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**Technical Update No. 111 7th January 2023**

**Investor / Saver / Retired**

## Annuity rates still going strong

Annuities offering guaranteed incomes in retirement have become more attractive in the UK due to improved rates combined with financial market volatility and economic uncertainty. Polling commissioned by L&G from Opinium shows one in three people approaching retirement are now considering an annuity, which the provider estimates to amount to nearly 1.8mn pre-retirees. Of these, around 800,000 had long planned buying an annuity but almost 1mn only recently started considering one because of the shifts in the market, according to the data. Canada Life has also reported a swell in quote requests, up 58% across most of last year. Its five-year guaranteed product rose from 4.5% to 6.5% providing around £6,542 per £100,000 invested for a lifetime income. Across the market, rates have risen after a decade of low interest rates ended due to spiralling inflation. Offers spiked around 6.8% in early October following a dramatic sell-off in gilts, levelling out around 6.5% towards the close of 2022. The 'mini' Budget created market hell and gilt yields spiked beyond expectations. Rising annuity offers have brought forward the break even point for any purchase, with retirees drawn to the prospect of earning back their initial lump sum in less time than previously under lower rates. But investors should weigh a number of factors before settling on an annuity, including the age at which they started to access any pension pot and their lifestyles. Although rates have piqued interest in annuities, people still risk having an 'either, or' approach to funding their retirement when a blended approach involving different products through retirement might be more suitable.

**Property Owner**

## Is it time to look at trackers again?

Interest rates on fixed mortgages have shot up dramatically over the past 12 months. Average rates on a two-year fix recently dipped back below 6%, though this is still far higher than average rates of 2.34% a year ago. So where do brokers believe rates on fixed mortgages could be heading as we enter 2023? Variable rate mortgages, like trackers and discount deals, are growing in demand as rates on these are far better than those on fixes. For example, the best rate you can get on a two-year tracker is currently 3.25% compared to 4.85% on a two-year fix. According to Ray Boulger, while fixed-rate deals made up 95% of new mortgages until recently, this figure is expected to drop to around 75% in 2023. Tracker rate mortgages and discounted variable deals have been popular because they are so much cheaper than the fixes. However, if they increase in line with the Bank of England base rate rising and fixed rates get cheaper, then variables may not be such an attractive option. The trick is to find a 'switch to fix' tracker which allow borrowers to move onto a fixed rate at any point without paying huge early repayment fees. Now that we are returning to a higher rate environment, borrowers are once again faced with the traditional dilemma of whether rates might not climb as far – therefore the differential between a lower, but fluctuating, tracker rate and a corresponding fixed rate could be worth paying. Rather than lock into the higher fixed rates since the mini-budget, more borrowers have decided that they are prepared to accept the potential rise in a tracker deal on the basis that rate expectations have eased. Trackers are also more likely to be free of early repayment charges, allowing borrowers the chance to jump out at a later date, whether that be because fixed rates look more attractive or that rates carry on rising and borrowers want to lock in. We are seeing an influx of variable rates without early repayment charges to switch at present. This benefits borrowers looking for the lowest current interest rates but with the option to secure a fixed rate if margins become more favourable in this area at a later date. Analysts are expecting lenders to lean on flexible products for this reason, but it is key to take note that the Bank of England will likely increase the base rate over at least the next 12 months – so this potential additional margin needs to be factored into the cost of these products.

**Property Owner**

## London worst for buy-to-let landlords

Higher mortgage rates, greater regulation and already stretched tenants will arguably make 2023 a tough year for landlords. But analysts are split on what will happen to buy to let in 2023. Some predict an exodus, while others believe next year could be an opportunity for savvy and cash rich landlords. There is a strong view that the golden era for buy-to-let landlords came to an end in September 2022. The availability of 'cheap' money that fuelled the expansion of many portfolios came to an end with a crash. Within a year, being able to borrow 75% of the value of the property has gone from being the norm to nigh on impossible, especially in London and the South East. As such, many landlords will be looking at their portfolios to decide what to stick with and what to twist. With rising costs, taxation and regulatory requirements, many will be deciding whether enough is enough. The new regulation surrounding Energy Performance Certificate (EPC) ratings is going to cost many landlords a lot of money, and this on top of higher interest rates and more stringent Interest Coverage Ratio (ICR) calculations could see many landlords exit the market in 2023. Those that don't will likely be increasing rents to alleviate some of the pain. That said, there is some expectation that lenders may continue to reduce rates, and we are now seeing some lenders improve their ICR calculations and hopefully this continues. 2022 has been a year for reflection and it seems that only professional portfolio landlords who aren't highly geared will be the ones to weather the storm successfully. Buy-to-let has changed forever, but this will be to the detriment of tenants and those in need of a home. Certainly, any landlord with a mortgage expiring in the next 12 months, unless it's been on repayment for the past five years, will find themselves in a very tricky position. As such many commentators expect a fire sale of buy-to-let properties once landlords realise what awaits them with their next mortgage renewal. So any Landlord holding a buy-to-let mortgage above 60% LTV may well be strongly considering selling up. However, some believe that 2023 may afford opportunities for landlords in strong cash positions to capitalise on the market correction. Residential affordability remains tough, which will keep first-time buyers in the private rental sector and further stoke tenant demand, driving rents higher still. In terms of an exodus, less experienced landlords may choose to sell as their margins are squeezed but experienced landlords are playing a long game and know the value in capital appreciation. In 2023, rents will rise and mortgage rates will fall, but more importantly so will stress tests. Don't forget lenders need to lend money to make money, so we will see more innovation like we are currently seeing with lower rate/higher fee products to mitigate the affordability challenges since the mini-Budget.

