Financial Viewpoint

The Orchard Practice
growing together

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Risk vs reward
An important factor to consider when designing an investment strategy.

Savers in the dark about their pension
How to plan for a more comfortable retirement.

What life insurance is best for your joint mortgage?
Protection considerations when going into joint property ownership.

What's stopping you from saving?
Three ways to combat the reluctance to save money.

Is your Help to Buy deal ending?
Five years on from the launch of the Help to Buy Equity Loan.

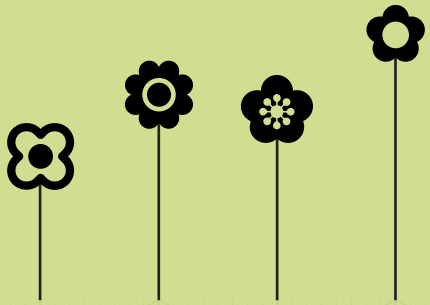
Self-employed lack protection
Why the self-employed could be vulnerable if things don't go to plan.

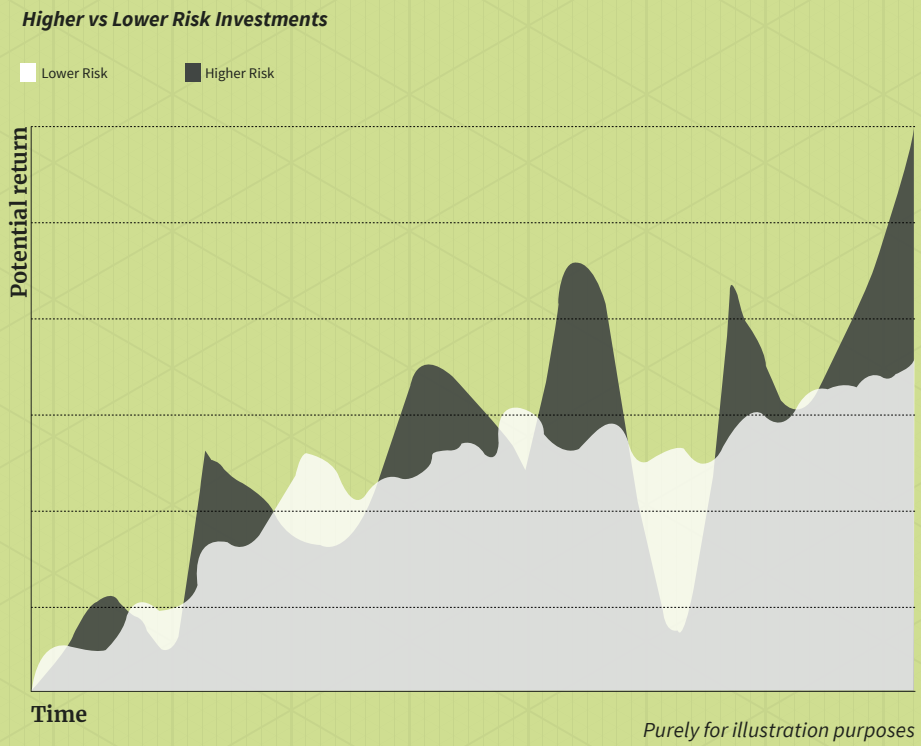
Barriers to protection
Three reasons why the UK population remains hugely under-insured.

Risk vs reward

Despite the recent mortgage interest rate rise, savers will still struggle to enjoy any kind of growth on money they have on deposit, leading some to consider a riskier investment.

If you're considering investing in the stock market, an important – and very personal issue – is how you feel about the prospect of putting money at risk and your ability to accommodate any loss in value.





Factors in determining risk

As investment advisers, we will consider a range of factors when assessing your attitude to investment risk:

Age

How old you are may affect how you would like to invest, particularly the closer you get to retirement.

The need for emergency cash

You should always keep a certain amount readily accessible (for example, in a deposit account) in the event of an emergency or as a foundation for your longer-term savings and investment.

Can you afford to take a risk?

If your investments dropped in the short term, do you have the time to wait for them to recover?

Can you afford not to take a risk?

