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A SINGLE PERSON WITH EXCESS INCOME

This case study focuses on the financial journey of Steven, a 33-year-old single homeowner. Steven is not sure what to do with his savings from excess income of £15,000 and regular excess income. He would like to repay his mortgage earlier than 25 years and is also considering his retirement planning.

Steven, an IT professional, purchased this, his first property for £400,000. He used savings and a gift from his grandparents for his 20% deposit (£80,000). For the remaining £320,000, Steven obtained a five-year fixed-term mortgage with an interest rate of 3.5% and 25-year term.

He approached us after discussing his current situation with a friend who is already a client of ours.

Mortgage Repayment Strategy

Steven aims to optimise his mortgage repayment strategy by focusing on reducing the outstanding balance during the fixed-term period. By doing so, he will save the interest that would have been due thereby shortening the mortgage term.

This is a good idea, and most mortgages will allow some overpayment each year.

However, we present Steven with some other options. The interest rate of 3.5% per annum is lower than the interest rate that he can receive by saving the cash. We therefore recommend that he opens an ISA to save the excess cash. For the cash he has already built up we recommend a three-year fixed term deposit at 5.40% and a standard cash account currently paying 3.81% for the monthly excess. When this reaches a certain level, we will reassess the situation and either find another term deposit, if it is favourable, or recommend a lump sum repayment on the mortgage if not. Finally, we would reassess his savings and mortgage at the end of the five-year deal.

The benefit in doing this is that Steven will still have access to the money he would have used on his mortgage (subject to any fixed terms). He wouldn't need to request further mortgage borrowing if he wanted a lump sum. The interest on the mortgage is fixed so he doesn't need to worry about his payments increasing. Plans can change and it may be better to have the money available to you if you're not financially disadvantaged.

Reviewing Refinancing Options

As the end of the fixed-term period approaches, we help Steven assess new mortgage opportunities to potentially secure a better interest rate or adjust the mortgage term to align with his financial goals. He can also decide if he wants to pay off a lump sum, continue to save, or perhaps he might want to move house. Having the cash available will give him flexibility with his choices.

Saving for Retirement

Steven recognises the importance of saving for retirement and intends to start building his retirement fund simultaneously. He has an existing workplace scheme to which both he and his employer contribute 5% of his gross salary.

Steven has the option to contribute more, and the company will match his additional contributions by 50%. He has no specific retirement goals in mind, which we find to be extremely common. To help, we provide Steven with a cashflow model that shows what his existing savings look like compared to what he could save based on his affordability. We always explain that this is only a guide as past performance is not a guarantee of future performance. This shows what Steven might have available to him when he reaches retirement age. This gives piece of mind that he will be able to have a good life in retirement without adversely impacting his current lifestyle.

Protection

A key part of Steven's financial plan that he had overlooked was protection. There are several products available that will help if you are unable to work due to an accident or sickness, if you are diagnosed with a critical illness, or if the worst happens and you pass away.

Steven has a large amount of debt in his name and, being single, his is the only source of income. By arranging protection, he can ensure that he is still able to afford his home if he is unable to work.

If he were to die the situation might be less complex on the face of it. The property could be sold, and the mortgage repaid with the proceeds. However, Steven decides that he wouldn't want to burden his parents with the pressure of dealing with this whilst mourning. We recommend an appropriate life insurance policy that means his mortgage will be paid off allowing his parents to deal with his estate without worrying about repaying his mortgage.

Given his age, he is also in a better position to take out protection now. If he has a partner or family in the future, he will already have some level of cover that he can top up with an additional policy if needed.

Post-Mortgage Deal Planning

Upon completion of the fixed-term mortgage deal, we help Steven reassess his financial situation, including interest rates and personal circumstances, to determine the best course of action. We help him to find another good mortgage deal and he decides to use the same saving strategy again.

Mortgage Repayment Progress

By consistently saving to use towards the mortgage, Steven successfully reduces his mortgage balance after the fixed-term period therefore shortening the remaining term and reducing overall interest paid. He had enough savings and a good deal on his new mortgage so that he did not need to use all his savings and was able to make some updates to his home without the need to borrow any money.

Retirement Savings Growth

Steven's disciplined approach to saving for retirement through his pension results in steady growth of his retirement fund. The diversified investment portfolio generates returns, aligning with his long-term financial objectives.

Peace of Mind

Steven now has plans in place if anything should happen to him. He is happy that his affairs are in order, and he won't be in a more difficult position due to not thinking about what can go wrong.

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Conclusion

This case study shows the financial journey of Steven, a single homeowner focused on optimising his financial position through effective mortgage repayment strategies and retirement savings planning.

By allocating excess income towards a pot for potential mortgage payments and utilising tax-efficient investment vehicles like ISAs, Steven aims to pay off a lump sum at the end of the mortgage deal. He is also managing to ensure he has a comfortable retirement and has plans in place should there be any bumps in the road.

Steven's approach serves as an example for individuals seeking to make the most of their mortgage terms by strategically managing their finances and suitable investment options. It underscores the significance of proactive financial planning, disciplined saving, and informed decision-making to achieve long-term financial stability and prepare for a financially secure future.