AUTUMN 2012 | ISSUE 1

Financial Viewpoint

SENSE FINANCIAL

Mortgage lenders reduce rates

In recent weeks, you may have noticed some mortgage lenders reduce their interest rates on new mortgages.

After a prolonged lending drought, it seems lenders are now entering into a mortgage price war. This could be great news for homeowners.

What's changed?

Behind this dramatic change in behaviour is the government's Funding for Lending Scheme (FLS). It gives lenders access to £80bn of funding at extremely low rates. Lenders can access these loans even more cheaply if they lend more to customers like you – hence the sudden availability of cheaper mortgages.

Thankfully, we remain a long way from the irresponsible lending that helped bring about the banking crisis in 2007/08. Lenders are more prudent now, preferring customers with good credit ratings, consistent income and significant deposits.

Lower rates: The big winners

- Borrowers looking for short-term and long-term mortgage deals will find rates at historically low levels (below 3%). These rates could fall even further.
- Borrowers with a significant deposit (25%+), seeking a low 'Loan to Value' mortgage (below 75%) will be the big winners initially. However, borrowers with smaller deposits (10-25%) could soon benefit too, as competition increases among lenders.
- Property investors are likely to see 'Buy to Let' mortgage rates fall.

Even borrowers midway through an existing deal may find these low rates make it worth switching now, and paying the exit penalties from their current lender.

But it's not just about the best rate

A fall in lending rates is great news if you're looking to move, remortgage, buy your first home – or just save money on your mortgage. But an attractive rate alone won't automatically mean a great deal for you.

You also need to consider things like product fees (the one-off fee you pay for the mortgage), lender charges, and the rate you'll be moved to when your deal expires.

It's the total cost of your loan that should drive your decision, alongside what type of loan you want to take out. For instance, would you be better off with a *tracker mortgage*, a *fixed rate*, *discounted rate* or even an *offset*?

See the wood from the trees

Increased competition among lenders will result in more products and more options, which could make choosing a mortgage even more complicated. There are thousands of products out there, and those with the best headline rates may not always offer the best value.

If you'd like professional guidance on choosing a mortgage, please get in touch.

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

The most valuable gift you can buy?

Life and Protection Insurance policies (sometimes known as 'Family Protection') offer a financial safety net for you and your loved ones, should the worst happen.

Contact us today for a Life and Protection Insurance review.

They can provide a regular income or cash payout to ease the financial burden of:

- Death
- Serious injury or illness
- Unemployment (as an additional cover with certain policies).

Which policy is right for you?

Life Insurance can provide financial security to those who depend on your income, should you die. It could pay off your mortgage, or provide an income to help cover things like regular household bills.

The most appropriate type of Life Insurance will depend on your circumstances:

- Term Insurance: pays out a lump sum if you die within the agreed 'term' (the amount of time you have chosen to be covered for, eg. 20 years).
- Whole of Life Insurance: pays out a lump sum when you die, whenever that is, as long as you are still paying the premiums.
- Family Income Benefit Insurance: pays out a regular income, instead of a lump sum, to provide ongoing financial support for those who depend on you.

Critical Illness Insurance pays out a tax-free lump sum on the diagnosis of certain serious or debilitating conditions, like cancer, heart attack or stroke. You may decide to buy Critical Illness Insurance when taking on a major commitment, like a mortgage or starting a family, but it can be bought at any time to provide peace of mind.

Income Protection Insurance pays out a regular, tax-free income if you become unable to work because of illness or injury. Unemployment cover is also available as an additional option with certain policies. It can help you keep up with your mortgage or rent payments, as well as other living costs, until you're able to return to work.

Things change – and so should your cover

You may already have one or more of these policies in place, but it's still worthwhile reviewing your current cover levels. Personal circumstances can change regularly so it's important to ensure your level of cover remains appropriate.

Making financial advice clearer

From 31 December 2012, changes are being made to the way you receive and pay for investment advice.

These changes are happening because the industry regulator, the Financial Services Authority (FSA), wants to make the process of financial advice clearer, in what can be a very complex area of the market.

Higher standards

By the end of the year, all pensions and investment advisers will need to meet a higher qualification standard in order to continue advising you in that area. They will also need to keep their knowledge up-to-date – a process that will be independently assessed and verified.