Leaving all your money on deposit may carry minimal risk, but you may miss out on higher potential returns and possibly see the spending power of that money fall due to inflation.

What's your appetite for risk?

It's a fact that risk and the potential for reward go hand in hand: Investments that are low in risk are low in potential reward, whereas the more risk you're willing to take with your money the greater the potential for reward.

Devising an appropriate investment strategy

Once you're clear – and comfortable – with the level of risk you need to take to reach your goals, you'll need an investment strategy that's finely calibrated to deliver the results you're looking for.

An important part of this is to avoid the 'eggs-in-basket' principle and make sure your portfolio is invested across a range of assets in order that the positive performance of some neutralises the negative performance of others.

You'll also want to know that your money is in the hands of some of the best and most consistent investment managers in the business and you'll need to give your investments time – the longer you can leave your investments in place, the more likely you are to cope with any short-term changes in market value.

Talk to us

As members of Openwork, the UK's largest financial adviser network, we follow a clear and thorough process designed to clarify exactly what you need from your investments. We also have access to a meticulously researched and managed range of investments specifically designed to meet different needs. Taken together, you will know not only that your money is in good hands, but also that given time, there is an increased level of probability that it will perform in line with your expectations.

Need advice?

Good investment advice involves building a clear picture of the results you're looking for, taking into account your current financial position, your future goals and your personal attitude to investment risk.

Talk to us for expert advice.

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

Savers in the dark about their pension

Are you among the 30.4 million working-age people who don't know if their pension pot will be big enough to afford a comfortable lifestyle in retirement?

According to a report by the Pension and Lifetime Savings Association (PLSA), some of the blame for this worrying statistic could be down to simply not knowing how much retirement income is needed. Perhaps unsurprisingly then, 70% of those questioned said they would save more if they had a target to aim for.

So how do you go about finding the income target that's right for you?

We could look to Australia, where savers have defined income goals depending on whether they want a 'modest', or 'comfortable' standard of living in retirement. Here in the UK, if the study by Which? is anything to go by, every household needs a pension pot of at least £370,000 to feel comfortable in retirement.

Take control of your spending – and saving

Of course, everyday living expenses and the cost of renting or buying a home will take priority with your finances. And if you have a dependent family those 'everyday' costs will demand a bigger slice of your available income. But at the same time, it is extremely important to start saving as early as possible.

Worryingly though, current savers could be hugely underestimating how much they would need to set aside for retirement, with the average Brit saving just 12% of their annual income, something that would create a significant shortfall in disposable income once they reduce, or stop working.

We can help you set clear investment goals and plan for a comfortable retirement. Please get in touch to find out how.

While the PLSA is lobbying the government and the pension sector to introduce targets for savers, there are steps you can take to get to grips with your own financial situation and plan for the retirement you want:

1. Take control of your spending
2. Create a long-term financial plan
3. Explore ways to boost your pension pot
4. Monitor the progress of your plan
5. When the time comes, know when, and how best, to convert your pension savings into income

