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Financial Viewpoint

Your latest newsletter from Carl Summers Financial Services

Are you considering remortgaging?

With continuing uncertainty over the future of interest rates, you may be considering remortgaging to a lower rate of interest to save money.

But before you're tempted to a new lender offering an attractive introductory rate, it's worth considering the bigger picture.

Should I stay or should I go?

Moving to a new deal could save you money. However, if you change your mortgage before the end of your current deal, you may have to pay an early repayment charge. It's also worth factoring in legal, valuation and administration costs that may be associated with signing up to a new mortgage deal.

In some circumstances, you may find that over the long term, the costs of switching outweigh the costs of taking on what looks like a better deal.

Tougher lending rules

As part of the Mortgage Market Review (MMR) in April 2014, the Financial Conduct Authority introduced new rules around mortgage lending. For instance, the lender must now take greater steps to ensure you can afford your mortgage not only now, but in the future if interest rates were to rise.

That means if you took out your current mortgage a few years ago, you may be asked for more information this time around. This may include details of how much you typically spend on things like travel, clothing, entertainment and childcare.

Changing the type of deal

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

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

Updating your protection

When changing your mortgage, remember to review your protection arrangements as part of the process. This could protect you financially if you become unable to meet your monthly repayments, should the unexpected happen.

Reviewing your protection needs is all the more important if you don't have cover in place already, or if your circumstances have changed since you last reviewed your cover.

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

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

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

For this service a fee of £295 is payable on application.

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Stroke impacting more working-age people

New data from the Stroke Association has shown an alarming increase in the number of working-age people affected by stroke.

As well as the obvious health implications, stroke can severely impact a survivor's ability to earn or maintain an income, which can have a knock-on effect on things such as lifestyle and rehabilitation.

Sharp rise among 40-54 age group

The number of strokes occurring in men aged between 40 and 54 has increased by almost 50% in less than 15 years. In 2000, there were over 4,260 hospital admissions for stroke among men in this age group in England. This figure soared to 6,221 in 2014 – an increase of 46%.

The number of women aged between 40 and 54 admitted to hospital after a stroke in the last 15 years has also dramatically increased by almost 30% - from 3,529 in 2000, to 4,604 in 2014.

Managing your stroke risk

You can reduce your risk of stroke by making a few simple lifestyle changes. The Stroke Association has highlighted six key areas to focus on:

- Manage underlying health conditions, such as high blood pressure or cholesterol
- Eat a healthy diet
- Exercise regularly
- Stop smoking
- Cut down on alcohol
- Maintain a healthy weight

For more detail, please visit www.stroke.org.uk

Preparing for the unexpected

Stroke survivors who are unable to return to work often struggle to cope with a fall in income and a benefits system which does not recognise the full impact of stroke.

You can take control of this uncertainty by putting financial measures in place that would protect you, should the unexpected happen.

For instance, a critical illness insurance policy pays out a tax-free lump sum on the diagnoses of certain life-threatening or debilitating conditions - including stroke. This can be used to pay off your mortgage, pay for treatment, rehabilitation or home alterations, or anything else you choose.

If you'd like to find out how critical illness insurance could protect you and your family, please get in touch.

COPEN1040 Exp. 31/12/15

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The search for a reliable retirement income

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

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

Generating income in a low interest-rate environment

While these pension changes offer many opportunities, generating investment income remains difficult – particularly in the wake of the financial crisis.

As the chart below shows, the Bank of England's target interest rate has been stuck at an historic low of 0.5% since March 2009. Meanwhile, the income that can be earned through holding UK government bonds – a traditional staple instrument of low risk, income focused investment portfolios – has shrunk from over 5% before the crisis, to less than 2% now.

