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INSIDE THIS ISSUE

WHAT RATE DO YOU PAY ON YOUR MORTGAGE?

If you don't know, you are certainly not alone. We all lead busy lives and sometimes reviewing our financial arrangements can come a long way down our ever-growing list of priorities.

According to recent research[1], there's a widespread lack of knowledge amongst homeowners as to what interest rate they are currently paying on their mortgage. With over 7.6m mortgages in issue in Britain, it's estimated that around one third of mortgage holders are unaware of the rate they are currently being charged.

Worryingly, the research estimates that as many as 1.4m mortgage holders don't know if their mortgage is a fixed or variable rate product.

Improving your deal

With mortgages being a huge commitment for many families, it can really pay to ask your financial adviser to review your mortgage deal on a regular basis. If it's been a few years since you took yours out, with interest rates having fallen, the chances are that there could be a better, more cost-effective deal available in the marketplace that could save you money and be better suited to your current financial situation.

[1] YouGov, 2016

MORE UNLOCKING HOUSING WEALTH THAN EVER BEFORE

The Brexit vote has created a climate of economic uncertainty that will take some time to dispel, especially as it's widely acknowledged that the UK's exit from the EU could take at least a couple of years to achieve.

With interest rate reductions hitting retirees particularly hard, and stock markets being more volatile than many investors are used to, it's no surprise that more home-owners than ever before are actively thinking about releasing the equity tied up in their homes to bridge the financial gap.

Operators in this market are reporting a rise in people taking cash from the value of their home in order to help members of their family get a home of their own. It's been estimated that equity release helps 32 people onto the housing ladder every week.

A RISING TREND?

Homeowners over 55 withdrew a record £8.2m of housing wealth every working day from April to June, as quarterly equity release lending surged past £0.5bn for the first time since records began, according to the latest data from the Equity Release Council[1]. The market could be set to increase according to companies working in this field; they estimate that over-55s have £381bn in housing wealth that could be released.

NEW PLAYERS IN THE MARKET

Market developments include new providers and an increase in the range of products and features on offer. The market received further support earlier this year when the Financial Conduct Authority introduced a welcome change in the rules regarding mortgage affordability and lifetime mortgages (the product most often used to withdraw the equity), making loans more accessible.

MAKING THE RIGHT PLANS FOR RETIREMENT

What is becoming clear is that housing wealth is now a major feature in retirement planning. Experts rightly caution against viewing your home as a pension substitute, care home fund, and deposit for a child's property purchase, all rolled into one. This would be a dangerous strategy; house prices are by no means guaranteed to keep on rising and could fall.

Equity release isn't the right solution for everyone and should never be entered into without the benefit of professional advice. However, for those who later in life find themselves living on small incomes but in big properties, equity release can be a financial lifeline that enables them to free up cash whilst remaining in their own homes for as long as possible.

Equity release may require a lifetime mortgage or home reversion plan. To understand the features and risks, ask for a personalised illustration.

Think carefully before securing other debts against your home.

[1] Equity Release Council, July 2016

CONTENTS INSURANCE – THINGS WORTH KNOWING

Home insurance for buildings and contents protects millions of families each year from unexpected and unwelcome events, like burglary, fire and flood. With the average value of contents in a three-bedroom family home estimated at £55,000, it's important to be fully insured at all times.

IT PAYS TO UPDATE YOUR POLICY REGULARLY

Ensuring you have enough insurance is almost as important as having insurance in the first place. Once you've bought a policy, it's vital to update it regularly to ensure that you have the right level of cover.

If you've acquired new possessions, you need to make sure they're properly insured. Some home contents insurance policies cover high-value items as standard and will insure any single item up to a specified figure – this can be typically £1,000.

If you don't declare a valuable worth more than the limit, it wouldn't be covered at all. You need to check your policy schedule to see what's included and what the limit is. If you have items that exceed the stipulated amount, then you need additional cover; your adviser or broker will be able to assist you with this.

PRICE ISN'T EVERYTHING

When it comes to buying buildings and contents insurance cover, the range of policies on offer in the market can seem bewildering. As your adviser or broker will tell you, the key is to focus on features, not just price, when comparing products to ensure you buy an appropriate product for your particular circumstances. It's often worthwhile paying a few extra pounds to get a policy with more comprehensive cover.

