

MONEY ^{with} PRINCIPLES

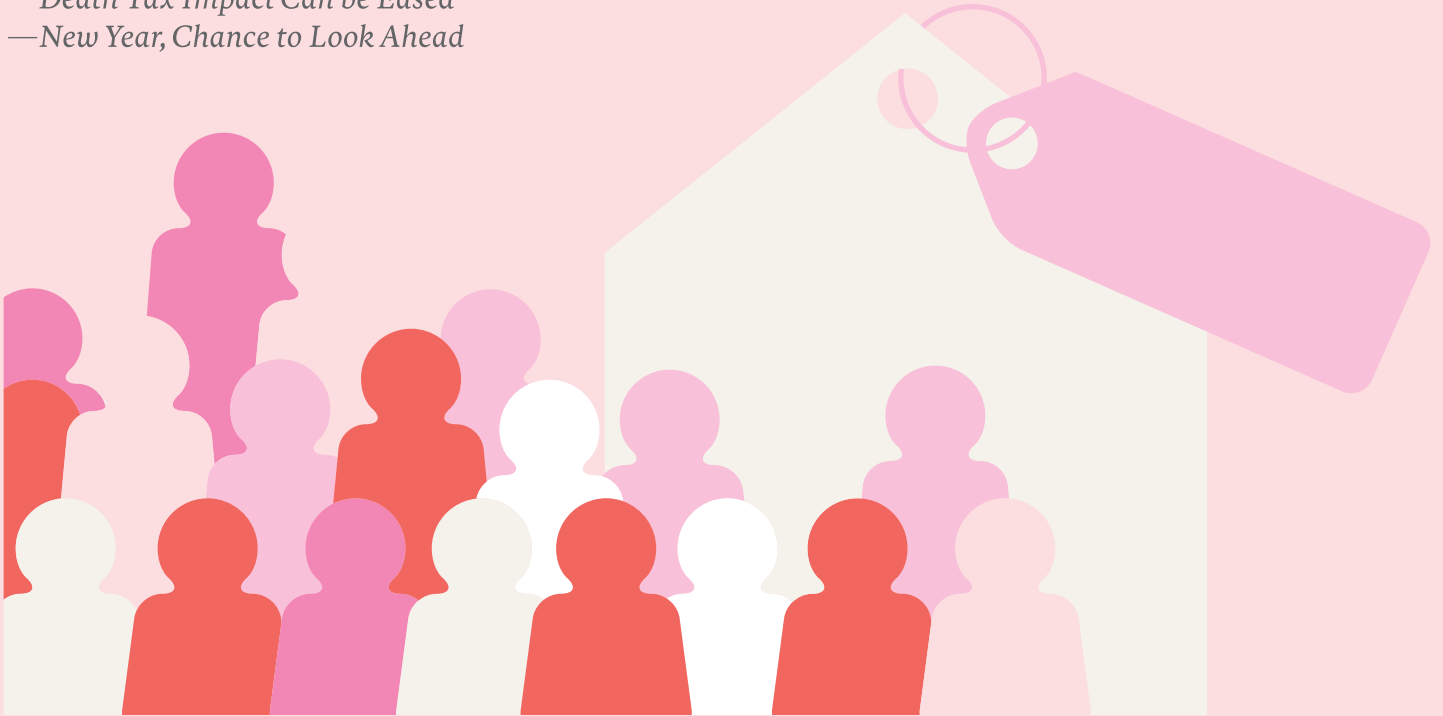
The quarterly newsletter from Co-operative Wealth—www.wealth.coop

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Open and Honest Independent Advice

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LET PROPERTY SOLD...

According to the authoritative Council of Mortgage Lenders, buy-to-let mortgages account for 13% of its members' outstanding mortgage lending by value and the number of properties being purchased with a buy-to-let mortgage rose by some 84,000 in 2011. So, buy-to-let, with or without a mortgage, has become a major and growing part of the residential property market.

Another element within the same market, though not buy-to-let owners in the true sense, are those who have acquired a rental property in situations not entirely within their own control. In some cases they have either been bequeathed a tenanted property or are possibly looking after one for an elderly relative. These situations can draw in people with no underlying interest in the rental property market and no experience of its ways.

Numerous financial issues must be considered when an elderly relative quits their home and enters residential

care. The situation differs if a dependant is to continue living in the family home but, where it is fully vacated, decisions must be made about how to handle things. The answer may sometimes be to sell the property. Otherwise, it could possibly be let to help pay monthly care costs not met by a care fees annuity or other provision.

