Financial Viewpoint

CMD Financial Solutions

The business of protection

Every business has a lifecycle; from its early development through to start-up, expansion and, hopefully, maturity and exit. At any stage, though, it's important to consider how key assets or loans are protected in the event that something risks the ability to continue trading.

Whether you're just starting up, or looking to expand your business, we can advise on a range of business protection options that might be suitable. Please get in touch.

Key person protection

Perhaps the greatest asset of a business is its people. Despite this, Legal & General's latest 'State of the Nation's Small and Medium Enterprises' research found that more than half of the UK's small businesses think they would cease trading in less than a year if a key employee died or became unable to work. This stark figure highlights the importance of protecting the people responsible for the continuing success or growth of the business.

If your business relies on certain employees, it's important to arrange protection against the financial loss caused by their death or serious illness.

An insurance policy often referred to as Key Person Insurance can be taken out on the life or health of such an employee. This may be appropriate where that individual's knowledge, work, or overall contribution is considered uniquely valuable to the company. It can cover the costs or losses that may be caused by the loss of that person.

Business loan protection

After the initial whirlwind of setting up a business passes and thoughts turn to growth, the business owners might choose to borrow money to fund its expansion. In fact, the research from Legal and General shows two thirds of businesses have some form of borrowing.

The most common type of borrowing taken out over £50,000 is for business loans, overdrafts and Directors Loan accounts.

Most types of business loans can be protected with a policy that provides a lump sum to cover loans and other credit facilities if a business owner dies, or in some cases becomes seriously ill (if critical illness cover is included).

Share protection

Once a business is more established, a share protection policy might be appropriate because it can help cover the value of an owner's share of a business. If an owner dies or is diagnosed with a critical illness, share protection written in trust can provide the other business owners with enough cash to buy out the shares and continue to run the business.

OW1016 Exp. 31/03/18

Average house prices

today
£209,971

2000
£81,628

1980
£22,677

Whatever age you are, whether you're looking to buy for the first time, remortgage or move up the housing ladder, please get in touch to see how we can find the right mortgage for you.

Mortgage-savvy millennials

When it comes to their mortgage, are younger people making better financial decisions than their older counterparts?

The term 'millennial generation' applies to people born somewhere between 1980 and 2000, a 20-year span which also saw a huge rise in property prices. At the start of 1980, the average house price was £22,677, but by the end of 2000 this had risen to £81,628. Today the figure stands at £209,971.

A recent study shows the dramatic rise in property prices means just one in five 25-year-olds can afford to buy a property, and the average age of a first-time buyer in the UK has been pushed up to 30. Despite the financial challenges, almost three quarters of UK millennials intend to buy their first home in the next five years.

Repayment vs interest-only

The millennials who've bucked the trend and already made the first rung of the housing ladder obviously prefer the concept of reducing their loan month by month, with the vast majority (92%) of 18-34 year olds choosing a repayment mortgage, compared with 68% of those aged 55 and over.

Fixed rate

Younger borrowers also seem to prefer to know what their mortgage repayments are going to be, with nearly 70% opting for a fixed-rate deal compared with 35% of their older counterparts. They also seem happy to shop around, with a quarter remortgaging to potentially reduce their monthly payments, whereas 82% of those aged 55 and over have stuck with the same mortgage.

Offset mortgages also appear to be more attractive to younger generations with one third of 18-34 year olds taking out an offset mortgage (where they will use their savings to either reduce the term or repayments on their mortgage) compared to just 11% of over 55s.

If there is a conclusion to be made from these statistics it could be that millennials are more savvy when it comes to their mortgage, but remember, interest rates have remained at record lows for nearly ten years; something that's very much in their favour.

Figures correct as at September 2017

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

OW1006 Exp. 31/03/18

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.

OW1018 Exp. 28/09/18

Take control of your investments

Getting a clear, concise view of your investment portfolio can be difficult and time-consuming. That's why we use a secure, online system known as a Platform.

