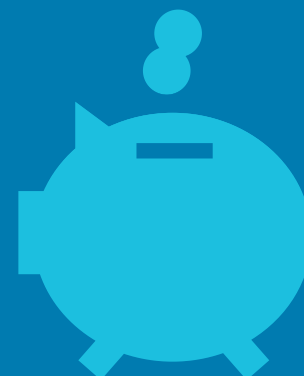
Autumn 2014

NLP Financial Management

NLPFM news

News and views from NLP Financial Management

UK pensions
– changes afoot!



Arguably the most important shakeup of the UK pension landscape was announced in the 2014 Budget and has been undergoing consultation since. It is therefore important to understand how these changes may affect your planning.

Indeed, dramatic changes to the taxation of residual pension funds upon death, announced by the Chancellor on 29 September 2014, will either remove entirely or reduce any tax payable. This is an immense and most welcome relaxation which should enable significant assets to be passed down the generations. There remains the distinction of pre and post age 75, but both groups now benefit considerably from the proposed new rules, most of which are set to take effect from 6 April 2015.

Under the proposed new rules, where death of a member occurs before age 75, regardless of whether the pension fund remains untouched or is in 'drawdown', the whole of the pension fund can be enjoyed by **any** beneficiary, tax-free. For death post 75, **any** beneficiary can have any remaining fund paid to them less a 45% tax charge (down from 55%) or an income drawn at the beneficiary's marginal rate can be taken.

Some key changes have already come into force as follows:

Maximum GAD – the annual income limit for Capped Drawdown has been increased from 120% to 150% of that set by the Government Actuary's Department.

Minimum pension requirement – in order to enter Flexible Drawdown to withdraw further funds from your pension, one now needs to first secure a guaranteed income of £12,000 per annum, down from £20,000.

Lump sum protection – if a person had rights to more than 25% as a tax-free lump sum (PCLS), they typically had to remain in that scheme to retain that right. This rule has been relaxed; such transfers can now proceed, so long as the transfer is effected prior to 6 April 2015 and benefits drawn prior to October 2015.

There are complex rules surrounding all the above, so advice should be sought.

From 6 April 2015, the likely changes will introduce new flexibilities into how pension funds can be drawn, in our

continued »

Inside this Issue

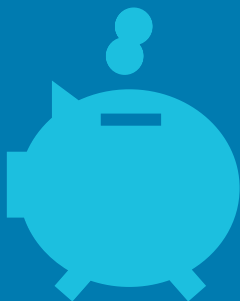
Auto enrolment – educating employees benefits us all 2
Enterprise Investment Schemes 3
Providing insurance for specialist conditions 3
Property investing – an update 4
NLPFM – awards update 4

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



opinion making saving through a pension scheme considerably more relevant and valuable for the majority.

From age 55, individuals can take their tax-free lump sum payment (usually 25%) from their pension and will then have a choice as how to draw their remaining pension benefits. If drawn as income – referred to as Flexi-Access Drawdown (FAD) – this "income" which is limited only by the size of the fund, will be taxed at their marginal rate. Alternatively, one can draw a series of lump sums from uncrystallised funds – known as Unsecured Funds Pension Lump Sum (UFPLS) – again taxed as income at the marginal rate.

Either way, moving into FAD or UFPLS, even by £1 will trigger a reduction in the maximum level of ongoing contributions to money purchase schemes from £40,000 to £10,000 per annum, so serious thought needs to be given prior to exercising any of these options. Those with uncrystallised funds and those who remain in capped drawdown prior to 6 April 2015, will retain the higher annual allowance limit. And remember, one can often bring forward unused allowances from earlier years, thus magnifying the benefit of the £40,000 allowance.

For further information, please contact:

Graham Mendoza-Wolfson
T 020 7472 5551
E graham.mendoza-wolfson@nlpfm.co.uk

Auto enrolment – educating employees benefits us all

The introduction of compulsory pension schemes known as Auto Enrolment has certainly brought the nation's shortfall in retirement provision back into focus.