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

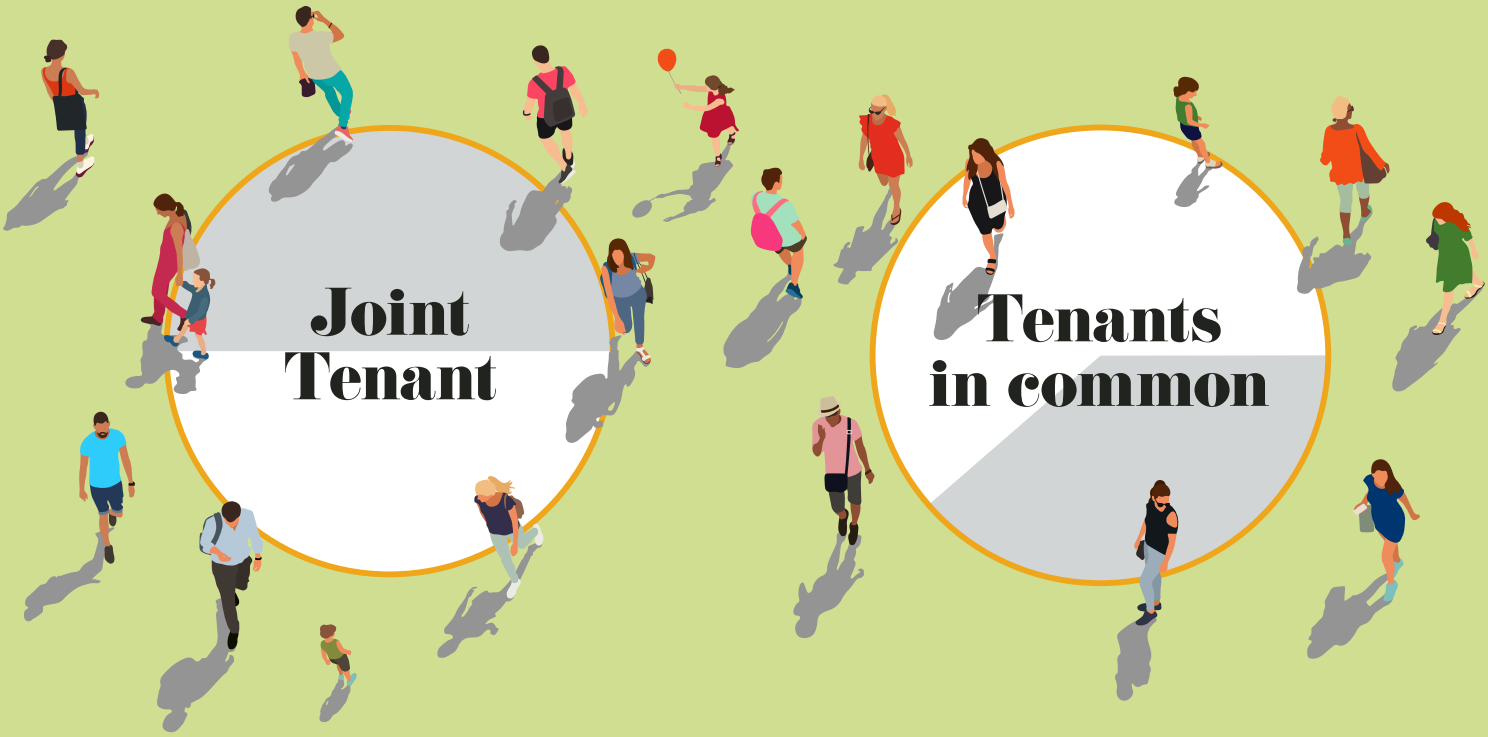
What life insurance is best for your joint mortgage?

When you take out a mortgage we would always recommend you take out appropriate life insurance too, so that you know your monthly mortgage payments are covered if things go awry.

If you're buying on your own, a single life insurance plan will probably do the trick, but if you're going into joint property ownership, a joint plan may be more appropriate. So, which is best for you?

Property ownership

When it comes to joint ownership, there are two main types:



Where both individuals each own 50% of the property and have equal rights over it – no matter who contributed what in terms of a deposit. Married couples and those in civil partnerships would typically go into joint tenancy, as it means that if one person dies, their share automatically passes to the other – irrespective of the terms of any will in place.

Where each owns a separate and distinct share of the property (and not necessarily an equal share). This might be the best option for co-habiting (but not married) couples, parents buying for their child, or relatives or friends buying together. This set-up means that if one of the tenants in common dies, their share forms part of their estate, rather than automatically going to the other tenant.

Single or joint life insurance?

Given the differing types of property ownership, it's important to look at your individual situation before taking out life cover.

A policy taken out on a single life basis covers one person only and will pay out the sum assured if the policyholder dies within the term of the policy. A joint policy covers two lives and will normally pay out on a 'first death' basis, at which point the policy will end. There are pros and cons of both types of cover - and you should seek advice so you know you're getting the cover that's right for you.

Things to think about

Budget

One joint insurance life policy could be more affordable than two single life insurance policies.

Cover

Do you both have exactly the same life insurance need? Would two plans be more appropriate?

