# Chestnut Financial Services

Independent Financial Advisers

Solving Problems For Our Clients

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## Welcome

Welcome to the very first newsletter written especially for members of the Lincolnshire Police Federation. Our mission is to make sure members feel that they can get great independent advice and maybe give you a new set of ideas to get the most from your money!

We want to help you get to any articles that may be of interest in your life right now or to come back to them later. The articles are short – if they fit with your situation right now and want to know more, please just get in touch.


## What's happening to mortgage interest rates?

Bank base rates went up by 0.25% to 1% on 5th May 2022. So, if you are on a standard variable rate mortgage or a "base rate tracker" your lender will raise their interest rate and the amount you must pay in interest, pretty much immediately.

There will likely be rises later in the year. That's just putting more pressure on all our monthly budgets.

If you are on a fixed rate deal, there's no change for you to worry about, until the deal ends. If that deal is coming to an end in the next few months, why not give us a call and ask us to look at what's available for you to maybe move on to?

With our economy looking like it is going through a rough patch, my advice to many is to consider a fixed-rate mortgage to give some stability to the monthly budget. There's no space here to talk about selecting the right mortgage, the factors to think about are your deposit or equity, what money you have for legal fees and stamp duty, your views on interest rates, and how important it is to you to have full control over your monthly budget.

If you want to talk these things through, just give us a call. There's no charge for asking for some guidance. We have access to around 90 lenders listing around 12,000 different deals at the click of a few buttons, using a very expensive sourcing system!

## Talking Care…

Sometimes our relatives need more care than they can give themselves. It's a fact and with an ever-growing number of people living later in their lives, there is an ever-increasing burden on families to help.

But some of that help needs to be professional – whether it is care being provided in the home, or through residential care, including nursing care. The costs of such care can be quite astonishing.

Care is a massive subject and painful for many to have to consider other people's finances. For example, an attorney under a lasting power of attorney may find themselves having to make very significant decisions.

So, it can be quite reassuring to know that you can contact us, as qualified and accredited advisers with the Society of Later Life Advisers ("SOLLA") to get professional advice on where to get help, when, what things will cost and how to organise paying for care.

## Stock Markets Fall… And Rise

We are all worried when we see the value of our pensions and investments fall – unlike the benefits of the Police Pension Scheme which don't fall. Watching a portfolio lose value over a short period can provoke an understandable urgency to take corrective action.

At the beginning of 2020, as the severity of the pandemic began to be understood, the UK equity market began a fall of 35%, from its peak in mid-January to the trough on 23 March 2020, for the first time in more than a decade. Yet fast forward just a few months to the end of June, the UK market had rebounded 24%. In 2021, despite the effects of the pandemic still being felt, the UK equity market climbed 18.7% – its highest annual rise since 2016.

Portfolios should be tailored to each investor's specific investment objectives, investment time horizon, risk appetite, and capacity to bear financial losses. Portfolios should be regularly monitored and reviewed – at least annually – against investors' goals.

That's exactly what we can do for the members of the Lincolnshire Police Federation. If you want to share your thoughts on the funds you are invested in, we are happy to have a look and see if they are right for you.

## Thinking About Pensions

Retirements are lasting for longer, sometimes for many decades. Our savings and pensions are having to stretch for twenty, even thirty years. “How do we fund our old age?” is becoming a core question from clients these days.

According to the latest Office for National Statistics, pensions are the largest component of household wealth, however, given the changing pension landscape, for many future home-owning retirees, their biggest asset in retirement is likely to be their home.

According to the Pensions and Lifetime Savings Association a pension pot size of £270,000 is required to achieve a moderate standard of living in retirement and that is for those with full state pension entitlement.

There are generally three pillars of wealth that can be used to fund retirement: pension wealth, savings and investments wealth and housing wealth.

There are an increasing number of product options available for customers wishing to use their housing wealth in later life – equity release. These products include interest servicing options, such as standard ‘Older Borrower’ mortgages that extend into retirement and Retirement Interest Only mortgages and non-interest servicing options.

Good advice is available to explain all these options so that people don’t overpay in interest costs.