Clearer charges

The cost of advice will be clearer. Instead of receiving commission from product providers, the cost of the advice you receive will be agreed with you upfront. This agreement will also include a description of any ongoing services you'll receive in return.

Clearer description of services

The way financial advisers describe the services they offer, and whether they advise across the whole of the market or from a select range of providers, will also be clearer.

More control

All of these changes will culminate in higher professional standards and, ultimately, a better service for you. That's because you'll be more confident in the advice you're given (thanks to the higher qualifications) and you'll know exactly what you're paying for from the outset (thanks to clearer charges).

Importantly, you'll also have greater peace of mind when it comes to managing your money, because your adviser will be in touch more often to let you know how your investments are doing.

How will it affect you?

We've already started preparing for the changes so that we're ready ahead of the 31 December deadline.

To find out what we're doing, and how it will affect you, please get in touch.

You can also find out more about the changes online at *www.fsa.gov.uk/advicechanges*

Reducing the risk

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Property 7.1%	Commodities 11.2%	Euro equities 29.8%	Property 18.9%	Commodities 37.0%	Euro equities 20.1%	Commodities 18.5%	Global bonds 45.1%	UK equities 30.1%	Commodities 27.4%	Gilts 15.7%
UK corp bonds 6.1%	Property 10.4%	UK equitiess 20.9%	Euro equities 13.8%	Euro equities 24.1%	Property 18.1%	Euro equities 15.7%	Gilts 12.8%	Euro equities 20.1%	US equities 20.0%	Property 8.3%
Gilts 3.0%	UK corp bonds 10.0%	US equities 15.7%	UK equities 12.8%	UK equities 22.0%	UK equities 16.8%	Global bonds 9.5%	Commodities 5.6%	Commodities 19.8%	UK equities 14.5%	Global bonds 7.4%
Global bonds 1.8%	Gilts 9.3%	Property 11.2%	UK corp bonds 6.7%	Property 18.8%	US equities 1.6%	UK equities 5.3%	UK corp bonds -4.1%	US equities 12.6%	Property 14.3%	UK corp bonds 6.9%
US equities -9.6%	Global bonds 7.9%	UK corp bonds 5.4%	Gilts 6.6%	US equities 17.3%	UK corp bonds 0.7%	Gilts 5.3%	US equities -12.8%	UK corp bonds 10.8%	Global bonds 9.8%	US equities 2.5%
UK equities -13.3%	UK equities -27.1%	Global bonds 4.0%	Global bonds 4.3%	UK corp bonds 9.0%	Gilts 0.7%	US equities 3.7%	Property -22.5%	Property 2.2%	UK corp bonds 8.4%	UK equities -3.5%
Commodities -14.1%	Euro equities -27.1%	Gilts 2.1%	Commodities 3.7%	Gilts 7.9%	Commodities -0.4%	UK corp bonds 1.8%	Euro equities -24.0%	Gilts -1.2%	Gilts 7.2%	Commodities -6.7%
Euro equities -20.1%	US equities -29.6%	Commodities -2.1%	US equities 3.4%	Global bonds 7.3%	Global bonds -4.7%	Property -5.5%	UK equities -29.9%	Global bonds -7.6%	Euro equities 5.8%	Euro equities -14.7%

The events of the past few years have made investors more aware of the risks posed by market volatility. While investing always carries risk, there are ways to help reduce it.

One of the most effective strategies is known as 'multi-asset investing' – or, put simply, not putting all your eggs in one basket.

Why does multi-asset investing work?

The principle behind this strategy is to invest in a variety of assets, each of which reacts differently to changes in the economic and market background. A drop in the value of one asset may then be offset by increases in other asset classes, leading to smoother overall performance.

Recent market history has illustrated the benefits of taking a diversified approach to investing. It is a technique that has been used to good effect by experienced investors over the years, and can add value to large and small investments alike.

An unpredictable picture

The table above shows how different asset classes have performed over the last 10 years. It's clear that it's almost impossible to predict which asset class will generate the highest returns in an individual year.

For example, Gilts was the second worst performing asset class in both 2009 and 2010. But, in 2011 it was the top performer.

Commodities went in the opposite direction, going from top performer in 2010 to second-worst performer in 2011.

