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Scottsdale MoneyWISE
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ESSENTIALLY MORTGAGES

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RETIRING ABROAD – THINGS TO CONSIDER

Retiring abroad is an ambition for many people, but 84% of UK adults over 55 say the outcome of the EU referendum has made it less likely they will move overseas when they retire[1].

Depending on the terms that the government negotiate under Brexit, it is possible that UK citizens may lose the right to work or live in the EU without obtaining a visa. Currently, UK citizens can retire to places such as Spain, Italy and France. The free movement of people will be a key negotiating point in any deal agreed with Brussels.

The after effects

Pensioners represent the largest group of British expats living in the EU. It is unfortunately inevitable that their state pension income will have been affected by the sharp fall in the value of sterling that occurred shortly after the vote and subsequently.

At present, anyone who retires within the European Economic Area – including members of the EU plus Norway, Iceland, Liechtenstein and Switzerland, has their UK state pension protected by 'reciprocal arrangements' which means they receive increases in line with retirees living in the UK. The 'triple-lock' system ensures that state pensions rise by the higher of inflation, earnings or 2.5%.

There is speculation that this system could be changed, but many people feel that the government will honour its pledge to pensioners to keep this in place for the time being.

If annual state pension increases were to remain for UK nationals in the EU, the government may have to negotiate reciprocal agreements with individual member states. The concern for expat retirees is that they could see the amount of state pension they receive frozen as is the case for those currently retiring to Japan, Canada, Australia or New Zealand, and other Commonwealth countries.

Over half of the one million pensioners residing overseas don't receive annual increases in their state pension so, for example, an expat who retired in 2000 would still be receiving the weekly rate paid at the time – £67.50.

Other issues to consider

Some countries have now made having private medical insurance coverage compulsory for all expats. In other countries, expats are not eligible for local healthcare services at all; if this is the case, you will need to arrange some form of cover.

Having individual bank accounts in addition to a joint account may be advisable because in many jurisdictions, upon the death of a spouse, bank accounts may be frozen.

What is clear is that it pays to do your research before deciding on your dream retirement location.

[1]Retirement Advantage Survey, Nation's favourite retirement hotspots revealed, Aug 2016

SOME COUNTRIES HAVE NOW MADE HAVING PRIVATE MEDICAL INSURANCE COVERAGE COMPULSORY FOR ALL EXPATS. IN OTHER COUNTRIES, EXPATS ARE NOT ELIGIBLE FOR LOCAL HEALTHCARE SERVICES AT ALL; IF THIS IS THE CASE, YOU WILL NEED TO ARRANGE SOME FORM OF COVER.

HELP TO BUY ISA – CLARIFYING THE RULES

There has been a great deal of media commentary recently on how the bonus payable under the government's Help to Buy ISA really works.

Savers aged 16 or over can open their ISA with an initial deposit of £1,000, which qualifies for a government bonus of £250. Savers can then contribute a maximum of £200 each month, with the government contributing a bonus of up to £50 on top. In order to claim the maximum bonus of £3,000, they need to save £12,000.

The bonus rules explained
The Help to Buy ISA bonus can only be used as part of the final completion monies; it cannot form part of the deposit paid at exchange of contracts. It's also worth noting that you can only use your bonus towards the cost of buying a property, it can't be used to pay any other charges such as stamp duty, conveyancing fees or house surveys. This has always been the case since the inception of the scheme, and most solicitors and conveyancers were aware of the restriction from the start.

A potential solution
While the deposit paid on exchange of contracts is usually 10%, this isn't legally binding. If you tell your solicitor or conveyancer at the outset that you will be using your Help to Buy ISA bonus cash as part of your payment, they should be able to agree a 5% deposit instead.

So should you still take out a Help to Buy ISA? Even if you don't get your bonus until completion, the tax-free cash will still come in useful, and you receive interest on your savings too.

BRITS STILL KEEN TO BUY AND SELL PROPERTY

Following the EU referendum, a OnePoll survey[1] revealed that around 70% of British people claim that Brexit has not deterred them from buying or selling property. In fact first-time buyers, many of whom were in the 'Remain' camp, have been quick to take advantage of the outcome, with 43% of 18 to 24 year-old home buyers being happy to make offers below the asking price to get the best deal. This confidence has been matched by another demographic too, with around 60% of those aged 55+ still keen to downsize or move to their dream home following the vote.

According to HM Revenue and Customs data, residential property transactions fell just 0.9% to 94,550 in July; CEO of My Home Move, Doug Crawford commented on the results: *"This minimal fall shows the property market largely shook off the short-term uncertainty of Brexit.*

"While levels remain lower than a year ago, this is in the context of a market that is still feeling the effects of changes to Stamp Duty, which led to a frontloaded first quarter."