A Platform gives you secure, online access to your investment funds with a transparent, easy-to-understand charging structure. So rather than holding your ISAs, pensions and other investments in different places, you can view everything at a single glance.

Think of it as an online bank account for your investments which we can administer on your behalf.

A clear picture

As well as cutting down on paperwork, using a Platform can speed up transactions and give you the flexibility to take advantage of annual tax allowances. And because your assets are held on one online source, you (and we) can access consolidated reports at the touch of a button.

Whether you need a stocks and shares ISA for tax efficient savings, a simple way of investing your money or a pension to help fund your retirement, we can offer it all in one place with a single solution, giving you secure online access to keep an eye on your investments 24/7.

With us by your side, we'll help make your money work harder for you, giving you a sense of direction and control over your future.

The benefits of a Platform:

Choice
A Platform provides easy access to a wide range of investment funds, allowing us to tailor your portfolio to better reflect your current circumstances, financial position and attitude to risk.

Flexibility
As well as allowing you to view your investments in one place, the flexibility of the Platform means you can record other assets such as the value of your property or any antiques you may have.

Ease of use
The Platform is uncomplicated and user-friendly. It takes the effort out of managing your finances (and completing your tax return) because you can access consolidated reports at the touch of a button.

Transparent charging
The Platform helps you clearly see the costs involved with any investment decision you make.

Control
The Platform gives greater control when it comes to making key investment decisions.

Your Platform access may depend on the ongoing servicing level you have agreed with us.

Past performance is not a guide to future performance. The value of an investment and any income from it can fall as well as rise as a result of market and currency fluctuations. You may not get back the amount you originally invested.

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

High inflation hits workers and savers

Employment is at a record high, but UK workers are starting to feel the squeeze as wages fall below inflation for the first time since 2014.

If you'd like to discuss how you can make your money work harder, please get in touch.

Inflation has gone up, in part, due to the Brexit-related fall in the value of sterling, but the fall in wage growth is unusual as it occurs at a time when employment is at a high. When prices rise faster than wages, it reduces spending power and puts pressure on household finances.

Keeping up with inflation

If you earned £539 per week (the 2016 median gross weekly earnings for full-time employees) your pay next year would need to increase by another £10 each week to keep up with an inflation rate of 2.6% (which it was in August 2017). Unfortunately, the current average pay growth of just 1.8% means your earnings will actually be worth £4 less each week.

As well as your wage-packet, rising inflation could also erode the value of any savings you have on deposit, leading some to consider a riskier investment where there is potential for your money to work harder. If you find yourself in this situation, we can help.

Designing your investment strategy

After establishing and agreeing your attitude to risk, we will work with you to create an appropriate investment strategy - one that aims to maximise returns while maintaining the right level of risk for you.

As well as recommending the most appropriate product or tax 'wrapper' (a specific type of tax efficient investment) from the range available to us, we will also recommend the most appropriate fund or portfolio of funds.

Our recommendation will also take into account a number of other factors, including:

- Your objectives for the investment
- Your personal circumstances
- The timeframe over which you intend to hold the investment or pension
- The amount of money you have available to invest
- Other investments that you already have

With so many investment options available and the effects of inflation erosion posing an immediate risk to your savings, the hardest part can be deciding which route to take.

We'll follow a clear and thorough process to clarify exactly what you need from your investments and how much risk you're prepared to take. Our approach will help you get a solution that matches your needs – today and in the future.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up. You may not get back the amounts originally invested.

OW1003 Exp. 07/01/18

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.

Please contact me if you'd like to discuss the rules and explore whether and how you and your loved ones could benefit from them.

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).

