

Newsletter July 2010



While the country enjoys the summer heat wave there has been a lot of talk again about a double-dip recession, where the economy experiences two successive quarters of negative growth. These fears have driven down stock market values.

Worries about Government spending cuts and public sector job losses leading to a reduction in consumer spending haven't helped. Many economists believe this outcome unlikely, though the road to recovery looks long and rocky.

In the light of these concerns I've had an increase in client enquiries about redundancy insurance. I'll cover this subject in detail below.

With mortgage products the question has been whether to fix now while rates are historically very competitive or take a lower tracker rate in the expectation that the Bank Base Rate will remain low for a good while longer. See News in Brief for the latest interest rate viewpoints.

The other hot topic has been the proposed increase in the State Retirement Age, as the demographic time bomb ticks louder. What are the implications? Please read below.

Best wishes.

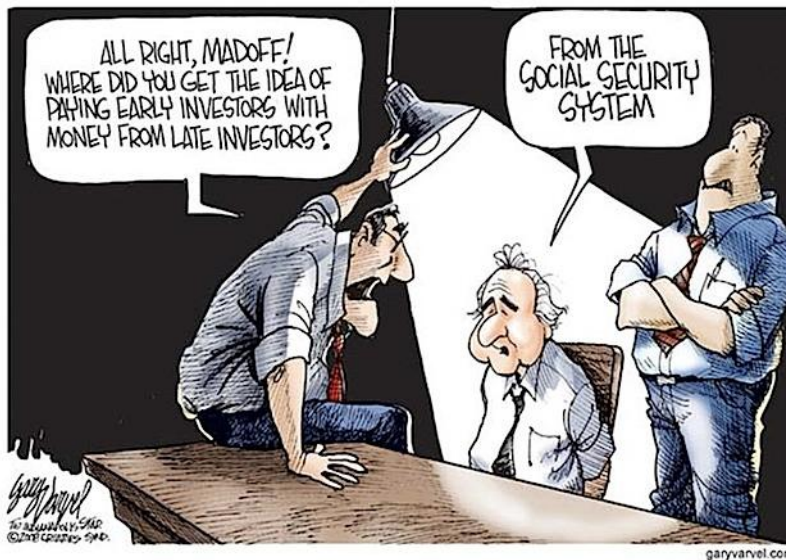
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- Word count: 1,092
- Time to read: 5 minutes
- Key messages in **bold**

The demographic time bomb



The Emergency Budget included a **proposal to raise the state retirement age for men from 65 to 66 by 2016** and will consider bringing forward a rise to age 68 to "be fair to the next generation of taxpayers".

It may also extend it further, perhaps to 70 and beyond in the following decades.

Why? Well, the current system is simply too expensive. **The state pension is paid for by current taxpayers and retirees are living longer and therefore need pensions for longer.**

The government also says the retirement age hasn't kept pace with longer life expectancy. When the first contributory state pension was introduced only a third of men and 40% of women were expected to live to see their 65th birthday.

Currently, life expectancy for people reaching 65 is 86 for men and 89 for women. So someone retiring in their 60s could now spend almost a third of their lives in retirement and drawing a state pension.

The alternatives to a higher retirement age are higher taxes or increased immigration, not palatable to many.

Waiting longer for a small state pension highlights the need for **proper financial planning for your retirement**. Though I'm not currently authorised to advise on this subject I will refer you to a trusted pensions specialist who will review your current provision including old plans and decide on the best course of action for your situation.

State pension facts:



- The first organised pension scheme was in the 1670s for Royal Navy Officers
- The 1908 Old Age Pensions Act introduced the first general old age pension paying a non-contributory amount from age 70
- **1946** National Insurance Act introduced a contributory State pension for all, paid from age 65 for men and 60 for women

Topical quote:

According to the newly formed Consumer Financial Education Body (CFEB):

‘Around 74pc of people with a mortgage admitted they did not know how a 1 percentage point rise in the Bank of England base rate would affect their monthly outgoings’

Product Highlight – Redundancy insurance



Mortgage Payment Protection Insurance (MPPI) **helps you to continue to meet mortgage payments and other household costs**, should you become involuntary unemployed.

It can also provide cover if you suffer an accident or sickness (disability) that prevents you from working.

Typical cover involves:

- **A monthly benefit of up to £3,000**, subject to a maximum of 75% of your gross monthly income
- **Paid after the initial 30 days** since redundancy and back dated to day one
- A choice of up to **12 or 24 months benefit period**
- **Up to an additional 33%** of your monthly mortgage payment and related insurance costs, helping protect other household expenses
- If not taken out at the same time as a new house purchase then a **qualifying period of 120 days** will apply
- Some providers offer **ongoing telephone advice**, access to an employment counsellor, CV preparing tips and interview preparation help

The monthly premium cost will vary depending on your circumstances. Please get in touch if you'd like to know more or obtain a quote.

We can only offer products from a limited number of insurers for Payment Protection

News in Brief

Interest Rates to remain low

The Bank of England might not increase interest rates until 2012, according to the centre for economics and business research (CEBR). Noting the MPC's remit is to focus on inflation two years down the line, the CEBR said: "*Given this is exactly when public sector cuts will really be starting to bite, adding to the slack in the economy and, in particular, the labour market, we see little reason for an interest rate rise this year or next.*"

A new poll from Reuters shows that **economists now expect rates to stay at the current record low of 0.5% until the second quarter of 2011.**

House prices on the slide

According to the LSL Acadametrics house price index, housing **market transactions soared 20%** last month. As more properties come to market, Halifax has **reported house price falls in four out of the last five months**, with the pace of the decline increasing.

The Halifax figures show that **prices are still 7.5% higher than their April 2009 low.**

According to Capital Economics: "*Prices will close 2010 below their end 2009 level and we expect them to **continue falling in 2011.***"

Start up numbers increase

Optimism that the private sector will take the slack of the shrinking public sector: **The number of new firms registering at Companies House rose ten per cent** from 330,100 in 2008/2009 to 362,300 for the year ending March 2010.

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