[1]OnePoll Survey, Comparethemarket, July 2016

IS EVERYBODY BENEFITTING FROM THE INTEREST RATE CUT?

Following the interest rate cut in the summer, where the Bank of England reduced its base rate to a new historic low of 0.25%, the big question is - has the same reduction been passed on to borrowers? The Council of Mortgage Lenders[1] emphasize that whether or not borrowers will see the ripple effect of the rate change depends on the type of mortgage they have.

Over 1.5 million of the UK's 9.3 million owner-occupier borrowers are on tracker rates and should see their monthly payments reduced following the rate cut as lenders alter the tracker rates in-line.

More than 3.5 million of borrowers who have a fixed-rate mortgage are likely to see no change to the rate applying to their mortgage until their fixed period ends.

For the 2.2 million customers paying a standard variable rate, the extent to which their rates are affected will vary from lender to lender. Certain lenders have a floor below which they will not reduce rates, while other lenders use their own version of the base rate which does not necessarily mirror the Bank of England's rate.

Barclays were quick to respond, stating that customers with tracker mortgages and those on standard variable rates will see their rates match the cut. A spokesperson for Lloyds Banking Group said the base rate is only one of a number of factors taken into account when reviewing interest rates: *"All variable rate mortgage and savings products that track the base rate will be reduced by 0.25% from September."*

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

[1]The Council of Mortgage Lenders, August 2016

GETTING ONTO THE HOUSING LADDER

Buying your first home can be both an exciting and nerve-racking experience. The exciting bit is having your own front door and space to call your own; the nerve-racking part can be finding somewhere you can afford, saving enough for the deposit, and getting a mortgage deal that's right for your financial circumstances.

Before you start looking for a property to buy, it's really worth speaking to your adviser. We can help you work out how much you're likely to be able to borrow, and give you useful hints and tips that will help you prepare for the mortgage application process.

Know your numbers
The big question to ask before you start arranging viewings is always: *"How much can I borrow?"* In the past, the answer to this would have been a rule-of-thumb multiple based on your salary, or your joint salaries if you were a couple.

Post credit crunch and the financial crisis, mortgage lenders were required by the Financial Conduct Authority (the regulator of the financial services industry), to adopt a more refined affordability-based approach to lending. This means that banks and building societies are now required to scrutinise borrowers' incomes, outgoings and credit history closely and apply strict affordability criteria, ensuring that borrowers can comfortably afford their repayments now, and in the foreseeable future. So it pays to make sure your finances are in good order, and that includes credit cards and other loans you may have.

Although lenders are all bound by the same general principles and criteria, there are slight variations in the way they apply them, so it really pays to work with a mortgage adviser. Their knowledge of the market and understanding of the approach adopted by individual lenders means they can help you present your application to the right lender, saving you time, money and stress.

Deposits matter
Having a large deposit really matters in the current market. The more you can put down, the lower the interest rate you are likely to be offered.

While many lenders are prepared to lend purchasers up to 95% of the property price, with the borrower putting in the remaining 5% as a deposit, better deals and rates are available to those who can put down 20% or more.

Choosing the right property
Although a lot of people rely on property websites to help them make their choice, it pays to get to know the area you want to live in at first-hand. That way, when properties come onto the market in your chosen area you'll know whether you want to arrange a viewing or not.

As you'll be investing a lot of time and money into any place you buy, it pays to think about practical things like transport links, and local amenities such as schools, shopping facilities and eateries. That way, when you come to sell and move up the housing ladder, your home should be attractive to potential buyers.

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

BANKS AND BUILDING SOCIETIES ARE NOW REQUIRED TO SCRUTINISE BORROWERS' INCOMES, OUTGOINGS AND CREDIT HISTORY CLOSELY AND APPLY STRICT AFFORDABILITY CRITERIA, ENSURING THAT BORROWERS CAN COMFORTABLY AFFORD THEIR REPAYMENTS

PROTECTING FAMILIES LATER IN LIFE

With more people over 50 still paying off their mortgage, and an increasing number set to do so well into their retirement years – life insurance, which has previously been regarded as a protection for younger families, is an important lifeline for this age group too.

The changing needs of older families

Mortgage repayments often represent a significant amount of monthly income. Ensuring that there's a protection policy in place to cover the cost of these, or to pay off the mortgage altogether, and help with other household expenditure, should the worst happen, makes good financial sense.

With many people starting families later or divorcing and remarrying later in life, mortgages are being taken out at a much older age. Some lenders are now offering mortgages with an upper age limit for repayment of up to 85.

Other ways life insurance can help

If you're the main earner, your partner may be relying on your pension to provide an income to help fund their retirement. If this is the case it makes sense to have life cover in place to help in the event of your death.

