NLPFM news

News and views from NLP Financial Management

Elections and markets

Elections can be defining events for markets and we have grown accustomed to them in recent years.

In the last 3 years alone, we have had two UK general elections as well as Scottish Independence and EU referendums. Further afield we had the US election in late 2016, Dutch, Spanish and French elections, an Italian referendum with elections to come and have a German election looming.

All these events have the potential to move markets and so need close attention. However it would have been almost impossible to call the results of all of these correctly, and even if this was managed, to then predict the impact on markets would be harder still.

Brexit and the US election have been the two best examples of an unexpected result followed by an even more unexpected market reaction. After the Brexit vote Sterling fell around 20% against the Dollar and the UK main Market was off 4% on the day, an expected consequence of the leave vote. What was less predictable was the market then rallied back to its previous level in just 2 days and then went on to rally a further 15% to the end of the year and has carried on in 2017. The US election played out in a similar fashion with markets immediately selling off with the surprise Trump victory but this time they took less than a day to reverse those losses and rally to new highs.

These two huge results, and even more surprising market reactions shows us the perils of trying to position portfolios for specific events.

We believe it is more prudent to build a robust portfolio designed to perform in all market environments. This portfolio can be shifted towards areas we like, or tilted away from areas about which we are nervous, but we retain our focus on building robust, diversified portfolios rather than trying to predict the outcome of binary events and subsequent market reactions.

With this is mind we were particularly conscious of diversification heading into the recent UK election. Whilst a Conservative majority was anticipated, we knew from recent history that nothing is guaranteed. Sure enough the result was somewhat unexpected and no party managed to gain an overall majority. This has created significant additional political uncertainty in a UK already reeling from last year's Brexit vote.

Partly due to this heightened political risk in the UK and partly due to elevated valuations in a number of asset classes, we hold some defensive positions within the portfolio which should perform well if markets experience a bout of volatility. We also have exposure to various currencies, including the safe havens of the US Dollar and Japanese Yen, which we expect to outperform in periods of elevated risk.

As recent history shows, it is almost impossible to call the short-term direction of Markets, but by focusing on a diversified portfolio which can perform in all conditions, we are confident we will continue to produce solid risk-adjusted returns regardless of the political landscape.

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Inside this Issue

Helpful outcomes of the pension freedoms – all around

The 2014 Budget saw significant improvements in 'Pension Flexibility', allowing people retiring to flexibly draw upon their pension savings. Recent research from Aegon plc has indicated that the changes have generally met with positive critique from the UK working population; notwithstanding the introduction of Auto Enrolment, people are saving more into their pension arrangements as a result of the reforms. Average pension pot sizes are up markedly, buoyed by helpful market conditions and increased contributions.

Results from this research indicate that the number of people realising they need a robust plan for retirement is up by 50% as people become more engaged with their pensions and at an earlier age too. We certainly have never been busier helping our clients, new and old, with their retirement plans and options. A new realism has set in which aids the planning process and helps clients to focus on their options both in the lead up to and importantly, after their State Pension becomes payable. Many are now using the freedoms to supplement their income in a tax efficient manner, others as a means of accruing funds for the next generation and beyond. The challenge as always is to engage early enough to ensure clients have choices about how they finance their retirement.

But additional flexibilities are not for all our clients at retirement. A significant number will prefer the certainty of a guaranteed income – either for a fixed term or for life and possibly for their dependents too. Here again, circumstances have contrived to make this a more attractive option than it has been in the recent past. Indeed 15-year Gilt yields have risen off the nadir of 0.9% in August 2016 to 1.6% at the time of writing (3 July 2017). This translates into a 7% rise in standard annuity rates. Combine this with investment portfolio growth over the same period and clients can now secure an income some 15% greater than in August last year. Many of our clients choose to 'mix & match' their retirement provision.

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However, the Treasury too has been the recipient of a timely windfall. Original forecasts factored tax receipts from the increased flexibilities to be some £300m in 2015/16 and £600m the following year. Actually it was 400% more, at £1.5bn in 2015/16 and nearly double in 2016/17. This resulted from pensioners' greater engagement with the process, larger amounts being withdrawn, robust investment markets and the tax treatment of the withdrawals. This last point again is where advice can be critical – in helping to tailor withdrawals so as to minimise the initial tax burden. This tax year is forecast to be the peak yield year for the Treasury.

With so many options to review and discuss and tax traps for the unwary, please do make an appointment to speak to us soon.

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Let us re-enrol you!

Having helped over 275 companies successfully Stage their Automatic Enrolment workplace pension scheme, many of these schemes will now be reaching their third anniversary and if you are an employer, you may need to start thinking about 're-enrolment.'

When do I need to do this?

Your re-enrolment date is a date chosen by you when you will assess your staff for re-enrolment.

You have a six month 'window' from which you can choose a re-enrolment date. This window starts three months before and ends three months after the third anniversary of your automatic enrolment staging date. On this date your payroll, HR and software processes must be ready to go.

Who do I need to re-enrol?

You will need to identify certain 'eligible' employees who have ceased active membership in your workplace pension. The definition of an eligible jobholder is the same for re-enrolment as it is for automatic enrolment.

They are employees who:

- Normally work in the UK
- Earn above £10,000 a year (2017/18 tax year) pro-rata per payment period.
- Are aged between 22 and State Pension age.

How do I enrol them?

You will need to speak to your payroll provider to check how they are approaching automatic re-enrolment. Hopefully, they can manage some of the process but you will still need to notify payroll of your re-enrolment date and possibly prepare communications to workers.

