moneyworks

The essential consumer guide to making your money work harder.

Autumn 2018

Organising your legacy

With inheritance tax receipts on the rise, and HMRC expecting to raise more, can you ease the potential burden on your family?

The value of financial advice

Making long-term financial decisions on your own isn't easy, which is why a financial adviser can make a big difference.

What does the future hold for stock markets?

The first half of 2018 has proven a bumpy ride for investors.

Is the era of cheap mortgages about to end?

With interest rates on the brink of rising, more borrowers are turning to long-term fixed rate deals for their mortgages.

Heaton Financial
Independent Financial Advisers Ltd

Welcome

A very warm welcome to your autumn issue of **moneyworks** and as the nation basks in some glorious weather, we bring you an update on the hot financial news stories and what impact they could be having on you and your savings.

With so many new legislations and implications now in place, the importance of taking care of your finances has never been greater and a new report has revealed those who seek advice are on average £40,000 better off than those who don't.

Yet despite these huge savings, only one in 20 people have received regulated financial advice in the past 12 months. With that in mind, we ask whether now is the time to get your house in order and benefit from the financial freedom this may bring.

We also reflect on how the era of cheap borrowing could be coming to an end for mortgages and what this could mean to you. If your current mortgage is drawing to an end, we look at the options available to you and how acting now could minimise your future monthly payments.

Elsewhere we reflect upon the complexities of Inheritance Tax and how organising your legacy now could save your loved ones huge financial costs when you are no longer here.

Finally, we take a look at stock market trends, what the future potentially holds for your stocks and shares and the importance of keeping an eye on their performance and your objectives both in the short and long-term.

We hope the contents of this newsletter are helpful and informative and we welcome your feedback or any feature suggestions you may have for future issues.

Here's wishing you a very enjoyable summer and we look forward to bringing you more financial news and views over the coming months.

Best wishes

The **moneyworks** team

Terms and conditions

Moneyworks is a publication from Bankhall Support Services Limited. Bankhall is a trading style of Bankhall Support Services Limited a company registered in England and Wales with number 2785381 which is authorised and regulated by the Financial Conduct Authority under number 164877. Registered office: Pixham End, Dorking, Surrey RH4 1QA.
VAT number: 105437300.

Bankhall® is a registered trademark of Sesame Bankhall Group Limited (a company registered in England and Wales with number 3573352. Registered office: as above).

Moneyworks is written and produced by Beyond Magazines and the APS Group.

Contents

The News in Brief

A round up of the current financial stories.

Keeping it in the family

Nearly a third of people planning to retire in 2018 are spending an average of £4,300 a year on the financial burdens of other family generations.

The April 2018 research by Prudential found that, on average, they are providing financial support to three people. This includes children (56% of people surveyed), grandchildren (25%) and even parents.

The most regular spend is on food and travel, but many are also contributing towards university fees or to help others buy homes.

Women are slightly more generous than men; providing an average of £374 a month to family members, compared to men who hand over £349 every month.

(Source: https://www.pru.co.uk/press-centre/2018-pensioners-bankrolling-generations/)

Career moves drive the housing market

The most common reason to move home is due to work, according to a June 2018 survey by AA Mortgages.

Nearly a quarter of all house moves (23%) are related to a change of job – in fact, people are seven times more likely to move house for career reasons compared to seeking to make money out of the property market.

The second most popular reason for moving was a need to live in a cheaper area (12%). Preparing to start a family or expecting a new baby was another motive for moving (11%). Others said they were looking to downsize in order to release some equity in their home (7%).

(Sources: https://www.mortgageintroducer.com/brits-seven-times-likely-move-house-changing-job/#.Wy0ZxVW2ncs)

Mind the state pension gender gap

The UK state pension can be a valuable source of income during your retirement – especially for men.

April 2018 research by Which? found that – over the course of a typical 20-year retirement – men receive an average of £29,000 more state pension than women. In August 2017, the average weekly amount women received was 81.9% of the amount received by men. This is a slight improvement on recent years, although still a considerable gap.

Of the 12.9 million people currently receiving state pension, the amount that 8.4 million receive is based solely on the National Insurance (NI) contributions. You currently need to have made 35 years' worth of NI contributions to qualify for the full state pension, but many women – who may have taken a career break to have children, for example – fall short of the full criteria.

(Source: https://www.which.co.uk/news/2018/04/revealed-the-state-pension-gender-pay-gap/)

The hefty cost of renting

It's an age-old debate: is it better to purchase your own home, or to cut out the hassles of property ownership and just rent? Is having a mortgage a huge burden, or is renting just throwing your money down the drain?

