threshold financial services

VIEWPOINT

THRESHOLD FINANCIAL SERVICES LIMITED

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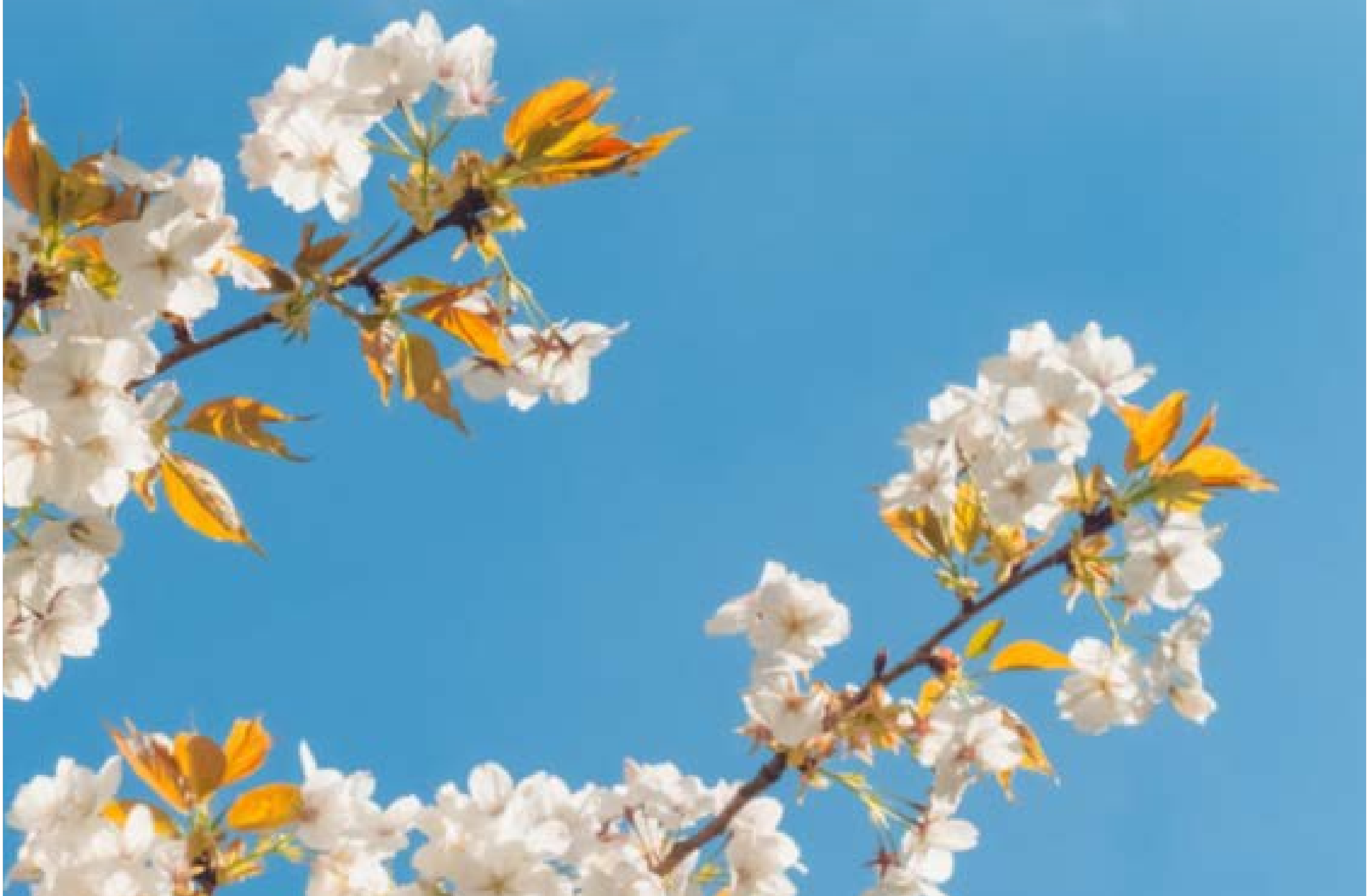