Unintended landlords

Consequently, the elderly individual's close relatives may take on unintended landlord responsibilities. Where the property continues to be owned by the care home resident, it will form part of their estate when they die, with possible Inheritance Tax implications, and be dealt with by the executors (if a valid will exists) or otherwise by administrators. Perhaps these will be the same relatives as have looked after the property and maybe had a Lasting Power of Attorney, which ceases upon death.

Statistically, only a minority of elderly people need residential care, with many of the remainder living at home

until death. Once again, the property is part of their estate. If they lived alone and there are no probate complications, it may be feasible to sell with vacant possession in a few months. However, as the property market in some regions has slowed during the economic slowdown, quick sale has not always proved possible and some executors have let a property to produce income for the estate and the eventual beneficiaries.

In the light of all this, executors or beneficiaries as well as buy-to-let owners may end up marketing a property that has tenants. Buyers of such properties, unless they want to continue the let and do not require vacant possession, must make sure, usually before exchanging contracts, that the tenants have vacated the property following the appropriate notice period under their tenancy agreement. The ability to sue the vendor for breach of contract would be little comfort.—CW

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

FIRST-TIME BUYERS

—How parents can help

Joining the ranks of first-time buyers can be a major challenge, even for young couples with well-paid employment, due to the big deposit often required to obtain a mortgage. Research by Joseph Rowntree Foundation points to another 1.5 million people aged 18-30 having to settle for private rental by 2020 and about 3.7 million others living with owner-occupier parents when many would rather have their own place.



Many parents do not have the financial resources to help their children in a major way during early years of adulthood. The comfortably off, however, may be able to gift or lend a substantial sum towards the necessary deposit needed by each of their children in turn. If these are to be gifts, there may be issues of equality between siblings and also potential inheritance tax issues to consider.

When parents make loans to their children, they are often advised to have a written agreement setting out a repayment schedule so that everyone knows where they stand. Either way, some experts suggest caution about using funds intended for the parents' pension provision in case things go wrong. Lending to children who cannot find the deposit but are otherwise reasonably secure financially may be a viable proposition.

Benefit of professional input

No two sets of family circumstances are identical, so decisions about parental help with home buying always need careful thought and will very often benefit from appropriate professional input. Many parents want to help their children if possible, but well-inten-

tioned generosity can result in family arguments if matters are not crystal clear. There are several main options for parents who decide to offer assistance.

Lending or giving a lump sum to help with the deposit is an obvious way but there are alternatives. Parents may act as guarantors to enable the lender to make a bigger mortgage advance than would otherwise be justified, so long as the repayments remain sufficiently covered. With some deals of this kind, a parent may be a direct party to the mortgage, reaffirming their ultimate responsibility for repayment. Another scheme, the family offset mortgage, involves parents depositing money with the lender to shrink mortgage interest charges.

Parents with enough resources may buy a property to rent to their offspring. Or there may be the option of borrowing on mortgage or other loan secured on their own property, in order to finance support for the young adult's purchase. Great care is needed in this area as this could put the parents' own property at risk if repayments cannot be met due to unforeseen circumstances.

It can be very satisfying to help children in these straitened times, so long as the most suitable method is chosen, ideally with financial and, in some cases, legal advice.—CW

ISAs AVOID ICY BLAST

—Snow flurries outside the Commons on the December morning before Chancellor of the Exchequer George Osborne delivered his Autumn Statement reminded us that autumn was actually over.

Inside, he reminded us that the economic winter had not released its grip. Heart-warming elements in the statement were hard to find, but one small nugget of cheer was the announcement of an uplift to Individual Savings Account investment limits for 2013-4. The new overall limit, he said, would be £11,520, a rise of about 2.1% over the 2012-13 allowance of £11,280.

The ISA was an invention of Tony Blair's Labour government, although it in effect perpetuated a concept that began under the previous Conservative administration. Personal Equity Plans first appeared in 1987, followed in 1991 by the Tax Exempt Special Savings Account. These enabled us to enjoy virtually tax-free savings and investments, albeit within limits, and became very popular. PEPs later became stocks & shares ISAs and TESSAs were replaced by cash ISAs.

ISAs not all the same

ISA accounts are exempt from income tax and capital gains tax, but the 10% tax on UK company dividends cannot be recovered. Currently, up to half of the annual ISA limit may be put into a cash ISA. All ISAs operate under the same tax rules, but they are not all the same. Stocks and shares ISAs may contain collective investments or actual shares and the risk levels and income received vary. Cash ISAs pay varying rates depending on the provider and account terms. You can invest a lump sum or pay monthly subscriptions.

If a child is over 16, they may open and run their own Junior ISA.

