Viewpoint

EUREKA FINANCIAL SOLUTIONS

Interest Rate Rise
We assess the impact on borrowers and savers.

Critical Illness cover can make a difference
How to avoid the financial impact of serious illness.

The value of protection
Why protection insurance is a must if you have a mortgage.

Interest Rate Rise

In 2007 Bulgaria and Romania joined the European Union, Lewis Hamilton got his first drive in Formula 1 partnering with Fernando Alonso at McLaren, the final book in the Harry Potter series was published and England played their first match at the new Wembley Stadium.

Whether you're a saver or a borrower, we'd love to help you make more of your money. Get in touch to find out how.

It was also the year in which the Bank of England last raised interest rates, when they went up by 0.25%.

That all changed on 2 November 2017 when The Bank of England voted to raise UK interest rates for the first time in over a decade, to 0.5%.

So how could an interest rate rise of 0.25% affect you?

In the short term, both borrowers and savers could see a modest effect on finances. Savers are likely to be pleased with the welcome boost even if the increase is small. Borrowers however will be less pleased as they could see their mortgage repayments rise.

Impact on borrowers

Higher interest will mean that those on Standard Variable Rates (SVR) or Trackers Rates will see their mortgage repayments rise. On a mortgage of £125,000 an increase of 0.25% would result in payments increasing by £15 a month (£185 a year).

Those with larger mortgages will in turn see a larger payment increase. Those with a mortgage balance of £250,000 will see their monthly payments increased by £31 (£369 a year). However, the 57% of borrowers on a fixed rate deal will be unaffected during their fixed term.

These figures might not seem much in isolation, but borrowers should also be aware that higher interest rates could impact other borrowing, like credit cards, car credit or unsecured loans.

There's also the prospect that rates could continue to rise over the long-term. If we hit 1%, the monthly repayments on a £125,000 mortgage would go up by £78.48, and £161.69 if the rate doubled to 2%.

If you're concerned about the impact of higher interest rates on your mortgage repayments you may want to consider a fixed-rate deal, especially if you're currently on SVR. Remember, if you're already on a fixed-rate deal you may face higher repayments when the term ends. Make sure you diarise when that's due to happen and get in touch so that we can discuss whether the best option is to remortgage.

Impact on savers

According to research there's no standard savings account on the market that can outpace inflation, in fact the average easy-access savings account is currently paying 0.35% interest.

If the Bank of England increases the base rate savers may be able to find better returns to keep up with rising inflation. However, as with mortgages, those already on a fixed rate will not see higher rates until the term ends.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Critical Illness cover can make a difference

If you've ever turned down a recommendation of critical illness because you can't see the value of it, this real-life case study might make you think again.

Please talk to us if you think you need cover, or you need to update your existing provision.

Peter Simpson is a successful commercial manager for a Berkshire-based firm. He's married with three children aged 13, 11 and 9 and has a £297,000 mortgage. His wife gave up work to bring up the kids, making Peter the main breadwinner.

When he was 24, buying his first house, Peter had arranged to see an Openwork adviser who helped him sort out a mortgage and critical illness cover. Over the years, Peter's circumstances changed; he got married, started a family and moved up the housing ladder. During that time he has stayed close to his adviser and updated his cover in line with his changing circumstances.

The value of critical illness cover

Peter has always been able to see the value of critical illness cover, particularly because his father had sadly died of cancer. Aside from covering his mortgage, Peter also wanted to make sure his wife and children would be OK financially if anything happened to him.

In December 2016, totally out of the blue, Peter had a stroke. He had stopped at a friend's house on the way to work when he suddenly and unexpectedly experienced a terrible buzzing sensation at the back of his head. He lost the feeling in his right-hand side and his speech became slurred. Spotting something was obviously very wrong, his friend got him into the house and immediately called an ambulance. Within 45 minutes Peter was being treated in hospital with his wife by his side.

When he was back home recuperating, Peter started the claims process, which turned out to be extremely straightforward. After a few phone calls and emails Peter received confirmation that his policies would pay out in full and he could expect £380,000 in his bank account.

Avoiding the financial impact of serious illness

Thanks to careful financial planning and an appreciation of the difference a critical illness plan can have on the financial impact of a serious illness,

Peter and his family now have the freedom to make choices. They have been able to make two platform investments, one that would act as a pension for Peter's wife, and the other to enable Peter, a higher-rate tax payer, to maximise his personal allowance every tax year. They have also reduced their mortgage and swapped it from interest only to repayment.

