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Financial Health

MONTHLY UPDATE JULY 2007

New PM, New Chancellor, New Start?

So at last we know that Gordon is now the new PM and that, more importantly from a financial point of view Alistair Darling is now the new Chancellor of the Exchequer.

We may all like to bash Mr Browns work as a Chancellor, but despite many of the things that he has done that have upset so many people (tax on pension funds, Pre-owned Asset Tax, new trust rules etc) we must accept that he brought two things to the Office of Chancellor, that have not been seen before, or for a long time.

The independence of interest rates, introduced just after the first Labour victory, must be seen as a major step forward economically. This one fact has immediately removed the governments control of interest rates for political purposes. We all remember black Wednesday and interest rates at 15%. The new system should ensure that this is never replicated.

Secondly, how long is it since we have had such stability in the economy. In particular caused by having the same Chancellor (and PM) for ten years. This stability counts for a great deal and is one of the reasons that the economy has done so well.

The real question is now, will we have the same levels of stability for the next ten years?

Probably not, as Mr Brown would need to win the next two elections comfortably, which might be a challenge. However, we should probably settle with the same Chancellor into the next election. If you look at all of the other posts there have been many changes over the years. While Darling certainly has the ear of the PM, there is nothing like the relationship that Brown and Blair had which gave great stability. The relationship that Brown has with Darling is more that of Blair and Mendleson!

So lets hope this new government, as it really is a new Government, has the strength to run a tight and strong economy. Lets hope there are no massive changes in direction (economically at least), and lets hope that we all prosper.

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What you can save if you stop smoking

On 1 July, the smoking ban already in force in several parts of Europe, the US and the rest of the UK, comes into effect in England. After smoke free laws in Ireland cigarette sales fell by 15%, in Norway by 14% and in New York 100,000 people have quit since the start of the ban. If you're a smoker who is not happy about the changes then count your lucky stars you don't live in the Himalayan kingdom of Bhutan, where the sale and use of tobacco is completely outlawed. Alternatively, you can give up and count the extra cash in your bank account.

According to the Office of National Statistics, more than a quarter of adults - around 13 million people - are smokers. That number is almost certainly quite a bit higher once you include the under-16s who are puffing illegally. The price of a packet of cigarettes has more than tripled over the last 15 years. This means that the cost of smoking has increased by more than any other commodity - rising by an incredible 204% since 1989 on the Retail Price Index, according to the Halifax.

Only personal services such as dentists' charges came close with an increase of 164%. In contrast, the price of electrical goods such as computers has fallen by 74% in the same period. Someone, somewhere is making a ton of money out of smokers.

Your savings

As the UK's smokers mull the impending ban on lighting up in public, one incentive to stub out their last fag is the potential profits to be made from investing their ciggy money in the markets instead. With the typical packet of fags costing £5.40, a twenty-a-day smoker is blowing around £165 a month - and that's assuming the matches are gratis! Just storing the cash in a piggy bank would collect a tidy sum of £1,980 a year but had the money had been invested in a monthly savings scheme with an "average" Investment Trust or Unit Trust over the last 12 months, you'd now be sitting on a pot of around £2,460. That's more than enough to buy plenty of patches and a subscription to a fancy health club."

According to research carried out by Alliance & Leicester which shows that even current social smokers, who smoke up to 20 cigarettes a week, could save approximately £280 in a year. Male smokers spend approximately £100 more on cigarettes each year than women say A&L.

Your mortgage

Someone with a 25 year repayment mortgage could save over £29,000 in interest and shave

How many?	Cost per month**	Mortgage Amount	Interest saved	Years saved
10 a day	£84	£100,000	£18,434	5 years and 5 months
20 a day	£168	£100,000	£29,378	8 years and 7 months
30 a day	£252	£100,000	£36,698	11 years and 3 months
40 a day	£336	£100,000	£41,963	12 years and 10 months

over 8 years from the term of their loan if they used the money saved by quitting smoking to overpay on their mortgage. Even someone with a relatively small mortgage of £100,000 will pay £29,378 less in interest."

The figures naturally get even more convincing the more a borrower smokes each day. The following shows the potential savings:

In addition to the interest saving, there are significant savings on the life insurance that you would have to cover the mortgage. Life cover of £100,000 for a twenty five year term would cost a 35 year old male smoker £17 a month, whereas for a non-smoker it would be around £9."

Your pension

The smoking ban is likely to encourage many people to quit smoking which will lead to increased longevity and therefore a need for more money in retirement. According to the 50-year British Medical Journal study, men who quit at the age of 30 can 'regain' ten years of life expectancy.

By investing the £175 saved from giving up smoking into a stakeholder pension plan each month, you could expect to increase your pension pot at 65 by up to £156,000. This equates to an annual income of £8,480 on top of any other pension provisions he may have. The best bit is that by automatically switching the money you used to spend into a pension, you probably won't even notice."

