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YOUR WINDOW ON FINANCIAL ISSUES

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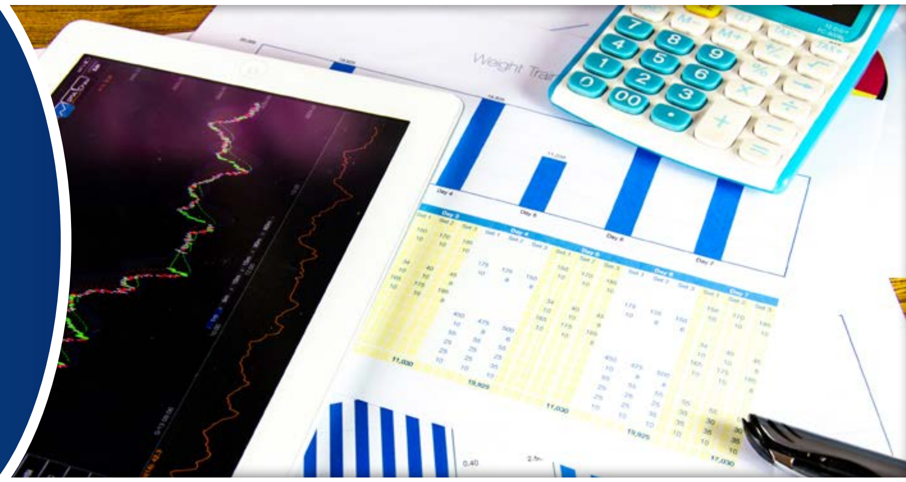


WHY IT COULD BE TIME TO REVIEW YOUR FINANCIAL PLAN

Many people are too busy working and living their hectic lives to reflect as often as they should on their short and long-term financial plans. Creating and regularly reviewing a well-thought-out strategy with an expert can be invaluable in helping to determine your financial needs and developing a balanced plan to meet these goals.

Each stage of life brings with it both financial challenges and financial opportunities. Having a plan that can be adapted to reflect changes in your circumstances will stand you in good stead and help you through the peaks and troughs that inevitably occur.

The early years –18-25 – are often about making the transition from education to employment and being financially independent for the first time. It makes sound financial sense to set aside sufficient cash to take advantage of tax-efficient regular savings plans. Building up a cash reserve can help with the deposit for your first home or a car. You should also consider saving into a pension as soon as you can, it's tax efficient and starting early gives your money more chance to grow.

The family years – 25-40 – can include marriage or partnership, building a career and raising a family. At this stage, it's vital to have a properly-written will in place. Life assurance, critical illness cover, health insurance and income protection plans all have a part to play in protecting a family's well-being. It makes good sense to save as much as possible now for children's education. You should regularly review your pension and savings plans and aim to top them up as often as possible.

The middle years – 40-65 – potentially there's more income available but there are often more demands on it. Children may need help with education costs or a deposit for their own property. Your parents may need your financial assistance in their later years. This could be a good time to revisit your will, as your family circumstances may have altered through death, divorce or inheritance and you may wish to reflect this in the way you want assets to be dealt with.

The retirement years – 65 and over – are often dominated by concerns for the future. This stage is often about taking money from a pension fund to secure a comfortable retirement, planning for future care needs and passing money on tax-efficiently to future generations.

Good financial strategy helps you attain your goals. Regularly reviewing your plan with your adviser is vital to ensure it continues to reflect you and your family's needs.

CITY CHAT

Flexible Friend Mk.II
Not everyone will remember the ubiquitous Flexible Friend, the Access credit card that reflected the newfound spending power of the 1980s. Launched in 1977 by Lloyds, Midland (HSBC), NatWest and RBS, it meant almost everyone could access loadsamoney.

When credit cards went global, our Flexible Friend succumbed to MasterCard®. Now a new Flexible Friend is waiting in the wings, but it may already have missed its cue. Bank of England governor Mark Carney has promised long-lasting plastic banknotes like those in his native Canada.

Meanwhile, a British Retail Consortium survey has found consumers' use of cash has carried on falling as they increasingly use debit cards for smaller transactions. Online and contactless payments are also accelerating the cashless trend.

A FOOT UP -
HOW FAMILIES CAN MEET HOUSING MARKET CHALLENGES

Young people are finding it harder than ever to become home owners because they struggle to scrape together the hefty deposit required to secure a mortgage. So it's hardly surprising that family members are increasingly offering to step in and help. It's been estimated that around three in five first-time buyers now get help from parents or grandparents, particularly whilst savings languish in low rate paying savings accounts.

> **"Your family's financial circumstances are unique; you need to take expert advice on the most suitable and tax-efficient options to meet your needs."**

There are many ways that the older generation can assist. They can simply provide cash to help with the deposit. The larger the deposit a would-be house buyer can put down, the better the mortgage rate he or she may be offered. However, that may not be a suitable solution as it could put the parent or grandparent's retirement comfort at risk.

