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FINANCEMATTERS

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USE OR LOSE YOUR ISA ALLOWANCE

Unlike some tax concessions operating on an annual basis, there is no facility to carry unused Individual Savings Account allowance from one tax year to the next. This can often mean a hurried decision in late March, to get the new money in by 5 April (a Saturday this year). It is far better to think ahead, to ensure that the choice of ISA is a measured one and also to gain a degree of flexibility on timing.

It is around a quarter of a century since the British public were introduced to tax-sheltered savings and investments. They loved them; and that love affair has continued through the transition from Personal Equity Plans and Tax Exempt Special Savings Accounts through to ISAs and, more recently, Junior ISAs. After all, what's not to like about legally ducking a potential income tax or capital gains tax liability? Except maybe the fact that the cost of the concession must be met with taxpayers' money – our own! But why not get a bit of it back?

The popularity of ISAs has not been lost on bankers and politicians. As recently as last November, the British Bankers' Association reportedly lobbied the Chancellor of the Exchequer to let people put their total entitlement into a cash ISA. At present, a maximum of half can go into one, although the full allowance may be invested in a stocks & shares ISA. The Chancellor was not swayed by the banks' attempt to make paltry interest rates a little more attractive at a time when many investors have preferred to put their full allowances into stocks & shares ISAs.

ISA LOVE AFFAIR

When the British public were introduced to tax-sheltered savings and investments, they loved them and that love affair has continued. After all, what's not to like about legally ducking a potential income tax or capital gains tax liability? Beating the annual deadline on 5 April is crucial.

CROWD-PLEASING

Successive governments have been keen to please voters by increasing ISA allowances year after year. So, the current £11,520 overall allowance will rise to £11,880 for 2014-15. This indexation is good for investors wishing to build a substantial fund, but unused quotas cannot be carried forward.

ISA feelgood for all

As for politicians' exploitation of ISA feelgood, successive governments have been eager to keep voters happy by increasing the annual ISA allowance year after year. Thus the current £11,520 overall allowance will rise to £11,880 for 2014-15. This indexation is good for investors wishing to build a substantial fund by adding the maximum amount each tax year.

ISAs were also opened up to children with the arrival of the Junior ISA in November 2011. The 2013-14 allowance is £3,720 per eligible child, rising to £3,840 for 2014-15. Also, it was announced in December that, probably from April 2015, existing Child Trust Funds would be convertible into JISAs, reinforcing the ISA principle of tax-efficient savings and investments for almost everyone.

The value of the investment can go down as well as up and you may not get back as much as you put in.

THIS ISSUE: MORTGAGE PROTECTION | IS IT ENOUGH TO RETIRE? | MORTGAGE MARKET REVIEW

FINANCIAL RESILIENCE, A VITAL GOAL

Official research found that many homeowners with interest-only mortgages ending within the next six years did not know how they would repay them. Hoping to pre-empt future problems, regulators urged lenders to give borrowers a heads-up. This was sensible, but families with any sort of mortgage (or no mortgage at all) also face a financial black hole if a breadwinner suffers serious illness or early death.

Last year, just weeks after taking on its regulatory duties, the new Financial Conduct Authority published findings on interest-only mortgage borrowers' capacity to repay their borrowing. Some 10 per cent of 600,000 interest-only borrowers whose mortgages mature by 2020 had made no plans for financing final repayment. Borrowers were rightly urged to prepare for that day of reckoning.

The regulators' concern reflects the wider risks of failing to cover all mortgages and other family commitments, unwisely 'cutting back to save money'. Repossession is the nightmare scenario for homeowners and, although recent Council of Mortgage Lenders' data shows an easing repossession rate, about 5,700 owner-occupiers lost their homes during the third quarter of 2013. The stories behind these were doubtless varied, with many arising from sheer misfortune.