Parents looking to make financial provision for their children should consider life insurance because it will provide a lump sum that can be passed on. The proceeds of a life policy written under trust can be paid out before probate is granted, therefore providing an effective means of getting money quickly into the hands of beneficiaries. There is another benefit too, when it comes to calculating inheritance tax, such life insurance policies don't form part of an estate.

Whatever your situation, your financial adviser can help you make sure you're properly protected.

SECOND STEPPERS FACING PROBLEMS MAKING THEIR NEXT MOVE

Whilst the media spotlight often falls on the plight of first-time buyers trying to get onto the housing ladder, there's increasing evidence that those homeowners looking to make their next move are also facing problems, both in supply and affordability.

Rising prices can lull second-steppers into a false sense of security, meaning that until they start researching the market, it isn't apparent how much extra cash they will need to make their move.

This can be particularly true for those who bought their first property before the introduction of the stricter lending rules brought in under the government's Mortgage Market Review. The new affordability criteria for mortgages can mean that their chances of getting much larger loans are more limited, and they often need larger deposits to make their move.

From a flat to a house

Second-steppers are often looking to make the transition from a flat to a house, looking for somewhere where they can raise a family and put down roots. However, as many buyers are discovering, making this move can require a considerable amount of extra borrowing. In some cases borrowers need to contemplate almost doubling their mortgage.

Lloyds[1] reports that more and more second-time movers are asking friends and family for a loan or gift to bridge this funding gap. They estimate that second steppers need on average £125,694 to buy their next home, and often borrow more than £22,000 from the 'Bank of Mum and Dad' to complete their purchase.

However, second-time buyers do have a number of factors on their side. They're often part of a couple where both are in work, meaning there are two incomes to finance mortgage repayments and, depending on when they made their first purchase, will have built up equity in their existing property.

[1]Lloyds, Second steppers still need Bank of Mum and Dad, 2015

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

HELPING A CHILD BUY A PROPERTY? DON'T LET IT TURN INTO A FAMILY FEUD

The continuing rise in property prices has meant that an increasing number of parents are helping to finance house purchases for their children. This can result in complicated financial arrangements within families, so taking specialist advice is a must to prevent family disagreements.

Parents may take the opinion that giving or lending money to children is within the family and doesn't require a formal contract. However, as an acrimonious case that went through the courts last year demonstrated, committing the details to writing can make sound financial sense.

Ann Hermsen-Wilkinson went to court to prove that the flat occupied by her daughter Caroline wasn't a gift, and sought to have her evicted. Caroline claimed that the £1m property had been given to her. The court found that the flat belonged to the mother, and served an eviction order on the daughter.

Protecting your interests

If you are reluctant to simply give the money outright, one of the optimum ways to protect money that you give to your child for a deposit on a property is to set up a loan and put together a repayment schedule; formalising the arrangement by way of a 'promissory' note. This way you can loan them the money and charge interest each month.

By registering a legal charge against the property the loan could also be secured. This means that when the property is sold in the future, your money is automatically repayable, provided there is enough left after any prior charge on the part of a mortgage lender has been satisfied. Alternatively, if a son or daughter is buying a property in joint names with another person, the parental deposit can be protected by creating a declaration of trust, fixing the shares that each co-owner will have in the property in the event that it is sold. The declaration can contain the stipulation that after the bank or building society is paid off, then the deposit belongs to the son or daughter or parent, rather than being split with the joint owner.

Selecting a guarantor mortgage

Parents may give consideration to acting as a guarantor for their child's mortgage. It's vital to remember that when you become a mortgage guarantor, you effectively take on responsibility for someone else's mortgage. Most guarantor mortgages or loans require you to repay the entire amount should the original borrower be unable to pay. So, mercenary as it may sound, parents will need to consider whether their son or daughter represents a good risk and will be in a position to keep up mortgage repayments at all times.

When it comes to lending or giving money to family members, it's important to consider what might happen in the future and get some good professional advice from your adviser before proceeding.

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

ONE OF THE OPTIMUM WAYS TO PROTECT MONEY THAT YOU GIVE TO YOUR CHILD FOR A DEPOSIT ON A PROPERTY IS TO SET UP A LOAN AND PUT TOGETHER A REPAYMENT SCHEDULE; FORMALISING THE ARRANGEMENT BY WAY OF A 'PROMISSORY' NOTE.

ALL HAIL SUPER MUM!

Did you know that the average British mother selflessly spends 32 hours a week doing a wide variety of jobs for their families? A recent study[1] has quantified the myriad of weekly chores undertaken by good old Mum, including chef, chauffeur, accountant and cleaner. It concluded that if Mum earned average industry rates for all these activities, she could expect to be paid a staggering £17,582 per annum.