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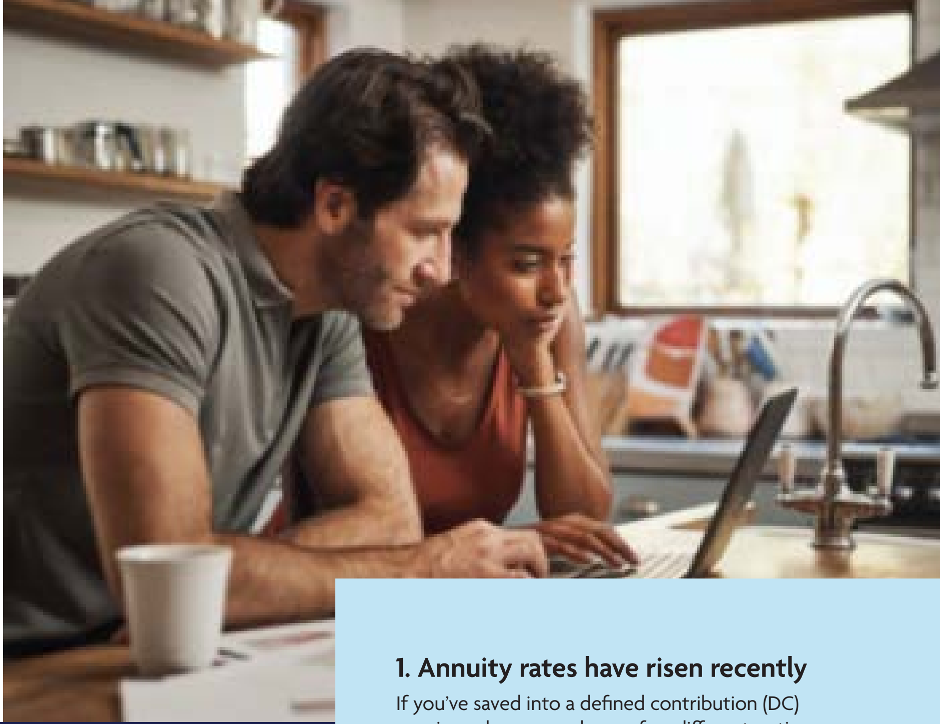
1 & 2 The Brookside Centre, Auckland Road, Southampton SO15 0SD
newenquiry@thresholdmortgages.com | www.Thresholdmortgages.com | 03300249115

With inflation at its highest level in 41 years and energy prices skyrocketing, the cost of living crisis has dominated headlines since inflation began to creep up from historic lows in mid-2021.

While the Covid pandemic began the inflationary increase, this was further exacerbated by the war in Ukraine pushing up energy and food prices even further.

Following such an extended period of price rises, you may be concerned about your household finances and long-term plans.

Rising inflation affects everybody differently depending on their circumstances. If you are approaching retirement, or have already retired, here are a few points to help you understand what the cost of living crisis means for you and some practical tips to help weather the storm.



What does the cost of living crisis mean for your retirement savings?

What's happening to interest rates and how might your pension be affected?

The Bank of England (BoE) is tasked with keeping inflation at the government-set target of 2%. Whenever it falls more than one percentage point above or below that target, the BoE must explain how they will address the difference.

In December 2022, they increased the base rate to 3.5%, which, in turn, will push up interest rates on the high street.

Higher interest rates will affect your pension differently depending on how it is invested:

- If your pension is invested in the stock market, its value could drop since the stock market tends to go down when interest rates rise
- If your pension, or some of it, is invested in bonds, its value could go up, since bonds can increase in value when interest rates rise
- If you hold savings in cash, you are likely to get increased returns as high street banks pass on some of the increases in interest rates.

While current headlines are worrying, it's best to tune out the noise and focus on your personal circumstances.

What is your personal inflation rate?

The UK inflation rate is measured by the Office for National Statistics (ONS), who monitor the fluctuating price of goods in an average shopping basket.

So, how you experience inflation depends on what you spend your money on.

For example, the ONS assumes that an average household allocates 9.8% of their monthly budget on a car or other vehicle. If you don't own a vehicle, your personal inflation rate might be lower than average.

