Haighwood

WINTER NEWSLETTER 2018

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A year of political change

2017 was the year of the campaign trail, with several key elections held in countries with great influence on global economics and stock markets. Here, we recap on the political posturing that defined 2017, and what it meant of the global stock markets.

If you're concerned about how global events could impact your investment portfolio, please get in touch.

On 20 January, Donald Trump was inaugurated as the 45th President of the United States. Global stock markets had rallied since the election result on 8 November, with many in corporate America hoping to benefit from promised tax reforms. Not everyone was happy. The day after Trump's inauguration, approximately half a million people protested in the Women's March in Washington DC, making it one of the largest one-day protests in American history.

In Europe, the Dutch were hailed as having “defeated populism” in the 15 March election by denying the Geert Wilders-led Party of Freedom’s bid for power.

On 7 May Emmanuel Macron of En Marche! was declared President of France having won the second-round vote against the Marine Le Pen-led National Front by a decisive margin. Again, the election is billed as a win against populism and Europe’s far-right. World stock markets are at their highest point for the year so far.

Across the Channel, the UK general election on 8 June restored Theresa May as Prime Minister, but only after the Democratic Unionist Party of Northern Ireland agrees to support a Conservative minority government. As the results came in, the prospect of a hung parliament led to an immediate fall in the value of the pound. May’s intention was to seek an overall majority, paving the way for easier Brexit negotiations.

After a relatively quiet end to the summer, aside from ongoing Brexit discussions, the Eurozone’s biggest player Germany held its federal election on 24 September. The result saw the Christian Democratic Union win only 33% of the vote – its lowest share of the vote since 1949 – but enough to see Angela Merkel remain as Chancellor. Markets then rallied for the last week of September and continued to climb in October.

Into autumn and it was the turn of the Japanese to go to the polls on 22 October. Given the dramatic fall in popularity that many world leaders had found themselves in over the year, it was a relief for Prime Minister Shinzo Abe to secure a big election win. The father of ‘Abenomics’ and the ‘three arrows’ policy of monetary easing, fiscal stimulus and structural reform, Abe’s victory was welcomed by a rise in markets.

Elsewhere in Asia, perhaps the most significant global change was happening in China where the hugely powerful Communist party held its five-yearly congress. President Xi Jinping cemented his legacy with his own political philosophy being written into the country’s constitution.

Emerging markets will dominate the electoral calendar in 2018, with votes due in the likes of Russia, Mexico, Brazil and Pakistan.

The value of our advice

Good financial advice and planning helps people to protect and build their assets, make the most of their investments and help to achieve the goals and lifestyle they desire.

For more information about any of our services, please get in touch.

Establishing priorities

Every client we meet has a unique and varied range of financial planning needs, so it's important to establish priorities right from the start if we are to create a meaningful and relevant plan.

As time passes, your financial plan will need to evolve, and regulatory changes can impact the effectiveness of any structures already in place. That's why we recommend a regular review to ensure that your plans remain on track and relevant.

The importance of ongoing advice and service

If you choose to receive ongoing advice and service from us, we'll invite you to regular meetings where we will monitor the progress of your plans and discuss any adjustments required in the light of changing circumstances.

We believe that ongoing service can help you continue to make well-informed choices and give you the best chance of achieving your goals through key life stages.

Five promises we make to our clients

1. We will help you arrange your finances so that they work as effectively as possible towards funding your life goals.
2. We will help you take steps to ensure your income, assets and family are protected from the impact of long-term illness, disablement or death.
3. We will advise you on how your investments can benefit from relevant tax reliefs and allowances. We will also advise you on the most effective way of withdrawing income or capital from your arrangements when the need arises, or how best to pass wealth to your intended beneficiaries.
4. We will help you keep your plans in focus by regularly meeting with you to review and refresh arrangements. This might be a result of changing personal circumstances, legislation, new opportunities and any other factors relevant to your situation.
5. We will be accessible and responsive whenever you wish to contact us with queries or requests.

Interest Rate Rise

In 2007 Bulgaria and Romania joined the European Union, Lewis Hamilton got his first drive in Formula 1 partnering with Fernando Alonso at McLaren, the final book in the Harry Potter series was published and England played their first match at the new Wembley Stadium.

Whether you're a saver or a borrower, we'd love to help you make more of your money. Get in touch to find out how.

It was also the year in which the Bank of England last raised interest rates, when they went up by 0.25%.

That all changed on 2 November 2017 when The Bank of England voted to raise UK interest rates for the first time in over a decade, to 0.5%.

So how could an interest rate rise of 0.25% affect you?

In the short term, both borrowers and savers could see a modest effect on finances. Savers are likely to be pleased with the welcome boost even if the increase is small. Borrowers however will be less pleased as they could see their mortgage repayments rise.

Impact on borrowers

Higher interest will mean that those on Standard Variable Rates (SVR) or Trackers Rates will see their mortgage repayments rise. On a mortgage of £125,000 an increase of 0.25% would result in payments increasing by £15 a month (£185 a year).

