

## Planning for the unexpected

**The unexpected sometimes happens. The Brexit result, for example, came as a surprise to the bookies, pollsters and markets. On a personal level, how ready are you and your family for the unexpected?**

As advisers we spend a lot of time making sure that our clients are as prepared as they can be to meet their expected financial requirements. The big ones for many clients are typically building up (or maintaining) their wealth tax-efficiently; medium-term investing to see their children get a good education; and providing for their income needs after they cease full-time paid employment or self-employment.

The problem with all of these is that they are based on the assumption that we have the necessary time available to achieve our plans and dreams. But life can be unpredictable as we rediscover daily. We need to make sure that our plans will have a good chance of success even if time is not always on our side.

The most obvious thief of our time is death itself and sometimes it happens when least expected. Life insurance can provide a financial cushion for those left behind if the worst happens and the cost is much lower than you might expect. For example, a 40 year-old in good health can be covered for £500,000 if they die in the following 20 years for a premium of around £25 a month. If you were to add £250,000 of critical illness cover to the policy, the premium would still be around £85 a month and a small price to pay for the family security such cover could bring.

Often overlooked is the loss of income that can occur when someone suffers from an accident or long term illness. When this happens, unless plans are already in place, wealth creation in all its forms goes on hold. Depending on their occupation, a 30 year-old could purchase an income protection policy for around £25 a month to insure that they will get £20,000 a year tax free, increasing by the RPI once they have been unable to work through disability for 13 weeks. The cover would continue until they went back to work, died or reached age 65.

Contact us to check your protection cover now and be prepared for the unexpected.



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# Brexit fallout: what are the implications?

**The implications for investors of the result of the UK referendum on EU membership will be played out over the months ahead and it is very likely that volatility will persist in the near term. Although we understand investors' concerns, you should not need to make dramatic changes, provided you have a well-diversified portfolio.**

## Financial risk needs a different reaction

Human evolution has made us instinctively averse to uncertainty and this is especially true in the financial markets, according to Prof Andrew Lo of MIT's Sloan School of Management. Dr Lo has said that our natural reaction to physical risk – what has been described as 'fight or flight' – may save our lives, but that the same reaction to financial markets tends to make us short-term investors and so miss out on the benefits that long-term investing can bring.

UK investors who moved into cash ahead of the Brexit results on 24 June will have seen the FTSE100 make a remarkable and unexpected climb of around 6% in the following month, leaving them well out of pocket. From a historical perspective we can see the dangers of moving out of the markets when the outlook seemed bleak. Investors who moved into cash in March 2003 or March 2009 risked missing out on a double digit rise in the FTSE100 within the following few months.

## Duller growth is likely

The UK economy will be impacted by Brexit and uncertainty as to how this will show itself will prevail for some time. Cazenove Capital's Chief Investment Officer, Richard Jeffrey, has said "Whatever the long term may bring for the UK, it is hard not to conclude the UK economy will see duller growth for a couple of years, though quantifying 'duller' is impossible at the moment."

## Is there a safe haven?

For some investors the solution will be to leave their money in cash, but as we have seen this has dangers as markets can move upwards very quickly. Inflation will also reduce the buying power of your capital over time. Many investors have been lured by the so called 'safe haven' of gold as the price

spiked following Brexit. But gold has its risks too and its value in the first quarter of 2016 was down on three years ago.

## The best solution for investors

The answer to unexpected events like the Brexit result and the subsequent ups and downs of stock markets is to invest for the long term and to diversify. Investing for the long term means not panicking and bailing out when investments fall. And diversifying means spreading your investments – not putting all your investment eggs in one basket.

Diversification will help protect your investments from the full impact of the volatility of the UK stock market. Whats more, with the pound falling against other currencies, it means that your overseas investments produce an additional benefit for you when they are converted into sterling.