According to June 2018 figures by the housebuilder Strata, the financial difference – over a lifetime – is vast. If you rent for life, it will cost you £1.1 million more than purchasing your own home.

The research compared the cost of owning a UK home to average monthly rental payments, over a 60-year period. An average first time buyer will spend around £430,000, whilst lifetime renters will reach a total of £1.6 million – 280% higher.

(Source: https://www.yorkshireeveningpost.co.uk/property/property-news/renters-spend-1-million-lifetime-homeowners/)

Organising your legacy

With inheritance tax receipts on the rise, and HMRC expecting to raise more, can you ease the potential burden on your family?

Understandably, it can be very upsetting to think about how your loved ones will react when you are no longer here. But by considering the financial complexities that may arise, you could put meaningful plans in place that reduce some of the burden.

Dealing with a deceased's affairs can be complex and potentially very expensive. The executor of your estate – usually a family member – will have to apply for special legal authority (probate). Amongst the range of responsibilities, they'll have to find all your financial documentations, send death certificates to organisations who hold your money, pay off any debts you have, follow the instructions of any will in place, and work out whether your estate has an inheritance tax liability.

The last point is especially important. If the value of all your possessions is above your individual threshold – £325,000 if you're single or divorced, or up to £650,000 if you're married or widowed – everything above it will be subject to inheritance tax, charged at 40%. The gradual roll out-of a residence nil rate band – worth £125,000 for the 2018/19 tax year – can help you leave a property you have lived in to a direct descendent. However, not everyone can benefit from this additional allowance.

Although these threshold amounts seem high, it might surprise you how much your estate is actually worth. Your estate includes everything you own – property, cars, jewellery, savings, investments and even antiques.

A growing issue

The amount of annual revenue the government has raised through inheritance tax has more than doubled since the 2009/10 tax year – with a record high of £5.2 billion collected in 2017/18 *. The Office for Budget Responsibility forecasts further significant increases in revenue over the next few years.

When you die, the executor of your estate will be tasked with providing accurate information on the value of your possessions, and they'll need to get it right. HMRC will carefully examine the calculations and has shown it's prepared to challenge valuations.**

Even with recent record inheritance tax intakes, HMRC has revealed there's a £600 million shortfall between what it collected and what it believes it's owed.

If your estate has an inheritance tax liability, in most cases your loved ones will have six months to find the money to pay it, or interest is charged on top. The estate usually can't be released until inheritance tax is paid. So it could cause a lot of headaches and frustrations for your family, if they have to deal with an inheritance tax bill.

What are your options?

With inheritance tax bills typically running to thousands of pounds, it makes sense to consider it as part of your planning. With the right plans in place, you could reduce or even eliminate a liability.

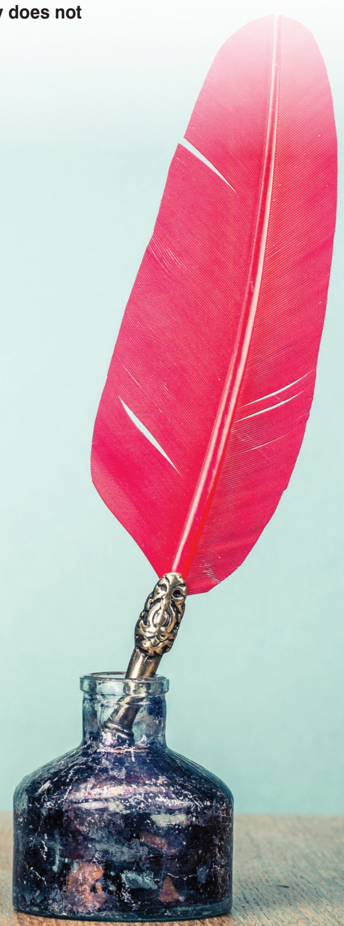
> *"Although these threshold a mounts seem high, it might surprise you how much your estate is actually worth."*

By speaking to a financial adviser, you can benefit from an expert helping you build the kind of legacy you want to leave behind, whilst minimising any burden on loved ones. This includes looking at whether inheritance tax is something you need to plan for.

* https://www.gov.uk/government/statistics/inheritance-tax-statistics-table-121-analysis-of-receipts

** https://www.independent.co.uk/money/spend-save/hmrc-inheritance-tax-bill-rise-23-per-cent-inland-revenue-treasury-a7860626.html

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The Financial Conduct Authority does not regulate taxation & trust advice.



