

BIRCHWOOD

INVESTMENT

MANAGEMENT LTD

NEWSLETTER



October 2023

It's plain sailing...

How can you give your child a more secure future?

We are all affected by the current cost-of-living crisis; whether it's your mortgage increasing, bills rising, rent increasing or food prices rising with inflation. However, for the younger generation, they can only look on and wonder how they will ever be able to save towards buying a house, as well as contributing towards a pension for when they retire years down the line. According to Lubbock Fine Wealth Management, around 38,000 families in the UK are already contributing to pensions for their children who are under 18. If you are in a relatively comfortable financial position, (please always seek advice before making big decisions) then here are some ways you can provide financial support to your child, or children, to give them the best chance of a secure future - whatever their stage of life.

Whether you have teenagers, young adults, or primary school age, any help you can give them now will put them in a better financial position as they approach each of their major "life" milestones. There are several options to consider from paying into an ISA, setting up their own pension, or helping them to get on the property ladder, any of which will reduce the pressure on their financial future.

Junior ISA (JISA)

If you have younger children (or even babies), starting a savings account as early as possible will give more time for them to benefit and build funds that can potentially pay for a deposit on a car or a home. One option is a Junior Isa (JISA) which parents, grandparents or guardians can pay into and it gives a tax-free lump sum when they turn 18. By paying just £50 a month into an investment Jisa earning 5% over 18 years, your child could potentially end up with a savings pot worth £17,460 (minus charges). Alternatively, if you contributed the maximum £9,000 a year allowance for 2023/24 into a stocks and shares Jisa, this could mean your child will be sitting on a tax-free nest egg of £266,000 by the age of 18!

Premium Bonds

You could also choose to invest in Premium Bonds offered by National Savings & Investments

(NS&I). As these are 100% government-backed they are a safer option, but do not offer a guaranteed return or interest. They work by entering the bonds into a monthly prize draw, with prizes ranging from £25 to £1m, but there are no guarantees that you will win anything at all.

Junior Pension/Junior SIPP

Whilst it may sound crazy to save for a child's pension when they are barely walking, the reality is we're living longer and with other financial pressures looming such as rent and finding a house deposit, saving for retirement may fall down the list of priorities. By starting your child's pension at a young age, their pension pot has longer to grow and increase in value. Plus you can also take advantage of the powerful effect of compounding, whereby increases build upon themselves.

A child's pension is also called a Junior SIPP and can be set up by a parent or guardian as soon as they are born; grandparents can also contribute towards it. They are very similar to adult pension plans, as you invest in assets such as shares and attract tax relief from the Government. However, the main difference is the amount you can pay in. The junior SIPP allowance for the 2023-24 tax year is just £3,600 and you have until 6 April 2024 to use it. You don't have to pay the maximum amount however, and most providers let you contribute with as little as £25 a month.

The child pension plan is managed by the parent until the child turns 18, and they can then decide themselves where they want their pension contributions to be invested. The cash cannot be touched until they reach the age where they are allowed to withdraw it, which is currently set at 55 (rising to 57 in 2028). As with any investments, there are risks, but the benefit is that the money is being locked away for your child's retirement and cannot be blown on a new car or a holiday; like a Junior ISA could be at 18.

Help with University Tuition Fees

The average student is forecast to leave university

with £45,600 of loan debt (those who started in 2022-23) and on average, students receive £149.80 a month from their parents towards living costs. Students in the UK can currently access a tuition fee loan of up to £9,250 a year to cover the cost of their course. The student repayment threshold is currently £25,000, so once they graduate and start earning over this amount, repayments of 9% of income above this threshold will need to be paid.

Due to the high interest, many graduates will find they're making repayments for the whole of their working lives, but any remaining loan not repaid after 40 years is written off. Student loans do not impact a graduate's credit score, but as interest rates rise, loan payments may affect a graduate's ability to get a mortgage. There are several options for parents to consider, from paying the full fees upfront, or putting the equivalent amount of money in a savings account for your child to use as a lump sum later in life. They can then either use it to pay off their student debt or maybe use it for a house deposit.

Helping them with their first home

There are several benefits to helping your children on to the property ladder, as gifting your child cash towards their deposit for their first home could also reduce your inheritance tax bill down the line (as long as you live at least seven years after giving the gift). By boosting their deposit (and therefore their equity) it will also reduce the amount they need to borrow and could potentially secure them a better mortgage rate. Or you could opt for a deposit loan, but if you go down this route it is worth getting a solicitor to draw up a loan agreement detailing a repayment plan. Bear in mind this can limit the lenders who are willing to grant a mortgage though, as they tend to prefer a deposit that is a gift rather than a loan.

