BIRCHWOOD
INVESTMENT
MANAGEMENT LTD
NEWSLETTER

April 2023

It's plain sailing...

First time buyers support from the Bank of Mum & Dad predicted to total £36bn over the next three years

Trying to get on the property ladder is difficult enough when you are a first-time buyer, but increasing interest rates, the end of the help-to-buy scheme and the cost-of-living crisis are making this somewhat impossible. It is unsurprising therefore, that the proportion of first-time buyers being supported by the Bank of Mum and Dad is predicted to jump to 61% in 2023 and expected to total £36bn over the next three years. However, it is essential that you always take financial advice to avoid any family disagreements over when or if repayments will be made and of course the potential issue of Inheritance Tax (IHT).

In 2022, 170,000 first-time buyers received gifts and loans totalling £8.98bn from the Bank of Mum and Dad, which is now one of the UK's biggest mortgage lenders. According to figures from estate agents Savills, this was an increase of £4bn since 2019, but still down from the £10.7bn loaned out in 2021. The 170,000 helped onto the property ladder in 2022, accounted for nearly half of all mortgaged first-time buyers, but is down from a peak of 198,000 in 2021.

Although homebuyers enjoyed record low-interest rates during 2020/2021, the rates for high loan-to-value (LTV) mortgages; which are most commonly used by first-time buyers increased. Therefore, those who were lucky enough to take advantage of family support from parents or grandparents, were able to secure a lower rate deal. Other factors first-time buyers were up against included rent increases, inflation and difficulty in saving for a deposit, as house prices were up around 19% from 2019. The jump to 61% of first-time buyers supported by their parents in 2023 means that only two in five first-time buyers can actually access the market without any financial assistance from either their parents or other parties. This is expected to fall in 2024 to 59% and then 55% in 2025.

As mortgage rates for high LTV products have increased significantly and lenders are likely to continue favouring less risky, lower LTV mortgage lending, it does make it even more difficult for first-time buyers. Therefore those who have family support and are secure in their employment will find it easier to get onto the housing ladder. Only the highest earners and those who have received substantial support are likely to be able to buy property at the top end of the market.

If this an option you are considering for one or more of your children or grandchildren, it is imperative that you look into the financial implications. Whether you are looking to loan the money and receive repayments back each month or intend to just gift the money, they are very different things in the eyes of mortgage lenders. Most banks may be happy to accept loaned deposits, but they will need a signed declaration that the loan will only need to be repaid when the property is sold. If this isn't the case, the lender will consider the loan to be a financial commitment and you'll need to factor in the planned repayments when calculating your child's affordability.

Mortgage lenders are generally happy to accept gifted money from a family member for a deposit but it is best if this is put in writing to protect all parties. They will usually require you to confirm the sum gifted, the source of the funds, your relationship to the applicant, a signed declaration that you won't have any financial interest in the property and a signed declaration that if the money is loaned it will only need to be repaid when the property is sold along with photo ID and proof of address.

It is important to consider the Inheritance Tax implications of gifting money for a deposit, as if you should die within seven years of gifting cash, they may need to pay inheritance tax (IHT) on the money. You can gift up to £3,000 per financial year without qualifying for IHT, and you are allowed to carry any unused portion forward by one to the next financial year. This basically means an individual can make gifts totalling £6,000 (or £12,000 for a couple) if they didn't make any substantial gifts the year before. However, the rules can be very complicated and any bill will depend on the overall value of the estate upon death.

Gifting money to relatives whether it's through equity release or cash in the bank is a complicated area, so, it is essential you speak to your adviser here at Birchwood Investment Management to find out if it's the right option for you and help advise on anything equity related or information on inheritance gifting.

Deadline for NI contributions extended to July

Each week seems to bring more depressing news on how the state pension retirement age is continuing to rise, which is why it is more important than ever to try and make sure you maximise your full state pension entitlement when the time comes.

Back in January we shared the news that you had until 5 April 2023 to identify if there were any historic gaps in your NI contributions. However, due to unprecedented demand and blocked phone lines, this deadline has now been extended by the HMRC until 31 July 2023. Find out how to check if you have any gaps and what you can do to potentially boost your state pension.