Understanding your personal inflation rate, by using an online calculator, allows you to make informed choices about how you allocate your monthly income and to locate possible savings.

In spite of inflation, here are three ways you can make your retirement income more sustainable.

1. Annuity rates have risen recently

If you've saved into a defined contribution (DC) pension scheme, you have a few different options for drawing an income. One is to buy an annuity that will guarantee you a certain level of income, usually for the rest of your life.

With yields on government bonds increasing, annuity rates have risen through 2022 and are currently enjoying a 14-year high. This means you can get a much higher income for the same level of initial investment than you might have before this year.

If you are approaching retirement or already in retirement and looking for ways to generate an income from your accumulated savings, annuities could be worth considering.

2. Maximising other savings accounts

If you're about to retire, consider whether you have other savings that could provide an income before you start drawing from your pension. This would allow your pension to remain invested for longer, potentially generating bigger returns that, in turn, could provide a better income in the later years of retirement.

This could also help to reduce the Inheritance Tax bill after you die, since pensions usually fall outside of your estate.

3. Using cashflow modelling for greater understanding

We can help you forecast what your savings will look like throughout your retirement using cashflow modelling. When you know whether you're likely to encounter a shortfall, you can create a strategy that will help protect you.

Ensure you also consult us on how best to invest your pension savings. Some pension providers automatically reduce the risk profile on your investments as you approach retirement. This is called "lifestyling" and isn't suitable for everybody as it could harm your pension performance.

OW4297 expires 01.02.2024

GET IN TOUCH

If you're worried about the rising cost of living and would like to discuss ways to protect your finances from the effects of inflation, we're here to help. Please get in touch to arrange a time to chat.

Approved by The Openwork Partnership on 01.02.2023

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Past performance is not a guide to future performance and should not be relied upon.

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

Inflation explained – why is it so high and how could it affect you?

With inflation at its highest level in 41 years and energy prices skyrocketing, the cost of living crisis has dominated headlines since inflation began to creep up from historic lows in mid-2021.

Following such an extended period of price rises, you may be concerned about your household finances and long-term plans.

On the right are some key points summarising what brought the UK economy to this point and what might happen next.

What is inflation?

Inflation measures how the average price of goods and services changes annually, and is the main driver of the cost of living crisis.

Each month, the Office for National Statistics (ONS) monitors the price of 700 goods and services to determine how much an average household's shopping basket changed in the preceding 12 months. This provides the Consumer Prices Index (CPI), which is one of the key ways we measure inflation.

The Bank of England (BoE) is tasked by the government to keep inflation to 2%.

A small level of inflation each year is good for the economy. However, when inflation rises above the 2% target, it can put more pressure on consumer finances and lead to problems in the economy.

Inflation could soon start to fall

In response to rising inflation, the BoE has raised the base interest rate several times throughout 2022, most recently to 3.5% on 15 December 2022. This is expected to encourage more people to save, reducing demand for goods and services, so slowing the pace of price increases.

However, experts predict that inflation will remain high for some time, not returning to the 2% target until 2024. Interest rates are expected to continue to rise into 2023, which could lead to higher mortgage rates and monthly repayments for borrowers.

Your experience of inflation may be different

The ONS makes certain assumptions when calculating UK inflation, such as that the average household allocates 9.8% of their monthly budget to personal travel costs like owning a car. If you do not own a car, your personal inflation rate might be lower than average.

Using an online calculator to understand your personal inflation rate will make it easier to focus on the facts that affect you rather than noisy, often sensationalist, headlines.

A combination of world events raised inflation

Several events in recent years have led to the sharp rise in inflation.

1. The Covid pandemic

During Covid lockdowns many workplaces closed, so normal manufacturing stopped temporarily. This led to a shortage of products. So, when the lockdowns ended, and we resumed our day-to-day lives, demand outstripped supply and prices rose.

2. The war in Ukraine

Food prices – specifically animal feed, fertiliser and vegetable oil – have risen directly because of the war, which had a knock-on effect on the price of everyday products such as sugar.

