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Financial Viewpoint

Your latest newsletter from Carl Summers Financial Services

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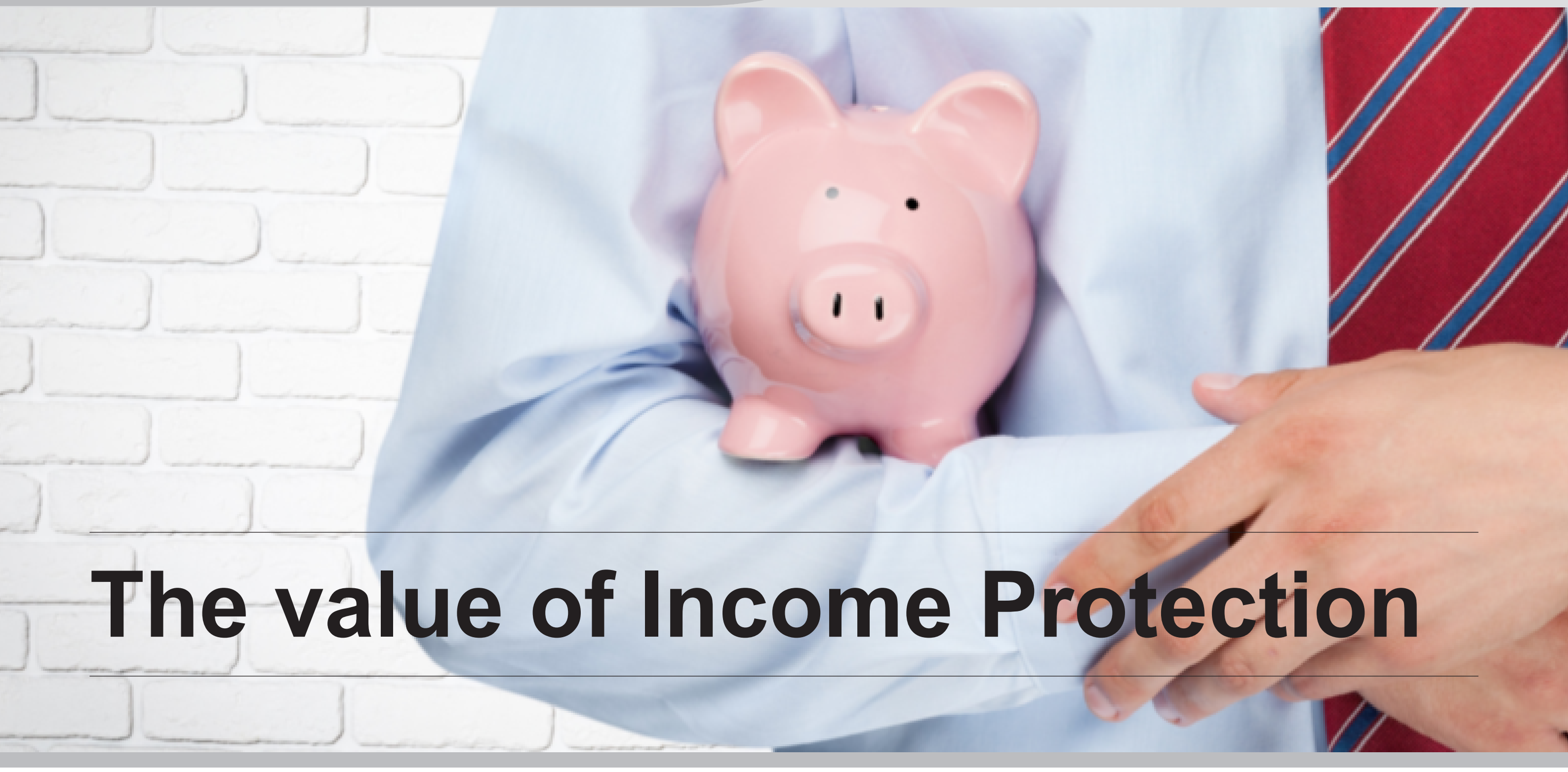
FINANCIAL SERVICES



The value of Income Protection

We work hard to provide for ourselves and our families and enjoy spending our monthly earnings on holidays and leisure – as well as the more mundane (but essential) things like bills and mortgage payments of course. So you'd think we'd place huge importance on protecting an asset as valuable as our income.

According to research from Zurich, however, this is sadly not the case. In fact, only 20% of the people surveyed had protected themselves against a loss of earnings in the event of illness or disability.

Risk versus reality

Perhaps more surprisingly, 43% said the chances of them becoming ill or disabled and unable to work were extremely unlikely – even though a similar number (42%) had already experienced a loss of income for this very reason.