Cleaning ranks as one of the most time-consuming jobs done for the family, taking an average of 180 minutes a week. Closely followed by cooking, which accounts for 174 minutes, then housekeeper (138 minutes), counsellor (114 minutes), personal assistant (108 minutes), teacher (90 minutes) and story-teller (78 minutes).

Taking Mum for granted

The study also indicates that in 78% of UK homes, Mums take on more roles than Dads.

The vast majority of mothers polled (94%) said that their heavy combined workload inside and outside of the home has caused them to put off or delay exercising, planning for their family's financial future or even visiting the hairdressers.

Bringing up a family can be an all-consuming experience, so it's hardly surprising that financial planning and things like arranging life insurance aren't always at the top of a parent's to-do list. It's easy to take the contribution Mum makes for granted. But if she was no longer there, many families would find themselves having to pay for domestic and childcare services.

Peace of mind

Life insurance is arguably one of the most important financial products anyone can take out and one of the best ways of leaving your family provided for financially. It can provide a lump sum payable on death, or the diagnosis of a critical illness. Over the years, hundreds of thousands of families have been grateful that having life cover has enabled their family to cope financially following the death or illness of a loved one.

It is a common misconception that insurance is expensive; many people are surprised to learn that life insurance is cheaper than they think. The cost of life cover has fallen considerably over the past few years. It's a relatively small price to pay when you consider that having no insurance would cost you and your family considerably more.

Protecting your family's lifestyle

Life insurance isn't just about having a lump sum payable on death, it is as much about providing the life you'd want your family to enjoy if you weren't there to provide for them. This includes protecting their home, enabling debts to be paid off, providing for their care and their education. It is a versatile product that can help protect you and your family at every stage of your life. Your adviser can help you find the right policy with the right level of cover to meet your changing needs.

Although the role of Super Mum offers no holidays or sick days, 97% of those questioned said being a Mum is the best job in the world.

[1]Beagle Street, Super mums juggle 23 different professions, April 2016

AVERAGE HOME DEPOSIT HAS TOPPED £80,000

Finding a sizeable deposit for a home is a problem faced by many, whatever rung of the housing ladder they find themselves on. The average deposit paid when buying a home in Britain at the end of last year was £81,721, according to figures recorded by the Mortgage Advice Bureau.

Many had predicted that one of the results of the Brexit vote would be an immediate fall in house prices. So far, this has yet to materialise with the latest figures from the government's UK House Price Index showing that house prices, based on completed transactions, rose 0.4% in the month and 8.3% in the 12 months to July, the first full month after the referendum. This takes the average property value in the UK to £216,750[1].

[1]Land Registry, 2016

HOUSE PRICE SURVEYS EXPLAINED

If you've often wondered why different house price surveys tend to show slightly different results, information gathered by the BBC explains the methodology used by some of the major providers in calculating their figures.

The Nationwide Building Society, which accounts for about 13% of the mortgage market, carries out surveys based on its own mortgage lending. The Halifax publishes its data a few days after the Nationwide, and also bases its research on its own lending. It's now part of the Lloyd's Banking Group, which represents 20% of the mortgage lending market.

The Office for National Statistics provides a well-regarded house price survey widely used by the government that gives a UK-wide regional breakdown. It uses data gathered by the Council of Mortgage Lenders, so also excludes any transactions made in cash. Published later than the data from lenders, the Land Registry house price figures are widely regarded as the most comprehensive.

The Royal Institution of Chartered Surveyors provides data from its members around the country, including views on market sentiment and comments on local housing markets. Hometrack cover prices in major UK cities, and Rightmove track property asking prices.

ACCIDENT, SICKNESS AND UNEMPLOYMENT INSURANCE EXPLAINED

ASU, as it is commonly referred to, is a useful type of cover to have in place if you are worried about coping financially if you were unable to work because you had an accident, were sick, or through no fault of your own, had lost your job.

In this unhappy circumstance, many families have limited savings and may be unable to meet their overheads such as a mortgage or rent, loans or household bills for more than a couple of months before facing financial hardship. With statutory sick pay currently £88.45 per week, payable for only 28 weeks, being off sick could represent a significant reduction in monthly income.

Tailoring a policy to your needs

To provide funds at times like these, there are policies available to cover your core financial commitments that pay a monthly tax-free income if you are unable to work as a result of sickness, incapacity, or loss of employment.

Depending on the type of policy you choose, you can cover anywhere from 50% to 70% of your gross pre-tax income. You can usually select your deferred period (the length of time you would need to be off work before the policy begins to pay out) ranging from seven days to 12 months.

You can also choose the length of time you would need the policy to pay out, ranging from 12 months or until you are well enough to return to work or you reach the end of the policy term. It's often worthwhile tailoring this so that the policy would begin to pay out once any long-term contractual support from an employer ends. This can help minimise the cost of premiums. Your adviser can help you find the right cover for you.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.