Equity markets risk income stability

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

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

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

Taking a diversified approach

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

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

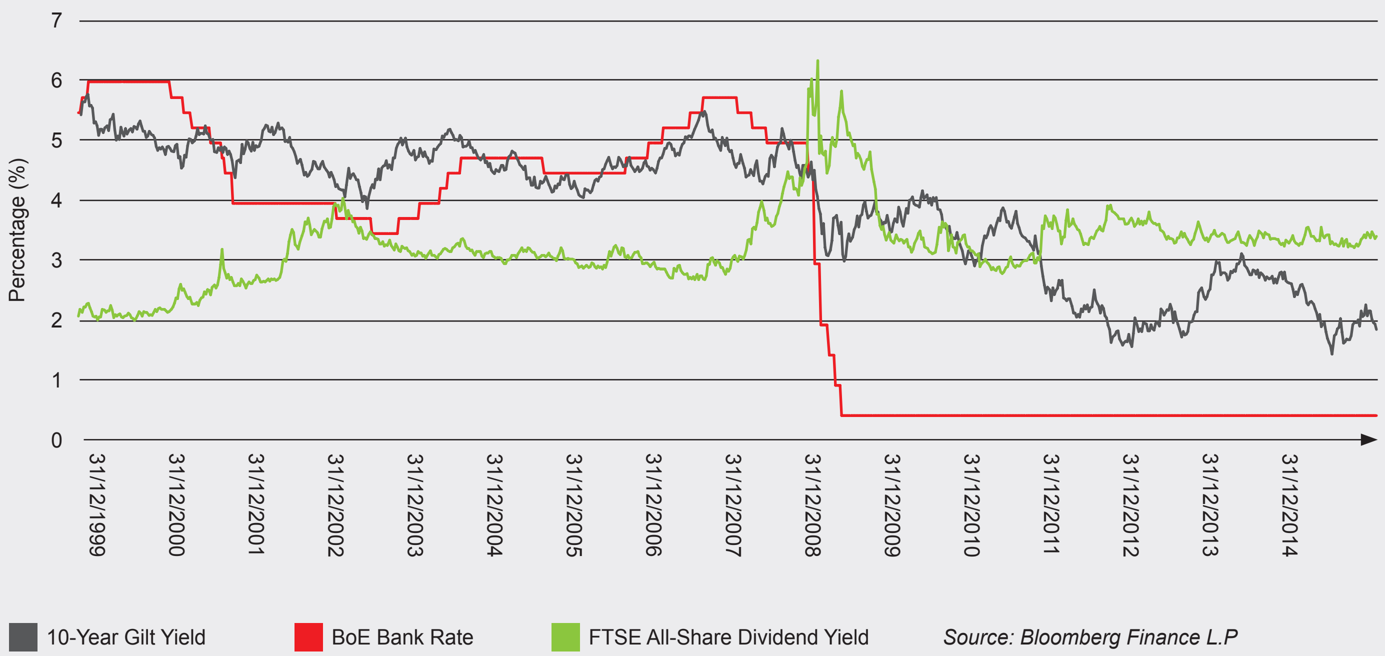
An alternative approach is to take a much wider view and consider other potential sources of income from a broader range of asset classes and capital structures, across many different countries and regions.

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

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

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

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



Source: Bloomberg Finance L.P

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How tax efficient is your pension?

The main purpose of a pension is to build funds for your retirement in the most tax-efficient way possible.

You may contribute regularly to your pension, but do you take full advantage of the tax benefits it offers you? For instance, did you know your pension could help you reclaim valuable personal tax allowance - and even Child Benefit?

Over the lifetime of your pension, these potential benefits could contribute significantly to the funds available to you at retirement.

Here are **four examples** of how your pension could work harder for you.

1 Personal allowance for high earners (over £100,000)

Nearly everyone who lives in the UK is entitled to an Income Tax Personal Allowance (the amount of income you can receive each year without having to pay tax on it).

This Personal Allowance is reduced by £1 for every £2 of adjusted net income over £100,000.

By making a pension contribution, you could reduce your taxable income, and reclaim your allowance. This is particularly valuable if you have a taxable income of between £100,000 and £121,200.

2 Erosion of Child Benefit

Since 7 January 2013, if you're a parent earning more than £50,000 the amount of Child Benefit you receive is taxed at 1% of the Child Benefit received for every £100 that your individual income is over £50,000.

A pension contribution can help you reduce your earnings and therefore allow you to reclaim Child Benefit.

3 Maximise tax relief on contributions / minimise tax on pension income

The government encourages you to save for your retirement by offering tax relief on your pension fund up to a certain amount.

