NLP Financial Management

Autumn 2013

NLPFM news

News and views from NLP Financial Management

Take AIM and reduce your inheritance tax bill

Most of us do not like the idea of our families losing up to 40% of our assets to Inheritance Tax (IHT) but without any real planning, this can be the unfortunate reality.

There are a number of ways to limit your exposure to IHT including:

- Using your exemptions appropriately
- Insuring against a liability
- Gifting assets
- Using Trusts, such as Discounted Gift Trusts and,
- Investing into schemes which benefit from Business Property Relief.

In this article, we focus on schemes which benefit from Business Property Relief (BPR) and specifically investing into portfolios consisting of Alternative Investment Market (AIM) shares.

What is BPR and why AIM shares?

BPR was introduced in 1976 and is a tax relief provided by the UK Government as an incentive for investing in a trading business.

Your estate can claim BPR on certain shares which are traded on the Alternative Investment Market (AIM) which will benefit from 100% relief from IHT provided the shares are held for two years and at the time of death.

What are the key benefits of investing in AIM portfolios?

Investing into an AIM portfolio is straightforward. It does not involve complex legal structures, client underwriting nor medical reports.

Unlike many alternative Inheritance Tax Schemes, clients retain access to their investment. Therefore, if circumstances change and access is required to the holding, shares can be sold down, though obviously the resulting proceeds will lose BPR exemption and may also be subject to Capital Gains Tax.

Unlike gifts or investments into a Trust, which generally take up to seven years before they become fully exempt from Inheritance Tax, qualifying AIM investments are exempt after just two years.

Investing into AIM companies

The AIM market was launched in 1995. Over 3,000 companies have joined AIM, raising more than £60 billion in new and further capital fundraising.

AIM shares are considered high risk but through our connections, we have access to a number of AIM fund managers who we believe can

continued ››

Inside this Issue

Property investing 2
Auto enrolment is here – are you prepared? ... 3
Insuring the uninsurable? 3
Taking the financial worry out of retirement 4

This newsletter is for general information only and should not be construed as a personal recommendation of any investment or service. We suggest that you contact us for independent financial advice so that we can determine the suitability of investments and services on an individual basis.

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 Conduct Authority does not regulate advice on taxation or trusts.

NLP Financial Management Limited is authorised and regulated by the Financial Conduct Authority.

continued from cover

not only preserve portfolio values but provide the potential for significant growth although this is of course not guaranteed. Typically, each AIM portfolio holds around 20 companies which tend to have the following characteristics:

- Focus on organic rather than acquisition – led growth
- Mature (passed at least one full business cycle)
- Consistent trend of generating cash as opposed to profits with liquidity
- Commitment to and track record of paying dividends
- Stable management team
- Market values supported by tangible assets or yield, and low levels of debt
- Directors have significant holdings

How can I learn more?
Our experienced consultants can discuss and recommend an appropriate strategy to reduce the potential IHT bill on your estate. They will understand your current situation including capital and income requirements, your objectives and attitude to risk prior to making appropriate suggestions.

Please note that AIM shares are high risk investments and can fluctuate in value rapidly and by large amounts. You could lose some or all of your initial investment.

For further information, please contact:

Laura Gannaway
T 020 7472 5553
E laura.gannaway@nlpfm.co.uk

Property investing

We always look to allocate a portion of our portfolios to commercial property funds. These will invest in industrial properties, retail warehouses, shopping centres and offices. Our investment committee recently took the decision to double our weighting in these funds from 6% to 12% of the portfolio. There were a number of factors behind this move.

Firstly, we became more negative on fixed interest as the recovery began to take hold and we took the view that interest rates on these bonds would have to rise – negatively impacting the price of the bond. This meant that we sought to reduce our exposure to bonds but not dramatically increase the risk profile by moving this money into equities. It was felt property could be a good alternative to bonds in this environment. At that time the commercial property index had a current initial yield of circa 6% which, when you compare this to the historically low yields available from cash and bonds, increased volatility in equity markets and the threat of higher inflation, seemed a compelling move.

Another reason behind the decision to significantly increase our property holdings was that fundamentals appear relatively supportive. The UK economy is slowly improving, and is unlikely to return to recession, banks have improved their capital positions and are not the forced sellers they once were. In addition private sector buyers, particularly from overseas, are now buying portfolios of real estate from the banks, attracted by the returns on offer. All of this positive news should hopefully push property prices higher and so produce a capital return on top of the attractive yield.

> **“The UK economy is slowly improving, and is unlikely to return to recession...”**

Property also offers good diversification benefits with limited correlation to equities and bonds over the medium term.

Finally, these property funds will have some embedded protection from the negative impact of inflation through RPI-linked and fixed rental uplifts, which is also clearly advantageous during these periods of low growth and stubbornly high inflation.

When deciding into which property funds to invest, we carry out a rigorous fund selection process which combines quantitative and qualitative analysis. Once we have identified potential funds, we meet the management teams to discuss the funds in great detail before deciding which are best suited to our clients’ needs. These face to face meetings are invaluable and an area in which we believe we genuinely add value for our clients.

So far the move from fixed interest to property has been a positive one and we would continue to expect yield like returns from property for the next few years with the possibility of some capital uplift further enhancing these returns.

Please note that funds that invest in property and land can be difficult to sell – so you may not be able to sell/cash these investments when you want to. The investment provider may have to delay acting on your instructions to sell your investment. The value of property is generally a matter of a valuer’s opinion rather than fact.

For further information, please contact:

Lee Pittal
T 020 7472 5544
E lee.pittal@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 Conduct Authority does not regulate advice on taxation or trusts.

NLP Financial Management Limited is authorised and regulated by the Financial Conduct Authority.

Auto enrolment is here – are you prepared?

Under new rules that began to be phased in from October 2012, employers are required to automatically enrol all eligible members of staff into a workplace pension scheme and pay a minimum contribution into the arrangement for the employee's benefit. This has been described as the most radical change to employee benefits since the introduction of the National Minimum Wage.

Auto enrolment is being phased in so that each employer has been allocated a 'staging date' from when their duties will begin (larger employers first). The Pensions Regulator will write to employers around 12 months before their automatic enrolment start date to advise them on what they need to do. But is 12 months enough notice to set up a compliant scheme?

We have allocated significant resources to Auto Enrolment. The legislation is new for everyone – pension providers, financial advisers and companies alike. Therefore, one can almost guarantee that at some stage in the run up to a company's staging date, there will be a question that no one has previously asked or an issue that has never before arisen. This will add to the already tight time constraints in place.

So what are the main issues that are arising at this stage? Based on early figures, the employee opt-out rates are far lower than anticipated. This could be due to the largest employers already having attractive pension schemes in place, or perhaps that the message that people are not saving sufficiently for retirement is starting to be heard. Whatever the reason, low opt-out rates translate to higher costs for companies.

The second issue is capacity. As more companies are quoting for new schemes, pension providers are becoming stricter with their terms and minimum levels of contributions. Some smaller companies are already being rejected due to average annual contributions being too low. This is a major concern as we are nowhere near the peak of Auto Enrolment staging. Throughout the second half of 2015, it is estimated that 10,000 employers will stage each month and by 2017 this will increase to 120,000 per month. If pension providers are struggling with demand now, it is very likely that there will be further supply issues in 2016/17 when most smaller companies will need to set up a scheme.

If the major pension providers are not willing to offer terms, employers will be left with no option other than to use NEST, the master trust with the public obligation to accept all applications for a pension scheme from employers. NEST will not offer employers help with the ongoing management of the scheme, nor will it confirm if contributions are compliant or if an employee is categorised correctly. This will undoubtedly provide a huge additional strain on employers.

Our advice here is to act early. Start the Auto Enrolment process as soon as possible, perhaps 18-24 months prior to the staging date and book your place in the queue. If you can get a scheme in place now, the capacity issues that are around the corner in 2016 will not be your concern.

For a free initial consultation or information on your company's staging date, please contact:

Andy Butcher
T 020 7472 5552
E andrew.butcher@nlpfm.co.uk

Insuring the uninsurable?

There are a variety of circumstances under which obtaining life or health insurance can become rather difficult, if not seemingly impossible. Whilst the vast majority of individuals can acquire cover relatively easily through the traditional routes, those with particular medical conditions, specifically less common and more obscure ones, can often find themselves shut out before they have even started.

The main reason for this is due to the initial process of underwriting that is typically undertaken by the majority of insurance providers; this is often in front of a junior underwriter or a computer, and whilst timesaving for most, can often prove detrimental for others. Many people will find themselves in a "computer says no" scenario, where they are simply rejected at outset as they do not fulfil the screening criteria; for example, a particular element of their past medical history will be flagged by an automatic system and a computer generated decision or rejection letter will be produced. In cases like these, there is a lack of ability for the insurer to view the individual and their medical history as a whole, and it is here where we can help.