Your investments should not just consist of equities – that is, share-based investments. Lower risk portfolios may have a quarter or more of the portfolio made up of fixed interest investments. It is often the case that when shares fall, as they did immediately after the Brexit vote, bonds – especially government bonds like gilts – rise in value. It doesn't always happen like that, although bonds tend to be less volatile than shares.

Most people's instinctive reaction to any kind of danger is often flight. But as we've seen, that could be an expensive mistake.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

# About to draw your pension benefits?

**If you are going to turn your pension fund into a retirement income in the near future, the outcome of the EU referendum has complicated matters.**

One of the reasons George Osborne gave for the introduction of his radical pension flexibility reforms in March 2014 was that "the annuities market is currently not working in the best interests of all consumers." Yet the annuity rates of spring 2014 now look a bargain: by mid-June 2016 typical rates were around 15% lower than when the then Chancellor spoke. Rates have fallen further since, as a result of the Brexit vote driving down bond yields.

If you are at the stage of converting your pension fund into a retirement income, you may feel circumstances are conspiring against you. In fact,

the new pension regime has given you more flexibility in how you can draw your benefits. All the pension choices might not be immediately obvious because some pension providers do not offer full flexibility on their older arrangements. If you want to take advantage of more options than are available from your current provider, it is usually a straightforward matter to transfer to a new arrangement with greater flexibility.

Designing the appropriate structure for your retirement income is not usually a DIY task: individual, expert advice is essential to avoid the pitfalls. Choosing the wrong option can create

large tax bills or leave you locked into a poor value solution for the rest of your life. That can be a long time spent in regret: the average 65 year-old has at least a one in four chance of reaching the age of 94.

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# Unwelcome surprise on single-tier pensions

**The Department for Work and Pensions is sending out bad news to over 100,000 people.**

Up to the April launch of the new single-tier state pension, the government publicity placed considerable emphasis on the amount of the new single-tier pension (£155.65 a week in 2016/17). However, the House of Commons Work & Pensions Select Committee was highly critical of the £155 focus when it examined the "communication of the new state pension". The Committee echoed a crucial point already made by pension professionals: in the early years of the new system "the majority will not" receive the full amount.

## Lower pensions

There are three groups who stand to suffer most because they could end up receiving less under the single-tier system than they would have got under the old regime, had it continued:

1. If you have a National Insurance contribution/credit record of fewer than 10 years by the time you reach your state pension age (SPA), then you will receive nothing from the single-tier pension regime. The Department for Work & Pensions has recently announced that it will be writing to over 100,000 people affected by this 10-year rule.
2. If your old regime pension entitlement relied upon your spouse's National Insurance contribution record, then this is no longer

available to you. The basis of the single-tier pension is strictly personal, both in terms of contribution record and benefits – there are no widow(er)'s pensions, other than in limited transitional circumstances.

3. If you were a member of a contracted out final salary scheme between 1978/79 and 1987/88, you would have accrued Guaranteed Minimum Pension (GMP) in place of SERPS. Once the GMP started to be paid, inflation proofing was the government's responsibility under the old regime. In the single-tier world, that inflation protection has been withdrawn.

These cuts in pension benefits stem from deliberate government decisions made in dealing with the complexities of switching from the old to the new regime.

The best way to find out your single-tier pension entitlement is to obtain a projection from the Department for Work and Pensions website ([www.gov.uk/check-state-pension](http://www.gov.uk/check-state-pension)), which will also tell you when you reach your SPA – it may not be when you think! Once you have got the projection, your next step should be to talk to us about your retirement options.

# Inheritance tax: the silent tax collector

**The government's receipts from inheritance tax (IHT) have been rising much faster than the yield from other taxes.**

IHT is a good example of one of the lower profile taxes that is quietly producing an increasing slice of revenue for the Exchequer. In 2016/17 IHT is projected to raise almost £5bn, more than double what it produced in 2009/10.

