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YOUR WINDOW ON FINANCIAL ISSUES

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INSIDE THIS ISSUE

FAMILIES' FUTURES ALWAYS AT RISK

Arranging protection insurance to gain peace of mind from knowing that your family would have added financial support if tragedy should strike, makes such good sense. You can discuss your protection needs with an adviser, decide on the cover you require, have the premiums collected automatically and then get on with your life. Just make a note to review your cover periodically, or when circumstances change.

The Association of British Insurers (ABI) makes a good point on its website. A periodic review, say every three years, is a useful longstop and may suit some aspects of personal finance. Extra life insurance, however, is something that should not be delayed if a new financial commitment has been taken on or there has been a new addition to the family who would need providing for if anything happened to you.

The phrase 'if anything happened to you', of course alludes to the unlikely but possible event of premature death. It can also include being diagnosed with a critical illness, as this can also have a devastating effect upon family finances due to the loss of income that may result. So, life insurance does not do the whole job on its own, making it important to have suitable critical illness cover in place alongside it.

It can be distressing even to think about your children being left without their parents, perhaps due to an accident. Sadly, it does happen. Life protection insurance is complex, because comparing like with like is not so simple. In this competitive market it can pay to seek expert guidance before deciding on one policy in preference to another. Simply going for the cheapest cover doesn't guarantee best value for money if, unlike a professional intermediary, you are not equipped to weigh up the costs, benefits and conditions of one policy against those of another.

Data published by the ABI in December 2012 showed that amounts paid out in term life and critical illness insurance claims rose significantly the previous year. Claims totalling £2.1 billion were paid to some 45,000 families and individuals under such policies. The average amount paid out, the ABI data indicated, was about £46,000. This could be a useful sum, but it is vital to consider not only immediate financial commitments, such as the mortgage, that need to be covered upon death but also the ongoing impact of the loss of a breadwinner. All the day-to-day family expenses would still need to be met and perhaps university fees in the future. An expert adviser can help identify and quantify your protection needs.

KEY FACTS

Extra life insurance cover should not be delayed if a commitment is being taken on

A critical illness can have a devastating impact due to the loss of income that may result

Term life and critical illness claims of £2.1 billion were paid to 45,000 families in a year

VARIETY RETURNS TO MORTGAGE MARKET

People once had to save regularly with a building society for quite a while to get in the mortgage queue. Things changed late in the twentieth century and mortgages were sold more competitively, with high loan-to-value limits. Then came the Northern Rock collapse and the ensuing financial crisis. Mortgage availability shrank, as did maximum loan-to-value levels. The mortgage and re-mortgage markets are now recovering and a wide array of products may be accessed through specialist intermediaries.

Many mortgages include an element of capital repayment, alongside the interest due, in each monthly instalment. This means that, after the agreed term, nothing remains outstanding on the mortgage loan. In contrast to this, there is the interest-only mortgage. Just interest is paid monthly and the capital owed remains unchanged until the end of the term. This can present problems for anyone without a plan for repayment, as emerged in May, when the Financial Conduct Authority expressed concern about interest-only mortgage borrowers with no adequate plan for repayment.

> **“Each type has its pros and cons that are worth talking through with an adviser.”**

KEY FACTS

It is vital to have a lump sum repayment plan in place if taking an interest-only loan

If you want a first-time loan or aim to remortgage on the best terms, see an adviser

Maybe a tax-saving ISA mortgage or a pension mortgage could suit your needs best

Interest-only mortgages became popular some decades ago, usually linked to an insurance policy called an endowment; both interest and premiums enjoyed tax relief. The policy, sometimes linked to a decreasing term assurance, would pay off the mortgage if the borrower died prematurely and, with its added bonuses, would ideally be worth at least as much as the mortgage amount on maturity. Lower bonus rates on with-profits endowments pointed to large shortfalls and endowment mortgages fell from grace.

Clearly, it is vital to have a credible repayment plan in place if taking an interest-only mortgage. The Council of Mortgage Lenders says its members will be reasonable with borrowers unable to pay off their mortgages at the end of the term, but there remains the risk of repossession if agreement cannot be reached between lender and borrower. So, whether you have an interest-only or a capital repayment mortgage, make sure you have a plan. Perhaps an ISA mortgage or pension mortgage would suit your needs.

Your mortgage may be fixed rate, variable rate or some other variant such as a ‘tracker’. With a fixed rate, you know the monthly interest amount until the loan or the fix period ends. A variable rate involves occasional rate changes, according to what is happening to interest rates generally. Each type has its pros and cons that are worth talking through with an adviser, whether you are a first-time borrower or want to remortgage on potentially better terms. Help with associated insurance issues is also available.

ISAS IN SHORT TROUSERS

Bequeathing money in your Will, whether to children, grandchildren or a combination, is not the only way to assist younger generations. Obviously, you have to consider your own financial needs in old age but, if you have much more than you need, it could make sense to part with some of it while you are still here. A Junior ISA could be an ideal vehicle for channelling monetary gifts to minors.