Those with larger mortgages will in turn see a larger payment increase. Those with a mortgage balance of £250,000 will see their monthly payments increased by £31 (£369 a year). However, the 57% of borrowers on a fixed rate deal will be unaffected during their fixed term.

These figures might not seem much in isolation, but borrowers should also be aware that higher interest rates could impact other borrowing, like credit cards, car credit or unsecured loans.

There's also the prospect that rates could continue to rise over the long-term. If we hit 1%, the monthly repayments on a £125,000 mortgage would go up by £78.48, and £161.69 if the rate doubled to 2%.

If you're concerned about the impact of higher interest rates on your mortgage repayments you may want to consider a fixed-rate deal, especially if you're currently on SVR. Remember, if you're already on a fixed-rate deal you may face higher repayments when the term ends. Make sure you diarise when that's due to happen and get in touch so that we can discuss whether the best option is to remortgage.

Impact on savers

According to research there's no standard savings account on the market that can outpace inflation, in fact the average easy-access savings account is currently paying 0.35% interest.

If the Bank of England increases the base rate savers may be able to find better returns to keep up with rising inflation. However, as with mortgages, those already on a fixed rate will not see higher rates until the term ends.

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

Pension death benefits

There's a range of options when it comes to deciding how to fund retirement, but few of us stop to think about what might happen to pension savings in the event of death.

Not all pension plans work this way... *please contact us to find out if the death benefits under your pension will be treated as part of your estate and therefore subject to inheritance tax.*

Alongside the more familiar changes to retirement choices that happened back in 2015, 'Pension Freedoms' heralded significant changes in how pension death benefits are taxed; bringing with them new inheritance-planning opportunities.

Passing on wealth

Since April 2015 it has been possible for the plan holder to pass their pension on to any nominee(s) through something called Nominee Flexi-Access Drawdown. Further, when the nominee dies, a successor - or successors - can also inherit a drawdown pension through a Successor Flexi-Access Drawdown.

In turn, each nominee or successor can pass the assets on to other nominees or successors, retaining the tax efficiency of the plan through multiple generations.

The key benefit lies in retaining the assets within a pension wrapper: in this way they fall outside of the plan holder's estate for Inheritance Tax (IHT) purposes. As long as they remain within the wrapper they stay tax efficient in most cases until they're needed by the nominee or successor.

If the plan holder - or a nominee or a successor - dies before the age of 75, not only are the assets passed on free of IHT, but the drawdowns are paid out free of income tax. If they die after the age of 75, the assets are still excluded from the estate for IHT purposes, but any lump sums or income drawdowns are treated as income and are subject to the beneficiaries' own marginal rate of tax (ie. taking into account other sources of income).

How might your dependents benefit?

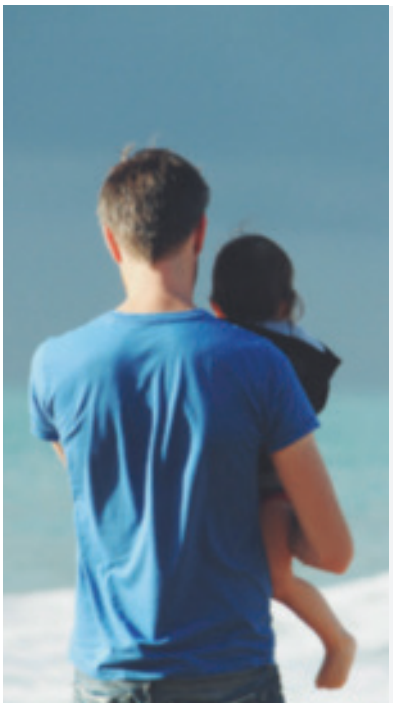
The example given below is a simplified illustration and only a guide to what might be achieved with careful financial planning.

However, it's important to note that most of the existing pension plans were set up before the new regulations came into force and may not have the flexibility to establish Nominee or Successor Flexi-Access Drawdown accounts.

Instead, the pension fund value is paid out to the nominees as a cash lump sum on the pension policy holder's death and treated as part of the estate. This creates two potentially avoidable issues:

- Whilst held as cash the money is not in a tax-advantaged environment, which means if the nominee or successor wants to invest the money, tax might have to be paid on income or growth or both.
- On the nominee's death, the amount could be subject to IHT when passed onto their beneficiaries.

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



The pension family tree

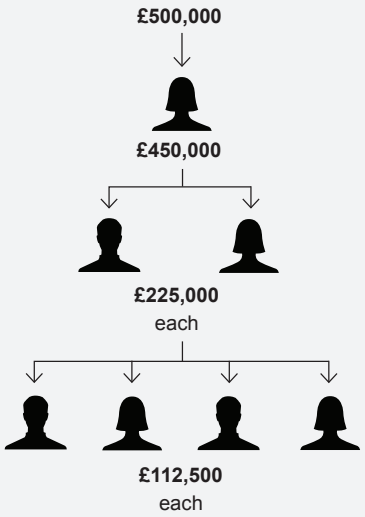
A family comprises a husband and wife, their two children who in turn have two children each (four grandchildren in total).