We set about designing our auto enrolment strategy back in 2012 and have since invested considerable time and resources into streamlining our processes. The issues around lack of employer awareness and preparation have been covered extensively, but we feel that the ignorance of employees about pensions is even more worrying. Having put the required pension schemes in place for around a dozen companies at the time of writing and with several more in the pipeline for later this year, it's apparent that despite the T.V. adverts featuring high profile personalities, individual workers are still unaware of the impact of having pension contributions automatically deducted from their salary.

"By explaining the impact of saving early and the benefit of saving in excess of the minimum contributions, we hope more employees will engage with the legislation"

As part of our service, we offer employers the option of a presentation and one-to-one sessions with employees explaining not only how the legislation works, but how pensions operate and the type of pension they might expect upon retirement, given their chosen contributions. These presentations have highlighted that employees are not aware that even if they want to opt out of the new scheme, in many cases the first deduction will still be taken from their paycheque and refunded the following payday. This may seem minor, but if employees aren't aware of this and genuinely cannot afford to make contributions, this may only enhance that individual's disillusionment with pensions in general. Our aim is to educate and explain why the legislation was introduced and why individuals need to start saving for retirement.

It is the lack of individual awareness of this second point that suggests more needs to be done by both the Government and the pension industry to highlight the level of pension that may be available on retirement. For example, when I speak to employees who plan to make the minimum compliant contributions, some are pleasantly surprised to learn that they could build up a fund of over £150,000 over the next 35 years or so. They are then equally displeased when this is translated into an annual income. The position is obviously potentially worse for older employees with less time to save.

By explaining the impact of saving early and the benefit of saving in excess of the minimum contributions, we hope more employees will engage with the legislation and take an active interest in their pension funds. This personal service has also been welcomed by employers; they appreciate us taking the time to address employee concerns over pensions and this has helped us in strengthening relationships with those employers.

For further information, please contact:

Andy Butcher
T 020 7472 5552
E andrew.butcher@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.

Enterprise Investment Schemes – a well kept secret!

Investors are increasingly looking for alternatives to pensions following the reduction in the lifetime allowance on pension benefits to £1.25 million.

One such alternative is the Enterprise Investment Scheme (EIS).

The EIS is designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors, including:

- After two years, the underlying shares should qualify for business property relief (BPR), and not be subject to inheritance tax on your estate.
- Income tax relief of up to 30% on the amount invested which can be carried back to the previous tax year.
- Deferral of capital gains tax.
- No liability to capital gains tax on any gains made.
- Loss relief against income or capital gains for net losses made on sale of EIS shares.

We have been researching EIS schemes for many years and categorise the investments into two types:

- EIS funds seeking growth.
- EIS funds targeting lower risk renewable businesses or asset-backed infrastructure investments.

We have a panel of recommended funds in each category.

EIS funds targeting growth typically invest in unquoted companies across a range of sectors. Accordingly, expect some investments to fail, possibly completely, but others to perform well so that the overall return to investors remains appealing. Many leading providers specialise in this sector and have run EIS funds for over 10 years. In our view investors are likely to receive attractive returns from such funds, notwithstanding the additional risks involved. The tax reliefs detailed above can mitigate risk with the combination of income tax relief at 30% and loss relief at 45% on the investment, reducing a maximum loss to under 40%.

Funds targeting lower risk renewable or infrastructure investments tend to focus on 'green' sectors such as anaerobic digestion and hydro-electricity. They will also look at local authority infrastructure investments through the Private Finance Initiative (PFI) that are principally asset-backed and seeking a long-term regular income. Risks will still exist but they should be lower risk than the growth EIS funds.

For an older client with a reasonable level of income, EISs can be particularly attractive as the shares should be exempt from inheritance tax after being held for two years, whilst the investor may be able to defer capital gains tax on other gains made. This deferral can turn into a saving if this investment is held until the date of death, providing the potential to save a further 28% tax on the deferred gains. This is in addition to the 30% income tax relief available on initial investment.