If parents or grandparents have a large amount of equity in their home, or own it outright, and their wider financial circumstances permit, it may be possible to mortgage it and give or lend the cash released to the first-time buyers.

Home buyers may be able to borrow more than they'd normally be allowed to, if the loan is 'guaranteed' by a family member. This can be accomplished in several ways such as having parental income taken into account when assessing the borrowing, allowing a legal charge to be made on the parent's own property or making a substantial cash deposit to a bank.

The benefit of the guarantee route is that the property and the mortgage are in the name of the young buyer, thereby increasing their credit rating However, the parent or grandparent doesn't have a stake in the property and this could be a disadvantage if the borrower defaults and they need to step in to make up the shortfall.

Some families are understandably uncomfortable about providing their child with outright ownership of a property and are opting instead for some form of joint ownership that gives a degree of ongoing control.

This doesn't need to be a straight 50:50 split – the parents can own a larger or smaller percentage of the property. As this property wouldn't be considered as the parent's main home for tax purposes, there could be Capital Gains Tax and Inheritance Tax implications when the time comes for the parents to relinquish their share, by selling or gifting it to the child, or selling it to another buyer.

Several lenders are now offering schemes that provide what are called intergenerational mortgages. This product has been widely used in Japan and Switzerland and allows properties to be passed down from generation to generation. These products are open-ended interest-only mortgages that are typically reviewed every five years ad infinitum. When the buyer dies, the mortgage debt and interest payments along with the property can be passed to the children.

Of course, there's always the option of buying one big home and all living together, but that wouldn't be everyone's choice.

Choosing the right solution for your family's needs is complex and it's important to seek advice on the tax and financial planning implications.

GOING UP

Are interest rates set to rise? The Bank of England party line of no increase from a 0.5 per cent rate until mid-2015 has been updated. Mark Carney, Governor of the Bank of England, gave the clearest indication yet in his Mansion House speech on June 12 that an interest rate rise is on the cards, saying the first increase *"could happen sooner than markets currently expect"*.

This would be very welcome news for all those savers, often elderly people in retirement, who have anxiously watched rates sink during the downturn. Not such welcome news for those with large mortgages who have benefited from an unprecedented period of lower monthly repayments.

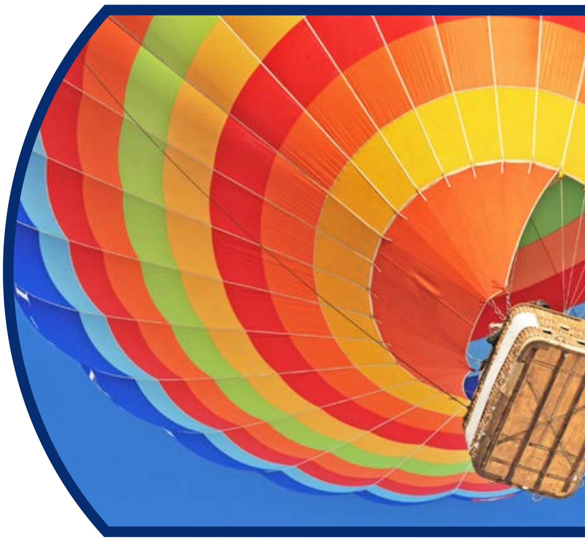
The recent surge in house prices and the sharp increase in mortgage lending under the Government's 'Help to Buy' scheme have given rise to talk of a 'housing bubble', and although the Bank of England has made it clear that it will use measures other than interest rate hikes to try and cool the housing market, raising rates would dampen demand.

UK interest rates are influenced by events far beyond these shores. The European Central Bank recently introduced negative interest rates. Other factors that could change the economic landscape include the conflict between Russia and the Ukraine and continuing concerns about China's ability to sustain high levels of growth and service debt.

But closer to home, there's much good news on the UK economy – unemployment is falling, the pace of the recovery is quickening, there's increased optimism abroad alongside an upward revision of UK growth prospects for the remainder of 2014.

A rise may arrive sooner to stall higher rates in the future. Such a move would fit the scenario described by outgoing Monetary Policy Committee member, Charlie Bean, where 3 per cent could be the new normal for base rate. The Bank has also said it is unlikely that we'll see a return to the 5 per cent level seen as normal in the years before the financial crisis.

As ever, it's a case of 'watch this space' as we head towards 2015.



ALL CHANGE - NEW ISA RULES CAME INTO EFFECT IN JULY

From 1 July 2014, ISAs (Individual Savings Accounts) were reformed into a new and simpler product. This change was announced in the March 2014 Budget when the Government unveiled the 'New ISA' (NISA), a move that represents the biggest-ever increase to ISA limits.

