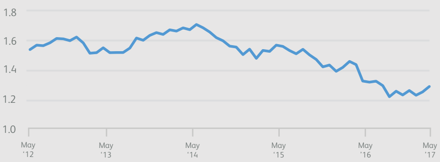
wealth management

financial Newsletter

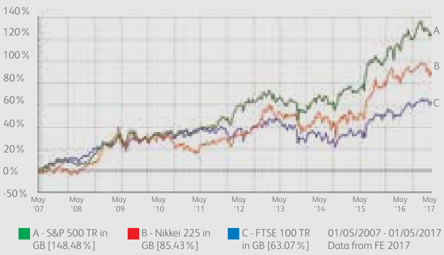
Edition 23 – Summer 2017

What is the British Pound worth vs. Euro?

What is the British Pound worth vs. Dollar?



World stock market performance over last ten years.



KEY FACTS & FIGURES – The UK Economy		
BoE Base Rate	0.25%	Apr 2017
Unemployment	4.7%	Feb 2017
Inflation (CPI)	2.3%	March 2017

Agenda

Base rate remains stable

The Bank of England's Monetary Policy Committee overwhelmingly voted to again keep the base rate at 0.25%.

UK economic outlook

- The UK economy was estimated to have increased by 0.7% between Quarter 3 (July to Sept) 2016 and Quarter 4 (Oct to Dec) 2016.
- Strong consumer spending, the services sector and customer-focused industries, contributed to the growth during Quarter 4.
- Growth in 2016 is 1.8% higher than that in 2015.
- Gross Domestic Product (GDP) in current prices increased by 1.4% between Quarter 3 2016 and Quarter 4 2016.

Inflation

- The Consumer Prices Index (CPI) was 2.3% in March 2017, unchanged from February 2017.
- The rate has been steadily increasing following a period of relatively low inflation in 2015.
- Rising prices for food, alcohol and tobacco, clothing and footwear, miscellaneous goods and services were the main upward contributors to change in the rate.
- These were largely offset by a downward contribution from transport, particularly air fares and, to a lesser extent, motor fuels.

UK unemployment

- The unemployment rate was 4.7%, down from 5.1% for a year earlier. It has not been lower since June to August 1975.
- There were 31.84 million people in work, 39,000 more than for September to November 2016 and 312,000 more than for a year earlier.
- The employment rate (the proportion of people aged from 16 to 64 who were in work) was 74.6%, the joint highest since comparable records began in 1971.
- There were 8.88 million people aged from 16 to 64 who were economically inactive (not working and not seeking or available to work), 10,000 fewer than for September to November 2016 and 36,000 fewer than for a year earlier.

The Architas outlook for markets in 2017

2017 has got off to an eventful start, with election fever, international posturing and geopolitics distracting but not yet disrupting markets. Brexit, the snap election and the Trump effect have taken centre stage while events in Korea and Syria are firmly on the global agenda. At Architas we like to weigh up what has been happening and calculate the potential for change.

Monitoring markets

Our recent market review discussions have centred on where exactly we are in the global economic cycle. We have identified three key risks which could raise volatility and cause markets a bit of an upset, but it's not all doom and gloom as we have highlighted three asset classes we believe could outperform in the coming year.

The top three potential risks and rewards outlook

Risks – the top three risks that we have identified in our asset allocation process

1. The US Federal Reserve: If the Fed does not raise rates quickly enough it risks becoming 'behind the curve' with the pace of interest rate rises, which might allow inflation to rise more than expected. If the Fed misjudges the pace of growth and has to issue aggressive rate rises to catch up this could put an effective brake on the economy, impacting bonds negatively and would also have a knock-on effect for equities.
2. China: Has been out of the headlines, but still presents an underlying risk. After considerable stimulus last year the authorities are still in a position to pump monetary stimulus into the economy. However, any disruption to the current situation could have a high impact on markets, although the probability is relatively low.
3. Trump policies: Whether Trump can implement his pro-growth policies will be crucial for markets. Underlying economic data continues to improve. If US tax cuts fail to materialise, the market's expectations of a boost to equity earnings and consumer spending could be disappointing.

Rewards – the top three asset classes that we are favouring at the moment

1. European equities: We have recently decided to move to a moderate overweight position in European equities. We have for some time been positive on the underlying economic and corporate fundamentals in the region, but have been wary of the political risks. In the wake of the Dutch and French (first round) elections, we believe this risk is easing.
2. High yield and emerging market bonds: We are cautious about bonds in general because of rising inflation and interest rates. We prefer high yield and emerging market bonds as we feel their returns provide sufficient reward for the risks they offer; in addition they have less sensitivity to rising interest rates.
3. Developed Asian equities: We are generally positive about developed Asian equities because the region has seen strong momentum recently. Stocks are offering good value as the knee-jerk negative reaction to Trump's protectionist stance fades. Economic signs are positive, and companies will benefit from rising global growth prospects.