Guarantor or Joint Mortgage

Alternatively, there is a guarantor mortgage or a joint mortgage. A guarantor mortgage means you put in a significant sum of savings, or your own property as collateral for your

How you can give your child a more secure future cont.

child's property. A joint mortgage with your child, means everyone on the application form would need to meet the lending criteria and you are jointly liable for the mortgage payments. It pays to draw up a document that sets out who gets any profits from the home when it's time to sell, and consider the tax implications. You could buy a property in trust for your child as an alternative, which could help avoid CGT (capital gains tax) and inheritance tax.

Helping with mortgage payments
In the current economic climate, many parents

are needing to support their children financially, either helping with bills or their mortgage payments. Whilst few parents are likely to be able to pay off their child's entire mortgage, helping with payments or providing money for them to overpay their mortgage (keeping within their lender's restrictions) can be beneficial. This also increases the equity in the property, and could mean they can then secure a better rate when they come to remortgaging.

Whilst any financial help will be gratefully received by your children, it's important to also

educate them along the way to make sure they understand the benefit of what you are doing and to make them learn to be responsible for their money from an early age.

Always ensure your own financial needs are taken care of first before helping others and seek advice from your professional financial advisor here at Birchwood, before making any life-changing decisions.

Should you pay off your mortgage early?

Your mortgage is the biggest debt you will have in your life, so, it's understandable that many people would like to pay it off as early as possible to obtain financial freedom. However, in the current economic climate with bills, inflation and interest rates still high, many homeowners are now looking to increase their mortgage term to free up money for other living costs. Research from Standard Life found that if you topped up your pension contributions by 4% for ten years from the age of 55, and had taken a 25-year mortgage term out at the age of 30 which was now paid off, then your pension pot could increase by £513,000. So, should you pay off your mortgage earlier and what are the pension benefits?

The research from Standard Life also calculated that if you boosted your pension pot by 1% between the ages of 55 and 66, then your retirement nest egg would be boosted by £13,000. Whilst it won't be possible for everyone to stick to a shorter mortgage term and pay more towards their pension, it's important to consider the potential retirement impact when looking at whether to pay off or increase your mortgage term - and additionally whether you should use your savings pot to do this. Being mortgage free is liberating, but it must not be at the cost of your retirement standard of living.

Having the option to swap mortgage payments for pension contributions in the lead-up to retirement can have a significant impact on your pension and therefore, your retirement standard of living. However, it is essential to consider what you would like to do when you retire as this drastically affects your financial planning and this is where 'The Retirement Living Standards' tool from the 'Pensions and Lifetime Savings Association' can really help as it shows what life in retirement looks like at three different levels - minimum, moderate and comfortable. The tool not only looks at everyday costs but factors in extras like car maintenance, gifts, holidays and large purchases.

If you are in the comfortable position of having savings and are therefore, potentially looking to

pay off your mortgage balance, is this the best option or should you concentrate on continuing to increase your savings fund? There are many factors to consider and the first is whether your savings are easily accessible in the first place. Ideally you need to have a minimum of 3 - 6 months money available to cover your living expenses - should you lose your income. Once you pay off or overpay your mortgage, you would be faced with remortgaging in order to get the equity back from your home which will take time and incur costs. So never use all your savings and leave yourself at risk.

Other considerations include looking at your mortgage rate and the Early Repayment Charge (ERC). If you have a very low interest rate, it may not be worth paying your mortgage off early, especially if you incur a ERC of thousands of pounds as this would then outweigh the benefits. Savings rates are currently high and you may find that you can earn a higher rate of interest on your savings than you are paying on the mortgage, meaning you are better off keeping the cash in your savings. Another consideration are fixed rate bonds, as they may offer an even higher interest rate, however you need to establish whether you'd be charged income tax on the interest if it pushed you over the personal savings allowance.

It pays to weigh up all options as to what works out best financially between your mortgage rate, ERC and your savings rate and potentially something in the middle could be most effective. Remember that most lenders allow you to overpay up to 10% each year of your mortgage balance without charging any ERC. Therefore, you could pay extra towards your mortgage whilst also continuing to get interest on your savings and potentially pay extra towards your pension on top. Once the ERC period ends, you have the option to take out another shorter mortgage term depending on the current rates or possibly clear the mortgage.

For those who have little or no pension or savings to rely on, you may be relying on your home to become your pension pot, and you would not be alone. Recent research from

Nutmeg has revealed that one in 10 UK adults say they plan on selling their main home to fund their retirement. This is not always as straight forward as it may appear and there are several things you need to weigh up before selling or downsizing your home to fund your retirement.

