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SIFA **FINANCIAL SERVICES** NEWSLETTER FEBRUARY 2019

UK PERSONAL DEBT

The media has recently given considerable coverage to the issue of personal indebtedness in the UK.

In this article, we consider the latest data available on the extent of personal debt in the UK, the impact that this level of personal indebtedness could have upon the economy, and the best approach to help those finding it difficult to cope with the position that they find themselves in.

The Office for National Statistics (ONS) has revealed that household indebtedness increased by £25bn in 2017, an average of £900 per household. It has warned the Government that the current £200bn worth of personal debt is unsustainable.

The ONS report – entitled "Making ends meet: are households living beyond their means?" – found that the deficit among UK households is equivalent to 1.2% of GDP, in contrast with a surplus equivalent to 2.7% of GDP in France, and to 5.1% in Germany.

Phil Andrew, CEO of Step Change, a charity that works to help indebted households, has said that the ONS's use of the term 'living beyond their means' is not helpful, as the poorest sections of the population are in constant need of credit just to keep their heads above water.

Credit card spending in November 2018 was £11.3bn, 7.5% higher than in November 2017. In fact, over that 12-month period, credit card borrowing grew by 5.3%. Personal borrowing through loans and overdrafts also grew by 2.5%. Of course, this could be indicative of a general trend towards the more frequent use of credit cards for transactions as a result of stronger consumer protection and value-added benefits.

However, when one looks at gross mortgage lending figures over recent months in comparison to the previous year, a downturn can be observed. This may indicate a general slowdown in activity relating to the residential housing market.

Gross mortgage lending in November was £23.1bn, equating to a 2% reduction in mortgage lending. The number of mortgages being approved decreased by 10.6%, while approvals for other secured borrowing saw a 12.2% decrease.

With the so-called UK housing shortage featuring regularly in the media, and with much made of its impact upon rising house values, what other factors could be causing a slowdown in recent market activity?

Uncertainty surrounding the final outcome of Brexit may be one such factor, and it is appreciated that this may be concluded by the time this article is published. Since the introduction of the Mortgage

Market Review in April 2014, prospective house buyers have understandably had to satisfy further requirements relating to the repayment of mortgage loans. It could be that in certain geographical areas of the UK, the market is approaching a point where the house prices demanded have outstripped the market's ability to pay. If that is the case, and this has led to a reduction in average house values, then this could have an impact on the re-mortgage market (which is reportedly down 20.3% year on year), ancillary markets such as equity release and the amounts available for older property owners.

The Bank of England raised interest rates in August last year from 0.5% to 0.75%. However, historically this is still relatively low.

Should economic circumstances change following the outcome of Brexit discussions, this could lead to a review of the UK Bank of England base interest rate. Such a review is unlikely to see the rate reduced further. Therefore, although this would assist savers, it would negatively affect borrowers.

Last year, the National Audit Office revealed that 8.3m people were unable to pay off debts or meet household bills.

Pressures on household disposable income have a knock-on effect on the whole economy. For example, the UK High Street has been hit by a number of developments (this being one of them), including the growth of online shopping. Therefore, concerns over household income have an impact on retailers, their margins, their share prices and their status as major employers. Indebtedness is an issue that can affect people of all ages and indeed backgrounds.

Although it could be argued that the responsibility for finding oneself in such an adverse position rests with the individual, for some it is the result of circumstances beyond their immediate control. These circumstances may include illness, bereavement or unemployment, to name just three. Debt can soon get out of hand, and can creep up on anyone as a result of a combination of factors.

Problems can escalate further when individuals don't feel confident enough to discuss these issues with family, friends or an adviser. However, discussing their problems, and mapping out potential solutions, can be the first step to turning things around and getting their affairs back on an even keel.

This may all sound very obvious and straightforward; however, surveys and related articles reveal that family members or close friends frequently experience these difficulties without us being aware of it, leaving us therefore unable to assist them.

For those in a position to assist, it is important not to judge but instead to concentrate on finding the most appropriate solution.

IFAs are often in an ideal professional position to help. They are able to assist clients with cashflow modelling, and can either reduce a person's risk of indebtedness or address problems that have arisen since a previous review. Helping to ensure that those close to us, whether they be family or friends, take the right financial planning path for them is therefore extremely important.

Beware of Pension Scams

Pension freedom has enabled those approaching retirement to consider a much wider choice of alternative options as to how to employ the pension funds that they have accumulated through their careers.

However, unfortunately the introduction of such freedoms seems to have also attracted the interest of a number of undesirables and fraudsters.

A snapshot of the problem can be seen through the actions of the Insolvency Service. They detail on their website that they have applied to courts to wind-up 24 companies over the last three years where there has been evidence of them carrying out some form of pension misuse.

The service indicates that there have been 3,750 victims of these 24 companies alone, and that the misconduct has resulted in individuals and businesses losing over £200m.

Common tactics used by pension scammers are cold calls, the offer of free pension advice, lying about their level of expertise and qualifications and the offer of considerable investment returns from the solutions that they offer.

It is worth noting at this point that cold calling related to pensions is now deemed illegal. Therefore, anyone making such an approach can automatically be dismissed as unethical.

With individuals having taken forty or more years of hard work to accumulate such pension benefits it would seem right to take time to consider one's options.

Individuals that continue to liaise with a known and trusted adviser to consider the appropriate options for their pension funds are likely to be better positioned to avoid pension or other forms of scammers.