What does this mean for investors?

In times of market stress, patience and discipline become even more important, as does remaining diversified and not losing sight of the fundamentals. As such, we continue to believe in the basic principle of diversification across asset classes, currencies, regions and investment managers or in other words, not putting all your eggs in one basket.

Article written by Sheldon MacDonald, Deputy Chief Investment Officer, Architas

Four simple principles for investment success

At Vanguard, we believe four simple principles will help most people to achieve investment success. Although we offer many specific strategies, an overarching theme runs through the investments we provide to clients – focus on those things within your control.

Many investors focus on the markets, the economy, manager ratings, or the performance of an individual security or strategy, overlooking the fundamental principles that we believe can give them the best chance of success.

So what are these four principles?

The first is goals. By creating clear, appropriate investment goals, and being realistic about ways to achieve them, investors can help protect themselves from common mistakes that derail their progress.

A sound investment plan begins by outlining the investor's objectives as well as any significant constraints. While investment goals are often straightforward – saving for retirement or preserving assets – constraints can be either simple or complex. Constraints include the investor's tolerance for market risk, the investment time horizon and liquidity and tax considerations. Once the plan is in place, the investor should evaluate it at regular intervals.

Without a plan, investors can be tempted to build a portfolio bottom-up, focusing on picking individual investments rather than on how the portfolio as a whole is serving the objective.

The second principle is balance. A sound investment strategy starts with a suitable asset allocation. A portfolio's allocation among asset classes will determine a large proportion of its return – and also the majority of its volatility. The allocation should be built upon reasonable expectations for risk and returns, and should use diversified investments to avoid exposure to unnecessary risks.

Both asset allocation and diversification are rooted in the idea of balance. Because all investments involve risk, investors must manage the balance between risk and potential reward through the choice of portfolio holdings.

Cost is the third principle. You can't control the markets, but you can control the bite of costs. The lower your costs, the greater your share of an investment's return. In addition, Vanguard research suggests that lower-cost investments have tended to outperform higher-cost alternatives.

This is because in investing, there is no reason to assume that you get more if you pay more. Instead, every pound paid for management fees or trading commissions is simply a pound less that is earning a potential return. The key point is that – unlike the markets – costs are largely controllable.

The fourth and final principle is discipline. Investing can provoke strong emotions. In the face of market turmoil, some investors may find themselves making impulsive decisions or, conversely, paralysed, unable to implement an investment strategy.

Discipline and perspective are the qualities that can help investors remain committed to their long-term investment programmes through periods of market uncertainty.

You can't control the markets. But by focusing on the things you can control, the four principles of goals, balance, cost and discipline, we believe investors can give themselves the best chance of success.

Article written by Neil Cowell, Head of UK intermediary distribution, Vanguard Asset Management Ltd

The value of independent financial advice

The 2plan wealth management fee agreement, which all clients sign when they are advised by 2plan advisers, states that because we are Independent Financial Advisers (IFAs), we act solely in the interests of our clients at all times. We do not act on behalf of any product provider, bank or insurance company. As Independent Financial Advisers, we are the "trusted adviser to the client" and have their best interests at heart.

All very well, someone may say; but how can you prove that? Firstly, one of the main things that creates trust is transparency. In the often complex and opaque world of financial services the consumer should be able to understand how much they are paying and also what they are paying for, both in terms of charges for a product, platform or funds and for advice received and any ongoing service. Some of this opaqueness was meant to be made a lot clearer through changes in the financial services industry over recent years, but it would seem that this is not always the case.

As Independent Financial Advisers, we can source products and platforms from the whole of the market place. If an adviser is not Independent, then they are by definition a restricted adviser, which as the name suggests, restricts or limits the products they can advise upon; with some only being able to advise on a single platform or product.

Because of the limitations bestowed on a restricted adviser, it should therefore be easier and less time consuming for them to provide a solution to a consumer (if they are able to find a suitable solution for the client from the products available to them). However, what can be seen in the marketplace is that some of these restricted advisers actually charge the client higher fees than an IFA and also that the product the client ends up with is more expensive. Ultimately, this can have a detrimental impact on the fund value of investments; particularly over the long term.