This apparent discrepancy between perception and reality is particularly worrying as a third of people believe they don't have enough savings to cover expenses for more than one month.

Protect your greatest asset

Income Protection pays out a regular replacement income if you are unable to work due to an accident or illness or, with certain policies, unemployment. For a monthly premium that can be adjusted to suit your budget, this valuable insurance could keep the roof over your head while you are unable to work.

Even if you have Income Protection insurance already in place, it's still worthwhile reviewing your current cover levels. Personal circumstances can change regularly so it's important to ensure your level of cover remains appropriate.

Most of us don't think twice when it comes to protecting our vehicles or treasured possessions, and yet it's our income that enables us to enjoy these luxuries.

Talk to us today about Income Protection insurance to make sure your income is properly protected in the event you're unable to work.

OW0236 Exp. 27/03/17

Are you considering remortgaging?

With continuing low interest rates, you may be considering remortgaging to save money.

Even if your mortgage provider has recently reduced its Standard Variable Rate (SVR), moving to a new mortgage deal could save you money. But before you're tempted by an attractive introductory rate, it's worth considering the bigger picture.

Should I stay or should I go?

It's true that moving to a new deal could save you money, just remember to check that you won't incur an Early Repayment Charge (ERC) if you change your mortgage before the end of your current deal. It's also worth factoring in any potential legal, valuation and administration costs that may be associated with signing up to a new mortgage deal.

Tougher lending rules

Mortgage regulation may also have changed since you took out your current deal. The EU Mortgage Credit Directive of 2015 introduced stricter lending criteria which has led to mortgage lenders having to take greater steps to check affordability – including on remortgages.

You can expect to be asked to show evidence of your income, such as payslips and bank statements, and your outgoings, including other debt repayments, household bills and living costs such as 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 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 the loan on which you pay interest.

Are you still covered?

If you're thinking of changing your mortgage, remember to review your protection arrangements at the same time – especially if you don't already have cover in place, or your circumstances have changed since you last reviewed your cover.

The value of personal, family, or income protection should not be underestimated if it means keeping the roof over your heads when you need it most.

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 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

OW0226 Exp. 27/03/17

Pension freedom – the headlines

Today's pension savers can enjoy far greater freedom over how they access their pension savings, but it could lead to some making wrong decisions and paying unnecessary tax.

That's why it's important to understand what the changes mean to you and take professional financial advice so that you can make the right decisions with your pension.

Power to the people

Since April 2015, people over the age of 55 have had greater power over how they take their retirement savings and more choice in terms of the options available. It's now possible to:

- take your pension fund as cash in one go
- take smaller lump sums as and when needed, leaving the rest invested
- take a regular income

The latter could be via income drawdown, where you draw directly from the pension fund which remains invested, or via an annuity, where you receive a secure income for life. However, any withdrawals in excess of the tax-free amount will be taxed as income at your marginal rate.

So, if you are a basic-rate (20%) taxpayer, any income you draw from your pension will be added to any other income you receive, which could push you into the higher (40%) or even top-rate (45%) income tax bracket.

Choosing to take your pension out in stages, rather than in one go, could help you manage your tax liability.

Combining smaller pots

If you have multiple pension pots you may want to think about transferring them so that they are all in one place. This would make your pension savings easier to manage and you may benefit from more investment choice than the current provider offers. However, there could also be disadvantages like exit penalties or a loss of benefits.

If you're thinking of transferring an old pension plan please talk to us first so that we can help you make a fully informed decision.

Think about the long term

Although it might be tempting to take your whole pension pot at age 55, remember that the money has to last as long as you do.

Calculating the right level of income to last you through retirement could be tricky; you don't want to use up your money too quickly, or live more frugally than you actually need to. So how long do you think your retirement income needs to last?

According to Just Retirement's longevity calculator, a 60 year old man of average health has a 50% chance of living to the age of 90, compared to a 60 year old woman with a 50% chance of living to 93.

Pension death benefits

Another important change (that perhaps hasn't been as well publicised) relates to pension death benefits. Before April 2015 you could only pass on your pension savings to one of your dependants and keep them invested within the tax-efficient pension wrapper.

Under the new rules, you can now pass on the wealth built up through your pension savings to anyone you choose, with the funds still remaining within their tax-efficient pension wrapper until they are needed. The rules around how this works in practice can be complex, but in principle it means your beneficiaries will receive more of the wealth you've created because it won't be eroded by taxation.

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

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

If you're looking to access your pension, or you'd like to understand what death benefits are available from your current provider, please get in touch.

OW0281 Exp. 31/03/17

Buy to Let tax revamp

Tax changes in the Buy to Let market announced in the 2015 Budget will impact on a landlord's tax bill and potentially hit profits.

