



For Life

HOW CAN YOU PROTECT AND GROW YOUR MONEY?

Is now a good time to invest in buy to let?



Once again savers are being tempted to invest in the buy to let property market after average rental prices hit a new high in July, but there are question marks over whether or not now is a good time to buy.

Rents have risen over the past few years as would-be buyers of properties have struggled to raise big enough cash deposits to meet the lenders' strict mortgage criteria. Average rents in England and Wales rose in July to £725 per month, the fourth consecutive monthly increase in the figures, which also show that rents rose in 8 out of 10 national regions.

The two primary considerations when investing in buy to let properties are cash flow, which is largely dictated by the strength of the rental market, and capital growth prospects, which is the

real driver of returns over the long term. The lack of mortgage availability for first-time buyers and the high cost of getting on to the property ladder means that demand for rented housing will remain strong for some time. As long as average rents stay at the same levels, or continue to rise, then clearly buy to lets are going to be seen as good investments.

The scale of demand for rented property will keep upward pressure on rents, but increases will ultimately be affected by affordability

constraints such as average incomes. Investors must also consider where markets are with the strongest demands and also need to be wary of buying in weak rental markets where there are risks of extended void periods. The outlook for capital values in the near term is less certain. In London and the South East, house prices are rising quickly and dramatically but real recovery in house price inflation across the country is dependent upon economic growth and rising household incomes.

Investing in residential property as part of a balanced portfolio remains an attractive proposition so long as investors take a long-term view and think carefully about the asset selection. The residential real estate team at Birkett Long is available to offer advice on buy to let purchases.



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The future cost of long term care

In the UK there are over 10.8 million people aged 65 or over and nearly 1 in 5 people will live to see their 100th birthday. It is inevitable that more people are going to require care.

The average cost of a residential home with nursing care in 2011/2012 was £722 per week. The average cost of care in residential homes with no nursing care in 2011/2012 was £524 per week. If someone needs care for 8 years the average total cost, using weekly fees of £722, could amount to £300,000.

There are many reasons why people need residential or nursing care, but recent research shows that 45% of those in nursing care and 41% in residential care have dementia (*Source: Care of Elderly People UK Market Survey 2011/2012 - Lang & Buisson*). In 2012 there were 0.8 million people with dementia in the UK. By 2021 it is estimated that figure will rise to 1 million and by 2051 to over 2 million. (*Source: Alzheimers.org.uk/infographic.*)

In the UK it is estimated that 125,000 older people are funding their own residential care and 325,000 older people are funding their own domiciliary care. The cost of that care is rapidly eroding savings or the value of housing equity. As many of you have probably heard, the Dilnott Commission

was given the task of creating a robust and fairer framework for long term care costs. Following the Commission's report, the Care Act 2014 received Royal Assent in May 2014. The Act introduces substantial reforms to the health and social care system in England, including the way long term care is funded. Many people believe that the reforms will provide a solution to the problem for financing of care, for example, the Care Act creates a cap on care costs for those above the State Pension age, and the cap is expected to be set at £72,000 and adjusted annually thereafter.

The £72,000 cap is based upon the expenditure an individual has to make towards the cost of the care they receive, either in their own home or in a care home. The cap is not intended to cover all costs associated with long term care. It does not include the "hotel" costs of care, i.e. bed and board, and therefore these costs will not count towards the cap. Also any additional costs the individual incurs, for example if their care home is more expensive than the Local Authority allowance, will again not count towards the cap. The example shown right, based on research carried out by Just Retirement, uses residential with nursing care costs in the South West. Under the Care Act the cost would be made up as follows:



Bare essentials

Legal facts you can't do without

Trusts in wills

A trust is a legal entity which allows you (the settlor) to give assets such as cash, shares or property to be managed by the trustees according to your wishes. Wills can be drafted in a way that creates a trust, or trusts, on death.

This can be a very useful and flexible way of protecting your money after you die as there can be various reasons why you would not want your beneficiaries to take the money as an outright gift. For example, you could use a trust to leave money to a grandchild until they are old enough to use it responsibly, or to a mentally handicapped relative unable to

manage their affairs, or to provide an income for your surviving spouse during their lifetime, while keeping the assets outside any subsequent remarriage and earmarked for your children.

Please get in touch for help with setting up a trust or writing a will.