GOOD HOME SECURITY CAN SAVE YOU MONEY

Many insurers will ask about security measures before giving you a quote. Homes with a good level of security will generally be offered lower premiums.

If you've updated your home security, you may qualify for a reduction in your premiums. Many insurers offer discounts to policyholders who fit window locks, fire detectors and alarm systems that reach their required standards.

RETIRING ABROAD – WHAT YOU NEED TO KNOW

Those looking to retire abroad may find their retirement plans hampered by the UK's exit from the EU. Depending on the terms that the government negotiate under Brexit, it is conceivable that UK citizens may lose the right to live or work in the EU without obtaining a visa.

Under the current rules, free movement of people means that immigrants from the EU can live and work in the UK, and that UK citizens can retire to places such as Spain. Free movement of people will be a major negotiating point in any deal agreed with Brussels.

Pensioners represent the biggest group of British expats living in the EU and their state pension income will be affected by the steep fall in the value of the pound that occurred shortly after the result of the vote was announced.

CURRENT RULES

At present, anyone who retires within the European Economic Area – this includes members of the EU plus Iceland, Norway, Liechtenstein and Switzerland – has their state pension increased every year under what is called the 'triple-lock' system. This ensures that state pensions rise by the higher of earnings, inflation or 2.5%.

However, there is some speculation that this system could be set to change, although many people feel that the government will, at least for the time being, honour its former high-profile pledge to pensioners to keep this in place.

If annual state pension increases were to remain for UK nationals in the EU, the government would have to negotiate reciprocal agreements with EU countries, if not retirees could see the amount of state pension they receive frozen as is the case for those currently retiring to Canada, Japan, Australia or New Zealand, and other Commonwealth countries.

More than half of the one million pensioners living abroad don't receive annual increases in their state pension, meaning for example that an expat who retired in 2000 would still be receiving £67.50, the rate paid at the time.

TIPS FOR CHOOSING YOUR FIRST HOME

Buying your first home can be an exciting experience; it can also be very nerve-racking. With prices high and properties thin on the ground in some areas, first-time buyers won't always have a lot of choice in their price range. All this means that it's worthwhile having a search strategy and a realistic budget in mind to help you find a suitable property.

GET TO KNOW THE AREA

There are plenty of sites showcasing homes for sale on the internet. Setting up property alerts is a good way to make sure you get to know about new ones as they come onto the market. It's also worth registering your interest with local estate agents and checking out the property pages in the local papers.

It pays to get to know the neighbourhood you want to live in really well. Walking around the area and getting a feel for the type of property in your price bracket will help narrow down your search. That way, when a property comes onto the market you'll have a better idea as to whether it's in a street you'd be happy to live in. and whether it's worth a viewing.

Don't just rely on what you see on screen. The images can be misleading and you might find yourself dismissing somewhere that has real potential simply because of badly-taken photographs.

BE REALISTIC

The chances are that your first property won't be your dream home. It's worth thinking about buying somewhere that needs some modernising and upgrading. Many experts recommend buying a run-down property in a good area and bringing it up to the level of neighbouring properties as a good way of increasing its value.

Wherever you choose, it's important to think about things like transport links and local amenities such as shops, schools and eating places; these can make a big difference in your property's attractiveness to future buyers when the time comes for you to sell and move up the housing ladder.

WHY FAMILIES NEED PROTECTION IN LATER LIFE

Whilst it's vital for growing families to think about having the security of life insurance, in many instances it's equally important for older people to have the right protection plans in place.
More people over 50 are still paying off their mortgage, with some set to do so well into their retirement years, making life insurance an important lifeline for this age group too.

THE NEEDS OF OLDER FAMILIES

If you've turned 50, it won't necessarily follow that your family is no longer reliant on your income to cover the cost of mortgage repayments. With many people divorcing and remarrying later in life, mortgages are being taken out at a much older age, with some lenders now offering mortgages with an upper age limit for repayment of up to 85.

Mortgage repayments can represent a substantial amount of monthly income, and ensuring that there's a protection policy in place to cover the cost of these (or to pay off the mortgage altogether) and other household bills, should the worst happen, makes good financial sense. Even if it is has been some time since you took out your mortgage, it could still represent a real financial struggle if your husband or wife were forced to keep making repayments on their own.

OTHER WAYS LIFE INSURANCE CAN HELP

If you are the main breadwinner, your other half may be relying on your pension contributions to provide an income to help pay for their retirement, then it makes sense to have life cover in place to bridge the financial gap in the event of your death.