- From April 2016 Stamp Duty Land Tax for Buy to Let property purchase increased by 3%.
- From April 2017 landlords will only be able to claim relief back on their mortgage finance costs at the basic rate of 20%, although the withdrawal of the higher rate reliefs will be phased in over four years.
- The 10% 'wear and tear' tax relief was replaced in April 2016. Landlords can now only claim tax relief when they replace furnishings.

Tax relief to be slashed over four years

While the extra 3% stamp duty on Buy to Let properties wouldn't have gone down well with landlords, perhaps the biggest change affecting people with property portfolios relates to the relief restriction on loan interest.

At the moment, landlords can deduct mortgage interest from their profits, which can significantly reduce their tax bill. From April 2017, however, this tax relief will reduce, until April 2021 when it will be restricted to the basic rate of income tax (currently 20%). This means those on higher incomes will find themselves losing much more in mortgage interest payments.

According to the estimates from Nationwide building society, an investor with a £150,000 Buy to Let mortgage on a property worth £200,000 attracting a monthly rental income of £800, is likely to see his or her net annual profit drop from £2,160 a year to just £960.

The changes in income tax relief are being phased in from 2017 to 2021, which allows a period of time to adjust to the impact. That said, it will make a fundamental difference in the economics of property investment; rather than lock into a five year fixed rate today, landlords may be tempted by shorter-term fixed rate deals to get lower rates of interest.

A level playing field

While the major players in the Buy to Let market will see their profits shrink, it might mean less competition for landlords on a lower income, or those new to the market.

If you're considering a first time Buy to Let purchase it's important to plan carefully. Make sure you:

- know what you want from your investment and plan thoroughly
- research the market, the area and the property before you buy
- identify the type of tenant you'd want living in your property
- ask us about the right Buy to Let mortgage deal for your circumstances

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

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're a Buy to Let landlord or you'd like help investing in your first Buy to Let property please get in touch.

OW0224 Exp. 31/03/17

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

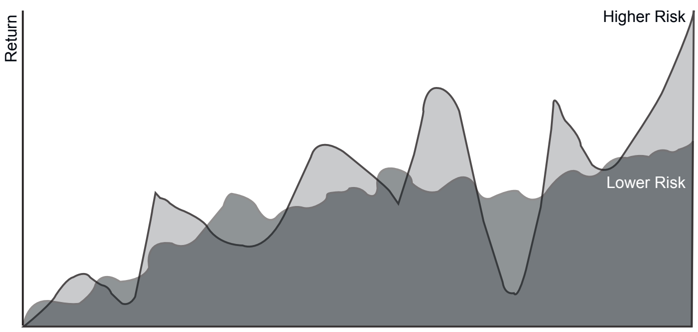
Risk vs reward

While homeowners can still benefit from low mortgage rates, savers will be struggling to enjoy any kind of growth on money they have on deposit, leading some to consider a riskier investment.

If you're considering investing in the stock market, one crucial and very personal issue is how you feel about the prospect of putting money at risk and your ability to accommodate any loss in value.

What's your appetite for risk?

It's a fact that risk and the potential for reward go hand in hand: Investments that are low in risk are low in potential reward, whereas the more risk you're willing to take with your money the greater the potential for reward.



Purely for illustration purposes

Factors in determining risk

As investment advisers, we will consider a range of factors when assessing your attitude to investment risk:

- *Age* – how old you are may affect how you would like to invest, particularly the closer you get to retirement.
- *The need for emergency cash* – you should always keep a certain amount readily accessible (for example, in a deposit account) in the event of an emergency or as a foundation for your longer-term savings and investment.
- *Can you afford to take a risk?* – if your investments dropped in the short term, do you have the time to wait for them to recover?
- *Can you afford not to take a risk?* – leaving all your money on deposit may carry minimal risk, but you may miss out on higher potential returns and possibly see the spending power of that money fall due to inflation.
- *Are there tax-efficient opportunities available* – such as pensions or ISAs?

Devising an appropriate investment strategy

Once you are clear about the risk you need to take to reach your goals you'll need an investment strategy that is finely calibrated to deliver the results you're looking for.

This is where a number of other key aspects of investment come into play:

1. Avoiding the 'eggs-in-basket' principle. We can make sure your portfolio is invested across a range of assets in order that the positive performance of some, neutralises the negative performance of others.
2. Making sure your money is in the hands of some of the best and most consistent investment managers in the business.
3. Making sure you can give your investments time – the longer you can leave your investments in place, the more likely you are to cope with any short-term changes in market value.

Talk to us

As members of Openwork, one of the UK's largest networks of financial advice businesses, we follow a clear and thorough process designed to clarify exactly what you need from your investments. We also have access to a meticulously researched and managed range of investments specifically designed to meet clients' different needs.

