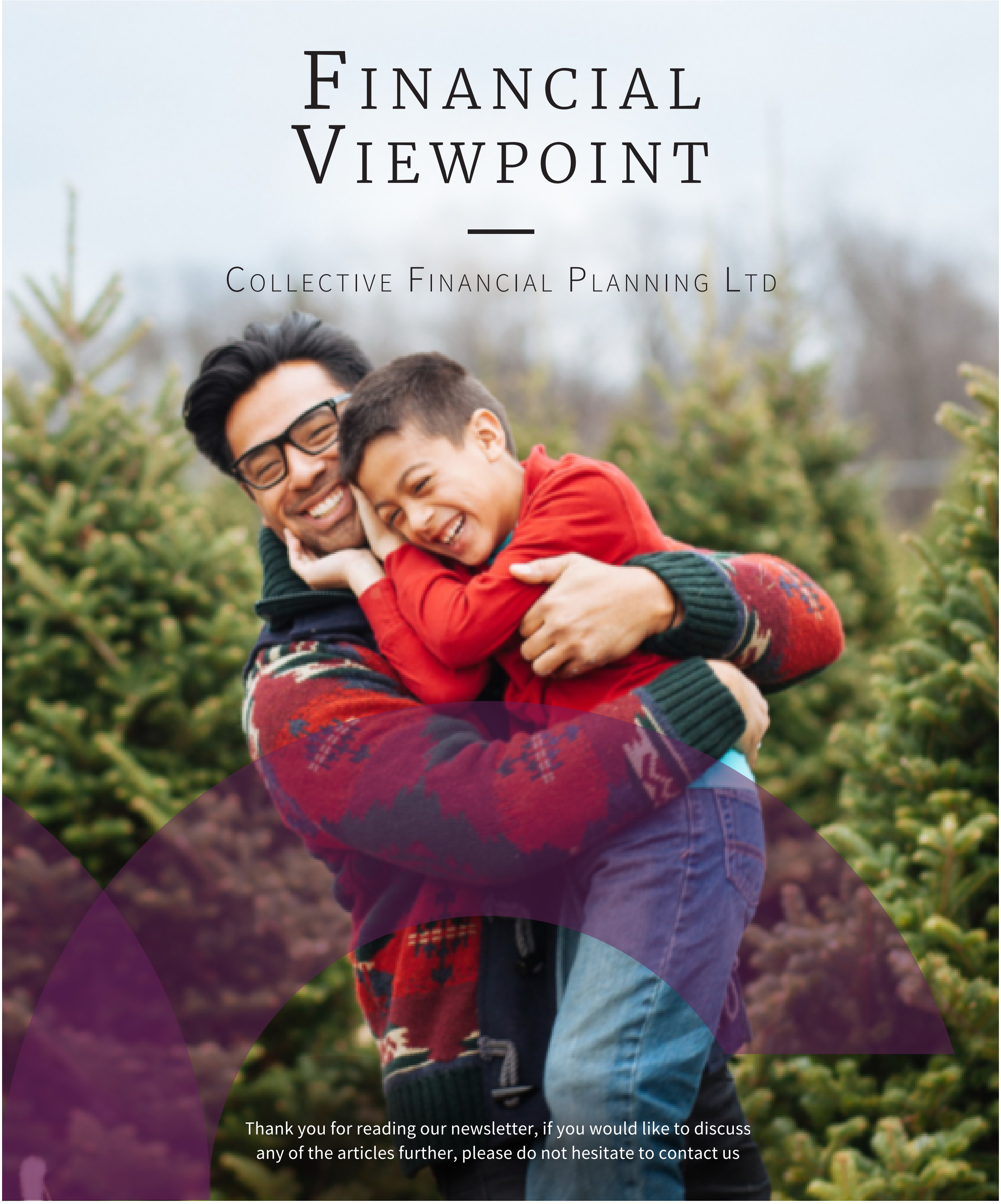
Financial Viewpoint

Collective Financial Planning Ltd



Thank you for reading our newsletter, if you would like to discuss any of the articles further, please do not hesitate to contact us

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Could you 'nudge' your way to a healthy retirement?

Nudge theory was popularized in 2008 by behavioural economist Richard Thaler and legal scholar Cass Sunstein. In simple terms it is about making it easier for people to make a certain decision that is ultimately in their own self-interest.

