NEWSLETTER - MARCH

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How might rising interest rates affect your mortgage?

The Bank of England has raised interest rates and warned further hikes are likely in the coming months.

This will mean bigger bills for some homeowners.

On 3 November 2022, the Bank of England raised interest rates from 2.25% to 3% - the eighth hike since December 2021 - in a bid to combat soaring inflation. And, the Bank's Governor, Andrew Bailey, has warned people to expect further rises in the coming months.

It is now widely anticipated that rates will rise to over 5% by Spring next year. This has had a huge impact on the mortgage market – with some lenders pulling deals altogether and others replacing their offerings with more expensive alternatives.

What does a rise in interest rates mean for your mortgage?

If you don't have a fixed-rate mortgage, you're likely to see your borrowing costs rise, although how they are affected will depend on the type of product you have. Your adviser can help you assess your mortgage deal and figure out ways to make savings.

- Only borrowers with a mortgage that moves up or down with the base rate will be immediately affected by the interest rate change.
- This includes tracker mortgages and standard variable rate mortgages (which you revert to when a mortgage deal ends).

Fixed-rate mortgages

If you're on a fixed-rate mortgage deal, you won't see any change in your monthly payments. This is because the interest rate you pay stays the same for the length of your mortgage deal.

But with further interest rate rises expected, if you're close to the end of your current term, it may make sense to look for a new deal sooner rather than later. You can generally lock in a new mortgage deal three to six months before an existing deal comes to an end.

If you've got more than six months to the end of your current deal, you'll either need to wait for a while or pay the early exit fee (A fee you may have to pay your current lender if you end your mortgage deal prior to the 'official end date') We can advise you on the best way forward.

Standard variable rate mortgages

You end up on a standard variable rate (SVR) when a tracker or fixed-rate mortgage deal ends, and you don't remortgage.

If you're currently on your lender's SVR, you may well see your monthly payments increase following the rise in the base rate. You may not be hit with the full increase though, as these rates go up at a lender's discretion.

Tracker mortgages

Tracker mortgages follow the Bank of England's interest rate. So, payments on your tracker mortgage will rise as a direct result of any increase in the base rate. Exactly when this happens will depend on your lender.

As a rule, tracker mortgages do not exactly match the base rate but are set at a level just above it. For example, if your lender's rate is the base rate +1%, the interest you'll pay in total on your loan will be 3.25 % (based on the base rate of 2.25% - 5 October 2022).

Whatever type of mortgage you have, we can advise you about how the interest rate rise might affect you and address any questions or concerns you have.

How to save on your mortgage costs

The best thing you can do is to speak to your financial adviser. If you're on a tracker mortgage, they'll be able to advise whether changing to a fixed-rate deal to protect yourself from any further rises is a good idea. They'll also let you know about the fees involved when making changes to your mortgage. If you're on an SVR, the interest rate you will switch to when your initial mortgage deal ends, you can switch to a new mortgage deal at any time. With interest rates rising, your adviser can help you look at available fixed-rate deals.

If you're already on a fixed-rate deal, your mortgage payments won't increase until your current term ends . With many lenders letting you lock into a new deal six months before your existing one finishes, it's a good idea to plan ahead.

Whether you're looking to remortgage or are a first-time buyer, we can help you find the most suitable deal for your circumstances and help keep your costs down.

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

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Think twice: Why cancelling your financial protection during the current cost of living crisis could be a bad idea

Centuries ago, Benjamin Franklin announced that

"By failing to prepare you are preparing to fail".

This is especially true when it comes to ensuring your personal finances are protected from the rainiest of days. However, with the rising cost of living likely putting pressure on your spending, you may be considering cancelling your cover, even when this could leave you more vulnerable than before. Read on to discover some of the reasons you should consider prioritising your financial protection over other cost of living worries.

Rising costs should highlight the necessity of financial protection

A recent survey by Which? has revealed that 65% of households have resorted to cutting back on essentials, selling items, or dipping into savings to pay their rapidly rising bills.

Financial protection products such as life insurance, income protection, and critical illness cover are sometimes the first things that people decide to cancel when things are tight.

However, without financial protection, one unexpected event or serious illness could plunge you into having to deal with a crisis with no financial support in place.

Life insurance means your family will not face financial hardship

Keeping your life insurance policy can ensure your family benefit from financial support if the worst happens.

Without protection in place, your family could perhaps no longer afford their regular outgoings, leaving them in a difficult financial position at what will already be a stressful time.

Cancelling your policy could jeopardise the financial security of your loved ones.

If you're the main breadwinner, without your contribution to the household, your family may struggle to meet their regular financial commitments.

Income protection could support you while you're unable to work

Injury, illness, or an accident could prevent you from working and earning your living at any time, making it hard to meet everyday expenses.

Even if you receive Statutory Sick Pay (SSP), paid at £99.35 a week in 2022/23, it may not be enough to cover your usual expenses and could force you (and your family) to adapt your lifestyle while you recover. Moreover, if you're self-employed, you aren't eligible for SSP.