With so many parents looking to make financial provision for their children, life insurance can help provide a lump sum that can be passed on to them. Life insurance policies written under trust don't form part of an estate when it comes to calculating inheritance tax. They have another benefit too, life policy proceeds can be paid out before probate is granted and therefore provide an effective means of getting money quickly into the hands of beneficiaries.

A mortgage is a loan secured against your property. Your property may be repossessed if you do not keep up the repayments on your mortgage or any other debt secured on it.

BUY-TO-LET: WHY SOME LANDLORDS ARE SETTING UP COMPANIES

For those thinking about investing in a buy-to-let property, setting up a company could in certain circumstances be an effective way of limiting the tax bill.

Buy-to-let landlords have already been hit by the additional 3% rate of Stamp Duty Land Tax (SDLT) on purchases that came into effect in April. The early months of this year saw landlords rushing to buy properties before the SDLT increase took effect.

Landlords are also liable to Capital Gains Tax if they make a gain greater than the current £11,100 allowance. This will mean paying tax at a rate of either 18% or 28%, depending on whether they are a basic or higher rate tax payer. The lower CGT rates of 10% and 20% announced in the March 2016 Budget do not apply to landlords and buy-to-let properties.

CHANGES FROM APRIL 2017

There are more changes in the pipeline. Landlords who had been able to claim tax relief worth 40% or 45% will find their relief restricted to 20% once the changes are fully implemented.

Currently, those with buy-to-let mortgages can deduct all finance costs (such as mortgage interest, interest on loans taken out to furnish the property, and fees) in arriving at their rental income. From April 2017 this will no longer apply. They will instead receive a basic rate reduction from their income tax liability for their finance costs. In addition, from April 2017, the 10% wear-and-tear allowance will go, landlords will from then on only be able to deduct actual costs incurred.

SETTING UP A COMPANY

Against this background, many landlords are considering whether setting up a company would be advantageous. The main benefit of holding properties within a company is that profits are taxed at 20%. Limited companies aren't yet affected by the restriction on mortgage interest relief that will take effect next April. Interest is fully deductible against tax.

In the 2015 Autumn Statement, George Osborne announced buy-to-let investors with 15 or more properties in a limited company structure would not be subject to a 3% increase in SDLT. However his spring 2016 Budget confirmed investors buying residential property inside a limited company tax wrapper will pay the 3% SDLT surcharge, closing the loophole that buy-to-let property companies were hoping to avoid.

Companies don't benefit from the annual allowance for capital gains tax (£11,100 in 2016-17). So it could be more advantageous to hold the property as an individual. In addition, it isn't easy to transfer personally-held properties into a company. Any transfer would usually be considered a disposal for capital gains tax purposes. Landlords might be better off considering retaining existing properties personally, and buying future ones via a company.

FACTORS TO CONSIDER

Running a company does present some advantages, but it also comes with inherent costs, responsibilities and requirements, including the need to file annual returns and accounts.

In general terms, it might be worth setting up a company structure if you are a landlord who owns a portfolio of properties, but might not be worth the trouble for landlords who only own one or two properties.

Everybody's financial situation is different, and it's essential to take professional advice.

A mortgage is a loan secured against your property. Your property may be repossessed if you do not keep up the repayments on your mortgage or any other debt secured on it.

PROPERTY FUND SUSPENSIONS – A SIGN OF THE TIMES?

The UK's decision to leave the EU caused ripples around the economy, including the UK residential and commercial property markets. With real estate expected to be hit by the aftermath of Brexit, investors started withdrawing their money from property funds in large numbers.

In response to the high level of outflows in what were extraordinary market conditions, several fund managers suspended dealings in their UK property funds. This is expected to be a short term measure of a few months whilst markets digest the economic prospects of the UK post Brexit, though the first reversal of a suspension came as early as mid-July.

The Financial Conduct Authority (FCA) has since released guidance for fund managers on how to deal with higher than normal redemption requests on their property portfolios. It made it clear that when a fund has to dispose of assets it must do so in a way that doesn't disadvantage remaining investors or new investors.

Experts were quick to point out that this wasn't the start of a rerun of the 2008 crash. It's widely acknowledged that the UK economy is set to see a period of uncertainty, but property remains a valuable asset for the long term.