If you are not even aware of the current status of your state pension, now is the time to check if you have any missing years where you may not have paid your NI contributions - which all go towards qualifying for your full state pension. If you have been out of work for any period of time which includes gap years, raising children or caring for parents, this could mean you won't receive your full state pension unless you fill any qualifying gaps.

Under the current rules, it is only possible to fill gaps in your NI record up to six years after the year in question. Following this the missing year becomes a permanent gap in your record and could affect your ability to build up a full state pension. Therefore, 2016-17 would be the oldest year which could be filled in 2022-23. However, until 31 July, those aged between 45-70 are now able to go further back and fill gaps for any year from 2006-07 onwards which is an extra ten years.

Other people that may find they have gaps in their NI contributions are those who are employed but have or had low earnings, the unemployed who are not claiming benefits, self-employed who did not pay contributions because of small profits, or if you were living or working outside the UK.

It is also worth checking your records if you have been the person in your family claiming Child Benefit, as this automatically counts towards your NI contributions if you have a period of not working whilst raising children. This is however, only for the person claiming the Child Benefit and does not count towards their partner/ spouse's NI contributions.

The new rule does only apply to those who come under the new state pension system, so is those people who reached, or will reach, state pension age after 5 April, 2016. It can take some time to work your way through the necessary steps, so people are being encouraged to go online and check sooner rather than later at https://www.gov.uk/check-national-insurance-record

The rules also state that in order to qualify for the full state pension you must have been contributing to NI for 35 years and were never in contracted out employment. You are able to fill any gaps in your NI contributions by paying £800 per missing year before the 31 July deadline.

By doing this, it will mean you'll get more state pension for every year of your life when you retire, so that investment could bring you thousands in future years. It's important to do so before the deadline, as then you will only be able to fill gaps going back six years.

Pensions – both state and private are an extremely complicated subject matter and it always pays to speak to a Financial Advisor to check you are covering yourself and are going in the right direction to be able to take the pension amount that you need in retirement. If you or someone you know would benefit from speaking to one of our Financial Advisors, please do get in touch.

Millions still sitting in forgotten child trust funds

If you have a child born between 1 September 2002 and 2 January 2011, you may have completely forgotten that you applied for a Child Trust Fund (CTF), which was a tax-free savings account that is accessed at the age of 18.

The Labour Government at the time paid more than £2bn into CTFs for 6.3 million children with each receiving around £250 each, before the accounts were scrapped in early 2011. The idea behind it was that this would be a nest egg to help when they reached adulthood; whether they wanted to take a gap year, go to university or buy their first car - yet millions is still sitting in forgotten child trust funds.

Children from low-income families also received an additional £250 on top to get them started. All parents were given the option to invest the money in a range of funds, however, if the voucher was not redeemed within a year, it was automatically placed in a revenue allocated account by the government. The Child Trust funds could also be topped up regularly by parents or grandparents to maximise any interest.

With CFTs, children are able to take control of the funds at age 16 and withdraw the money at 18, but the spending watchdog - the National Audit Office (NAO) has said that a huge number of CTFs remain untouched for a year or more after their owners turned 18. Some 145,000 young people have failed to claim the money which was invested for them, meaning millions of teenagers are sitting on a combined £394m windfall, with no idea it is even there or how to access it.

By April 2021, around 320,000 CFTs had matured with 175,000 (55%) having been claimed by the account holders, but 145,000 still remaining unclaimed. The £394m which was yet to be claimed in matured CTFs belonging to young adults who had reached the age of 18 and worked out an average of £1,900 per adult, which would really benefit them in the current cost-of-living crisis, particularly for those from low-income backgrounds.

If you remember taking a CTF out for your child when they were born but have no idea where the account is, there are ways to track it down. They can then either claim the money if they are now 18, or look at investing it into another account where it will get more interest. If they are at the lower age range and there are still some years to go until their CFT matures there is a definite advantage to maximising the interest they could gain on these funds by transferring it to a JISA. If they already have a JISA, you can just apply to transfer the money straight into the existing account.

Many CTF providers are charging huge sums for managing CTFs, which eats into the money available to account holders, with the NAO estimating that CTF providers could be earning collectively up to £100 million per year through charges on accounts. Additionally CTFs generally do not offer competitive rates of interest and therefore, your child could be missing out on higher interest rates elsewhere.