The husband dies aged 76 with £500,000 remaining in his pension fund.

The wife inherits a Nominee Flexi-Access Drawdown plan. As her husband died after reaching the age of 75, any withdrawals are taxable as income. The wife dies aged 74 and with £450,000 remaining in the plan.

The two children each inherit half of this (£225,000) through Successor Flexi-Access Drawdown. Withdrawals are tax free as the mother died before age 75. However, both children die in their 60s without accessing their plans. As they also died before reaching 75, each residual pension fund passes tax free to the grandchildren.

Each grandchild inherits a Successor Flexi-Access Drawdown pot of £112,500 and enjoys tax-free withdrawals.



Critical Illness cover can make a difference

If you've ever turned down a recommendation of critical illness because you can't see the value of it, this real-life case study might make you think again.

Please talk to us if you think you need cover, or you need to update your existing provision.

Peter Simpson is a successful commercial manager for a Berkshire-based firm. He's married with three children aged 13, 11 and 9 and has a £297,000 mortgage. His wife gave up work to bring up the kids, making Peter the main breadwinner.

When he was 24, buying his first house, Peter had arranged to see an Openwork adviser who helped him sort out a mortgage and critical illness cover. Over the years, Peter's circumstances changed; he got married, started a family and moved up the housing ladder. During that time he has stayed close to his adviser and updated his cover in line with his changing circumstances.

The value of critical illness cover

Peter has always been able to see the value of critical illness cover, particularly because his father had sadly died of cancer. Aside from covering his mortgage, Peter also wanted to make sure his wife and children would be OK financially if anything happened to him.

In December 2016, totally out of the blue, Peter had a stroke. He had stopped at a friend's house on the way to work when he suddenly and unexpectedly experienced a terrible buzzing sensation at the back of his head. He lost the feeling in his right-hand side and his speech became slurred. Spotting something was obviously very wrong, his friend got him into the house and immediately called an ambulance. Within 45 minutes Peter was being treated in hospital with his wife by his side.

When he was back home recuperating, Peter started the claims process, which turned out to be extremely straightforward. After a few phone calls and emails Peter received confirmation that his policies would pay out in full and he could expect £380,000 in his bank account.

Avoiding the financial impact of serious illness

Thanks to careful financial planning and an appreciation of the difference a critical illness plan can have on the financial impact of a serious illness,

Peter and his family now have the freedom to make choices. They have been able to make two platform investments, one that would act as a pension for Peter's wife, and the other to enable Peter, a higher-rate tax payer, to maximise his personal allowance every tax year. They have also reduced their mortgage and swapped it from interest only to repayment.

This case study highlights the importance of protection especially if you have a loan or you're the main breadwinner.

The value of mortgage advice

With so many mortgage lenders offering their products on the high street and online, it can be tempting to cut out the middleman and 'go direct'.

If you're looking for a new mortgage, we'd love to help.

But when you're making such an important financial commitment, the guidance you can get from a qualified mortgage adviser can be invaluable. Here are five ways we can make a difference to your mortgage search:

1. We know what a good deal looks like

We have access to a wide range of well-known lenders and thousands of mortgage deals, so we can find a rate that suits you. But we also look beyond the rate. Lender administration and booking fees, length and type of loan, valuation costs and repayment methods can all affect the total amount you pay. By considering all these elements, we can recommend a solution tailored to your individual circumstances.

2. We know the market

If your needs or circumstances are 'out of the ordinary', it may be much harder for you to find a mortgage now than it was a few years ago. This is particularly true if you're self-employed or a small deposit, or are borrowing into retirement. We can save you the time and hassle of trawling the market, and help you find a lender willing to provide your loan.

3. We'll do the hard work for you

Selecting the most appropriate mortgage is just the start. We'll work with you to complete all the necessary application forms, liaise on your behalf with solicitors, valuers and surveyors, and help to make the process as smooth as possible.

4. We're professionally qualified

Unlike many branch and telephone-based mortgage sellers in banks and building societies, we're qualified to advise you on a broad range of lenders and products. This means you benefit from genuine choice coupled with quality advice.

5. We go beyond the mortgage

We can help you safeguard your investment in your home by advising on a range of products that can financially protect your home, and your family, should the worst happen.

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

COMING SOON

Keeping you in the loop

Website Launch

We have been working hard to develop a new more interactive website. The website will hold links so you can access your investment accounts, calculators for a range of subjects and videos to help explain some of our services and processes. It will also host our investment bulletins and news items which will be available to download or print.

Your Personal Finance Portal

Your Personal Finance Portal will help to provide a secure route for communication as an alternative to email. We are concerned that email as a facility is not as secure as we would like and this secure message facility will let you communicate us with in confidence.

You will be able to edit your own information to check its accuracy and update your details as your circumstances change.

This is just the start. Your Personal Finance Portal can offer you much more of you want to use it. Ask us for a demonstration as to what it can do at our review meeting or watch the video on the new website once its launched.

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