Often people feel that if they are initially rejected by the "well-known brands", they will be rejected by all insurance providers. This is not the case as it cannot be stressed enough how differently risk is perceived throughout the insurance industry. Where one company may not be willing to insure or even offer amended terms, there is always a possibility another may be prepared to. Through developing relationships with several senior underwriters at a variety of insurance providers, it is evident to us that risk is not a constant throughout. By understanding your specific requirements, we are able to approach the best-placed company and ensure the application receives the care and attention it deserves.

For further information, please contact:

Ed Froggatt
T 020 7472 5558
E ed.froggatt@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 Conduct Authority does not regulate advice on taxation or trusts.

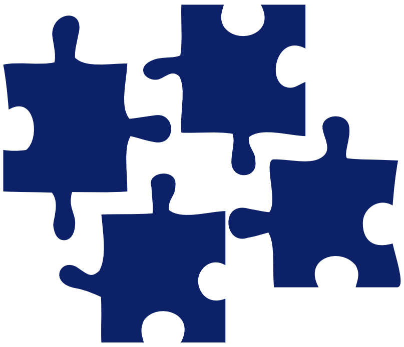
NLP Financial Management Limited is authorised and regulated by the Financial Conduct Authority.

Taking the financial worry out of retirement

When looking at Key Financial Objectives for individuals in retirement, we would identify the following:

- Ensure Income Exceeds Expenditure
- Prepare Financially for Unforeseen Circumstances
- Seek Growth and / or Income from Investments
- Maximise Assets to Pass Down to the Next Generation

For many people, all these objectives will be important whilst others will view some as key and others of little or no importance.



Ensure Income Exceeds Expenditure

Whilst this is an obvious statement, many people struggle with the transition from a guaranteed income in receiving a salary to an income comprising various items. Firstly, it is important to determine your income in retirement and seek to maximise this where possible and without taking undue risk. This may involve ensuring that you claim maximum state benefits, understanding how best to draw your other pension benefits and potentially purchasing an annuity where a guaranteed income is of prime importance to you. An income can also be taken from an investment portfolio and some of our clients restructure their ISAs in retirement to draw an income from their ISA portfolio rather than just seeking capital growth.

On the other side, many people do not have a good understanding as to their expenditure needs, and what they spend on a monthly basis. Therefore, some initial work in terms of budgeting and in splitting one's expenditure needs into essential items, desirables and luxuries can be a helpful exercise. It will then be easier to determine whether income is indeed covering expenditure and if there is a shortfall, how this should be addressed.

Working with an experienced financial adviser may be the best way of tackling these issues to ensure that expenditure needs are covered.

Prepare Financially for Unforeseen Circumstances

These could include an unforeseen fall in one's income or higher expenditure than anticipated. This is why one should preferably structure one's affairs so that there is a monthly surplus of income over expenditure and indeed retain an emergency cash reserve to cover such a situation. Other unforeseen circumstances could include taxation changes or health problems and financial planning needs to take these potential events into account. It is important to structure one's affairs in the most tax-efficient way and this needs to be constantly monitored.

Seek Growth and / or Income

Some people are in the fortunate position that they can structure their investments in retirement to primarily seek growth as they are receiving sufficient income for their needs, whilst others need to structure their affairs to produce a certain level of income to cover an expenditure shortfall. Therefore, an investment strategy needs to take into account the different needs of clients.

Maximise Assets to Pass to Next Generation

Finally, many clients will be interested in maximising the assets which can be passed on to the next generation. Whilst investment planning is important in this regard, they will perhaps mostly be interested in estate planning and how one can structure one's affairs so that the inheritance tax payable on one's estate is minimised. This is one of our areas of expertise and indeed I refer you to another article in this newsletter which discusses the use of AIM portfolios to mitigate inheritance tax.

Our view is that we all work extremely hard in our lives and have every right to enjoy our retirement with as minimal financial worry as possible. We would be delighted to assist you with taking the financial worry out of your retirement.

For further information please contact:

Adam Katten
T 020 7472 5550
E adam.katten@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 Conduct Authority does not regulate advice on taxation or trusts.

NLP Financial Management Limited is authorised and regulated by the Financial Conduct Authority.

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

If you do not wish to continue to be on our database or receive any further correspondence from us, please write to Adam Katten at the address below.

NLP Financial Management Charles House, 108-110 Finchley Road London NW3 5JJ
T +44 (0)20 7472 5555 **F** +44 (0)20 7681 2780