## Now for something completely different - Should I Invest in A Football Club?

While football club ownership is typically the domain of the super-rich, many football fans seek out share ownership to feel closer to their team while potentially bringing in a bit of extra income. But is investing in a football club a sensible move? Let’s look.

Football clubs generate their revenue through several different sources, including matchday sales, stadium hiring fees, sponsorship deals, merchandise sales, TV broadcasting deals, prize money, and player transfers. The primary source of income naturally varies from club to club. Though, as an example, FC Barcelona’s primary income for the past three years has come from media and commercial sources. FIFA also reported that, between 2011 and 2020, the football transfer market saw spending of $48.5 billion.

While football clubs are businesses, their top priority is success on the pitch. Vast sums of money are spent on boosting chances of winning trophies, league promotions, and avoiding relegation — though these efforts don't always materialize into success. However, this isn't to say that all football clubs are unprofitable and incapable of returning to shareholders via dividends. Manchester United, for example, has awarded a dividend of 14p per share in each of its past four financial years, paying out £23.3 million to shareholders in 2020 alone.

With revenue of £835 million, Manchester United is one of the highest-earning clubs in Europe (beaten by PSG £894 million, Chelsea £898 million and topped by Manchester City at £955 million). A club with lower earnings may not be able to deliver the same returns.

The value of sports franchises is rising. Billions of pounds are being pumped into the sports industry by big media and internet companies.

Football is, and will likely always be, an incredibly popular sport with strong underlying demand. Nonetheless, most people choose to invest in a football club simply as another way of supporting their team.

Generally, an investment in a football club is seen as a novelty, despite your money being invested in a company that is very much real. This is because there's no real way of forecasting how shares are going to perform. The figures vary massively from one club to another. For example, Manchester United gained just 4.47% in value over the past 5 years, while Juventus has experienced gains of 156.25% over the same period. Other clubs have gone the other way entirely. Borussia Dortmund, for example, made a loss of 14% over a 5-year period.

Football is a high-risk investment with relatively low returns. Many investors invest from an emotional perspective rather than a financial one. Fans may be keen to support their favourite club, but the decision to invest in a football club shouldn't be taken lightly.

**This article does not constitute financial advice. All investments are made at the reader's own risk.**

Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not recover what you invest.

Past performance is not a guide to future performance and may not be repeated. Investment involves risk.


## Questions From Members This Month

I thought I would create a section that passed on the answers given to members of the Lincolnshire Police Federation who asked me questions this month.

<u>Tax-Free Cash from Your Pension Fund</u>

The most important question concerned whether to take the maximum tax-free lump sum from the scheme but was also related to taking the maximum tax-free lump sum from personal pensions as well.

1. Leaving your money invested in personal pensions for as long as possible is the best strategy, so long as the funds are performing well and the charges on the plan are competitive. Staying as a member of the Lincolnshire Police pension fund is also the best strategy as the longer you are a member, the more the benefits will grow.
2. Only take sufficient capital that you need, because the more you take out as a lump sum with personal pensions, the less you will have as a benefit for the rest of your life. Taking a lump sum from your Lincolnshire Police fund is fine, but always think about whether the income being offered as an option is sufficient to cover your monthly expenses for the rest of your life.
3. Bear in mind that money you take out of the pension plan – whether it is the Police pension fund or a personal pension – will be added to your estate for inheritance tax purposes. Money left in the pension schemes isn't subject to Inheritance Tax and can be passed on to your dependants.
4. By being tax-savvy with your pension money, you can pay the least amount of tax and get the most benefit from your money. That will make it last longer, but that's a balance between paying the least amount of income tax from both income and your lump sum.
5. We can talk through whether taking your tax-free cash and investing it can be a good idea, but that is always a client-specific consideration. Definitely consider taking sufficient tax-free cash to pay off any debt you have (unless it is interest-free).

Everyone is unique! The implications for everyone personally will always be different – we can help you weigh up your choices. The key is never to look back in five years and regret having made your decisions.

Other questions concerned inheritance tax planning and whether to pay off the mortgage with pension money. If there's space in next month's edition, I'll offer my views on those answers.

**Risk and Legal Disclosures**

Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. Exchange rate changes may cause the value of overseas investments to rise or fall.

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