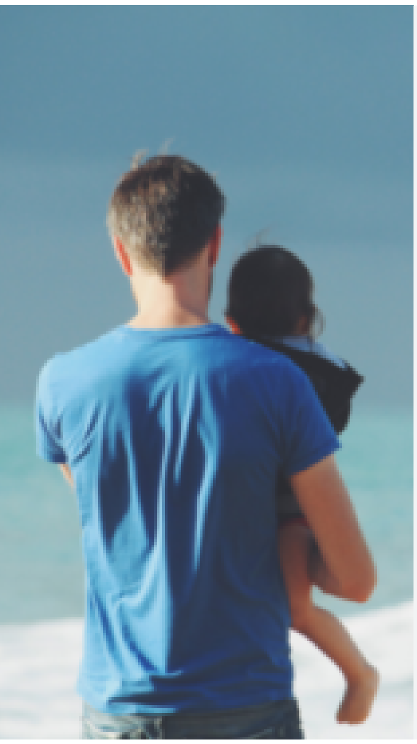
How might your dependents benefit?

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 provider will pay out the full value of the fund in cash on the death of the plan holder. In that situation, the assets count towards the total estate for IHT purposes.

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

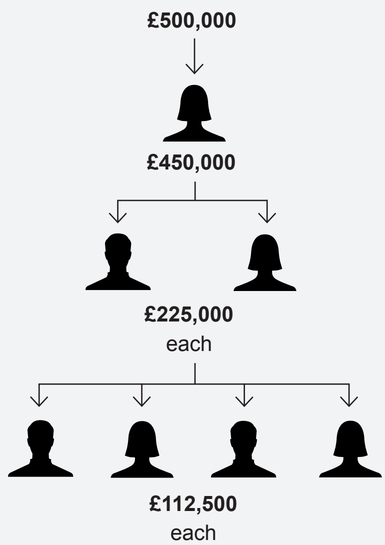
A family comprises a husband and wife, their two children who in turn have two children each (four grandchildren in total).

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.



Mortgages

Thinking of fixing your mortgage?

If you think an increase in your mortgage repayments could have a negative impact on your lifestyle or financial wellbeing, you may want to consider fixing your mortgage.

Don't be drawn into trying to second guess what will happen with interest rates over the coming years. We can help you come to the most appropriate decision for your next mortgage.

With a fixed rate mortgage, your payments are set at a certain level for an agreed period, regardless of whether your lender changes its Standard Variable Rate (SVR). Such an increase typically occurs when the Bank of England Base Rate starts to climb.

Fixed rate mortgages can offer protection from rate rises for an agreed period, but there are several considerations you'll need to think about before making your decision.

Predictable repayments – but you won't benefit from rate cuts

With a **tracker** mortgage, your monthly payment fluctuates in line with a rate that's equal to, higher, or lower than a chosen Base Rate (usually the Bank of England Base Rate). The rate charged on the mortgage 'tracks' that rate, usually for a set period of two to three years.

Tracker rates might be more appealing if you don't have a fixed budget and can tolerate higher mortgage payments if rates rise, whilst being able to benefit from reduced monthly mortgage payments if rates go down.

But with a **fixed rate** mortgage, the rate (and therefore your repayments) will stay the same for an agreed period. A fixed rate mortgage makes budgeting much easier because your payments will not change – even if interest rates go up. However, it also means you won't benefit if rates go down.

Longer fixed terms will be more expensive

If you choose a fixed rate mortgage, you'll need to decide how long you want your fixed rate to last. Two-year fixed rate mortgages typically offer the lowest initial interest rate. If you want to fix your interest rate for longer, you will probably pay more for that longer-term security. This may be worthwhile in return for predictable repayments, or you might choose to take the lower rate for a shorter timeframe if you expect that your financial position will improve by the time the deal ends.

A change in circumstances could cost you

Do you have any *known* changes on the horizon that will have an impact on your mortgage?

With a fixed rate mortgage, you could face an early repayment charge if you repay all or a certain percentage of the mortgage during the fixed rate period.

If you have no known changes and want to benefit from a longer period of security, then a longer term fixed rate of five years may appeal. It might cost more initially, but you'll benefit from knowing that your budget is fixed for that period.

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

CMD Financial Solutions Ltd
39 Lowther Street
Carlisle
Cumbria
CA3 8EP

01228 882 880
info@cmdfs.co.uk
www.cmdfs.co.uk

CMD Financial Solutions

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