A joint life insurance policy only pays out once

The proceeds could go to the surviving partner (and would be tax-free) so that they could pay off the mortgage. However, they would be left without any life insurance and applying for cover later in life can be expensive.

Relationship break down

It's possible that the insurance provider would not be able to divide a joint life policy into two single policies. If you have two separate policies, neither will be affected in the event of a split with the joint owner.

If you need life insurance to protect your mortgage, please talk to us before you buy and we'll advise on cover that's tailored for your circumstances.

OW1643 Exp. 27/09/2019

What's stopping you from saving?

Generally speaking, and subject to investment charges and performance, the more you save and the earlier you start saving the better shape your finances are going to be in when you need to draw on them.

So why is it then that many of us are reluctant to put money aside for a rainy day, a specific objective, or – perhaps most importantly – our retirement?

We offer a professional and personal approach to your savings and investments, not only in the initial design of your strategy, but also over the long-term.

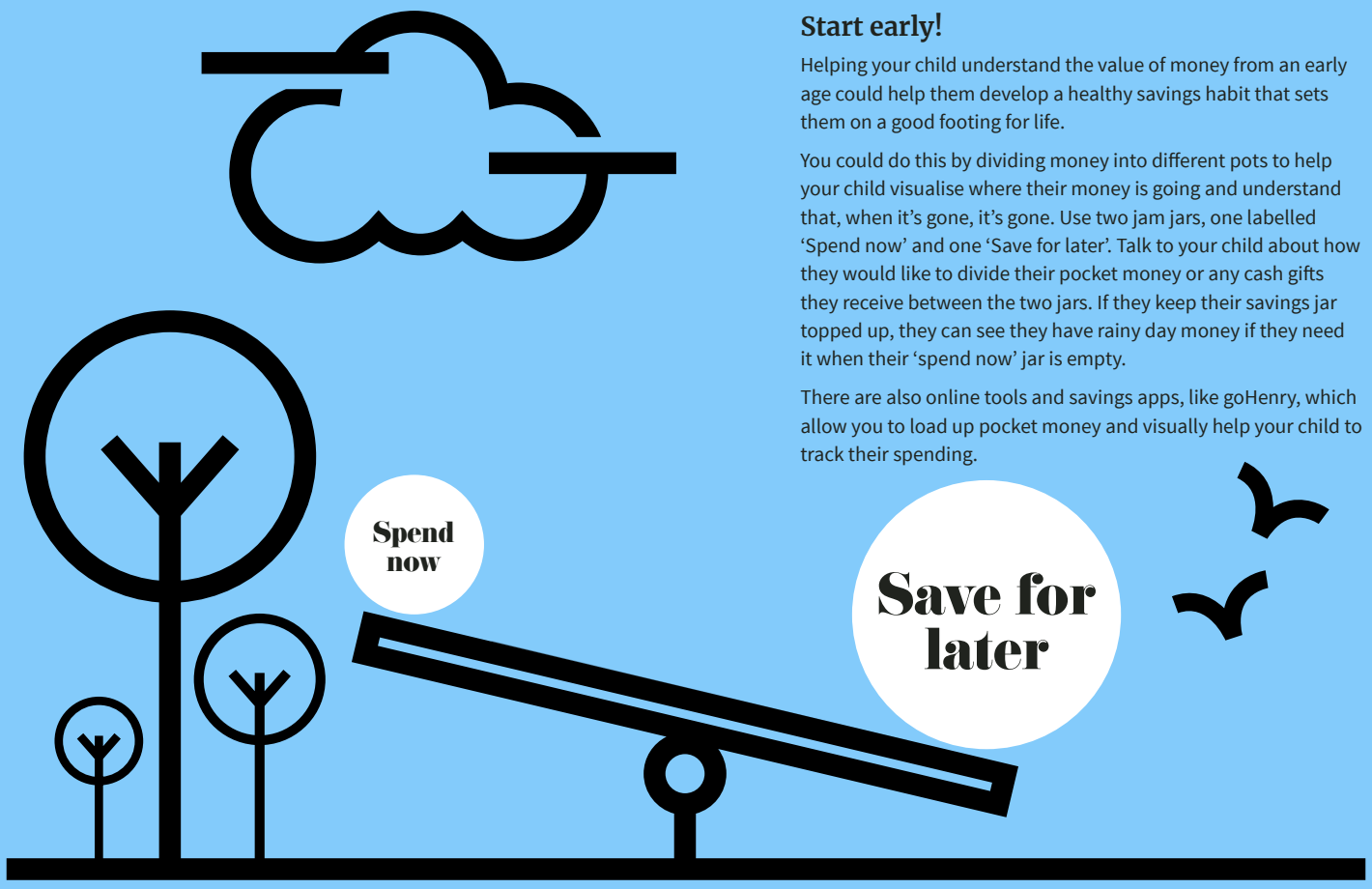
Please talk to us to find out more.