Through efficient planning, you may be able to receive tax relief at a rate higher than the Income Tax rate you'd pay on your retirement income.

4 Paying in more than your annual allowance

You are allowed to pay up to £40,000 annually into your pension. Contributions above this amount are subject to tax penalties.

However, in certain circumstances, you can exceed your annual allowance without penal tax charges applying. This is because you can carry forward three years' worth of unused annual allowance meaning, subject to earnings, you may be able to claim valuable tax relief.

If you'd like to explore your pension in more detail, 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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Landlords and lending
What you need to know

The National Landlords Association (NLA) claims that so-called 'part-time' landlords now make up more than 70% of the private rented sector[1].

If you're planning to buy a rental property as a long-term investment, or to generate a regular income, here are a few points you may want to consider before you get started.

Buy to Let mortgages
You're likely to need a Buy to Let mortgage to finance your property purchase. Buy to Let mortgages are not regulated by the Financial Conduct Authority, but the lender will still belooking for you to meet a number of requirements.

Typically, the lender will expect you to:

- Provide accurate information about your financial circumstances
- Understand the legal implications of being a landlord
- Understand the commercial risks of being a landlord
- Read and understand its Buy to Let offer pack, and the terms and conditions
- Understand that you, not your tenant, are responsible for meeting mortgage payments
- Understand that non-payment of the mortgage may put the wellbeing of your tenants at risk and could lead to the property being repossessed

They will also expect you to let them know if your circumstances change and you decide to occupy a property.

Mortgage costs
Mortgage interest payments are likely to be your largest ongoing cost, and most lenders will want to ensure that the rental you earn from letting your property easily covers your mortgage commitment.

You'll also need to consider the lender's arrangement fee. This can often be added to your mortgage, which means you will pay interest on it, but this can normally be offset against your tax liability.

Purchase costs
If you're funding your purchase with a mortgage, you will still need to find a deposit from elsewhere. Depending on the condition of the property, you may have to undertake structural or decorative work.

You'll also have to budget for furniture and appliances if you intend to let your property furnished. Other costs will include legal fees, Stamp Duty Land Tax (if appropriate) and a survey fee.

[1] National Landlords Association, 10 July 2014
[2] www.which.co.uk, November 2014

ONGOING RUNNING COSTS

Like your own home, a Buy to Let property will require maintenance and you'll need to maintain the safety of gas and electrical appliances.

You might think of using a letting agent to market your property, select tenants and manage the property. A letting agent will typically charge around 10–15% of the monthly rental for this service.[2]

Your tenant will normally be responsible for most property-related costs such as Council Tax, TV Licence and utilities. The tenancy agreement should clearly set out who is responsible for each of these payments.

Don't forget to budget for insurance. Specialist buildings insurance for landlords is essential and if you are renting your property as furnished you will also require contents insurance. You should also arrange cover to protect you against loss of rental income.

If you'd like more information on how to fund and protect your Buy to Let investment, please get in touch.

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

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What's your personal financial wellness plan?

The outgoings we face today just to keep on top of the mortgage or rent, utilities, food and other regular commitments such as loans and childcare costs, can be significant. So it's important to plan for the unexpected and avoid making a potentially costly mistake.

We might worry about how we would pay the bills and look after our families if we were to have an accident, but the truth is many of us don't have cover in place to protect against it. With 30% of households admitting they wouldn't be able to pay their mortgage if they were to unexpectedly lose their income[1], it's clear there's a real risk of serious financial hardship if income stops - even for a short time.

The importance of appropriate protection

Most of us buy travel insurance when we go on holiday. We insure our pets against illness and the sometimes eye-watering vets bills this can incur. We insure our mobile phones, washing machines, gadgets and cars.

But all of these expenses need to be funded from somewhere, and if a sudden event affects our personal cash flow, it would be hard to see how we could keep these other insurances going – let alone all the other outgoings.

Swiss Re[2] estimates that the average person is underinsured by as much as £100,000, with single parents, couples with children and the under-35s the most likely to not have the right cover. That is just an estimate – it could be higher and the pressures on average incomes mean it probably is.

Is it time to review your circumstances?

There is real value in taking time to regularly think about your personal circumstances. As you go through life, your lifestyle will change and so too will your need for protection.