Income protection could save you from such stress. If illness or injury prevent you from working, you can expect to receive up to around 60% of your wages.

Just as important as a payout, an income protection plan could give you access to rehabilitation services that grant you the ability to work again. As an example, 78% of Aviva customers who had rehabilitation support returned to work.

You could receive cover during a critical illness

If you cancel your critical illness cover to save money, you could find yourself out of pocket if you're diagnosed with a serious condition. You may have to take an extended period off work on a significantly reduced income.

Critical illness provides a lump sum if you are diagnosed with a specified illness such as the following:

Heart attack / Stroke / Cancer / Multiple sclerosis

Conditions may vary between providers.

While it's unpleasant to think about, you should consider your own circumstances and whether you might be vulnerable if you cancel.

Having protection to offset unexpected healthcare expenses could be essential to preserving your financial wellbeing.

You may not feel you need insurance in all the areas discussed here. For example, some employee benefit packages include life insurance, so it's worth checking to see if this is something you already have through your work.

The type and level of protection that is most suited to you will depend on your circumstances. We can help you decide what would provide you and your family with the most benefit and help you understand which policy is right for you, too.

Potential consequences

If you cancel your protection now with the intention of taking out cover again when your finances permit, you may find the premiums are significantly higher – especially if your health has deteriorated since you took out your original protection. You may also find there are exclusions based on pre-existing conditions.

The short-term savings often may not be worth the potential long-term vulnerability you cause yourself.

Your pension could be your "secret weapon" of protection

According to Pensions Age, 86% of savers are not on track to achieve their retirement expectations.

This serves as a caution that foregoing pension contributions could leave you short when it comes to your retirement funds.

So, pausing or cancelling your contributions now could have a negative effect on the size of your pension pot when you come to retire. This may leave you having to compromise on your later-life plans.

Discussing your pension with us could help to prevent overspending or under budgeting that may affect the funds you'd like use for your retirement.

GET IN TOUCH

We can help to assess your financial wellbeing and assist in finding the right protection for you. This can help to safeguard your finances when confronted with unexpected circumstances. Please get in touch to discuss your needs.

Life insurance plans typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.

A pension is a long-term investment not normally accessible until 55 (57 from April 2028). 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. The Past Performance warning can be deleted as we are not illustrating any historic returns in this article.

The tax implications of pension withdrawals will be based on your individual circumstances. HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. Tax concessions are not guaranteed and may change in the future. Tax free means the investor pays no tax. subsequent Finance Acts.

Feel more secure with income protection

When it comes to insurance, we're more likely to protect our pets than our income. Here's why it's important to have some income protection in place.

What is income protection?

Income protection pays out a percentage of your monthly income if you are unable to work due to illness, an accident or disability. It gives you a buffer between finding yourself without an income, paying the bills and protecting your family's security. Building an emergency fund (which covers around three months' worth of bills and essentials) is a good start to give you some financial back-up, but income protection insurance can also provide peace of mind.

How does income protection work?

Income protection is an insurance policy, so you pay a monthly or annual premium for it like any other type of insurance. If you can't work because of sickness, disability or other reasons (depending on your policy criteria), you will receive a regular income until you either return to paid work, retire, pass away or the policy term comes to an end. We can help you determine how much coverage you'll need.

How much does income protection pay?

It could be anything from 60% to 65% of your pre-tax income, and the regular payments (which are tax free) will start after a pre-agreed waiting period, which could be weeks or months. You'll pay more in premiums if the waiting period is shorter and the percentage of your income is larger. This type of protection is different to life insurance or critical illness cover, both of which do not pay regular amounts but instead provide one-off lump sums in the event of your death or the diagnosis of a critical illness.

Do you need income protection?

With the rise in the cost of living and cost of borrowing right now, many people are worried about paying the bills should anything happen that leaves them unable to work. Recent surveys have shown that the average UK family doesn't have enough in savings to be financially secure for long if they're no longer receiving an income.

That's where income protection can give you some financial resilience, especially if your workplace does not provide statutory sick pay (or only starts to pay out after a period of several months). Your adviser can help you navigate the income protection policies that could best suit you and your needs, weighing up how much your premiums might be with the amount of cover you're after.

As with any insurance policy to do with your life and health, things like your age, health, occupation and other factors (like how much of your income you would like to receive, and how soon you would like payments to start) will be considered when your premium is calculated.

We can guide you through what type of policy works best for you, helping you find value for money as well as some peace of mind knowing your income is protected.

Your adviser is best placed to help you find an income protection policy to suit your needs and provide some security for you and your family.

Peace of mind for the self-employed

Sarah is self-employed and she approached her financial adviser for some advice. As a single mum, she worried that her emergency savings fund wouldn't be enough to cover the rent or bills if she found herself unable to work. Sarah's financial adviser found her an income protection plan with an affordable monthly premium that covers 65% of her earnings.

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