If you have a large family home and no longer need the space, downsizing to free up capital for your retirement could be sensible, but it might not be quite that easy. Higher mortgage rates mean people looking for that larger family property can't always get the mortgage agreed in the current climate or just don't want to take the risk at present. This also means that property prices are dropping, so you may have less capital in the property than originally thought. Again it helps to work out when you want to retire and the capital you need for the standard of living you desire. This will help ensure you don't sell up too early leaving you with too little equity to tide you over, or alternatively try to keep another income stream in place until the sale goes through.

Obviously the stage of life in which you bought your property will have a big impact on the capital you have in your home and you need to calculate how much you need to spend on a suitable property for your retirement. There are also additional costs including stamp duty, survey fees, legal expenses, estate agent fees and moving costs that all need factoring in. Those who bought in their younger years are in a much better position equity wise than those who were delayed getting on the property ladder and this means it's likely that fewer people will own their home outright by the time they retire.

The Research from Nutmeg also found that 14% of adults said that they would still be paying their mortgage in retirement and a sixth (17%) said they will have more than 15 years left on their term. If you don't want to downsize your property, equity release (or a lifetime mortgage) is another option and means the equity can be released without having to repay the mortgage - until the owner passes away or goes into long-term care. But always seek advice first.

Investment Insights

October 2023

Q3 2023 Overview

Table 1: Asset Class Performance Table (performance data for Q3 2023).

Asset Class	1 month	3 month	YTD	1 Year	3 Years (Ann)	5 Years (Ann)
UK Equity	2.40%	2.19%	5.50%	14.66%	45.04%	20.04%
Global Equity	-0.44%	0.72%	8.89%	11.04%	31.20%	52.61%
DM Equity	-0.62%	0.66%	9.94%	12.11%	35.66%	59.43%
EM Equity	1.14%	1.25%	0.68%	2.58%	1.71%	9.04%
Global Property	-2.88%	-2.32%	-5.08%	-5.60%	16.51%	12.53%
Global Bonds	0.79%	0.43%	-3.62%	-6.49%	-14.62%	-1.72%
UK Gilts	-1.05%	-0.76%	-4.58%	-2.95%	-31.85%	-20.50%
EM Bonds	0.76%	1.37%	-0.30%	-0.04%	-7.50%	5.73%
Oil	14.11%	37.23%	17.09%	13.96%	200.28%	16.01%
Gold	-1.03%	0.12%	-0.17%	1.40%	1.59%	54.07%
Commodities	3.10%	9.07%	-4.84%	-9.73%	66.30%	44.89%
IA Mixed Investment 40-85% Shares	-0.66%	-0.21%	2.21%	5.27%	10.30%	14.84%
IA Mixed Investment 20-60% Shares	-0.62%	-0.11%	1.11%	4.24%	3.55%	6.10%
IA Mixed Investment 0-35% Shares	-0.78%	-0.34%	0.34%	2.66%	-3.77%	0.90%

Source: Morningstar, 30th September 2023, Returns in GBP

This quarter sees a continuation of the themes that have been playing out for much of 2023.

We have seen persistently strong economic data coming out of the US which has kept Central Banks on the backfoot with the US Fed remaining hawkish in both their tone and actions. The ECB and BoE have also kept up the fight against inflation by keeping rates on an upward trajectory, despite headline inflation readings dropping. This is a difficult balancing act as both the UK and EU are facing much tougher economic backdrops than the US and keeping rates elevated is putting pressure on already depressed economies.

The price of Gilt's remained under pressure as yields remain on an upward trajectory matching levels from October 2022 which caused the LDI* pension sector fallout.

Oil was the standout performing asset class for the quarter increasing 37.23% on the back of further Saudi and OPEC member production cuts through to the end of the year. This has pushed global supply down while

demand remains robust with economic growth still above expectations. This has led prices to surge, further complicating the inflation debate as energy inflation is likely to reappear if energy prices remain elevated for a prolonged period.

With the prospects of higher rates going into and through 2024 in the US, the Pound, Euro, and Yen depreciated relative to the US Dollar which has benefited from higher yields persisting in the US.

The Pound's 4.8% depreciation in the third quarter benefited UK investors that held US Dollar denominated investments.

IA Mixed Investment Sectors were all negative over the month of September and quarter, and we are pleased to report that our model portfolio range held up well relative to the sector averages because of our US Mega Cap underweight, commodity overweight and manager selection within the asset classes we have exposure to.