There are a number of affordable protection products available that give you peace of mind in knowing your finances would stay intact. These include life and critical illness cover, income protection, insurance aimed specifically at hospital stays and treatments, as well as accident protection.

[1]HSBC Survey 2015
[2]http://www.swissre.com/media/news_releases/nr_20120611_Term_Health_Watch.htm

Make a commitment to your own financial wellness and talk to us about life and protection insurance tailored to your circumstances.

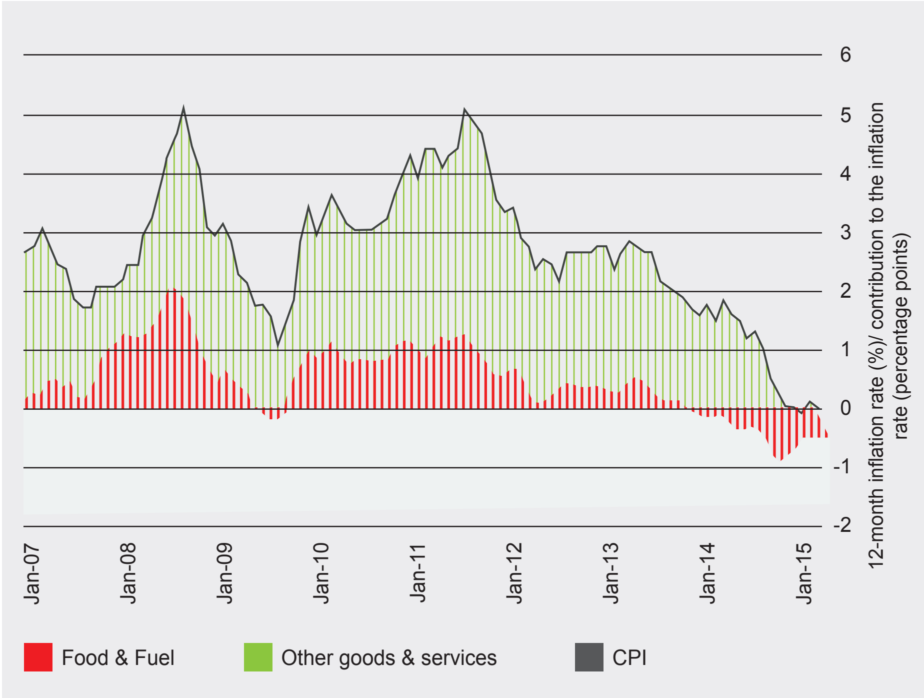
COPEN959 Exp. 01/04/16

Inflation: A turning tide?

UK inflation has been decreasing, but recent economic data suggests this could change.

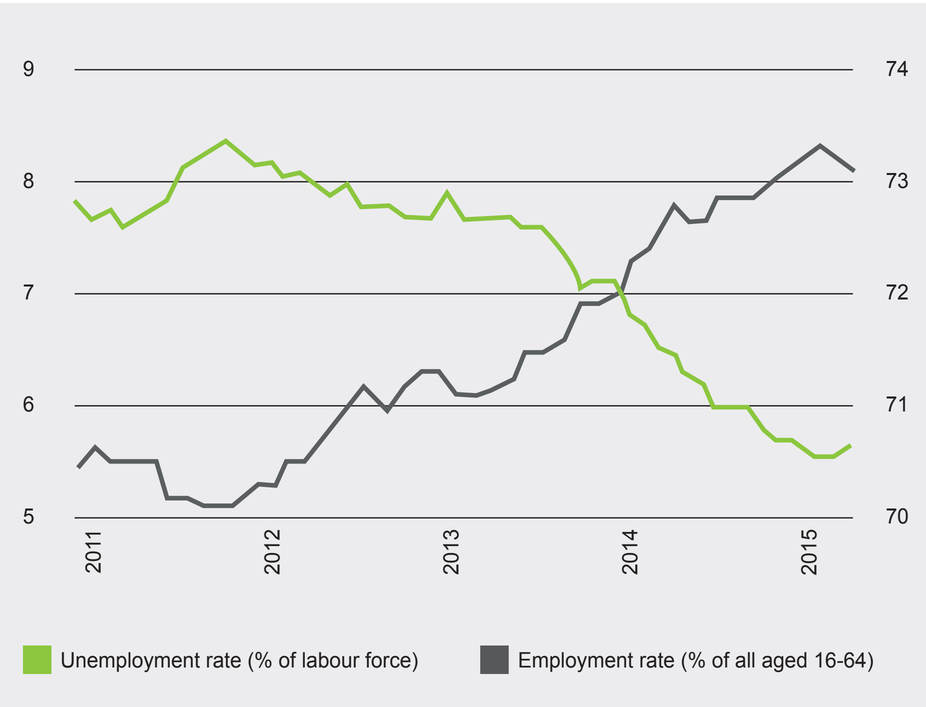
Inflation is no longer the bogeyman it once was. According to the UK Office for National Statistics (ONS), the Consumer Price Index (CPI), a measure of how much things cost, has been on a broadly declining trend since mid-2011.