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Care capped contribution:	£328 per week
<i>This amount counts towards the care cap</i>	
General living costs:	£230 per week
<i>General living costs do not count towards the care cap.</i>	
Additional residential care costs:	£322 per week
<i>The care services that you have selected are more expensive than the Local Authority rate in your area.</i>	
Total:	£880 per week or £45,760 per year

The care cap contribution is equivalent to £17,056 per annum, meaning it would take 4.22 years before the care cap amount of £72,000 is reached during which time fees of £193,107.20 would have been paid. One in ten people live in care for eight years, the care costs for which could be £302,000 (at today's prices). In addition, means testing will continue. A lower limit of £17,000 and an upper limit of £118,000 dictates that many people will be expected to meet part of the costs they incur. However, Labour has suggested they will repeal the Care Act should they win the May 2015 election.

The reforms are expected to come into effect in England in April 2016. Costs incurred before this date do not count towards the cap. Under the current system the value of a person's home is disregarded from the means

test if certain criteria are met. The Government intends for this position to remain the same. The Act also sets out a universal deferred payment scheme which allows repayment of fees and interest from a house sale after death.

There is a general lack of awareness of how care costs are paid. A poll commissioned by Just Retirement in December 2013 found that over 30% of those aged 55+ believe councils pay most care costs, while 40% believe individuals pay most (with councils topping up the remainder). Going into care necessitates difficult decisions. At Birkett Long we have legal and financial expertise to help you plan for and face such times. We can advise on financial planning for long term care, equity release, NHS continuing care funding, wills and lasting power of attorneys. For further assistance contact Nicola Ward or Caroline Dowding.



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Meet the team

Ben Parmenter

Ben deals with various areas of the law relating to families and individuals, including wills, lasting powers of attorney and probate. He also undertakes trust work and Court of Protection applications.

Before Ben read law at the University of Kent in Canterbury, he pursued a career in engineering. During this time he had the opportunity to work in Spain and the Czech Republic.

After being awarded an LLB (Hons), he attended law school

at Guildford in Surrey where he achieved a Distinction.

Ben completed his training at Birkett Long and has since worked in the wills, trusts and probate team.

“Excellent help and advice on probate affairs. Costs clearly explained and first class service.”
A client recommendation.



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under the spotlight

Pre-nuptial agreements - will they become legally binding?

Pre-nuptial agreements, also known as pre-nups and pre-marital agreements, set out the terms of an agreement reached by a couple before they marry or enter into a civil partnership. They govern how a couple's assets, which may include amongst others, property, investments and cash in the bank as well as any liabilities and/or pensions, are to be divided between them in the event the marriage comes to an end.

Pre-nuptial agreements can also contain provision for maintenance or, in other words, deal with how each party to the marriage can continue to meet their ongoing income needs if the relationship breaks down. This is particularly important if one party to the marriage has a substantially higher income than the other and/or if there are already children from the relationship.

Currently In England and Wales pre-nuptial agreements are not legally binding; they are, however, arguably the best form of protection for couples wishing to regulate the division of their assets/liabilities in the event of a divorce.

In 2010 the Supreme Court made a landmark decision in a case involving a German heir, Katrin Radmacher, who was endeavouring to protect wealth of around £106 million. The court, for the first time, recognised pre-nuptial agreements as enforceable, providing the terms were deemed as fair. This decision by no means provides absolute certainty for couples wishing to enter into a pre-nuptial agreement, but it makes it much more likely that a court would expect such agreements to be adhered to. Anyone trying to avoid the terms of a pre-nuptial agreement will now need to prove to the court that it is unfair. Many anticipate that it will not be long before the decision of 2010, referred to above, is taken one step further and the law is changed to provide for pre-nuptial agreements to become legally binding.

The Law Commission, an independent statutory body which advises on law reform,

has already started the process by recommending that pre-nuptial agreements should become legally binding. This would bring the law in England and Wales in line with several other European countries which already recognise such agreements as binding.

A Bill (The Nuptial Agreements Bill) is now working its way through Parliament and, if enacted, looks likely to introduce two categories of agreement: Qualifying Nuptial Agreements (QNA's), which will automatically be legally binding and Non-qualifying Nuptial Agreements (NQNA's), which will be those that fail to meet the requirements to be QNA's, but may still be binding.

To be binding an agreement will need to meet several stringent conditions; both parties to the agreement will need to have disclosed material information about their respective financial positions and both will need to have received legal advice. The parties' financial needs, to include the financial needs of any children, will also need to be met before any agreement will apply.

Whether the Bill is to be enacted remains to be seen. Notwithstanding this, the decision made in 2010 makes it clear that pre-nuptial agreements are now more likely to be upheld within divorce proceedings and are the best way for couples to protect their financial positions.

Pre-nuptial agreements are occasionally referred to as "unromantic" and "against marriage". Unfortunately, statistics show that one in three marriages breaks down and, however unlikely, it is always better to protect against a risk. If you are thinking of marrying, or are already married, and would like to discuss whether a pre-nuptial (or post-nuptial if already married) agreement can benefit you, please get in touch.

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