THE TIMES

Get us in shape for bringing up baby

Family fortunes: Tony Richardson and Sarah Coupe want advice on pensions Mark Sutherland for The Times

David Budworth
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A Devon couple expecting their first child tell that they don't want to have any sleepless nights over their finances

Tony Richardson, 34, and his girlfriend Sarah Coupe, 36, are looking forward to the birth of their first child in October. The couple, from Plymouth in Devon, are excited by the prospect of becoming parents and are keen to reassess their finances before sleepless nights and nappy changes take over their lives.

Tony, who works as a catering operations support manager for the National Trust in Devon and Cornwall, says: “We’re both really keen for us to get our finances in order. We haven’t done it so far because I have perhaps been too busy, but as the birth approaches even I am beginning to realise that we need some kind of plan.”

One of the key questions Tony and Sarah would like answered is the best way to fund childcare costs. Although nothing is set in stone yet Sarah, who is a student support services manager at an English language college, is expected to have around nine months’ maternity leave. She is still unsure as to whether to go back to work, because there is a rather large question mark hanging over whether financially one wage could support them. The soon-to-be parents are unsure about the financial hurdles that await them or the help that might be available.

They have a joint salary of £46,000, which means that before last month’s Budget they would have qualified for child tax credits. However, since the coalition has used the Budget to announce reductions in tax credits, are they likely to get any government help?

The imminent birth of their first child has also helped them to focus on their longer-term finances. Neither has a pension and Tony wonders whether this is something that they need to address.

He says: “Now that we are in our mid-thirties, should we be joining a pension scheme? I am tempted to sign up for the pension offered by my employer, the National Trust, but I have a pang of anxiety about tying up my money in this way.

“You hear so many stories about companies going bust and leaving their pensioners in the lurch that I am not sure it is the best thing to do. Should we be saving into pensions or are there better alternatives?”

Tony and Sarah would also appreciate some advice about their £147,000 mortgage as they are in negative equity. Three years ago Northern Rock offered them a mortgage worth 100 per cent of the property’s value. This enabled them to get on the property ladder, but within a year house prices had started to fall. The 100 per cent mortgage was fixed for two years at 6 per cent but as soon as they went into negative equity Northern Rock moved them on to its standard variable rate (SVR).

Although this sounds drastic, the SVR, which is 4.79 per cent, was lower than the fixed rate they had been paying, so the move helped them to save about £100 a month. However, they are concerned that they could end up paying much more when interest rates start to rise.

Tony says: “Because we are in negative equity, will we be able to switch to a cheaper deal or are we stuck where we are?”

Other than this, their finances are in pretty good shape. They don’t have any loans and have only a “minimal amount” on credit cards. Tony’s job requires frequent travel between National Trust properties such as Castle Drogo and Lanhydrock. This means that one of

the perks of his job is a company car and he also receives a petrol allowance. Once everything is added together — mortgage repayments, food costs and utility bills — the couple have outgoings of around £1,800 a month. With a baby on the way, the chances of them being able to cut their bills are remote. In fact, they are expecting their household expenditure to increase significantly once the baby is born.

"Everyone keeps reminding us of how expensive children can be. It is a huge commitment but extremely exciting," Tony says.

Financial CV

Income Joint salary of £46,000.

Debt £147,000 Northern Rock mortgage with a pay rate of 4.79 per cent.

Savings None.

Pension None.

Objectives To sort out their finances before the birth of their first child, to weigh up the merits of setting up a pension and to discover whether it is possible to switch to a better mortgage deal.

What the experts say

Financial planning
Paul Simons Punter
Southall Financial Management

"The Budget has reduced the amount of state benefits for a large number of individuals, however, some valuable benefits for young families remain.

"Child benefit will stay but will be frozen at £20.30 per week. In order to receive it Sarah and Tony will need the newborn's birth certificate and claim form. The claim form will be contained within the 'bounty pack' Sarah receives in hospital. Claim early, as payments can be backdated only up to three months.

"The Budget made some changes to tax credits. The present limit is that a couple on a combined income of less than £50,000 will qualify for tax credits, but from April 2011 this will reduce to £40,000. Given their situation, Tony and Sarah will qualify for tax credits, and depending upon if and when Sarah decides to go back to work a tax credit entitlement may continue after April 2011. From the information provided you are likely to be entitled to around £20 per week. For further information visit www.hmrc.gov.uk/taxcredits.