Day-to-day

In the short term there are some financial nudges you can do to apply nudge theory to your own finances.

Put your decisions into context – During lockdown, local or national (or whatever COVID-19 throws at us next) do you really need to buy another plant, candle or pair of joggers.

Set simple and clear goals – A single goal like save £6,000 for a car is much easier to achieve than multiple goals like save for a home, car, and holiday.

Make it easier to do the things you should do (and hard to do the things you shouldn't) – Putting small barriers in the way of every day things, like not allowing your browser to remember your PayPal password, makes it harder to spend money and you may ultimately decide not to.

Don't ignore information and the facts – check your budget, bank statements and accounts regularly.

Long-term

Do you like going on holiday, eating out and enjoying your hobbies? If so, it's likely your 'future self' will too. Far from sitting in an armchair in your carpet slippers and a tartan blanket, it's much more likely that your future self (who is, after all, still you) will want to enjoy their retirement in style.

So, what's the dream? Well, according to research from Aviva, almost half of people want to travel when they retire, while taking up a new hobby and helping their children and grandchildren out financially come second and third on the list – all suggesting that people want to live their lives to the fullest in their later years. Unfortunately, translating the dream into reality is where it falls apart for some – 23% of people think their retirement is likely to be a financial struggle.

Living the dream

A study has hit on a novel solution to the problem – 'nudges'. In other words, by making small behavioural adjustments to your spending habits, you could enjoy an additional £7,000 every year in retirement income. The key lies in encouraging young people to imagine themselves in the future, rather than viewing their 'future self' as a different person.

Understandably, a lot of young people are focusing on their current financial priorities – after all, we're in the midst of a global pandemic. But that doesn't mean your future financial needs have gone away. So, rather than thinking of your 'future self' as a stranger, treat your pension like a gift you're giving yourself – you just can't open it yet!

Get nudging

COVID-19 hasn't given us many silver linings but reduced living expenses due to remote working and the closure of bars, restaurants and other leisure and hospitality businesses could provide a welcome boost to our savings.

Similarly, you could save around £40 a month by keeping going with the home workouts, like the 72% of people who say they have no plans on going back to the gym. In addition, many kids' clubs have yet to start back up following lockdown, so parents could be making big savings here, too.

Save on subscriptions

Foregoing the latest iPhone could also save you a hefty sum. Keeping your existing handset instead, and switching to a SIM-only deal, could help you move some welcome funds into the pension pot.

Or, you could divert an average £39 per month in wasted subscriptions into your pension. Unused gym memberships, phone contracts and subscriptions to online video streaming services are all common culprits, according to research.

Expert 'nudgers' at your service

If you need a 'nudge' from us to help boost your retirement income, we're just a phone call away.

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.

Do you know your State Pension age?

If your DOB is after
April 1960
your pension age will be 67

If your DOB is after
April 1977
your pension age
will be 68

Did you know that the State Pension age (SPA) increased to 66 for both men and women in October this year and it's set to rise further? Knowing your SPA, together with how much you can expect to receive, is an important part of your retirement plan that is often overlooked.

Why do I have to wait longer?

In 1908, when the first State Pension was introduced in the UK, you would have to wait until the grand old age of 70 before being able to claim. This was at a time when life expectancy at birth was around 40 years for men and 43 for women, and when only 24% of people reached State Pension age!

As recently as ten years ago, women could claim their state pension at 60, while men had to wait until they were 65, but qualifying ages have now been brought into line. The changes were introduced due to increased life expectancy, as people are now likely to spend a larger proportion of their adult lives in retirement than ever before.

66, 67 or older?

To find out your SPA, visit the government website www.gov.uk/state-pension-age - this will provide you with an exact date. However, you are no longer forced to take your pension at this age, so you could consider working longer if that suits your circumstances.

If you were born after April 1960, your pension age will be 67 and people born after April 1977 will have to wait until age 68 under current proposals, although the government is considering plans for this to be brought forward.

How much will I get?

The State Pension is paid to anyone who has made at least ten years' worth of National Insurance contributions during their working lifetime. The maximum payment is currently £175.20 a week (£9,110.40 a year), but how much you get depends on how many years you contributed for. To check your State Pension forecast, go to www.gov.uk/check-state-pension.