If you already know who their Child Trust Fund provider is, you can contact them directly. This might be a bank, building society or other savings provider, but alternatively, just visit GOV.UK and complete an online form to find out where their Child Trust Fund is held.

Investment Insights

April 2023

Q1 2023 Overview

Table 1: Asset Class Performance Table, on 31 March 2023. All returns are calculated in GBP.

Asset Class	1 month	3 months	1 Year	3 Years	5 Years
UK Equity	-2.47	3.55	5.39	14.26	15.23
Global Equity	1.00	4.53	-0.93	16.02	19.69
Developed Equity	1.01	4.95	-0.48	17.08	21.66
EM Equity	0.92	1.20	-4.48	8.33	4.94
Global Property	-4.84	-1.10	-14.20	10.03	-4.41
Global Bonds	1.01	0.21	-2.10	-3.34	-0.87
UK Gilts	3.03	2.25	-17.17	-9.59	9.46
EM Bonds	-0.72	-0.53	0.25	0.41	-2.13
Oil	-3.62	-7.82	-8.87	41.41	-28.14
Gold	5.36	5.18	7.20	6.04	22.72
Commodities	-2.29	-7.93	-6.81	20.95	-28.48
IA Mixed Investment 40-85% Shares	-0.86	2.21	-4.66	8.32	9.27
IA Mixed Investment 20-60% Shares	-0.61	1.57	-5.03	5.09	6.54
IA Mixed Investment 0-35% Shares	0.24	1.63	-5.85	1.92	6.79

Source: Morningstar Direct, Stonewood Wealth Management LLP

The first quarter of 2023 is now behind us.

It has been an eventful three months with a lot to digest for investors. The year started on a positive note with bond and equity markets rallying until early February.

Following the previous year of negative returns and heightened uncertainty, this was welcomed by those concerned that last year's returns would continue into 2023.

The optimism from January was short-lived and February saw a shift in expectations as inflation did not slow as rapidly as anticipated. The market quickly repriced the probability of more interest rate hikes and expectations of a higher terminal rate.

March brought its own set of surprises which have rippled through markets. The month started with the unravelling of Silicon Valley Bank. The sudden and swift run on bank deposits which ultimately led to the collapse of the bank and quickly became a US regional banking sector problem as deposit outflows were experienced by most regional and large banks.

The sequence of events and measures implemented by regulators and Central Banks seemingly has greatly reduced the possibility of systematic contagion. This is good news for investors because a systematic breakdown of the banking sector would negatively impact the broader economy and capital markets.

While some calm has returned in the broader US and global banking sector it has not been without incident. Silicon Valley Bank, Silvergate Bank and Signature Bank have collapsed, and the beleaguered Swiss banking giant Credit Suisse was forced into a merger (a de facto bail out) with their largest Swiss competitor UBS over the course of a weekend to avoid the possibility of default.

Equity markets ended March in positive territory except for UK equities. Year to date equity markets have surprised many by being in positive territory across all regions that we monitor.

Bond markets have also been mostly positive in the first quarter, with Gilts being an outperformer relative to other global bonds. Global bonds have repriced positively during March with interest rate expectations declining following the banking sector volatility.

The bond market is pricing in a decline in interest rates during 2023 and into 2024 after expecting increases in interest rates just a month ago. The change in expectations is premised on tightening credit conditions due to the banking sector developments.

As credit conditions tighten, growth and inflation are expected to contract, and central banks are expected to need to stimulate global markets with interest rate cuts.

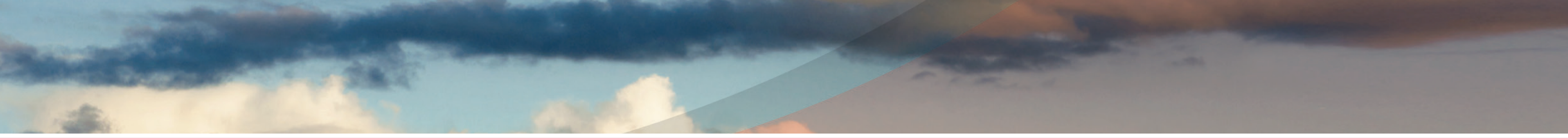
Having duration in your bond portfolio (i.e. longer dated bonds) has been rewarded in this last month.