There are many reasons why the Treasury's IHT income is outpacing the growth in overall revenue, but the most significant is probably the freezing since April 2009 of the nil rate band – broadly speaking the amount of your estate (after any exemptions) not subject to tax at a flat rate of 40%.

Average UK house prices have risen by more than 30% so far over the period that the nil rate band has been frozen, according to Nationwide.

In Greater London the increase exceeds 85%. It's true that the government is introducing a main residence nil rate band (RNRB) in April 2017, initially at £100,000, rising to £175,000 by April 2020, but this will be of little or no help to some people.

The RNRB has also been criticised by the chairman of the Treasury Select Committee who said it failed to meet any of three requirements that "Tax rules should aim to be simple, fair and clear". While the RNRB is being phased in, the ordinary nil rate band will continue to be frozen, meaning its first increase above the 2009 figure of £325,000 will not occur until at least April 2021.

If you do not want the Exchequer to be a major – or even the largest – beneficiary of your estate, then the sooner you begin planning, the better. The starting point is making sure your wills are up to date – or putting in place a will if you are currently relying on the vagaries of intestacy law. Once the structure of your will is settled, there are no simple rules of thumb for the next stage, other than to take expert advice. Estate planning requires a clear, holistic approach and needs to be integrated with other aspects of your personal financial planning.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice or will writing.

# How much are you prepared to risk?

**The outcome of the EU referendum was a reminder that risk comes in many forms, including political risk. Following the decision to leave the institution that has been a core part of our economic and political lives in one form or another for 43 years, we have also seen a change of Prime Minister in mid-term and a vote of no confidence in the leader of the main opposition party. On a national level, that's a lot of risk.**

No one wishes to lose money on their investments, but most people are aware that for additional gain there is almost always increased risk. The primary goal of a strategic asset allocation is to create an overall asset mix that will provide the optimal balance between expected risk and return for a long-term investment horizon. That is why understanding your attitude to risk and capacity to absorb loss is key to investment planning.

The process of establishing your attitude to risk will start with you completing a risk questionnaire. A psychometric questionnaire can be a good way to check how you view investment risk. That's usually a starting point for discussion of the nature of investment risk and your attitude to it. The extent to which you are prepared to take on investment risk could range from being exceedingly cautious, through being prepared to consider a moderate degree of risk to being adventurous in your approach.

But it is also important to consider what is called your 'capacity for loss' – how much risk you can afford to take. This is the degree to which your personal circumstances and opinions will have an impact on the specific investment recommendations.

For instance, an investor may be willing to buy very risky investments but may have limited resources and a very short-term goal – for example to build up enough capital to pay for their children's school fees starting



in four years' time. Their need to avoid risk because of their short time scale and modest means should outweigh their willingness to buy risky investments.

If you are having second thoughts about the basis of your investment approach, please ask us for a new risk review.



The latest report from the Pensions Regulator shows that as automatic enrolment spreads through smaller employers, warnings and fines for 'non-compliance' are soaring. In the second quarter of 2016 the regulator issued nearly 3,400 compliance notices, more than 850 fixed penalty notices of £400 a piece and nearly 38 escalating penalty notices (which can be as high as £10,000 a day). Make sure you are prepared for your employer responsibilities or you could be adding to those numbers in the future.

## Beware the Autumn Statement

**This year's Autumn Statement will be the Treasury's first post-Brexit set piece. It will not be an easy exercise.**

Before the referendum, the then Chancellor George Osborne warned that a Leave vote would be followed by an emergency Budget with £30bn of tax increases and spending cuts. After he found himself on the losing side, Mr Osborne abandoned not only his Budget plans but also his target to end fresh government borrowing by 2020.

His successor as Chancellor, Philip Hammond, will be facing at least some of the issues that prompted Mr Osborne's original warning: the economy will be slowing and government finances will almost certainly be worsening as a result.

In such circumstances it is possible that the new Chancellor will introduce the pension tax reforms which were on Mr Osborne's March agenda. It would be a quick way to raise some extra revenue.

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