Your payroll provider can assess which of your employees are eligible jobholders out of those who have stopped contributing to the workplace pension. They can then let you know which of your employees should be re-enrolled and in turn you can notify your workplace pension provider.

What else do I need to do?

You will need to notify all workers of re-enrolment who are not currently part of your workplace pensions.

You are also legally required to re-declare your compliance on The Pensions Regulator website to show you have complied with your employer duties. Failure to complete the Declaration may result in a fine.

How we can help?

The information provided in this article is not an exhaustive list of what needs to be done, by whom and by when. Our Consultants can provide you with further information on how to complete the re-enrolment process or can do this for you. This may be a good opportunity to review your workplace pension and refresh yourself in this area with Statutory contributions due to increase in April 2018 and April 2019.

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What is most important to me?

Having advised clients for around a quarter of a century, I hope that I have some understanding as to people's priorities when addressing their financial needs. In fact, I often feel that the role of a good financial adviser can be comparable to that of a counsellor in being a good listener to their client and hearing both "what is said" within the meeting and "what is not said" but understood within the discussions.

My belief is that the initial priority of most people is to feel secure in their financial circumstances. This will include having enough income to cover their daily expenditure needs, sufficient income to provide them with a comfortable retirement and an emergency reserve in case their financial circumstances worsen. This need to feel secure may lead clients to consider taking out life insurance or other protection policies to protect their assets / income for their dependants, if they died or suffered a critical illness. The desire to have sufficient income in retirement often translates in financial planning terms to allocating sufficient funds to pensions and other savings so that a target income can be drawn from those sources in retirement.

A secondary financial objective for many clients will be to "Fulfil their Dreams" and this could mean going on luxury holidays in retirement or buying a holiday home. This again will have financial implications that can be addressed by an experienced adviser. We are increasingly using lifestyle planning tools and cash modelling to build plans with clients to enable them to meet specific financial targets so that these dreams can become a reality.

There will of course be some clients who feel completely secure in their financial circumstances and also have enough resources to fulfil their dreams. I categorise these clients as those who wish to feel they are "winning" in hitting financial targets through their investments. This may mean achieving a specific return and so perhaps viewing financial objectives as part of a "personal business plan" which needs to be regularly assessed and measured against particular targets.

Hopefully this article has demonstrated the importance of having an adviser who understands your needs and can work alongside you in achieving your own wishes, however they are expressed.

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Making the most of the new IHT allowance

From 6 April 2017 the Government introduced a new allowance for Inheritance Tax (IHT); the Residence Nil Rate Band (RNRB). This allowance is in addition to each individual's existing Nil Rate Band for IHT of £325,000. The RNRB is designed to provide an additional IHT exemption for people passing on their property to their children, grandchildren or even great-grandchildren.

Making the Most of the Allowance

The RNRB is currently £100,000 per individual and this is due to increase by £25,000 each tax year until it reaches £175,000 in 2020/21. When combined with the Nil Rate Band of £325,000 per individual, this will result in a total potential £500,000 IHT exemption per individual or £1 million per couple.

In terms of just the RNRB, if a couple make full use of this extra allowance, this could save an additional £140,000 of Inheritance Tax. Note that the RNRB can only be applied to one property and is limited to the value of that property, subject to the maximum allowance of £350,000 per couple from 2020/21.

Loss of the Allowance

The full RNRB is available where an individual's total estate is valued at £2m or less at death, and is tapered away by £1 for every £2 that the estate exceeds this limit. For estates valued at over £2m, where an individual's RNRB is tapered away, there is an effective IHT rate of 60%!

However, the RNRB may be reinstated by gifting assets away to bring the estate below the £2m threshold. It is therefore important to ensure appropriate planning is carried out to help each individual make the most of their available allowance.

Planning

As each individual has their own RNRB, which is calculated on their death, sufficient planning must be in place on the first death of a couple to ensure that their full RNRB may be passed to the surviving spouse / civil partner. Additionally, on first death it may be beneficial for assets to be passed on to individuals other than the surviving spouse, or into Trust, if on second death the estate is likely to exceed £2m. It is worth noting that even a partner who died before the RNRB legislation took effect could have an RNRB to pass on to the surviving partner and also that there are downsizing / disposal provisions within the legislation that could be operative after July 2015. Finally, it is worth revisiting provisions within your Will as clever planning previously undertaken could result in the loss of the RNRB on death.

The earlier you can plan the better. However, it is never too late, as planning can be effective right up until the date of death.

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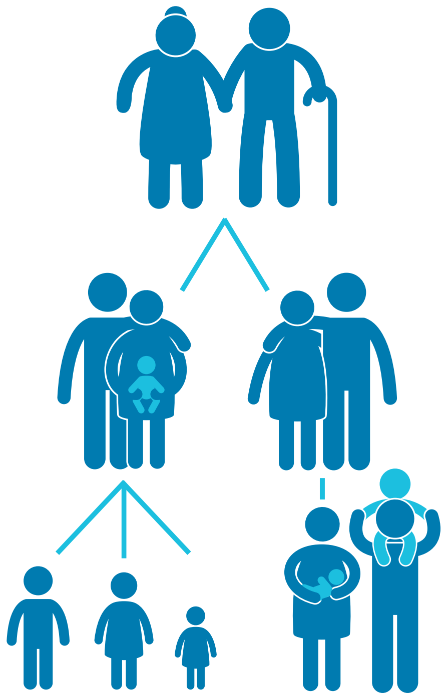
"...it is worth revisiting provisions within your Will as clever planning previously undertaken could result in the loss of the RNRB on death."



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