Commodities have been mixed. Oil prices are down almost 9% on a one-year basis and are reflective of economic growth concerns. Gold on the other hand has had a very strong start to the year.

Gold has actually behaved in a more typical safe-haven fashion performing very well during the month of March as markets exhibited concerns around the banking system and with the drop in the value of the US Dollar.

Gold miners, which continue to be the way we express our exposure to physical gold prices, have outperformed the underlying metal price and have been a strong contributor to our relative performance year-to-date.

Overall investors have enjoyed a reasonably good start to the year if we use the IA Mixed Investment Indices as a benchmark for UK investors.



Would you re-mortgage to make your home greener?

Over the last 12 months, our energy bills have gone through the roof as demand for gas has outstripped supply, causing electricity and gas prices to spiral out of control. The increase which is partly driven by the war in Ukraine has led to a squeeze on gas supplies across Europe and has seen prices soar for both homeowners and businesses.

It is therefore, not surprising that a study has found that two thirds of homeowners would like to make energy efficient improvements to their properties, whilst almost a fifth are considering re-mortgaging to make their home greener and bring their energy bills down.

The study from Butterfield Mortgages found that environmental concerns are the greatest driver of change in making improvements, but the cost of upgrading insulation, heat pumps and double glazing can be very high. 46% of those surveyed said that the soaring energy costs have made them consider home renovation plans sooner rather than later, and others were motivated to improve the efficiency of their home, thinking it will increase its future sale value.

Worryingly just 40% of homeowners knew their current EPC rating; a score that reflects the energy efficiency and environmental performance of a building, with an A rating being the most efficient and G the least efficient.

An EPC rating is based on how much energy the building uses and loses per square metre3 and is used by buyers or renters to assess their potential energy bills and savings.
Those surveyed were asked what work they had already carried out to try and make their homes greener and the most common improvements were installing LED light bulbs (66%), investing in double or triple glazing (57%), adding loft or wall insulation (55%) and using a smart meter (46%).

According to the Energy Saving Trust, double glazing can help you save up to £235 a year in energy bills, but it can cost around £7,500 to fit to the average semi-detached house. As 35% of heat leaves your home through the walls, you can also try and keep more heat in your home through wall or loft insulation.

There are two types – external and internal and the cost of insulating the outside of a three-bedroom semi-detached home with solid wall insulation is around £12,000, or £8,500 for the inside. However, this high initial outlay does lead to a big drop in energy bills.

With the government aiming to get rid of traditional gas boilers by 2035, heat pumps will likely be the replacement. They work by gathering heat from either the air or ground and experts say they can cut up to 25% off your energy bills. However, they can cost between £8,000 and £14,000 to install and ground source heat pumps are even more expensive, costing from £15,000 to £30,000.

Although there are many ways you can make your home more energy efficient and bring the cost of your energy bill down, a separate report compiled by property management firm First Port has found that homeowners are willing to pay up to £16,130 more for a home that is more energy efficient.

Previously when home-buyers were viewing properties, they may have been looking for a period property with tall ceilings and a fireplace, however, times have changed and now double or triple glazing, good insulation, and a big garden are all features that are top of the list. Not only are these features becoming more essential to house hunters, but they are also willing to pay an average of £2,089 extra for newly-fitted double or triple-glazed windows or doors and £2,038 extra for a house with a renewable energy source.

As we edge nearer to the world targets of net-zero by the middle of the century, we will all need to start considering how to improve our home's efficiency, but the high cost of this will mean millions having to potentially re-finance their property in order to achieve this.

It is not something we can ignore for much longer as under current government proposals, by 2035, all homes will have to have an EPC C rating or higher. This could make obtaining a new mortgage deal a lot harder, not just on a new property you are considering moving to, but also on your existing home.

The plans could mean mortgage lenders need an average EPC rating of C across all the properties on their lending book by 2030 and many will already be thinking about implementing this. Consequently, we all need to look at what we can do to make our homes more sustainable and energy efficient sooner rather than later.

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