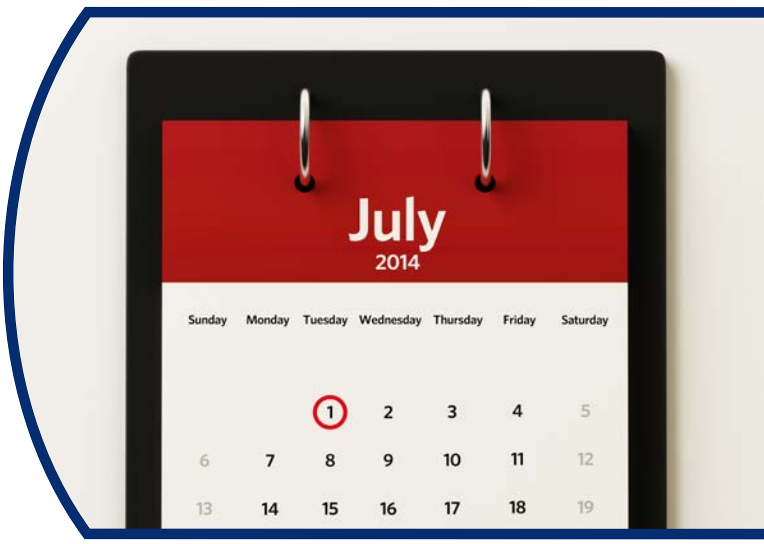
The NISA annual limit is now £15,000. The key features worth noting are:

Improved flexibility – the new rules mean you can split your ISA allowance as you wish between a New Cash ISA and New Stocks & Shares ISA. Previously, you could only save up to half the ISA allowance in a Cash ISA.

Improved transfer options – you can transfer from a Stocks & Shares ISA to a Cash ISA, and vice versa subject to the ISA provider's agreed terms and conditions. Under previous rules you could only transfer from a Cash ISA to a Stocks & Shares ISA.

Tax-free interest in Stocks & Shares ISAs – you have always been able to hold cash in a Stocks & Shares ISA, but any interest is in effect paid net of basic rate tax. Under the new rules interest on cash held in a New Stocks & Shares ISA is completely tax-free.

This is good news for hard-pressed savers. Because you can put up to £15,000 in each year, you'll be able to quickly protect a greater amount of money in a tax-free savings pot.



TAKE COVER - PROTECTING LOVED ONES IS ABOUT MORE THAN JUST LIFE ASSURANCE

It's easy to think that the only insurance cover you need for your family is life assurance. Taking out a policy that pays a cash sum gives you peace of mind and means financial provision would be available for your family if you died.

But how would your family manage financially if you were diagnosed with a critical, life-threatening illness? Figures for the UK show around a thousand people a day receive a diagnosis of cancer and over two hundred and fifty thousand suffer heart attacks or strokes every year. *

Whilst many employers provide life cover as part of their staff benefits package, few provide critical illness cover. If you are self-employed, you have to make your own financial provision for any prolonged period of illness. So, it makes sense to consider this type of insurance if:

- your employer doesn't offer cover for extended period of time off work due to sickness
- your savings would soon run out if you were seriously ill.

This is where critical illness cover has a role to play in planning your financial future and can provide a valuable safety net for you and your family. Critical illness cover can be added to a life assurance or mortgage protection policy.

Policies can pay out a tax-free lump sum if you are diagnosed with a life threatening illness such as cancer or heart disease. The latest development is to include 'severity-based' cover. This is where plans pay out a percentage of the sum assured, depending on the severity of the diagnosis, and continue to provide cover for the more serious conditions.

There are no restrictions as to how the lump sum can be used, so it could pay off a mortgage, cover household bills, pay for additional childcare, enable you to consider working part-time, or allow you to make alterations to your home such as wheelchair access.

You can take out cover for a set number of years, whilst your family is growing up and your financial commitments are at their greatest, or for life. The cost will depend on age and medical history. You can keep down the cost at the start by going for what's called a reviewable plan. However, as the premiums are likely to rise every few years it could work out more expensive than a guaranteed plan, which keeps the premiums level throughout.

There are a variety of policies available that cover a number of long-term, very serious medical complaints. Buying the right sort of policy to meet your needs requires specialist market knowledge and you should seek guidance from your professional adviser as to which may suit your personal circumstances best.

* figures from Cancer Research UK and The British Heart Foundation

CITY CHAT

Border skirmishes

The widely divergent financial forecasts for an independent Scotland from the 'yes' and 'no' campaigns make one thing clear: accurate figures are elusive. Much depends on the divorce settlement. How would UK national debt be divided and who would fund Scottish state pensions?

A 'yes' vote by eligible Scottish residents on 18 September would have massive consequences. The Westminster government says Scotland would lose the pound sterling, but that may be an unenforceable threat. Scotland could peg its pound to sterling, as Ireland did for many years.

Scotland's financial institutions could be impacted. Standard Life has talked about possible relocation. Aberdeen Asset Management has declared neutrality and says it wouldn't move its HQ.