The value of Financial Advice

Making long-term financial decisions on your own isn't easy, which is why a financial adviser can make a big difference.

Only four in 10 UK adults trust regulated financial advisers, according to the Financial Conduct Authority's (FCA) Financial Lives Survey, published in June 2018.* This is despite 42% of the near 13,000 people who took part in the study admitting they are dissatisfied with their financial circumstances.

Only one in 20 have received regulated financial advice in the last 12 months related to investments, saving into a pension or retirement planning. Another quarter state they might need financial advice.

Many of us face a whole range of long-term financial decisions; from planning for retirement, investing for the future, to choosing the right mortgage for our circumstances. Speaking to an expert adviser could help you to make more informed decisions. Yet 34% don't know where to start to look for an adviser.

> *"Even if you're financially savvy, an adviser can offer the extra knowledge and insight you may need."*

Are you confident to make your own decisions?

This lack of trust in financial advice comes despite the fact the FCA also found we have low levels of confidence in making our own major financial decisions.

Just 27% of UK adults feel they know enough about pensions to choose ones suitable for their circumstances, without consulting a financial adviser. 29% know enough about investments to make their own choices. Even with mortgages, only 39% know enough to decide a suitable product without an adviser.

Only 16% of us believe we are highly knowledgeable about financial matters. Making a poor financial decision could have significant ramifications. It could leave you worse off in the long-run, potentially prevent you from achieving your goals, or cause you to downgrade your lifestyle or expectations.

If you don't feel you know enough about the options in front of you, there could be a greater risk of getting it wrong.

Speaking to a professional

When it comes to servicing your car, you rely on a mechanic. If you're feeling unwell, you trust a doctor to provide a qualified opinion. And when it comes to your personal finances, it can also pay off to speak to a relevant professional.

An adviser can take the pressure and workload from you. They will take the time to understand your objectives and circumstances, to research and recommend suitable options for you to consider. They'll ask important questions you might not have considered. Their in-depth knowledge of the products could help you to make more informed decisions. Even if you're financially savvy, an adviser can offer the extra knowledge and insight you may need.

There is a fee to pay, which can be off-putting some people. But with the right advice, you could ultimately make better financial decisions that – in the long-run – more than offset the charges involved. July 2017 research by the International Longevity Centre shows that people who take financial advice are £40,000 better off on average compared to those who don't.**

Ultimately, a financial adviser can leave you feeling more confident about the future. And that you have the right plans in place towards achieving your long-term ambitions.

*https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf

** http://www.ilcuk.org.uk/index.php/publications/publication_details/the_value_of_financial_advice

The value of your investment can go down as well as up and you may not get back the full amount invested. Investments do not include the same security of capital which is afforded with a deposit account.

What does the future hold for stock markets?

The first half of 2018 has proven a bumpy ride for investors. But short-term dips should not detract from your long-term outlook.

It's been a good decade for stock markets. As the global economy has weathered the financial crisis of 2007-2009 and slowly recovered, markets largely enjoyed a positive ride and the likes of the UK FTSE 100 and US Dow Jones have posted record highs.

Yet the first half of 2018 has been a period of mixed fortunes. As the political landscape continues to shift, markets have experienced new challenges and there have been spells of volatility.

The story of the year so far

Global markets kicked off 2018 with a bang, witnessing their best start to the year in over three decades.** But then the news Americans had enjoyed the biggest jump in earnings since 2009 triggered volatility in February. With Donald Trump's tax cuts meaning it's likely companies will achieve stronger corporate results (because of paying less tax), these two factors increased the prospect of inflation and interest rates rising.

These fears were enough to trigger market falls, with the US S&P 500 Index dropping by just over 10% in the space of two weeks.*** Emerging markets and Europe were soon feeling the effects. Some stocks fared better than others during this period.

Although March saw a recovery, Trump signalled further uncertainty by announcing tariffs on steel imports, and imposing trade sanctions on China, who responded in kind. The June G7 summit of world leaders featured more disagreements over tariffs, with trade wars likely to escalate further over the second half of 2018 and beyond.

For markets, the challenges of trade wars is that certain companies and industries are likely to be more impacted than others, over tariffs to export their goods and services. Historically, markets and currencies have reacted badly to trade tariffs.

Closer to home, the two-year negotiations with the EU over Brexit are due to be concluded at the end of 2018, with parliament having a meaningful say on the final deal that is agreed. There is still a lot to be debated, and it is likely to weigh more on markets over the next few months.