The quarterly rebalance has been carried out and the changes to the portfolio range are limited as our house view has not shifted much since the end of the last quarter.

On aggregate we have increased cash holdings, reduced UK equity exposure on the margin, increased our EM equity weighting and reduced index-linked or inflation linked exposure in relation to our nominal bond exposure.

We remain defensively positioned within our mandates going into the final quarter but well diversified. The recent geopolitical developments while concerning have not had a material impact on our views or positioning.

*Liability Driven Investment Strategy



Are “DIY” Divorces more costly in the long run?

Searching for ‘divorce’ on the internet brings up a multitude of articles and adverts for “quickie” online and Do it Yourself (DIY) divorce options. With a typical divorce involving a solicitor costing anything between £1,000 – £3,000+ (more if it is fought in the courts) depending on the individual factors, a DIY or online divorce is an alternative which can potentially save couples thousands of pounds on lawyers’ fees. Whilst this is often portrayed as a cheap option to try and put things behind you and move on as quickly as possible for both parties, this is not always the case. Although not a cheerful subject, we wanted to show you why opting for current cheap ‘DIY’ Divorces could actually work out more costly in the long run.

With nearly 40% of all marriages ending in divorce in England and Wales, it is not surprising that online and Do it Yourself (DIY) divorces have increased in popularity, as getting divorced is a costly and time consuming process. In many cases it can also get very nasty as decisions are made concerning finances, property and most importantly children, causing stress and having to make court appearances. The rise in DIY divorces has also been fuelled partly by legal aid cuts to many family law services back in 2012 and the launch of an online application system.

A typical DIY divorce costs nothing for you to complete, but you still have to pay the £593 court fees, pay for a financial order and complete all the legal forms yourself with no help; this is where costly mistakes can often occur. It can also be very time-consuming and is reliant on both parties being amicable and the divorce remaining uncontested. Alternatively, an online divorce usually costs around £199 and everything is handled for you, including all legal forms. You don’t need to attend court or pay solicitors’ fees and you can track your divorce online from start to finish. You still, as with the

DIY divorce have to pay the £593 court fees and pay for a financial order.

However, if you don’t get around to finalising a financial order which sets out full and final financial arrangements, although you may be legally divorced, financial claims can arise at any time in the future leading to nasty surprises. The financial assets that you need to take into account when arranging a DIY or online divorce would include physical assets like the family home, business assets and second or rental properties. You then have the non-physical assets like offshore accounts, trust assets, inheritance funds and even cryptocurrency.

Your ex-partner could also apply in the future for payment of a lump sum or transfer or sale of a property, if for example one party receives inheritance after the divorce, wins the lottery or comes into money in some other way. However, one asset that is often forgotten, but can be the most valuable, is pensions and this can give the second party (often the wife who may have brought up children and have no private pension of their own) a financial safety net.

This is where professionals should get involved as there’s been a concerning rise in pension attachment or ‘earmarking’ orders. This is when the court states that the pension provider should pay a proportion, or in some cases all, of one party’s pension to the other at the point of retirement, as a monthly income or a lump sum. This can have many disadvantages though, as if the pension member should die before retirement, the other party loses any entitlement to any of the funds. Additionally, the second party can only receive their share of the pension once it has been drawn down by the first, which means that divorcing spouses can remain tied together with their financial matters for years to come - when all they want is a clean break.

Ideally couples should agree on a pension sharing order, where the funds are immediately divided between the parties at the point of divorce, meaning an equal share for the parties upon retirement. However, there are other ways to divide this pension income and for the pension holder to protect their assets. They could for example offer their former spouse a larger share of another marital asset, such as the family home which would offset their claim against their pension.

You can also protect yourself with pre-and post-nuptial agreements, as without these the starting point in court is always a 50:50 split of all matrimonial assets. In court if the pre or post-nuptial agreement was fair and that both parties entered it knowingly, meeting certain criteria and with full understanding, it has a better chance of being upheld.

Another issue is when a partner remarries, which can in some cases mean they lose their financial claims against their ex-spouse, but this all depends on whether they have completed the parts of the application that relate to financial matters. Speaking to a specialist divorce lawyer will enable you to take the best steps to take to protect yourself.

However, appealing a ‘DIY’ or online divorce sounds, it is essential to get it right and include all future finances in your calculations. Cost is often an issue when it comes to advice and the removal of legal aid has made this much harder for people. If possible, ask a solicitor to check your divorce application and take some initial advice on the process. Plus see your financial adviser before making decisions on pensions. Specialists are there for a reason and although it may be tempting to get closure quickly, not getting sufficient advice may see you losing out financially further down the line.



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