Start early!

Helping your child understand the value of money from an early age could help them develop a healthy savings habit that sets them on a good footing for life.

You could do this by dividing money into different pots to help your child visualise where their money is going and understand that, when it's gone, it's gone. Use two jam jars, one labelled 'Spend now' and one 'Save for later'. Talk to your child about how they would like to divide their pocket money or any cash gifts they receive between the two jars. If they keep their savings jar topped up, they can see they have rainy day money if they need it when their 'spend now' jar is empty.

There are also online tools and savings apps, like goHenry, which allow you to load up pocket money and visually help your child to track their spending.



Swap instant gratification for longer-term satisfaction

When you have spare cash it's lovely to spend it on a treat – after all, you don't get instant gratification from saving for the future. But with many of us enjoying long, hopefully healthy retirements thanks to advances in medical science, it's all the more important to invest now so that you have more time to build up a sufficient pension pot.

Think about what you want to do with your money and set clear achievable goals with milestones that make it feel like you're winning but will benefit you in the longer-term.

Don't bury your head in the sand

According to Which? every household needs a pension pot of at least £370,000 to feel comfortable in retirement – a target which could put people off from saving anything into their pension when they should be doing the exact opposite.

Don't ignore your future financial situation, talk to us for advice on how to achieve the retirement you want so that we can work with you to put a plan in place that will help you achieve your investment goals. We'll follow a meticulous process when it comes to helping you create the right portfolio of investments, starting with getting a deep understanding of the following:

1. What are your investment objectives?
2. What level of risk are you prepared to accept and what potential level of loss can your finances tolerate?
3. Which types of investments we think you should consider in light of your objectives and risk profile?
4. What the most tax-efficient way of holding these investments would be?
5. How your portfolio should be managed on an ongoing basis?

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.

OW1650 Exp. 11/01/2019

Is your Help to Buy deal ending?

Since its launch in April 2013 more than 145,000 properties have been bought using the Help to Buy Equity Loan scheme. Five years on and the interest-free element of the loan is due to end, with homeowners potentially facing expensive fees.

The Help to Buy Equity Loan scheme was aimed at helping more first-time buyers onto the housing ladder; they just needed a 5% deposit and 75% mortgage. The remaining 20% came as a loan from the government and was interest free for the first five years.

If you bought your house with a Help to Buy Equity Loan scheme and you're coming to the end of your five-year interest free period you'll need to start paying a fee of 1.75% of the value of the loan, increasing each year by RPI plus 1%, unless you can pay the loan off.

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

Swap to a new mortgage deal

If your property has increased in value and you have enough equity, you could consider remortgaging to pay off the loan. Remember though, the equity loan is based on the percentage of the property's current value and not the amount you borrowed when you joined the scheme. So, if you bought a house for £200,000 with an equity loan of £40,000 and your home has increased in value by £10,000, you'll need to repay £42,000 when you sell it.

Whatever type of mortgage you have, you can talk to us to explore your options.