You may also be able to apply for National Insurance credits or pay voluntary National Insurance to boost your State Pension, although the best options will depend on your individual circumstances.

A timely reminder to plan ahead

Why not let the recent increase to the SPA act as a reminder to review all your pension pots, including your State Pension, to consider whether your savings are going to allow you to have the retirement you've dreamed of. We can help you get on track, so why not get in touch?

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Cohabiting couples should make a Will

When Tom and Pete bought their first property together, things couldn't have been going better. They both had good jobs, were pulling in decent salaries and were excited about spending the rest of their lives together.

They chatted about making a Will a few times, but somehow life always got in the way. Until one day, 10 years later, Pete got a call that would change his life forever. Knocked down by a car while crossing the road, Tom had tragically passed away.

The intestacy trap

Grieving for the loss of his partner, Pete then found out that, due to the UK's intestacy laws, he wasn't entitled to inherit any of Tom's property, financial assets or belongings, unless they were jointly owned. Despite Pete knowing that Tom had loved him and would want him to inherit, the absence of a Will meant that none of that mattered.

Thankfully, Pete and Tom had owned their property as joint tenants, meaning Tom's share automatically passed to Pete according to the rights of survivorship. However, without children or any surviving parents or siblings, the remainder of Tom's assets ended up being passed on to a distant uncle with whom Tom didn't have any contact.

Now, Pete faces a battle to pay his bills and mortgages without Tom's savings and investments, life insurance policy and even the car that Tom owned but they both used.

How a Will could have helped

Had Tom got around to writing a Will, he would have been able to specify exactly who would receive what from his estate, including his savings, investments, car and other belongings. In addition to writing a Will, Tom could have made his wishes known, by nominating beneficiaries to his pension and writing life policies under trust. By taking these steps, Pete would have been given the extra financial support he now so desperately needs.

As it stands, Pete still has the legal right to claim against Tom's estate as they had been cohabiting for more than two years - but this will be a costly and time-consuming process and a positive outcome isn't guaranteed. If Tom had a Will, this added stress could have been avoided.

Don't put it off

With cohabiting couple families growing faster than married couple and lone parent families, it's clear that more people are choosing not to get married, just like Tom and Pete. However, there's a catch. Cohabiting couples have none of the legal protections afforded by marriage, meaning that a Will is one way to ensure your partner inherits according to your wishes. Despite this, research shows three in five UK adults do not have one.

Let us help

Don't let what happened to Pete, happen to you. Speak to a solicitor or Will writing expert to make sure your loved ones are protected.

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Three in five UK adults do not have a Will

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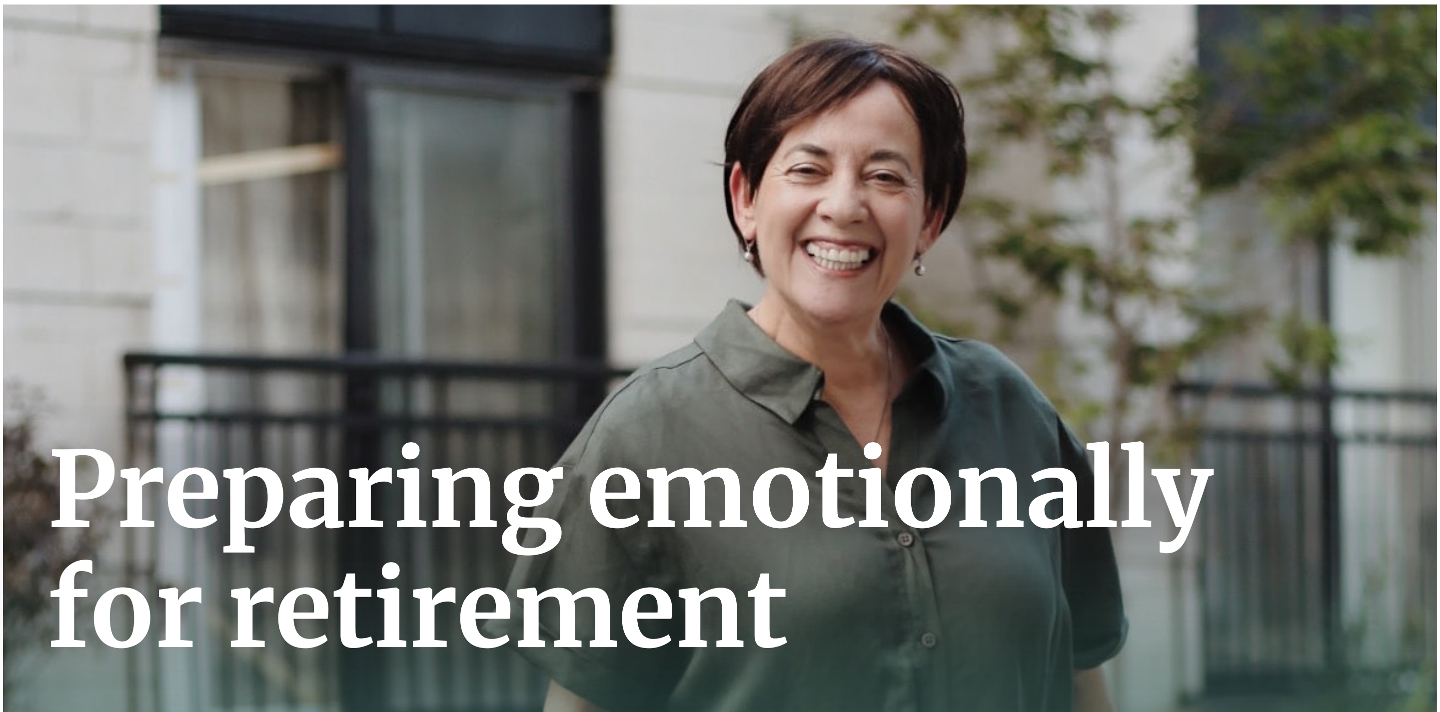