"The child trust fund was effectively ended by the Budget. However, the scrapping of the scheme is being phased. For children born between August and December 2010 the child will be given a £50 child trust benefit [down from the previous £250 level]. No extra

payment will be made when the child is 7.

“The childcare voucher scheme operates on a basis that the cost of registered childcare is paid for from ‘gross’ pay as opposed to ‘net’ pay. As such, it reduces the financial cost to the parents. Note that the maximum claim amount is £243 a month, which is unlikely to cover the full cost. However, note that you can each claim the £243 from your employers, thus making a significant overall tax saving.”

Action plan

- Claim state benefits quickly, because late claims can be backdated by only three months.

- Look into childcare vouchers

Pensions
Ben Smaje
Kennedy Black

“In terms of Tony and Sarah’s retirement plans, the recommendation will almost certainly be that Tony should join the National Trust pension scheme. Tony’s concerns about the financial viability of the National Trust — and the implications that it might have for his pension — are unfounded in this instance, since the National Trust pension is a money-purchase scheme and not a final-salary scheme [where the employer bears the risk of any shortfall].

“A quick scan of the National Trust website suggests that they will contribute towards a stakeholder pension, which means it is low-cost but equally may offer limited investment choice. Employee pension contributions of 3 per cent of salary will be matched by a 6 per cent contribution by the employer. This is a significant benefit and should almost certainly be taken up.

“Having said that, a total of 9 per cent of salary may not be enough to support their expected lifestyle in retirement, so Tony and Sarah should definitely consider making additional provisions for their retirement. This could be done in the form of additional pension contributions, either topping up the National Trust scheme or a standalone personal pension, or another tax-efficient method such as an ISA.

“The pension is more tax efficient since contributions attract income tax relief, but Tony sounds concerned about tying up his money for so long, so a stocks-and-shares Isa offering immediate access might be more appropriate. There may be death benefits associated with the pension that will help to protect their growing family.”

Action plan

- Join the National Trust pension

- Top up contributions, possibly using an Isa

Mortgages
Melanie Bien
Private Finance

"With a loan-to-value (LTV) of around 100 per cent, remortgaging will be hard for Tony and Sarah. Since the credit crunch, lenders have stopped offering high-LTV deals. To remortgage to another lender, they will need an LTV of no more than 90 per cent, while their lender, Northern Rock, offers remortgages to those with a maximum LTV of 85 per cent. While this means that Northern Rock's remortgage fixes and trackers aren't accessible, as the couple's lender it must treat them fairly. It seems to have done this by moving them from a higher fix on to the standard variable rate (SVR). Even if they could remortgage, it would be to a higher rate than the one they are paying, so they are better off where they are for now.

"If interest rates start to rise, they may struggle to pay the mortgage. When rates start rising, the couple should speak to Northern Rock about a fixed rate, stating that they will struggle to afford their mortgage otherwise. In the meantime, they could consider overpaying on the mortgage, perhaps using the £100 they are saving each month by being on a variable rate. This would help to reduce their LTV, take them out of negative equity and enable them to remortgage."

Action plan

- Stick with SVR, for now

- Talk to Northern Rock about options when interest rates start to rise

- Consider overpaying if spare cash is available

Contacts

Punter Southall Financial Management 020-7839 8600, psfm.com

Kennedy Black 020-7250 3862, kennedyblack.com

Private Finance 0800 9808777 privatefinance.co.uk

Case study: 'This has been an immensely satisfying process'

Am I the only one who feels in the dark when it comes to the many aspects of personal finance?

This has been an immensely satisfying process, providing answers to what are really fairly simple questions. With the usual hordes of companies trying to sell their services, the choice presented had seemed bewildering. Also, the uncertainty over how much financial services would cost was daunting.

I have put in for the company pension. It is great to hear there is a level of safety with certain pensions, that pension companies are not all clumped together, good and bad.

I am also in the process of going through the family tax credit form. Although there is some detail to work through, I might even have it done before the baby arrives.

As to our mortgage, we know we are going to be in negative equity and if we can keep that period as short as possible, so much the better. We had always intended to stick the £100 we are saving into the mortgage, but our intentions slipped. It is something we will now consider.

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