For the past year or so, a new form of ISA has been a tax-efficient way to build up capital for a child, not normally accessible until they reach 18. Junior ISAs were launched as successor to Child Trust Funds in November 2011, without making CTFs extinct. Up to £3,600 per eligible child per tax year can be invested in cash or stocks & shares, with tax breaks similar to standard ISAs. Parents and perhaps wider family and friends can help accumulate a useful amount, to help with education costs or whatever the 18-year-old later chooses.



An adult 'registered contact' with parental responsibility may open a Junior ISA for a child aged under 18, provided the child is resident in the UK and does not qualify for a CTF. It is permissible for them to have both a cash and a stocks & shares Junior ISA, but aggregate funds put in each year must not exceed the £3,600 limit. If a child is over 16, they may open and run their own Junior ISA. There are many products to choose from and, as equity investments are permitted, professional advice is valuable.—CW



PAID LIFE CLAIMS AVERAGE £46,000

Recently, the Association of British Insurers published figures to show the benefits of protection insurance, which includes term life cover, and launched new Statements of Best Practice to cut further the small minority of unsuccessful claims made under critical illness and income protection policies. The ABI drew attention to the fact that '170 families are helped every day by life, critical illness and income protection insurance payouts'. This 'voice of the insurance industry' then highlighted the importance of policyholders being aware of the extent of their cover and being straight with insurers about their state of health.

"Insurance underpins a healthy and prosperous society, enabling businesses and individuals to thrive, safe in the knowledge that problems can be handled and risks carefully managed," said ABI director Stephen Gay. *"The insurance industry pays out £6.7m every day in individual life, critical illness and income protection insurance claims, making a real difference to people's lives at the most difficult of times. The ABI advocates high standards of customer service within the industry. It is important that all insurance policies are clear so that customers are able to understand the circumstances in which they can make a claim."*

£1.3bn life claims paid

The latest ABI annual statistics available, covering 2011, indicate that an average of £46,000 was paid on successful term life insurance claims, or about two-and-a-half times the average UK net annual pay. Around 97% of life insurance claims amounting to £1.3 billion were accepted and, the ABI added, the 3% of claims that were turned down were rejected because they involved fraud or because essential medical in-

formation had not been disclosed to the insurer when the policy was taken out.

Looking at critical illness insurance, the past six or seven years have seen a huge rise in the percentage of claims accepted as valid. An ABI Code of Practice on non-disclosure helped lift the success rate to 92% in 2011, from 80% six years earlier, and the typical payout has hit £59,000. The industry expects that new ABI standard definitions for 'total permanent disability' will provide even greater clarity and lift the percentage further. These definitions, effective January 2013, provide policyholders with a clearer view of the scope of cover.

Equivalent enhancement to the Statement of Best Practice for income protection policies should have a similarly helpful effect on a claims success rate that has already improved. The average income protection claim in 2011 brought benefits of £14,000 annually for a period of 260 weeks, with £351 million paid out during the year. So, as 2013 gets under way, protection insurance is a further improved and valuable product with clearer terms and conditions. Ask your adviser to review your protection needs soon. —CW

DEATH TAX IMPACT CAN BE EASED

Death duties in some form have been levied in the UK for over two centuries. The unpopular charge we now know as inheritance tax (IHT) can compound the stress and sadness of bereavement with what can be a large tax demand. This is payable from the deceased's estate in advance of probate, so can delay distributions to beneficiaries if there are insufficient liquid assets to meet it. Sometimes the executors may need a loan to settle the bill.

The rate of IHT is 40%, levied on estates above a certain figure – basically, £325,000 for a single person and £650,000 for married couples and civil partners until 2014-15, rising to £329/658k in 2015-16. It is payable only on the amount above the threshold. Estate valuation includes property; so you do not have to be hugely wealthy to leave your successors an IHT bill. Can IHT be planned for? Yes, and the expression usually linked with IHT planning is 'mitigation'.

Ways to mitigate IHT

Some arrangements depend on legitimate but potentially controversial use of sophisticated trusts. A simpler way to

shrink your estate is gifting assets to upcoming generations while you are still around. There are risks. For instance, IHT may still be due on such 'potentially exempt transfers' (PETs) if you die within seven years of making them. Smaller gifts up to specified annual amounts, with extras for such occasions as weddings, are exempt from IHT.

Can IHT be planned for? Yes, and the expression usually linked with IHT planning is 'mitigation'.

When giving money away, consider whether the recipient is responsible enough to handle it and also how much you need to retain to cover your own future costs, including possible residential care fees. If you opt to offload very a large amount, any IHT liability arising on it within seven years can be met by a 'gift inter vivos' plan, held in trust. This is a decreasing term assurance policy designed for the purpose. If an IHT liability on remaining wealth still looks certain, it is wise to plan for its payment. Paying before probate can be difficult for executors if the estate is tied up in property and other illiquid assets, so they could need a loan, as mentioned.