Energy prices have also soared to the highest level in 10 years as many European countries rely on Russia for imported natural gas.

3. The weakened pound reduces buying power

The value of the pound against the dollar has slowly dropped throughout 2022 from $1.335 on 4 January to $1.146 on 1 November.

GET IN TOUCH

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Approved by The Openwork Partnership on 31.01.2023

OW4296 expires 31.01.2024

How to protect your mortgage

Strengthening your ability to keep up with mortgage payments is important and will give you some peace of mind if your circumstances change.

Life insurance is the form of protection most of us would name as one that could pay down or pay off a mortgage. Yet there are other situations (apart from death) that could mean it's very difficult or even impossible to keep up with mortgage payments for an extended period – without the help from other types of coverage.

Here are some protection policies you might want to have in place (alongside life insurance) to give your mortgage some security if you are unable to keep up with mortgage payments. Your adviser can help you work out the best option for your situation.

Critical illness protection pays out a one-off, lump sum if you're diagnosed with a critical condition or disability that is covered by your policy. It can be offered when you buy for life insurance, as extra coverage.

Income protection pays out a percentage of your monthly income if you are unable to work due to illness, an accident or disability. Depending on the terms, you'll receive a regular income until you either return to paid work, retire, pass away or if the policy term comes to an end.

Mortgage payment protection insurance (MPPI) pays your monthly mortgage payments if you're unable to make them due to an accident or illness.

What's the difference between income protection and MPPI?

Income protection insurance is seen as more comprehensive than MPPI as it covers a proportion of your income and not just your monthly mortgage payments. It could also help to cover monthly bills aside from your mortgage. The period you're protected with income protection tends to be longer than MPPI, too.

Your adviser will help you find a policy that works for you and your needs, in terms of the length of cover you want and how much the premium might be. MPPI premiums could be lower than those for income protection and more affordable.

Our advisers are here to help if you're looking for ways to protect your mortgage.

The pros and cons of downsizing

Downsizing could mean lower overheads as well as the extra cash from the sale of your home. But there are factors to consider before you make the decision.

From reducing household bills to boosting retirement savings, there are plenty of reasons why people choose to downsize and move to a smaller property.

It's important to consider interim costs, however, like whether you decide to rent in the area you're thinking of moving to, as the search could take some time. There are also fees to pay when selling your home including stamp duty, survey costs, legal expenses, agents' fees and moving costs. Your adviser will be able to help breakdown these costs for you.

Practical benefits of downsizing

Along with cutting your bills, helping you to pay off debt and putting some money towards your retirement savings goals, downsizing has other benefits too.

The stress of maintaining a larger home might become unmanageable as you grow older – leaving you out of pocket and physically drained too. Moving to a less expensive-to-run, smaller home could make your life simpler, leaving you with more time to do the things you enjoy during your retirement years.

Downsizing and tax

Your financial adviser can guide you through the tax implications for downsizing, like inheritance tax and whether your estate may still be able to benefit from the residence nil rate band (RNRB) even if you have downsized your property before your death. The rules around this are complex and often come with qualifying conditions, however, so it's essential to let your adviser examine your options and potential tax implications beforehand.

If you're considering downsizing, your adviser can expertly guide you through the process, explain your options and ensure you are fully informed throughout the process

Plan ahead when downsizing

It pays to plan ahead for the type of home you need when you're downsizing. Your mortgage adviser can help you do this and ensure you're buying somewhere that's the right size for you, as well as keeping you updated on what your eventual mortgage payment might be. They will also be able to explain the advantages and disadvantages of other options, like moving to a retirement village.

It's an emotional decision too, especially if the home you are selling is where your children grew up and holds happy memories. Talk about it as a family so that you are all clear about the reasons for the move. Thinking about your future and planning what your retirement income and outgoings could be – in your current home compared to a smaller one – is also something your adviser can help with.