Preparing emotionally for retirement

You've retired from work, you've waved a cheerful goodbye to your colleagues and you're ready for the rest and relaxation you so rightly deserve. It's exciting! For a couple of weeks. Then the doubt sets in.

What will you do with your life, you might find yourself asking? How will you fill the long daytime hours? How will you manage without the comfort of your routine? Where will you find your purpose, if not from work?

Planning – it's not just financial

Whenever we talk about retirement, it's all about the pension. If you have enough in your pension pot when you retire, you're all set, right?

Many retirees simply aren't prepared for how significantly their life will change, and many, while not missing work per se, will certainly miss the sense of purpose it offered. And, with life expectancy on the rise, it's daunting to contemplate the next 20 to 30 years without any of the structure around which you're used to organising your life.

'Reinvent' yourself

A European study funded by the Erasmus program argues that we should start preparing for retirement as early as 50. Suddenly stopping work after spending a lifetime focused on your career, it argues, can be the catalyst for depression and other mental health issues. That's why we need to 'reinvent' ourselves in our 50s by discovering new passions and interests, improving our mental and physical health, and generally forging a life for ourselves outside of work in the run-up to retirement.

So, what steps can you take to prepare for a happy retirement?

Happy, healthy, whole

Retired or not, you'll still want and need similar things in life: a sense of purpose, social interaction and activities that interest and stimulate you. With this in mind, here are our tips for preparing for a fulfilling retirement:

Wind down in stages – rather than going from full-time to retired overnight, why not try reducing your hours first, giving you the fulfilment of work combined with the free time to pursue other interests?

Exercise your body – and your mind – experts have long extolled the virtues of exercise for our physical and mental health. Getting into the habit now could really help your emotional state when you retire.

Be a social butterfly – in addition to solitary hobbies and interests, joining groups and clubs can help you develop social networks outside of the workplace.

Get a furry friend – as well as keeping you company indoors, a pet (such as a dog) will give you an incentive to get outside in the fresh air.

Don't neglect your pension – while preparing emotionally is a big part of retirement, the money still has to be there to allow you to live life to the fullest.

Would equity release be right for you? A way of supplementing your retirement income using the value tied up in your home, although not right for everyone, we can help you explore your options.

We do the finances, you do the rest

That's why we're here! We can help you sort out the financial stuff to provide you with the resources to spend your retirement free from money worries, so you can concentrate on enjoying your later years. Why not give us a call?

You will need to take legal advice before releasing equity from your home as Lifetime Mortgages and Home Reversion plans are not right for everyone. This is a referral service.

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

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

OW3038 Exp. 02/12/2021

Is your deposit enough?