Cheaper food prices have been partly responsible for this but just as significant was the oil price collapse from the end of 2014, as the cost per-barrel tumbled to a six-year low. For consumers this has been good news.



Contribution of food and motor prices to the annual CPI rate of inflation: January 2007 to June 2015

Source: Office for National Statistics, July 2015



UK Employment and unemployment rates

Source: ONS, Financial Times: Rise in both wages and unemployment puzzles economists, 15 July 2015

Three forces that can drive up inflation

In their most recent meeting in July, members of the Bank of England Monetary Policy Committee noted that in the three months to April 2015, the total average pay for UK workers had increased by 2.7% compared with a year earlier. Private sector pay also increased by 3.3% over the same period, similarly well above expectations.

By the same token, job growth in the UK has also been remarkably steady with two years of gains in employment and matching declines in the unemployment rate.

Consumers have more money to spend, more people are in work and companies are hiring. Typically, these three forces working together have tended to drive up inflation in an economy and there is no reason to think this time things will be different.

The value of investments and any income from them is not guaranteed and can fall as well and you may get back less than you originally invested.

Investors seeking to beat a rising tide may want to consider ways of protecting against inflation now. If you'd like us to review your savings and investment strategy, please get in touch.

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Value of a parent

Juggling a career and a family can be hard work, but have you ever thought about the value of the unpaid you work you do? On average you'd have to find £29,535 to cover the cost of the duties performed by a mum and £21,601 for a dad.

Day-to-day costs

From birth to the age of 18, the total day-to-day cost of raising a child (in unpaid terms) is estimated at £184,392. This equates to £197 every week. Many parents underestimate this figure, assuming the cost is around £128 a week.

Most parents spend their time caring for their children. Mums typically contribute 28 hours, per week and dads 19 hours per week. If you had to pay for professional childcare to cover these 47 hours per week, it would cost around £417.

Don't forget grandparents

Sixty-five per cent of working parents say they can only afford to work due to flexible childcare offered by grandparents, who contribute, on average, eight hours a week. But only 36% of full and 9% part-time working parents pay for this help. Paying a childminder forthe same amount of time would cost, on average, £71 per week.

Could you afford to replace this 'free' care?

If accident or illness meant you could no longer provide or rely on this vital childcare resource, have you considered who would fill the gap?

Do you know if you could cope financially if you had to pay for extra childcare or help with domestic chores?

The answer can be simple. A simple family protection insurance policy can help ensure you aren't financially disadvantaged should your family childcare arrangements change unexpectedly.

Region	Value of a Parent	Value of a Mum	Value of a Dad
East Anglia	£25,344	£26,423	£21,949
East Midlands	£25,265	£27,427	£20,708
London	£26,090	£29,894	£20,580
North	£25,864	£28,908	£20,802
Northern Ireland	£33,222	£39,197	£21,680
North West	£26,503	£28,909	£23,290
Scotland	£26,941	£29,628	£22,847
South East	£25,731	£29,106	£20,794
South West	£25,970	£28,990	£20,770
Wales	£30,367	£33,370	£17,577
Yorkshire and Humberside	£26,053	£28,944	£20,273

Regional variations in the value of a parent

Get in contact to find out how you can protect your unpaid contribution to your family.

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