Anyone could be prevented from working, perhaps by a serious accident or illness, or even untimely death. Statistics from the Association of British Insurers show that during 2012 some 28,000 families received an average £49,000 from life insurance claims; 11,700 claimants received an average £70,000 from critical illness policies; and 13,200 an average £9,000 from income protection policies. The levels of cover you take out against such risks should reflect your personal situation.

Review your existing cover

Stark figures conceal a multitude of human stories, but it is probably safe to say that thousands of insured families saw difficult times made rather less difficult and that some cases involved protection insurance payouts that kept a roof over a family's heads. Life insurance, in the form of a mortgage protection policy and other cover, is essential to meet the worst eventuality, but it is important to consider the

potentially devastating loss of income that may result from other cruel twists of fate.

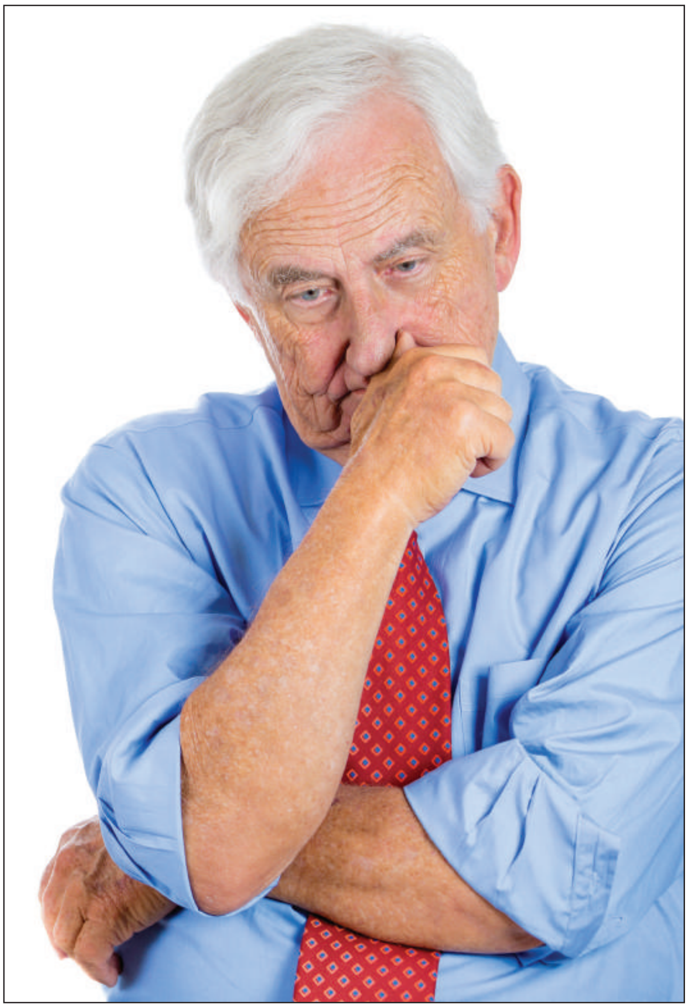
Under the Financial Conduct Authority's Principle 10, an adviser firm must arrange adequate protection for clients' assets when responsible for these. So, who could be better placed to help you set up protection for those you hold dear or review your existing cover?

KEY FACTS

- Council of Mortgage Lenders' data shows a falling repossession rate, but still about 5,700 owner-occupiers lost their homes during Q3 of 2013.
- During 2012, some 28,000 families received an average £49,000 from life insurance claims, the Association of British Insurers revealed.
- About 11,700 claimants got an average £70,000 payout from critical illness policies and 13,200 an average £9,000 from income protection policies – ABI.

IS IT ENOUGH TO RETIRE?

With the government's auto-enrolment scheme steadily making progress, it's all too easy to view it as the cushion that will provide sufficient funding of our lifestyles once we reach retirement. Yet while certainly a positive move towards encouraging more people to start building a pension pot, it's only the first step.



If you are employed, check out the details of the workplace scheme your employer has selected, whether it is a pre-existing scheme or a one adopted for auto-enrolment purposes. Ask yourself if you're wholly satisfied with its investment strategy, or if the combined contributions will be enough.

The financial services sector serves us constant reminders of the 'pensions gap', the deficit between how much people need to have saved in order to fund their retirements and the actual provision they are making. Last year pensions minister Steve Webb warned that 13 million people could expect a reduced standard of living once they hit retirement age – a consequence of not saving early enough.

Requesting an early-stage discussion with your adviser can start you wrapping your head around how much you'll need, when and how you propose to achieve that amount before the time actually comes around. That adviser will then point out any discrepancies in your objectives and suggest how to reconcile them – far easier to sort out the longer the timeframe you have. You may wish to top up your group scheme with an additional pension arrangement taken out privately, to introduce greater diversification and accumulate a larger pot more quickly.

There are other options

If you fancy taking a more active approach to your retirement planning and the investment decisions you make, a self-invested personal pension (SIPP) or a small self-administered scheme (SSAS) may fit your needs. These come with a higher level of involvement and therefore will incur additional charges, but with those come a range of benefits such as greater flexibility that can be helpful in the right circumstances.

Whichever pension plan you decide to pursue, some common truths are that there are numerous options, it's a heavily regulated area of the market undergoing constant change and tax implications almost always apply. And as always, the earlier you start making the right arrangements, the better. As such, speaking with a good adviser will help ensure all your provision is in place at the right time, leaving you to concentrate on enjoying your retirement.

KEY POINTS

- **Auto-enrolment is only the first step**
- **13 million people could expect a reduced standard of living in retirement**
- **You can take a more proactive approach**

MMR: A SHOT IN THE ARM FOR MORTGAGE ADVICE

Anyone considering taking out a mortgage recently may have been made aware of the Mortgage Market Review being undertaken by the Financial Conduct Authority – the industry regulator. The Mortgage Market Review, or MMR, is a process that has been scrutinising the mortgage market for the last few years – with the consultation commencing in 2009 – and working with all facets of the industry in order to tighten up lending procedures to avoid the overheated housing market seen at the height of the financial crisis.

While beneficial for some borrowers, others were held in fraught financial situations as a result of too lenient lending criteria and arguably rather relaxed rules being in place to assess borrowing terms. Minimum qualification requirements have been introduced for all sellers and responsibility over affordability will now sit with the lender rather than the adviser, but the changes to the rules mean it is more important than ever to turn to a specialist adviser for help.

The FCA has deigned that the majority of mortgage sales should be advised, with a minority of simpler cases falling into the 'execution-only' category through which the lender can deal directly with the buyer. Coming into force on 26 April, the review should put a limitation on over-borrowing and means that interest-only loans will only be granted upon the presentation of a suitable repayment plan.

The main thrust of MMR is the importance of advice. Most 'interactive sales' (e.g. face-to-face) must include 'advice' from a suitably qualified professional and most 'non-advised' sales (i.e. without advice) are no longer allowed.

It's beneficial to use an adviser

With an anticipated greater choice of loans and some exceptional deals available, the benefits of using an adviser are multiple. Buying a property is an incredibly stressful time so it's sensible to use a specialist adviser in order to keep the process as simple and streamlined as possible. By recommending particular deals – possibly ones not available on the wider market – and taking care of all the liaison and paperwork on your behalf means you can rest assured that all the i's will be dotted and t's crossed as necessary.

As a mortgage is likely to be the largest financial transaction you will take on in your lifetime, it's crucial to get it right. A mortgage adviser will look far and wide across the range of offers available, explaining their various features and identify which might be the most suitable, ensuring you take out the right product at the right time, given your individual circumstances.

KEY FACTS

- Buying a property is stressful
- A mortgage adviser will keep the process simple and streamlined
- A mortgage adviser will look across a range of offers available
- And, will help identify the most suitable mortgage

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