Things to think about if you've made the decision to downsize:

- Clear out any clutter before you move and consider selling items (like furniture) you will no longer need.
- Look at your home and assess whether any repairs are needed before you sell. Your mortgage adviser can help you with this.
- Your adviser will also be able to factor in the costs for selling your home and moving to a new one, to help you budget.
- Think about how much space you will need in your new home, for hobbies, work and when guests come to stay.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

Feel more secure with income protection

When it comes to insurance, we're more likely to protect our pets than our income. Here's why it's important to have some income protection in place.

What is income protection?

Income protection pays out a percentage of your monthly income if you are unable to work due to illness, an accident or disability. It gives you a buffer between finding yourself without an income, paying the bills and protecting your family's security. Building an emergency fund (which covers around three months' worth of bills and essentials) is a good start to give you some financial back-up, but income protection insurance can also provide peace of mind.

How does income protection work?

Income protection is an insurance policy, so you pay a monthly or annual premium for it like any other type of insurance. If you can't work because of sickness, disability or other reasons (depending on your policy criteria), you will receive a regular income until you either return to paid work, retire, pass away or the policy term comes to an end. We can help you determine how much coverage you'll need.

How much does income protection pay?

It could be anything from 60% to 65% of your pre-tax income, and the regular payments (which are tax free) will start after a pre-agreed waiting period, which could be weeks or months. You'll pay more in premiums if the waiting period is shorter and the percentage of your income is larger. This type of protection is different to life insurance or critical illness cover, both of which do not pay regular amounts but instead provide one-off lump sums in the event of your death or the diagnosis of a critical illness.

Do you need income protection?

With the rise in the cost of living and cost of borrowing right now, many people are worried about paying the bills should anything happen that leaves them unable to work. Recent surveys have shown that the average UK family doesn't have enough in savings to be financially secure for long if they're no longer receiving an income.

That's where income protection can give you some financial resilience, especially if your workplace does not provide statutory sick pay (or only starts to pay out after a period of several months). Your adviser can help you navigate the income protection policies that could best suit you and your needs, weighing up how much your premiums might be with the amount of cover you're after.

As with any insurance policy to do with your life and health, things like your age, health, occupation and other factors (like how much of your income you would like to receive, and how soon you would like payments to start) will be considered when your premium is calculated.

We can guide you through what type of policy works best for you, helping you find value for money as well as some peace of mind knowing your income is protected.

Your adviser is best placed to help you find an income protection policy to suit your needs and provide some security for you and your family.

Peace of mind for the self-employed

Sarah is self-employed and she approached her financial adviser for some advice. As a single mum, she worried that her emergency savings fund wouldn't be enough to cover the rent or bills if she found herself unable to work. Sarah's financial adviser found her an income protection plan with an affordable monthly premium that covers 65% of her earnings.

OW3991 Exp. 11/04/2023

What is critical illness cover?

Whether you need critical illness protection depends on your situation as well as any existing policies you might already have in place.

Critical illness insurance pays out a one-off, lump sum if you're diagnosed with a condition or disability that is covered by your policy. It can be offered when someone applies for life insurance – as extra coverage.

In a similar way to some life insurance plans, critical illness covers a set number of years. You can specify whether you want the payout to rise over the course of the term (so it keeps up with inflation) or the opposite – decreasing because your aim is to cover something specific like your mortgage.

If you're thinking about critical illness cover, it's important to speak to your financial adviser who can help you decide how much cover you'll need and how long the term should last.

What does critical illness cover?

Products vary depending on the provider. Certain illnesses are covered as standard by most insurers, including, cancer, heart attack, stroke, organ failure, multiple sclerosis, loss of arms or legs and Alzheimer's and Parkinson's disease.

Some providers may allow you to add additional illnesses to your policy, which you'll pay more for. Your children could also be covered as part of your policy so it's worth asking your adviser about these options if it's something you're keen to have in place.

What does critical illness not cover?

Although a diagnosis of a critical illness can mark the start of a claim in some policies, others may only begin to offer protection once your illness hits a certain level of severity. For example, if you are diagnosed with cancer, payments may only begin when permanent symptoms have been officially diagnosed. Additionally, not all types of cancer are necessarily covered by critical illness protection.

It's important to work with your financial adviser when reviewing a policy and all the small print before you commit to make sure you are sufficiently covered – and aware of areas not included.