Putting your eggs in more than one basket can help to reduce risk. Whatever your level of investment experience, you can benefit from professional advice.

If you'd like to discuss the investment options we can offer you, please get in touch.

You should not use past performance as a suggestion of future performance. It should not be the main or sole reason for making an investment decision.

Source: Threadneedle, Datastream and iBoxx, in £ as at 31 December 2011. UK equities is the FTSE All Share Index, European equities is the FTSE World Europe ex UK Index, Commodities is the CRB Continuous Commodity Index (Price), UK corporate bonds is the iBoxx Sterling. Non-Gilts Index (linked with UBS W All Stocks Investment Grade pre 30 June 2003), US equities is the S&P 500 Composite Index, Gilts is the FTA All Stocks Index, Property is the IPD Monthly Index (total return), Global bonds is JPM Global Index

The price is right… but is your policy?

Your home is more than just bricks and mortar. It's the result of years of hard work; a place where memories are created, and a home for valued and treasured possessions. Making sure you have the right insurance for your home could provide real peace of mind.

Choosing a Home Insurance policy

Every household is unique, and what benefits your neighbour may not necessarily benefit you. Here are some key points to consider when choosing a policy:

Buildings Insurance

Buildings Sum Assured: This should be enough to cover the full cost of rebuilding your property. The rebuilding cost is not the same as market value, and may change if you extend or alter your property.

Alternative Accommodation: Knowing your policy includes alternative accommodation can be reassuring should you need to leave your property, due to an event like flood or fire.

Contents Insurance

Contents Cover: Many insurers offer a standard level of contents cover (eg. £35,000). This may seem like a lot, but it's surprising how the value of your possessions, including things like your music collection and clothes, can quickly add up.

Accidental Damage Cover: Policies will automatically cover you for the consequences of certain events (eg. flood and fire), but not accidents. You may therefore want to find a policy that includes accidental damage cover.

Cover away from the home: If you take your valuable items away from your home, you may want to consider covering your personal possessions separately under your Contents policy.

It might not pay to save

Many insurance companies promote their Home Insurance products based on price. While it might be tempting to go with the cheapest premium you can find, it may not actually provide the right level of cover for you and could include hidden excesses. Insufficient cover could leave you significantly out of pocket when you need to make a claim.

Look to the stars

Just like the hotel industry, many Home Insurance policies are star-rated based on the quality of cover provided. This star system is operated by independent research firm Defaqto. One or two-star products will offer simple, basic cover. A four or five-star product will deliver higher levels of cover, with additional benefits.

Short on time? Be careful

While the internet may seem a quick and easy way to arrange Home Insurance, be careful. Many websites apply default settings to generate the cheapest quotes. However, these default settings may not be right for you and the level of cover you need.

For a professional Home Insurance review, please get in touch.

Increasing your retirement income

Recent research suggests more than two-thirds of us could benefit from a higher income when we retire, by applying for an Enhanced Annuity[1].

Contact us today to discuss your retirement options.

What is an Enhanced Annuity?

An Enhanced Annuity pays a higher income in retirement if you have a medical condition that may reduce your life expectancy. This is because an annuity is, in essence, a 'bet' with the annuity provider about how long you will live.

How does it work?

When you invest in an annuity, the provider converts your pension 'pot' (the total amount you've accumulated within your pension) into income payments, which are paid for the remainder of your life.

If you die before your predicted life expectancy, the insurance company will make a profit, which is used to pay the incomes of those who live longer than predicted. If you live longer than your predicted life expectancy, you will have won the 'bet' with the insurance company – and received a higher pension than you would have otherwise received.

Boost your retirement income

The amount of extra income you could earn in retirement depends on your actual state of health, or your lifestyle.

If you have high blood pressure or high cholesterol, you could receive around 9% more income than from a 'conventional' annuity. If you are a smoker, you may get up to 13% more income. If you are very seriously ill, the extra income will be significantly higher.

Latest figures show the difference between the average conventional and enhanced annuity rates is 18.7%. Over the average retirement, with a pension pot of £50,000, this would amount to £8,912.76 for men and £10,290 for women[2].

These significant differences highlight the importance of getting good quality advice before you take out an annuity.