When James and Allison first started renting together, they were determined it would be a temporary move.

Fresh out of university, they turned their attention immediately to homeownership, putting away as much of their money as their rent and living costs would allow.

Allison had always been careful with my money and imagined with both of them saving they would be able to get a foot on the property ladder sooner rather than later.

Along came COVID

Fast forward six years with a budget of £250,000 and a carefully scrimped and saved £25,000 deposit and the couple finally started house hunting.

Then along came 2020. A global pandemic, the closure of the property market, a failing economy and widespread job losses. James, a hotel manager, was placed on furlough. Allison was fortunately able to work from home. With government support and the hope that the situation would be temporary, the couple remained optimistic.

> **It was widely reported that lenders were pulling hundreds of mortgage products for buyers with 5% and 10% deposits**

Mortgage lenders took a more cautious approach, however. In the months that followed, news that lenders were pulling hundreds of mortgage products for buyers with 5% and 10% deposits was widely reported in the media.

The struggle to find a mortgage

Just before lockdown hit, James and Allison had managed to secure a mortgage in principle with a 10% deposit. Now, like many others, they faced being denied a mortgage despite having an agreement in principle. Through no fault of their own, they found themselves thousands short on their deposit

Difficult, but not impossible

Reporting shows first-time buyers are set to lose their 'share-of-sales stronghold' by the end of the year, James and Allison are far from alone in their experiences. And, while 56% of first-time buyers under the age of 35 have received financial assistance from the Bank of Mum and Dad, not everyone is in the same position.

Getting a mortgage may still be possible for the many despite the difficulties in the market. That's where we come in. We can help people like James and Allison to get a grip on their finances and find a mortgage that suits their circumstances. We're here to consider all the options available to you.

Latest news

Boris Johnson recently announced his intention to develop plans to allow more low deposit mortgages to be made available. Ministers are scoping plans to allow more mortgages to be offered with a 5% deposit. We will keep you up to date with developments.

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How do I prove my income for a mortgage?

With Covid-19 rules changing almost daily, extensions to furloughs and local and national lockdowns many are facing money worries this winter. If you're trying to get a mortgage and want to push your property transaction through before the Stamp Duty holiday ends, how do you prove your income – especially if it has temporarily been reduced due to furlough or short-time work?

For those who remain on furlough or have otherwise seen their income temporarily reduce, providing proof of income to mortgage lenders now presents a serious challenge. Many mortgage providers have tightened their lending criteria, especially for furloughed workers, amid concerns of future job losses.

Assessing your options

Without a doubt, it is more challenging for some people to get a mortgage at present, given the increasingly stringent affordability requirements that many lenders are introducing – so it's likely you'll be wanting a little extra help! Whether you are buying your first home, taking a step up the property ladder or looking to downsize, don't worry, we're here for you.

Case studies

An employed restaurant manager

Sally works as a restaurant manager and is looking to buy a house with her partner, Nathan. Since July, Sally's employer has brought her back to work on part-time hours and furloughed her for the remainder. Nathan is employed at a marketing agency and is working remotely on full pay. As a result, their prospective lender has asked for the following as proof of income:

— **Three months' payslips and two years' P60s** (these are standard requirements, although some lenders may accept less)

— **Three months' bank account statements**

— For Sally, the lender has also asked for a **reference from her employer to confirm the date she will be returning to full-time work**.

Sally does have three months' worth of payslips to give to her lender, although these show her reduced furloughed salary, rather than her full salary. As a result, it is likely the lender will use this figure to calculate affordability for her.

A self-employed graphic designer

Dan works for himself as a graphic designer. He has seen his income dip significantly since the onset of the pandemic, with clients delaying or cancelling many projects. After confirming to HMRC that his business had been adversely affected by the crisis, he applied for and received a grant under the Self-Employed Income Support Scheme (SEISS).

Just before the pandemic began, Dan had been looking to buy a flat, but getting a mortgage has since become a lot more difficult. His prospective lender is now asking for:

— **Three years' full business accounts**, signed off by a Chartered accountant

— **Three years' SA302 year-end tax calculations and corresponding tax year overview from HMRC**

— Most recent **three months' bank statements**.

In order to make it more likely that his mortgage application will be accepted, Dan is also hoping to approach some of his clients to ask them for references, stating the work they are likely to have for him over the next 12 months.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT.