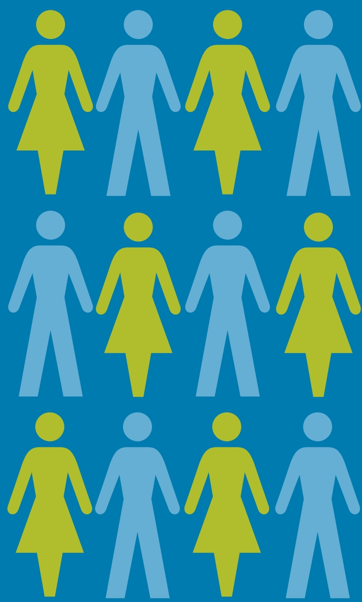
NLP Financial Management

Summer 2012

NLPFM news

News and views from NLP Financial Management

Gender discrimination – one last hurrah



Much has been made of the EU's gender directive that is due to come into force on 21 December this year. In summary, the directive is aimed at ensuring insurance premiums for men and women are equalised to remove gender discrimination in the insurance market. Mainstream media has focused on the increased cost of car insurance for women, with arguments against the legislation based on statistics that show women are safer drivers than men (Source 1). The rights and wrongs of this could be discussed at length, but in short, the directive will result in certain insurance premiums for women being increased.

So how does this affect you? All drivers require car insurance, so there is little that women can do to mitigate the increased costs once the directive is in force. However, one area where women can act quickly to lock into current premiums before the December deadline is life cover.

Women statistically live longer than men, which has resulted in lower life cover premiums. However, from 21 December this premium differential will be removed. After a decade of protection prices dropping, women are facing an increase in life cover prices as a direct result of this change in legislation. It is estimated that life cover prices for women could increase by 15% (Source 2).

Life insurance comes in many forms and can fulfil a number of important functions, but premiums rise with age and state of health, so whilst the benefits of such cover are often recognised later in life, deferring can end up costing considerably more over the long term.

A protection policy can provide a lump sum payment upon diagnosis of a critical illness or regular income stream in the event of long term illness. This could be used to cover the cost of your care, the cost of help around the home, repay a mortgage or bank loan, childcare costs or cover loss of earnings during absence from

continued ››

Inside this Issue

continued from cover

work. Life cover is also a relatively cost effective way of providing the cash to settle an unwanted inheritance tax bill that may be levied upon your estate on your demise.

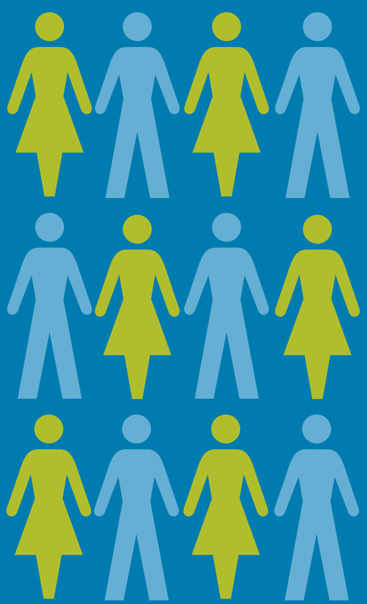
Life cover is an important tool in effective financial planning and should be considered by all. With this in mind, why not act quickly and take advantage of gender discrimination in the insurance market while you still can?

Please be aware that non-investment insurance plans do not acquire a cash value at any time during their term.

For further details on the various types of protection policies available and for competitive quotations, please contact:

Andrew Butcher
T 020 7433 2458
E andrew.butcher@nlpfm.co.uk

Source:
1. Institute of Advanced Motorists, June 2011
2. HM Treasury, December 2011



It is never too early to save

It may be unusual to find an article exploring the potential benefits of maximising pension contributions so far from the end of the tax year, however it is important not to lose sight of the still significant scope for making pension contributions and the benefits that this can offer.

The concentration on tax year end planning can lead to missed opportunities. This is especially the case where third party contributions are being made for a member's benefit – such as from an employer. In this circumstance, it may be prudent for the employer to consider pension contributions prior to their Accounting Year End (AYE), which of course, may fall at any time of the year. Such pension contributions are usually treated as a business expense, thus reducing the liability to Corporation Tax and possibly reducing the marginal rate payable. This is providing it can be shown that contributions were made 'wholly and exclusively' for the purposes of the UK business and were 'reasonable'. But how much to pay?

"The concentration on tax year end planning can lead to missed opportunities."

There is no limit on the level of pension contributions that a company can make on behalf of it's employees, however where the overall contributions are in excess of £500,000 in an accounting period, it is possible that any Corporation Tax relief granted could be spread over two to four years.

Likewise, there is no limit on the level of contributions paid for an individual's benefit in any one tax year, whether through a mix of personal or third party contributions. However there is a limit on the amount of contributions that can potentially attract tax relief, known as the 'Annual Allowance'. Contributions made for an individual's benefit in excess of the annual allowance will create an annual allowance charge and this is levied on the member at their highest marginal rate(s) of income tax.

So how much is the annual allowance? In the current 2012/13 tax year it is £50,000. It is also possible to bring forward unused annual allowances of up to £50,000 from the previous three tax years, so a maximum contribution of £200,000 can be made for an individual on which full tax relief can potentially be obtained. This can even be increased to £250,000 in some circumstances.

Why is this important? Well there are several reasons, but to mention just two:

- Additional rate tax applicable to incomes over £150,000 is presently 50%, but falling next year to 45%, so if relevant, obtain the highest level of relief now.
- Having a significant pension fund at your disposal provides interesting investment opportunities, enabling acquisitions to be made either solely or jointly that might have previously been considered unattainable – commercial property for example.

The opportunities, but also the potential pitfalls through not seeking professional advice, are significant.

For further information, please contact:

Graham Mendoza-Wolfson
T 020 7433 2456
E graham.mendoza-wolfson@nlpfm.co.uk

Insuring your inheritance tax liabilities

Many people understandably consider inheritance tax (IHT) to be an "unfair tax" due to its "double tax" nature; individuals have paid tax throughout their life and then pay tax again on their residual estate. Consequently, many clients are interested in ways of mitigating this liability and reducing the size of cheques paid to the Exchequer.

An issue we often encounter is where clients have surplus income but do not have 'spare' assets to gift now, so that the IHT clock can commence countdown for the requisite number of years until such gifts are exempt from IHT. They may also not wish to explore other options to reduce inheritance tax through acquiring various exempt assets or using certain trusts (see Winter 2012 newsletter). This is where life insurance can be a valuable tool to protect against the current IHT liability and buy time for future planning.

The main advantage of life insurance is that assets are left undisturbed to protect one's own situation. The whole of life policy is generally taken out by spouses or civil partners on a "joint life second death" basis as the IHT liability usually arises on the death of the last survivor. Clients are often surprised how low premiums can be to provide a relatively large level of cover. For example, for a non-smoking husband and wife aged 50 who wish to cover an inheritance tax liability of £1 Million through a maximum cover whole of life insurance policy, the initial monthly premium could be just £52 based on them being accepted at normal rates. Medical underwriting is required and this can lead to rates being increased but undergoing a free thorough insurance related medical can be worthwhile, particularly if it highlights a medical issue early which can then be addressed.

Life insurance can also be used to protect the IHT liability that can arise on gifts made in one's lifetime, as such gifts will normally be potentially taxable unless the donor lives for 7 further years. Taper relief will apply from 3 years for gifts made in excess of £325,000, the current nil rate band. Therefore, an appropriate 7 year term insurance policy can be arranged to protect against tax on these gifts and this too can be relatively inexpensive when compared to the significant inheritance tax saving that can be achieved.

For further information, please contact:

Adam Katten
T 020 7433 2433
E adam.katten@nlpfm.co.uk

Corporate cash management

During the challenging economic conditions of recent times, we have found increasing numbers of our corporate clients looking to maximise returns from all aspects of their business.

The cash reserves held within a business are an often overlooked asset and consequently, clients invariably receive negligible rates of interest on these funds. Improving the returns on cash holdings that are surplus to immediate requirements is a simple and straightforward way of increasing revenues for a business.

In our experience, we often find that business owners are rightly focused on the core affairs of the company and do not have the time to deal with such matters. In these circumstances, a cash management service can prove particularly attractive. By allowing a third party to proactively monitor interest rates on offer within the market and switch between different accounts, as appropriate, clients are able to achieve competitive returns on their cash holdings. Depending upon the quantum, we may diversify funds across several large and well regarded financial institutions.

A neat way of managing a company's cash that has the potential to provide further tax advantages is to hold the cash via an offshore life assurance bond, which is effectively a wrapper through which various deposit accounts may be opened. This process can in some circumstances also provide tax deferral opportunities which can be useful alongside other corporate financial planning arrangements. For example, timing the tax liability to coincide with a lower rate of Corporation Tax due to lower profits as a result of making a pension contribution or other trading expenses.

For further information, please contact:

Laura Gannaway
T 020 7433 2473
E laura.gannaway@nlpfm.co.uk

Please remember that past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and investors may not get back the amount they originally invested. Changes in rates of exchange may also cause the value of investments to go up or down. Tax treatment depends on the individual circumstances and may be subject to change in the future. The Financial Services Authority does not regulate advice on taxation or trusts.

NLPFM – our investment process

When formulating client portfolios there are many steps which must be considered:

Step 1 – Client requirements: Including risk objectives, time horizons and liquidity needs.

Step 2 – Asset allocation: Which assets to invest into, to best achieve these requirements.

Step 3 – Funds: The underlying funds to use in each asset class to maximise returns.

Step 4 – Reviewing: Closely monitoring both the agreed asset allocation and the underlying funds to ensure that these are still appropriate.

At NLPFM we believe we can add value in all of these areas.

Client requirements are specifically agreed using a detailed risk questionnaire and face to face meetings with a consultant. As clients are given bespoke portfolios to suit their needs, these requirements can be changed at any time.

Asset allocation is vitally important to performance. At NLPFM we use five main asset classes: Cash, Fixed Interest, Property, Equities and Alternatives.

When constructing client portfolios we focus on capital preservation and, therefore, the risks of the assets are of prime importance. To mitigate this risk, diversification across the asset classes and geographical regions is fundamental. By investing in a wide mix of assets, with different characteristics, it should reduce volatility and provide a smoothing effect on returns.

Each asset class has an investment specialist assigned to it, who is responsible for overseeing that particular area. Based on their in-depth research, we can look to tilt portfolios towards assets which we believe offer the best risk/reward characteristics to outperform over time.

The selection of funds used within each asset class is also important. At NLPFM we have a vigorous fund selection process. When deciding to allocate to a specific area, we will look to identify three or four funds which best suit our criteria, using a quantitative screen. This screen enables us to look at performance, volatility, consistency, ratings and size of fund, amongst other things. Once we have condensed the sector funds to our favoured three or four, we will then meet the management of each fund and carry out an in-depth interview. The interview will focus on the qualitative side of the fund and management process. Only once this has been completed can a fund be recommended for investment.

"By investing in a wide mix of assets, with different characteristics, it should reduce volatility and provide a smoothing effect on returns."

Finally, there is the review process. As conditions are constantly changing, it is imperative we continue to monitor all three of the steps highlighted above. This is carried out on a weekly basis by the Investment Committee, which consists of four members. Each client has a bespoke portfolio and it will be analysed individually to ensure that it remains in line with the agreed objectives. Asset allocation and our current thinking on market and economic conditions are debated in depth. The performance of each underlying fund is also considered to ensure it is meeting its performance requirement. If that is not the case, a meeting or detailed discussion will be arranged and, if we are not satisfied with the reasons given for the underperformance, the fund will be removed from our approved panel.

We believe that our initial research, along with our ability to act quickly due to continuous monitoring, ensures that we offer our clients an excellent investment proposition.

For further information, please contact:

Lee Pittal
T 020 7433 2469
E lee.pittal@nlpfm.co.uk

Remember, if you would prefer to receive NLPFM News by email, please subscribe by emailing mail@nlpfm.co.uk

NLP Financial Management Regina House 124 Finchley Road London NW3 5JS
T +44 (0)20 7433 2400 **F** +44 (0)20 7433 2401