Taken together, you will know not only that your money is in good hands, but also, that given time, there is an increased level of probability that it will perform in line with your expectations.

Need advice?

Good investment advice involves building a clear picture of the results you're looking for, taking into account your current financial position, your future goals and your personal attitude towards the subject of investment risk.

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

Talk to us for expert advice.

OW0234 Exp. 27/09/17

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Is your home winter-proof?

With the year coming to an end and winter just around the corner we can start to expect colder, wetter, stormier weather conditions instead of the brighter, warmer days of summer.

This makes it a good time of year to assess how well protected your home and possessions are against the potential damage winter may cause. Take action now and ensure you have the relevant home insurance, check your property over and make a plan to protect it against bad weather.

The following preventative measures can go a long way towards avoiding the misery and inconvenience that damage to your home can bring:

- To protect your pipes and water tank
  – Check the lagging, including in the loft
  – Leave your central heating running at a constant temperature (the coldest time is between 1am and 3am). If possible, leave it running in all rooms.
- Use draft excluders and seal around window and door frames to block out cold air and keep hot air in, helping to maintain the temperature through the coldest periods.
- Tie down or safely store any outdoor furniture to avoid damage from high winds. You can also check roof tiles and any dead or broken branches on nearby trees which could cause damage.

Check your current insurance

Dig out those certificates of cover and policy documents and check your cover levels. You should review your cover at least once a year, to check it still meets your needs.

We can help you understand what you're covered for – and what you aren't. While buying home insurance may feel like an expensive chore, it's critical to ensure it meets your needs and expectations. If you don't fully understand your policy exclusions (such as accidental damage), you may find that you are not fully covered.

If you'd like to review your existing buildings and contents insurance, please get in touch.

OW0230 Exp. 31/12/16

The search for a reliable retirement income

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

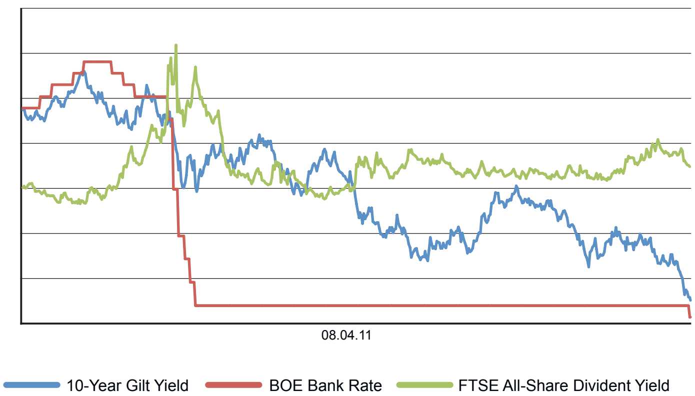
In principle, this historic change to UK pension legislation opened up a range of investment opportunities. With increased control of their pension, investors can seek to position their portfolios to deliver the income required, while retaining – and perhaps even growing – their invested capital.

Generating income in a low interest-rate environment

While these pension changes offer many opportunities, generating investment income remains difficult – particularly in view of the historically low interest rates.

As the chart below shows, the Bank of England's target interest rate had been stuck at 0.5% for more than seven years, and it was cut to 0.25% in August 2016 and held in September 2016. 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 2008 financial crisis, to less than 2% now.

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



Source: Bloomberg Finance L.P

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.

OW0235 Exp. 31/03/17

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Home truths

The LV= Home Truths Report has revealed that homemakers are happier than people working in any other occupation, despite working longer hours than most people think.

Flexible hours, being able to spend time with the children and relatively low stress levels all contribute to homemakers generally feeling happier than those in full time jobs, even though they work, on average, 66 hours in a five day week.

It all adds up

As well as being crucial to the home and family, the role of the homemaker also contributes to the economy. In fact, the Office for National Statistics suggests an equivalent salary for a homemaker would be £38,162 a year, covering tasks like childcare, cooking, cleaning, transportation, shopping and doing the laundry.

Perhaps we underestimate the value of a homemaker though, as only 7% have taken out Income Protection insurance that would replace some, or all, of the £733 a week needed to pay for alternative cover.

Deadline to the breadline

To make things worse, families would only be able to manage to pay for help for just 18 days, on average, before they ran out of savings or had to borrow money – even though their first priority would be making sure their children are looked after.

It goes to show that there's often a gap between our aspirations for our children and the steps we will take to ensure they can be realised.

While none of us want to think that an accident or illness will happen to us, life's nasty surprises can (and do) happen to anyone and at any time.

If you have children, or a partner who rely on you or your income, it's important to review your personal protection plans and make sure you have sufficient cover in place. We can help. Talk to us and we'll make sure you have the right cover for your circumstances.

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