Funds available fairly quickly to pay IHT can come from a whole of life policy. The 'sole' or 'joint life second death' policy, as appropriate, can be held in trust for the beneficiaries. The effect is to exclude its proceeds from your estate. Premiums paid on such policies effectively cut the estate's value and the IHT due on it if the premiums qualify as exempt. In some circumstances, they may be treated as PETs or chargeable lifetime transfers. Acceptance for cover may depend on health and other issues; your professional adviser can guide you through insurers' stipulations.—CW



NEW YEAR!

—Chance to look ahead

It has been an interesting 2012. The UK stockmarket held its own for much of the year, while number-crunchers at the Office for National Statistics made calculations to the nearest 0.1% of gross domestic product that determined whether we were in or out of recession, then they revised them. Inflation eased for a while in Q3 and then some upward pressure resumed. There remain uncertainties ahead for 2013, not least over Europe. One thing that will definitely emerge on the first day, however, is a new financial services regime based on the Retail Distribution Review conducted over several years by the Financial Services Authority.

The changes now occurring in financial services could serve to remind some of us that preoccupation with the Jubilee, Olympic Games and other 2012 activities may have meant our financial planning slipped down the list of priorities. New Year is always a good time to make changes for the better in our lives and that includes longer-term issues that should not fall by the wayside like so many broken New Year resolutions. So, as 2013 gets under way, it makes real

sense to take a fresh look at personal finances, start planning for known future events and be prepared for any misfortune that could derail things.



Financial review suggested

With your financial adviser keen to make an auspicious start to the New Year under the upgraded rules, now is an excellent time for a financial review, to look at existing arrangements and make any decisions about action to improve your position for the twelve months ahead and beyond. House moves, marriage, starting a family, inheriting money and other changes can

make it even more important to have a financial review. Then there are the long-term issues like retirement planning, highlighted by the recent launch of pension auto-enrolment that will potentially affect almost all UK employees over the next few years. It can be tempting to put off pension planning when facing other more pressing commitments, but this could bring regrets later.

The new 2013-14 Tax Year starts only three months or so after Big Ben strikes 12 on New Year's Eve. This makes the first quarter of the year an opportunity to think about matters that could affect your current and future tax position. Those with younger families and an income within or a bit above the £50-60k range may want to look at ways – perhaps extra pension contributions – to reduce 'net adjusted income' in relation to Child Benefit, which may incur a pound-for-pound tax charge under changes effective from 7 January. Some clients may wish to look at their estate's potential inheritance tax liability and how to mitigate that. Almost everyone needs to explore maximising ISA and Junior ISA allowances for 2012-13 before it is too late.—CW

The Co-operative Phone & Broadband

—A phone and broadband provider customers can trust.

At Co-operative Wealth, we would like to introduce you to other co-operative organisations which share our values of openness, honesty and social responsibility, whilst offering high quality services to their customers.

The Co-operative Phone & Broadband, The Co-operative Mobile and The Co-operative Business Telecoms are all provided by The Phone Co-op, an independent consumer co-operative based in Chipping Norton and Manchester. It is the only UK's telecoms provider owned by its customers.

Being a co-operative means social responsibility underpins everything The Phone Co-op does, from the way it conducts all business dealings to how it treats colleagues and where it invests profits.

For customers, this translates into transparent and clear prices—at The Phone Co-op, there are not hidden charges—but it also means they have

an equal say in how the business is run and a share in the profits.

Because The Phone Co-op does not focus on putting money into the pockets of external shareholders, its profits can go towards improving its services and helping worthwhile community projects. As a result, The Phone Co-op supports co-operatives, charities and social enterprises, and especially renewable energy ventures. For instance, last year, it invested £440k in solar photovoltaic installations, and was a joint founder of Co-operative Renewables, an installer of environment-friendly technologies.

As part of The Phone Co-op's efforts to minimise its impact on the environment, it uses electricity from renewable sources and offsets all the carbon dioxide emissions it generates. It also recycles 100% of its waste and promotes the use of public transport for business journeys—87% of the miles travelled in 2012 were made by

rail, bus, cycling and walking.

The Phone Co-op provides telephone, broadband and mobile, both for residential and business customers. If you are stuck in a contract, let them know and they will contact you with more information when you are ready to switch.

For more information on any of their services visit www.thephone.coop

To register your interest call:
0303 556677

After 15 years of trading, The Phone Co-op prides itself on being an example of how a business can grow without compromising its ethical values. Last year, this co-operative reached a turnover of around £11m, and achieved a record profit of £424,000 (profit before distributions). It currently operates nationwide. 23,000 customers and 9,500 members trust its services.