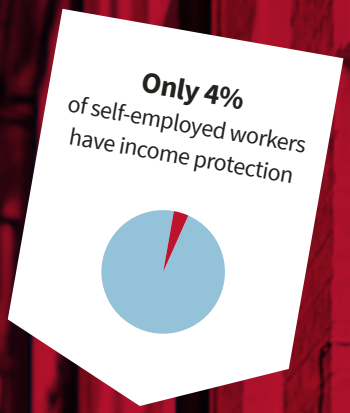
The table below shows how the fee would work on a £40,000 Help to Buy equity loan with an estimated RPI +1% of 6%:

Start of year	*Interest Fee percentage*	*Annual interest fee and management fee due*	*Estimated monthly payment (interest fee and management fee)*
6	1.75%	£712	£59
7	1.86%	£756	£63
8	1.97%	£800	£67
9	2.08%	£844	£70
10	2.21%	£896	£75

Self-Employed lack protection

Just 4% of self-employed workers have income protection in place, leaving the majority vulnerable to financial difficulties if they are suddenly forced to stop working through illness or accident.

In its survey of more than 9,000 adults, LV= identified the self-employed as a niche group who would struggle to make ends meet if they stopped earning. This is partly down to the fact that they have no employer's safety net and little, if anything, in the way of emergency funds.



The benefits of income protection

Income Protection pays out a regular income if you're unable to work due to an accident or illness or, with certain policies, unemployment. For a monthly premium that can be adjusted to suit your budget, this valuable insurance will help to reduce stress, prevent your family suffering financial hardship and help you get back on your feet.

And budget is clearly a factor when it comes to the self-employed taking out protection, with two fifths (41%) surveyed saying they could not afford to save money on a monthly basis.

LV= also found there was a lack of understanding among the self-employed, which could account for such a large number having no income protection cover. In fact, four out of ten self-employed workers mistakenly believe they aren't eligible for this sort of cover.

How can you protect yourself?

Most of us don't think twice when it comes to protecting our vehicles or treasured possessions, and yet it's our income that enables us to enjoy these material things. Those of us who are employed may have some kind of cover provided by their employer, but if you're self-employed you could be exposed.

If you'd like advice on how to protect your finances, or you'd like to review your protection needs, please get in touch.

Barriers to protection

According to an online survey of 2,000 adults by Royal London, half of those surveyed believe life insurance is essential for someone with a mortgage or dependants and yet only 60% of people with a mortgage have life cover.

While 60% of those surveyed with a mortgage have a life insurance policy, just 29% have critical illness cover and 19% have income protection insurance, suggesting that better education is needed to help make people more aware of the benefits of taking out protection.

We believe some kind of protection insurance should be considered essential for anyone who has a mortgage or people who rely on their income - or both. The financial impact of not having cover could be devastating; think about what would happen in your situation if the main breadwinner was unable to work for a long period of time, or was diagnosed with a critical illness. How would you fund your mortgage payments, keep on top of monthly bills or pay for treatment that isn't available on the NHS?

For less than the cost of a daily cup of takeaway coffee* you can protect yourself and your family and help deal with any consequences that could occur from illness, accident, unemployment or death. That's why, when we talk to clients about protection, we talk about value, rather than cost.

If you're concerned you'd be wasting money every month because insurance providers don't pay out, you might be surprised to know that 97.8% of claims were paid in 2017 - a record-breaking £5bn in income protection, critical illness cover and life assurance.

The perceived need for cover across age groups

I don't need life insurance	
18-34 years old	**28%**
35-54 years old	**27%**
55+ years old	**47%**
I don't need critical illness cover	
18-34 years old	**34%**
35-54 years old	**37%**
55+ years old	**67%**
I don't need income protection	
18-34 years old	**38%**
35-54 years old	**49%**
55+ years old	**83%**

Protection insurance can provide a valuable safety net at a time you need it most. Please get in touch and we can discuss how it could benefit you.

Overcoming the barriers

The main reasons why people feel they don't need protection:

1. Cost
2. Not seeing the benefit
3. Not trusting that a provider will pay out

***Quote basis:** 35 year-old non-smoker, £250,000 decreasing life assurance and critical illness cover to cover a repayment mortgage, 25 year term, guaranteed premium. Premium of £58.72 per month is equivalent to £1.89 per day based on a 31-day month. Quote sourced via Openwork Select panel of insurers on 15 January 2018. Premiums are subject to an individual's personal circumstances and medical history.*

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