 250 and All-Share indices which all reached record highs in the first half of 2017. The UK economy grew by a higher than expected 0.4% in the third quarter of 2017, compared with 0.3% in the first two.

Europe was one of the year's best performing markets, despite the reappearance of political tensions in the form of movements towards Catalan independence in Spain.

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Ready to invest? Here's how to get started

If you're looking to get a better return from your money than you can from your bank account, then the time might be right to think about investing for the future. Before you begin, here are some golden rules to consider.

Hold some cash

You'll need to have ready access to a cash fund to cover everyday living expenses and unforeseen expenditure. Obviously, there's no point rushing into investment if you've got substantial debts or if you know you're going to have to make major financial commitments that will take up all your spare cash. A vital part of your financial planning must be providing adequately for retirement, not least because of the tax breaks available on pension contributions.

Define your goals

You need to be clear why you're investing and what your goals are. The sort of life events that people often invest for include a child's education, a daughter's wedding, to repay a mortgage, retire at 55 – the list can be a long one. Knowing your time horizon helps ensure you put in place the right investment strategy for your needs.

Know your risk profile

You will need to establish how much risk you're comfortable with, and the impact that has on the rate of return you can realistically expect to earn. You should bear in mind that the level of return can vary from year to year, and that past performance is not a guide or a guarantee of future returns. The value of shares can go up and down.

Go for diversity

A portfolio that includes a range of assets alongside shares, such as bonds, property, and cash, has been shown to perform better over the longer term than one that is only invested in one type of asset. This process is known as asset allocation, and is almost always the starting point when deciding where to invest.

Getting investment advice makes sense

We will be able to help you in a variety of ways. Firstly, we can work with you to review and assess your current situation, any existing holdings you may have, your family circumstances and tax position. Drawing on our expertise and extensive knowledge of the market, we will recommend the asset allocation that will meet your requirements, together with the investment options that are suitable for you.

While building a potentially profitable portfolio means taking a longer-term approach, we will want to schedule regular reviews with you so that your investments can, if necessary, be altered or rebalanced in response to economic and market forces.

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