This case study highlights the importance of protection especially if you have a loan or you're the main breadwinner.

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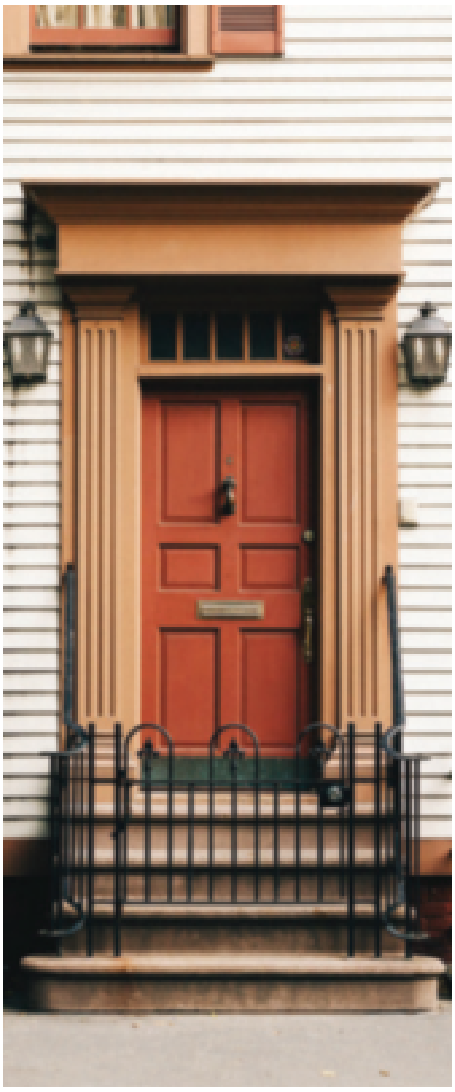
The value of protection

Buying a new home is possibly one of life's biggest and most exciting events. It's also a major financial commitment – one that could be with you for 25 years or more.

Making sure you have the right protection in place is important. We can review your circumstances and the cover options available to you.

Your ability to maintain your mortgage payments relies on a constant income, so how would you continue to make your mortgage repayments if your income was reduced – or stopped? Here we look at two similar scenarios with very different outcomes.



David

David arranged a new mortgage with his financial adviser. They discussed protection insurance and David agreed to take out cover so that he could maintain the mortgage repayments if he had to stop work because of serious illness. As a father of two, David also wanted cover so that he could help maintain his family's lifestyle. The mortgage went through and the protection insurance was put in place.

Feeling unwell just a few weeks later, David went to his GP for a check-up. After numerous tests he received the shocking diagnosis of thyroid cancer. David stopped work and started treatment. His adviser supported him through the claims process and the insurer paid the claim promptly and in full. Rather than having to worry about his financial situation, David was free to cope with a tough treatment regime and concentrate on getting better.

Thanks to his protection insurance, David maintained his mortgage payments and monthly bills. He even treated his family to a holiday as part of his recuperation. David made a full recovery, returned to work and life continued as normal.

Jane

Jane arranged a new mortgage with her financial adviser. She was advised to take out protection insurance that would cover the mortgage payments and help maintain her family's lifestyle in the event she had to stop work due to serious illness. After thinking about the cost of the cover and the likelihood of having to claim, Jane declined.

Feeling overly tired a short while after the mortgage was put in place, Jane went to see her GP. After numerous tests she received the shocking diagnosis of thyroid cancer.

Jane had to stop work and apply for Statutory Sick Pay at the same time as coping with a tough treatment regime and looking after her kids. She started to struggle to cover her outgoings and had to use all her savings.

Unfortunately, Jane was forced to sell her house and move into a smaller property, turning her and her kids' lives upside down. Even though she wasn't quite ready to, Jane had to return to work.

The importance of protection

You might be like Jane and think that it won't happen to you, but one in two people born after 1960 in the UK will be diagnosed with some form of cancer during their lifetime and four in five people with cancer are affected financially. And if you think that protection policies don't pay out, they do. In 2016 15,464 critical illness claims were made and 92.2% paid out an average £68,000.

There are a range of products available that can provide a lump sum or a regular income on death or diagnosis of a specified critical illness and they could cost less than you think.

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