For less than a daily coffee

With food and fuel costs rising, it's nice to find something that remains affordable. Life Insurance prices, for example, have decreased steadily over the past decade, as average life expectancy has gone up.

Prices are now at a level where you can protect your loved ones for less than the price of a daily takeaway coffee[1], meaning peace of mind is within your reach – even in these days of austerity.

[1] 30 year-old non-smoker, £200k decreasing life assurance and critical illness cover, 25 year term, Guaranteed rates. Male: £30.07 per month (£1.00 per day based on 30-day month); Female: £33.50 per month (£1.17 based on 30-day month). Cost accurate at 30/8/2012.

Annuity Income: Enhanced Vs Conventional

£50,000 pension pot	Average Conventional Annuity *(per year)*	Average Enhanced Annuity *(per year)*	Percentage Difference	Difference over the first five years of retirement	Difference over average retirement
Men	£2,853.34	£3,377.62	18.37%	£2,621.40	£8,912.76
Women	£2,703.50	£3,218.00	19.03%	£2,572.50	£10,290.00

[1] MGM Advantage, 2012

[2] Annuity rates are based on analysis of data from Investment Life and Pensions Moneyfacts by MGM Advantage (June 2012). The analysis looked at level annuities without a guarantee and income levels are based on a pension pot of £50,000 and a retirement age of 65. To create total retirement income figures the Index multiplied annual annuity income by 17 years in the case of men and 20 years in the case of women. Enhanced rate figures are from a sample of smoker rates and enhanced rates based on health conditions.

The cost of equality

From 21 December, EU law changes could mean you pay more for personal insurance[1].

If you drive a car, you'll probably know that insurers take your gender into consideration when quoting your premium.

But you may not be aware that the same logic also applies to the pricing of other types of personal insurance. This includes things like Life Insurance, Critical Illness Cover and Income Protection Cover - often collectively referred to as 'Family Protection'.

At the end of this year, changes to the EU Gender Directive will outlaw the use of gender as a pricing factor for all personal insurance. That means men and women could find themselves paying more for Family Protection.

Counting the cost

As well as the law change detailed above, life insurance companies will also be forced to pay more tax from the start of next year. The combined impact of these changes could mean you'll soon pay an extra 20% – or more – for Family Protection[1].

[1]Based on industry estimates from LV= (June 2012) and the Actuarial Profession (March 2012).

Do I need Family Protection?

Unlike Car Insurance, which you have to buy every year, Family Protection is something most people buy when they take on new or additional financial responsibilities.

If you have financial responsibilities (such as a mortgage), or a family to provide for, Family Protection should be considered essential.

It can provide a regular income or lump sum should you become unable to work through illness, accident or unemployment. It can also ensure a cash payout if you were to die.

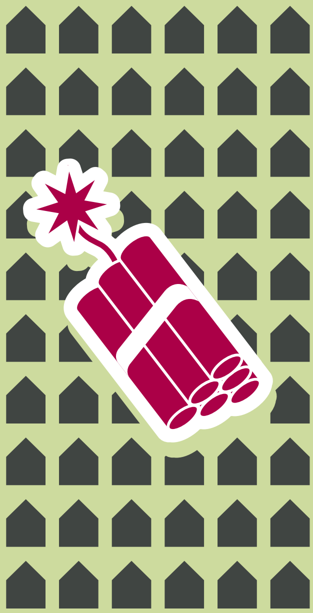
What can I do about the pricing changes?

The next couple of months provide a window of opportunity to secure Family Protection at today's rates.

Insurers are likely to experience a flood of applications towards the end of the year – some of which they may struggle to process before the price increases take effect.

If you want to find out how these price changes could affect you, please speak to us today.

The Ticking Time Bomb



Around 1.5 million Interest Only mortgages are due for repayment by 2020, but 80% have no repayment strategy.

If you have an Interest Only mortgage, but no repayment plan in place, we can help. Contact us today – before it's too late.

Source: www.thisismoney.co.uk/money/mortgageshome/article-2115253

Sense financial
71 Flixton Road
Urmston Manchester
M41 5AN

T 01618348486
billie@sensefinancial.co.uk

SENSE FINANCIAL

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

(08/12) COPEN622 Exp: 1/12/2012