How independent is independent?

A recent warning from the Financial Services Authority (FSA), the government watchdog has recently issued proposals for changes to the ways that investments, insurance and pensions are sold to the public following their concerns that there is still significant "commission bias" on products.

They believe that advisers may be more inclined to recommend products with higher commissions. The reasoning for this is that when product providers offer "special offers" to advisers the take up in those products increases. The reasoning goes that, if there was no commission bias then there would be no increase in sales if commissions increase, or no decrease if commissions falls.

Under current proposals, advisers would only be able to call themselves independent if they were "fee only" advisers. i.e. that they received no commission on products and either rebated it into products or returned it to clients directly.

There have been so many changes over the last 20 years where governments have tried control how advice is given and how commissions can affect this advice. Financial advice is no different from any other product. If a salesman sells a car, he will obviously get more commission if he sells a £40,000 car than a £10,000 car. Some cars may also have more commission than others. Financial products and financial advisers are no different. The real question is do those people buying products, be they cars or pensions understand this, and do they want to do something about it.

If you have the time, check the FSA web site at FSA.gov.uk and add your comments because every comment really does get read and considered.

Best Savings Selection

To get the best from your deposit based savings you often need to move the money around. Please use the tables below to help you select the best home for your deposit based funds.

Top Three No Notice Accounts

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Alliance & Leicester	www.alliance-leicester.co.uk	N/A	N/A	5.65 (minimum £5,000)
Anglo Irish Bank	0845 455 2222	N/A	5.55	5.55 (minimum £500)
Birmingham Midshires	0845 6032286	5.50	5.50	5.50

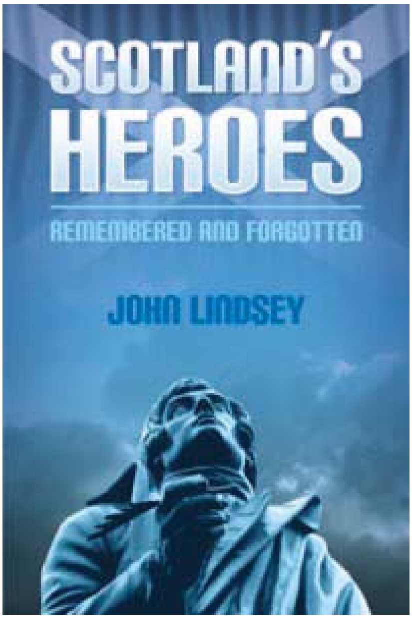
Top Three Monthly Interest Accounts

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Alliance & Leicester	www.alliance-leicester	N/A	N/A	5.65 (minimum £5,000)
Citibank	Www.saver.citibank.co.uk	5.70	5.70	5.70
Icesave	icesave.co.uk	5.56h	5.56	5.55

Top Three Cash ISA's

Name	Contact	£1 Gross %	£500 Gross %	£3,000 Gross %
Barclays Bank	0845 3005854	6.31	6.31	6.31
Portman	0845 0450114	N/A	N/A	6.05 (min £1,000)
Saffron BS	0800 072 1100	N/A	N/A	6.05

Please check with the terms and conditions before opening any account. If in doubt consult with your financial adviser directly as the above are for information only.



Book of the month

This months book is Scotland's Heroes by John Lindsey (ISBN 1-904440-87-8)

Prior to reading the book I had no idea how influential the Scot's were in the affairs of the world over the last 1000 years. So many people who have influenced the world both economically (Adam Smith for example) or scientifically (John Logie Baird) were Scot's through and through, and it seems fitting and right that their heritage is commemorated here.

The book is easy to read and does not get tied down in any one "hero" as it moves swiftly from one person to another. The book uses the statues of Scotland as its reference and starting point. If you are holidaying in Scotland then this book would make a fine guide as to the places to visit.

reviewed by U.N.Known

The World Today

Visiting an allotment is now considered so perilous – the thorns, the stones, the metal tools – that a council in Somerset has ordered allotment holders to take out £5M of public liability insurance. The cover will cost each of the 12 gardeners at Monkton Heathfield £375 per year, for land they rent for an annual fee of just £10!

Quote of the month:

"to be without some of the things you want is an indispensable part of happiness."

Bertrand Russell

NS&I increases rates

NS & I rates have increased, the best of which are:

Fixed Interest Savings Certificates
3.95% compound guaranteed over 2 years = 6.58% gross for higher rate taxpayers = 4.94% gross for basic rate taxpayers
3.85% compound guaranteed over 5 years = 6.42% gross for higher rate taxpayers = 4.81% gross for basic rate taxpayers

However, when you look at it, the story is not as good as they might wish it to appear. In fact they have not passed on the recent interest rate increases. When interest rates increased in May, the NS&I Investment account only increased its rate by 0.15%. Is this the government doing exactly what it critises the banks for doing? Well, yes