With interest rate rises in the US gathering pace, and a growing likelihood the UK will follow suit, there is a lot of uncertainty to occupy markets – and this may play out into further volatility.

Planning for the long-term

Markets will always rise and fall, so a period of downturns shouldn't necessarily be reason to be concerned. Ultimately, it's important to keep in focus the long-term picture of your reasons for investing, and if you're on track to achieve your objectives.

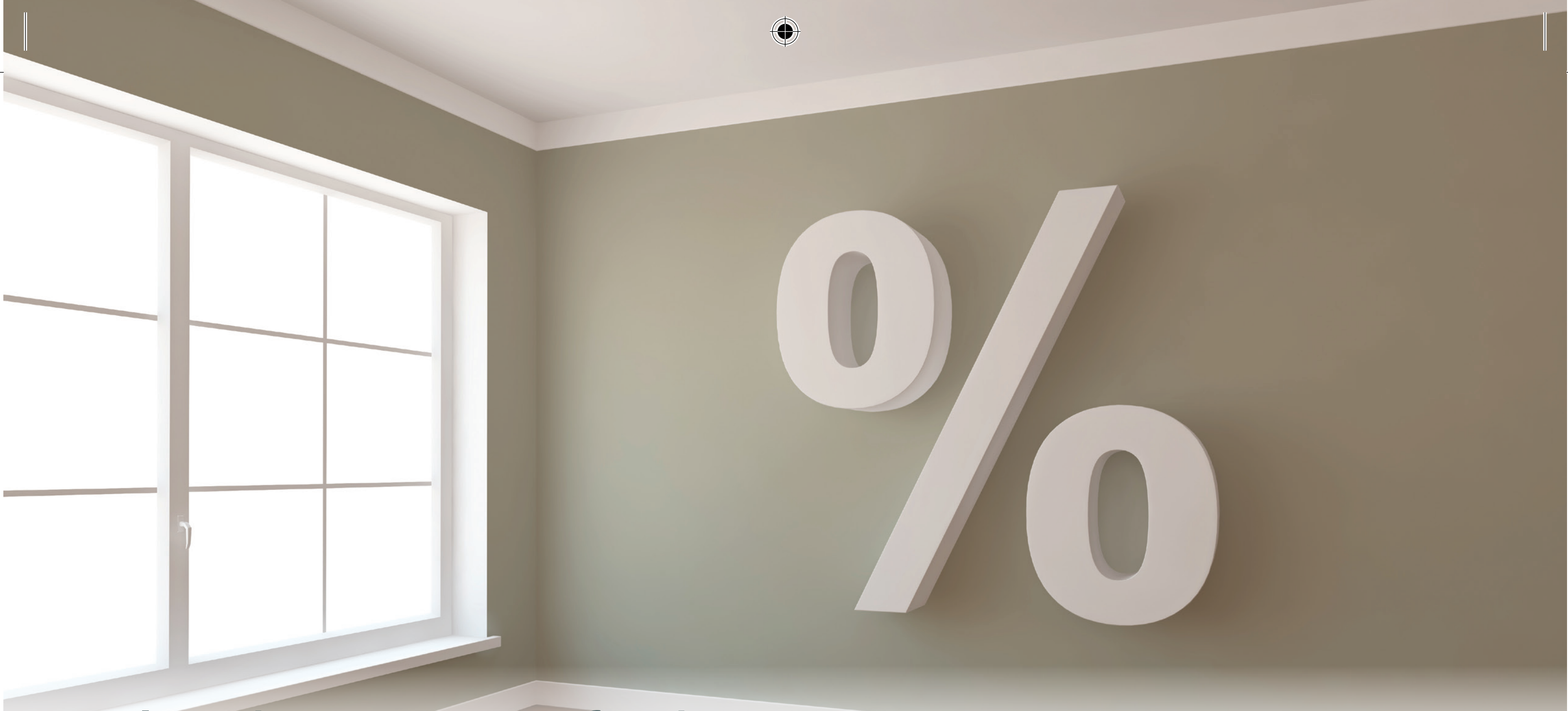
If you've not reviewed your investments for a number of years, this could be an opportune moment to do so. What was once the best place to invest won't always remain the case, especially with the changing market backdrop. Sitting down with a financial adviser to review the performance of your investments, and how they measure up to your goals, could allow you to re-evaluate your plans.