**All**

### HMRC inheritance tax clawbacks

Inheritance tax is charged at 40 percent of the value of a person's estate above a specific threshold, usually above £325,000. People must pay the inheritance tax due on their deceased loved one's estate promptly and in full. When dealing with someone who has died, the executor of a will is legally required to complete a declaration for HMRC. However, the Revenue can then open an investigation if it sees fit, either at random, or due to "red flags" raised when checking this declaration. Investigations may come back clear, or could find someone has underpaid or submitted incorrect information. However, both people who deliberately conceal money and make genuine mistakes are seen as legitimate targets for investigations. As such, HMRC is increasing its efforts with investigations in the hope of cracking down on those who are underpaying inheritance tax. According to data obtained by NFU Mutual from a Freedom of Information request (FOI), the amount raised by investigators in the year to March 2022 was 28 percent higher than for the previous 12 months. Last year, it was found HMRC opened 4,258 enquires into families regarding inheritance tax. This is up from 3,574 the year before, although the COVID-19 lockdown did impact investigations being carried out. It was found HMRC clawed back a record sum of £326million through investigations last year. There are ways Britons can ensure inheritance tax is being paid correctly by their loved ones after their death. Firstly, people are encouraged to keep good records of any gifts or transfers they have made, as well as the value of their assets. Experts typically state Britons should keep an up-to-date Last Will and Testament to avoid confusion about a person's final wishes. Some may also wish to seek financial advice to help them, as experts are well-versed in dealing with tax affairs. With inflation soaring and tax allowances frozen, more people will have to consider an inheritance tax bill - when in the past, they may not have given thought to the levy.

This is likely to be compounded by rising house prices, which may see the assets of an individual be much higher than before. An HMRC spokesperson said: "Our role is to collect the right amount of tax due under UK law. Cases are opened where we identify a risk of tax not being paid."

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## Lenders slash mortgage rates

A mortgage price war has begun after two of the biggest high street lenders announced steep cuts to their fixed rate deals. TSB and Nationwide both reduced the cost of borrowing following a property sales slump, house price falls and a decline in mortgage approvals. Analysts said other lenders would "aggressively" follow suit in a bid to attract the customers who remain in the market. TSB has reduced its five-year fixed rates for home buyers and people re-mortgaging by up to 1.3%. A borrower taking out a £200,000 loan on TSB's new rate of 4.99% would save £1,872 over 12 months, compared with the previous rate of 6.29%. Nationwide introduced fixed-rate reductions of up to 0.6% across its range. A customer seeking to purchase a new home with a 15% deposit can secure a five-year fixed rate with Nationwide at 4.79% – a fall of 0.6%, the biggest reduction offered by the lender. Jane King, an independent mortgage adviser, said that the fall in rates was a sign that lenders were struggling for business. She said: "The message that I'm getting from lenders is they're just not getting any business. The bottom has fallen out of the purchase market." Experts believe that other lenders would launch aggressively priced mortgages in order to compete in the quickly changing market. The expectation is that over the next few weeks all lenders will come out with reduced pricing, though question marks remain over how low they can go. Despite the fact that margins are probably going to be pretty slim, commentators expect the whole market to come out with cheaper deals over the next few weeks. According to analysts at Moneyfacts, the average two-year fixed-rate mortgage cost 5.75% on Friday compared with a high of 6.65% last October. It came as house prices were reported to have fallen in December for the fourth consecutive month, according to Halifax, with the average home now worth £12,700 less than it was in August.



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