Whilst the "tax tail" should not wag the investment dog, EIS schemes are perhaps an exception to this rule in certain cases. The combination of these tax reliefs can result in investors being significantly better off through investing in an EIS scheme (even if the investment loses value) rather than taking no action and paying high levels of tax in one's lifetime and indeed on one's estate at death. The varied styles of investments available through EIS schemes appeal to different investors and so the EIS scheme can form an important part of a client's balanced portfolio.

Investors should be aware that EISs are high risk investments and specific advice must be taken on appropriate schemes as they apply to individual investors. These investments are not suitable for everyone and must be held for a minimum of 3 years to retain the tax incentives.

For more information, please contact:

Adam Katten
T 020 7472 5550
E adam.katten@nlpfm.co.uk

Providing insurance for specialist conditions

Over the last couple of years, NLP Financial Management has formed specialist partnerships with chosen Charities and insurance companies for certain conditions, to smooth, guide and help make the application process for life insurance products as painless as possible. We currently have partnerships with the following charities:

- Hughes Syndrome Foundation
- Thyroid UK
- Lupus UK

Our efforts to understand these conditions thoroughly, means that we are able to speak to the underwriters of the insurance companies to discover whether the applicant's particular circumstances are likely to be insurable. Using this information we select the insurance companies who indicate that they are likely to offer terms, so as to keep the premium tailored to the individual's affordability. Where one company may not be willing to insure or only offer amended terms, there is always the prospect that another may be prepared to do so. Through developing relationships with various senior underwriters at a variety of insurance providers, it is evident to us that risk is not a constant throughout, and is perceived differently across the industry. By understanding your specific requirements, we are able to approach the right company and ensure the application is handled in the correct manner.

As an additional benefit, we make a contribution of our initial fee back to the relevant charity.

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.

Property investing – an update

At NLPFM we will always look to allocate a percentage of our model portfolios to commercial property funds. These funds are managed by property specialists who invest in an assorted range of properties such as retail warehouses, industrials, shopping centres and offices, depending on their market views. The funds will derive their returns from a combination of increased capital value and rental income.

Rental income is one feature of bricks and mortar investing we particularly like as it can be relatively secure in comparison to other asset classes because of factors such as long lease lengths, less risk of default than residential properties and upward-only rent reviews.

Another positive of investing in commercial property funds is the potential diversification benefits they can offer within a model portfolio. Bricks and mortar can often have low correlation to both bonds and equities; therefore, making these funds potentially useful additions to dampen down overall volatility within the portfolio, whilst creating alternative sources of returns.

Property is a long-term asset-class that we believe in and our neutral weighting to these funds is currently set at 10%. In mid-May 2013 the NLPFM investment committee took the decision to close our longstanding underweight position and double our weighting in property funds. There were a number of factors behind the move to go from a significantly underweight to a somewhat overweight position. This was reported in our Autumn 2013 newsletter and included our negative view on fixed interest and our positive view on the UK economy at that time.

This decision to significantly increase our property weighting was implemented at the beginning of June 2013 and has since proved to be a good call. Our 4 approved funds are up on average 12.9% in just 15 months with extremely low volatility, and we expect a strong return profile to continue throughout 2015. This tactical increase in property exposure is a good example of how the investment committee will continually monitor the macro environment to identify new opportunities and then move quickly to implement these ideas.

Please note that funds that invest in property can be difficult to sell so you may not be able to sell 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, that is, of course, until it is either bought or sold.

For further information, please contact:

Lee Pittal
T 020 7472 5544
E lee.pittal@nlpfm.co.uk

NLPFM – awards update

Following on from our success announced in the Spring Newsletter, we are delighted to announce two further awards – one to NLP Financial Management and the other to one of our advisers.

NLP Financial Management was awarded the much cherished Professional Adviser of the Year 2014 for London at an awards ceremony in Central London. When assessing our entry, the judges commented

"Yes, yes, yes! A proper corporate structure with highly-qualified professional people".

Again, we would wish to thank our clients and business partners for their ongoing support.

One of our senior consultants, Andy Butcher, has won the Insurance Institute of London (IIL) Award for being the highest achiever of ALL IIL candidates in the Advanced Diploma in Financial Planning Examinations. This is truly an exceptional achievement and we are proud to have him as an adviser with our company.

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