* https://www.theguardian.com/business/2018/jan/04/dow-and-ftse-hit-record-highs-as-global-stock-market-surges-continue

** https://www.cnbc.com/2018/01/24/stock-market-off-to-best-start-in-31-years-bodes-well-for-2018.html

*** https://www.cnbc.com/2018/02/08/us-stock-futures-dow-data-earnings-fed-speeches-market-sell-off-and-politics-on-the-agenda.html

The value of your investment can go down as well as up and you may not get back the full amount invested. Investments do not include the same security of capital which is afforded with a deposit account.



Is the era of cheap mortgages about to end?

With interest rates on the brink of rising, more borrowers are turning to long-term fixed rate deals for their mortgages.

What comes down is about to go back up. The Bank of England has been increasingly signalling that base rate is finally about to climb above the historic low levels of 0.5% and under, which have been in place for almost a decade. Interest rates could rise as soon as August, or almost certainly by the end of 2018.*

For mortgage borrowers, this could mean an end to the era of cheap deals. In April 2018, the average bank and building society 2-year fixed rate mortgage (95% LTV) was 3.95%, according to Building Societies Association figures.** Back in November 2017, it was far higher, at 6.47% – a time when base rate was 5.75%.

Higher interest rates would mean more expensive mortgage deals. And whilst base rate is highly unlikely to return to 5%+ levels in the medium term, current rates seem unlikely to last.

What are your options?

If your fixed rate term is due to come to an end soon, or you're on a tracker or standard variable rate mortgage, the potential spectre of a higher monthly repayment will be unwelcome. But is there a way to take advantage of current rates?

A number of mortgage lenders have reacted to base rate uncertainty by significantly reducing the rates available on long-term fixed products – namely 5, 7 and 10-year deals. This has fuelled a rise in popularity of long term fixed rate mortgages. According to the LMS Re-mortgage Report, in April almost half of all of re-mortgages (47%) were into 5-year fixed products.***

There remains a possibility that long-term fixed rate mortgage rates may yet fall further. But the window of opportunity is relatively small.

Is a long-term fixed mortgage suitable for you?

With interest rates highly likely to rise, the idea of locking in at today's rates may seem tempting. Your mortgage will otherwise only become more expensive, and no one can forecast with accuracy just how much base rate might go up by over the next few years. A long-term fixed rate also offers the assurance of knowing exactly how much your monthly repayment will be, which can help your overall budget planning.

However, the downside is the risk your personal circumstances might change; namely how long you intend to live in your current home for. Most long-term fixed rate mortgages include early repayment charges – effectively a financial penalty if you were to cancel your mortgage deal. This could offset the amount you might save through a cheaper rate.

Another potential downside – albeit far more unlikely – is that base rate could yet fall even further than the current 0.5% level, over the duration of a long-term fixed rate deal. In this scenario, you would remain locked in a long-term deal when there might be better short-term rates available.

Ultimately, it's about making sure your current circumstances and long-term goals are considered. If you're concerned about the likelihood of mortgage rates rising and keen to minimise your monthly repayments, speaking to an expert adviser can help you devise an approach that's right for you.

*https://www.theguardian.com/uk-news/2018/jun/21/bank-of-england-moves-closer-to-august-interest-rate-rise

**https://www.bsa.org.uk/statistics/mortgages-housing

***https://www.mortgagefinancegazette.com/lending-news/rise-popularity-five-year-fixes-remortgaging-06-06-2018/

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

And finally....

Doing it for the kids

Bill Gates is not the only person who wants his kids to stand on their own two feet. The Microsoft founder has publicly revealed his intention for his children to navigate life without relying on handouts or an inheritance from the billionaire. And June 2018 research by Zopa has discovered 20% of parents also aren't saving for their children's future.

Of those who aren't setting money aside for their children, 55% stated it was due to a lack of spare money to do so. One in five reasoned they want their kids to independently make their way through life without financial assistance.

The study also found that 23% of non-parents aren't saving anything for their own future.

(Source: https://www.independent.co.uk/news/world/americas/bill-gates-microsoft-billionaire-fortune-seattle-washington-silicon-valley-technology-california-a8089626.html
https://moneyfacts.co.uk/news/savings/a-fifth-of-parents-not-saving-for-the-future/)

Heaton Financial Independent Financial Advisers Ltd

6 Waring Bowen Court
Mill Road
Exeter
EX2 6LY

Heaton Financial
Independent Financial Advisers Ltd

info@heatonfinancial.co.uk

01392 258 252