Pre-existing conditions

Just like the life insurance application process, critical illness protection requires you to disclose any pre-existing conditions. If you don't then your policy could be invalid.

Your adviser can search the market for a suitable plan, but you'll probably have to pay more in premiums and there will likely be some extra exclusions. The price you pay will vary, based on things like age, occupation, state of health, lifestyle and how much coverage you need and for how long.

Do you need critical illness cover?

There are things to consider if you're worried about being diagnosed with a critical illness and the impact on your income and ability to keep up with bills (which would not be covered by state benefits when you're unable to work).

Your adviser will help you look at the following areas:

- Your employer's coverage – is there any paid leave for illness or disability and for how long?
- Do you have an existing life insurance policy and if so, does it have any illness coverage included?
- Could you consider income protection insurance as an alternative to critical illness?
- Do you have sufficient savings and investments you could use in place of critical illness cover?

If you want to proceed, it's important to work with your adviser to see how much protection you'll need. This means looking at your monthly outgoings and how much you and your family require to live comfortably. You might want to add in any potential costs from medical treatment you may need.

During these important decisions it's easy to lose track of the small details, which is why your adviser can help make the process easier for you and your family and give you some peace of mind.

We can examine your needs and existing policies and then find you the right cover that protects your finances – and your family – should anything happen.

OW4160 Exp. 29/09/2023

Home insurance explained

This year sees new rules from insurers that could bring you savings on your home insurance renewal.

The Financial Conduct Authority (FCA) has announced that insurers will have to offer the same deals to new customers and renewing customers for their home insurance.

Home insurance customers are particularly affected by hikes in renewals, so this is a good time to review your policy with your financial adviser.

What is buildings insurance?

Buildings insurance covers the building itself and its structure – like the roof, floors, windows and in some cases external walls and garages. It will also cover permanent fittings in your kitchen and bathroom (but not your boiler – you'll need specific boiler protection for that).

Mortgage lenders require homeowners to have buildings insurance in place. It's there to protect your property's structure from damaging events like fires, storms, earthquakes, flooding and natural disasters, as well as things like subsidence and even malicious damage or vandalism.

What does buildings insurance not cover?

Buildings insurance won't cover:

- Accidents or normal wear and tear in the home
- Issues arising from neglect of the property
- Damage to gates, fencing or plants
- Effects of frost to external pipes and brickwork
- Damage from pests, insects or birds

To cover some of these issues, your insurance provider may offer accidental coverage as an extra to your policy – but you'll pay more for it. Your adviser can help you decide whether the cost of accidental damage cover is worth it in terms of what the policy actually includes.

It's worth noting that buildings insurance coverage is invalidated if the property is left unattended for more than 30 consecutive days.

What does contents insurance cover?

In a home insurance policy, the contents coverage allows you to select a sum of money (for example £10,000) that you estimate will cover the replacement of contents inside your home if they are damaged, destroyed or stolen.

These items could include electronics and entertainment consoles, kitchenware, furniture, antiques, gym equipment and jewellery. If you have a particularly expensive single item (like a piece of jewellery, a watch or a painting) you may have to declare it separately, depending on your provider's conditions of coverage. This could increase your insurance premium, however. We can help you assess your contents and what your level of coverage should be.

Do you need contents coverage?

Although contents coverage is not compulsory when you own a property, most owners take out some cover (and most providers offer a discounted premium if you have buildings and contents insurance together). Having both means if you need to make a claim for something that affected the building but also some of your contents (for example, flooding damage to your home's foundation and soft furnishings) you would be able to claim for both – using the same policy.

Even if you are renting a property, some contents cover is a good idea to insure your valuable items and provide peace of mind should anything happen.

Home insurance
How we can help you save

Your adviser can search the market and find a home insurance policy that covers your property's structure sufficiently, along with giving you the best advice on how much contents cover you really need. We're here to make sure you're not overpaying for a renewal and will examine your existing plan's small print to check that it properly covers at-risk areas of your home and meets your needs.

Your adviser can help review your home insurance – especially when it's time to renewal – and help ensure you're not overpaying for your policy.