Younger generations face an array of financial issues: university fees, high under-24 unemployment, housing costs and their own eventual pensions. Home buying is a major challenge. First-timers, even if they have good jobs, will struggle to buy unless parents or grandparents provide substantial help with the deposit. Up to specified annual limits, gifts can be removed from any later IHT computation and, if you survive for seven years, larger gifts can escape too.

Junior ISAs are a tax-efficient means of accumulating capital for when a child reaches 18, enabling them to have some control over their own financial position. These were launched in 2011 to supersede Child Trust Funds, which enjoyed government contributions that do not apply to JISAs.

Up to £3,720 per annum (2013-14 figure) may be invested in cash or stocks and shares JISAs, with tax advantages like other ISAs. Parents, other relations and friends can help by making regular or occasional contributions.

A JISA may be opened by an adult 'registered contact' with parental responsibility for a minor living in the UK who does not qualify for a Child Trust Fund. The child may have both a cash and stocks and shares JISA but, whoever puts the money in, total funds added must not exceed the annual limit per child in any tax year. Eligible over-16s may open and manage their own JISAs. There are many JISAs to choose from and professional advice may help the prospects of maximising value over the long term.

KEEP WATCH ON THE FINANCIAL CALENDAR

Timing can be very significant where financial matters are concerned, whether it is getting your self-assessment tax return to HMRC punctually or deciding when to invest in particular assets. Like everything else the financial world has seasons that need close attention, as they can impact your investment planning.

Sometimes there is a key date that needs noting, but other seasonal influences are less specific. Markets are inevitably quieter when many participants are on holiday, so August and around Christmastime may see a dip in activity, though not necessarily in prices. There is, of course, that old adage 'sell in May and go away; don't come back till St Leger Day' (in September). This reflects that historically the UK stock markets appeared to gain more ground during the half-year from November to April than between May and October. In today's global markets, reliance on this could be unwise.

Probably the most important period in the financial year is around end of March and the start of the next tax year on 6 April. When this approaches is when some of us start to realise that there are just weeks in which to use our ISA allowance or make the optimum contribution to our pension (so why not think about that now, to avoid last-minute decisions in 2014?). The new tax year also marks changes to personal allowances, state benefits and sometimes tax rates, previously announced by the Chancellor.

As for those important tax dates, the first each year is 31 January, which is the deadline for online self assessment returns and any balancing payment for the previous tax year and first instalment for the current year. On 31 July, the second payment on account of the previous tax year is due. Midway through the tax year, 5 October is the date by which to advise HMRC of new sources of income if you have not been issued with a tax return. Paper self assessment forms must be in by 31 October.

YOU'VE PAID YOUR MONEY, NOW TAKE YOUR CHOICE

You and a generous taxman have been paying into your pension for many years and, unless it is a final salary scheme, you will need to choose – as retirement approaches – what to do with the accumulated 'pot'. Some important decisions will have to be made about the pension set up best suited to your needs.

Put very simply, there are two alternatives, but there are various possible options under each of them. You can either buy a lifetime annuity or opt for the alternative of 'drawdown'. Needs vary and choosing the right way to enjoy the benefits you have worked for during all those years is a big issue requiring expert input from a qualified adviser.

A basic lifetime annuity gives you an agreed amount of income for the rest of your life. The annuity is purchased from an insurance company using what has built up in your pension plan, less however much of the permitted tax-free lump sum you decide to take on retirement. It can be a single lifetime annuity to provide income only for you, or a joint lifetime annuity that will continue paying out to a surviving spouse or qualifying partner.

One key decision is whether your annuity should pay an increasing income to combat inflation. Inevitably, inflation-linked annuities offer lower initial income. An investment-linked annuity may also potentially deliver rising income, but this is not certain and income could fall. You could qualify for a higher 'enhanced' annuity rate if you unfortunately have a medical condition or lifestyle likely to shorten your life. All these options are worth examining with your adviser, who will assist with using your 'open market option' to get optimum terms, as you are not bound to use your existing provider.

Under the drawdown arrangements, you are not obliged to use up your pension savings on an annuity. One of three drawdown options lets you use only part of them to buy a fixed-term annuity for up to five years, the rest remaining invested. Separately, or in tandem with this, you can choose either capped drawdown or flexible drawdown. In each case, your funds stay invested and the income generated will vary and not be guaranteed. There are income limits for capped drawdown, but flexible drawdown has no such limits, though to use this method you must have other income above a set minimum.

Always seek expert advice, as the apparently easy option of accepting an annuity from your existing provider may mean less retirement income for many years to come.

NEWS BITES

UK inflation (CPI) increased to 2.7% in May, up from the 2.4% reported in April. The main driver of this increase was the increase in transport costs, with airfares rising by 22%. The RPI rose to 3.1% from 2.9%.

Retail sales grew by more than expected in May, rising by 2.1% against April and by 1.9% compared with a year earlier. Supermarket discounts boosted food sales by 3.5% in the month, whilst on-line sales continued to improve.

In his recent Mansion House speech to City grandees, the Chancellor of the Exchequer, George Osborne, announced his intention to return The Lloyds Banking Group to the private sector. The state currently owns 39% of the bailed-out bank.