2plan wealth management is a firm of Independent Financial Advisers. We aim to charge a fair fee for the initial work we undertake with a client and build long term professional relationships via ongoing service by providing greater value. One of the ways we create this value is to use our scale to work with platforms and providers in an attempt to reduce their charges.

The financial services industry has for some time seen a continual increase in the costs of regulation. Ultimately, costs are passed onto consumers as in any other industry, but it is our independence and the scale of our organisation which enables us to drive down costs which we are evidencing in the reduction, for example, of some investment platform charges.

Investment platforms have become an increasingly popular way for clients to invest – though this should in no way preclude an IFA selecting a non-platform product if this was the most suitable solution. Although some platforms may have built technology "cool tools" for clients to use, platforms are a way for the client to view their assets in one place which may be easier for the client to conduct their financial affairs.

However, the client should be able to simply switch their assets onto a different viewing platform if it was less expensive for the client, which is what your 2plan adviser can advise you upon. Furthermore, we can show clients that if they moved away from dealing with their 2plan IFA then it may be so that the same reduced charges would no longer be available to them, ultimately having a negative impact on the value of their investments.

Article written by Chris Smallwood, CEO of 2plan wealth management

Making a real success of pension freedom

Retirement savers have voted pension freedom a £10.8 billion success with more than 625,000 people taking advantage of the new rules in the first two years of increased flexibility, according to HMRC statistics[1].

The message from the former Chancellor of the Exchequer, George Osborne, that no one would need to buy an annuity again has been received loud and clear with more savers opting for drawdown and guaranteed solutions as people explore the wider range of choices and options for retirement planning.

But the figures on sales of retirement income solutions and the money being released only tell part of the real story.

Real success but real issues

Independent research[2] for MetLife shows around 55% of over-55s are aware of the new rules underlining the growing interest in planning for retirement.

That is welcome but once you dive beneath the surface the detail shows that while savers may be aware they are not sure how to make the best of pension freedom, which is why MetLife has launched its Retirement Scorecard series based on the views of the over-55s who are the people at the sharp end as well as advisers and MPs.

The verdict from consumers on the scorecard is just a pass mark – consumers rate progress as just 5/10 compared with 7/10 from advisers and 6/10 from MPs.

The research has identified some worrying issues - more than half (54%) of over-55s find the new rules confusing and just 35% believe they have a good knowledge of the rules. Nearly six out of ten have said they were doing nothing differently as a result of pension freedom since it launched in April 2015.

It gets worse - just one in five (19%) say the additional freedom has encouraged them to increase their understanding of retirement planning, while 36% are worried about being scammed by fraudsters.

However, there is real demand for change and new solutions with around 71% of over-55s saying they want more choice in retirement income options underlining the lack of understanding of the options that are already available. A big issue is the worry about running out of money in retirement, which is driving demand for solutions that can provide a retirement income with the ability to access savings flexibly in an emergency or if the need arises.

Delivering real pension freedom

The glaring hole at the heart of pension freedoms is the need for more advice and improved guidance on the options available. Independent advice and financial education are critical in helping to address the confusion and to improve savers' understanding of their choices beyond low rate and inflexible annuities and flexible but potentially risky drawdown.

Pension freedom can help savers cope with economic and social issues, including living longer and needing retirement income to last longer as well as changes in the workplace where people want to work flexibly.

However, in the two years since its launch the UK economy has gone through massive change and the only certainty is that more change will come.

> The reality is that pension freedom on its own is just a framework and savers need to make the best of it on their own with support from advisers.

Retirement savers like you now have access to more choices. It's important that you understand all your options when it comes to taking a retirement income. MetLife is committed to helping deliver a wider choice through solutions that work in the new world of retirement.

Article written by Mark Baldwin,
Business Development Director, MetLife

The views and opinions expressed within the article are those of Met Life, who may or may not have acted upon them, and are not intended to be directly acted upon.

1. https://www.gov.uk/government/statistics/flexible-payments-from-pensions
2. Research carried out by Consumer Intelligence using an online methodology to question 960 employed adults aged 55-plus. Fieldwork was carried out between September 13th and 20th 2016

*** *https://www.gov.uk/government/news/over-92-billion-released-by-pension-freedoms*

Disruptive technologies bring opportunities and risks

The term ‘disruptive technology’ was first coined in 1995 by Harvard Business School professors Clayton M Christensen and Joseph Bower. It applies not so much to the initial invention as to the point at which it changes the market.

The motor car’s invention wasn’t disruptive because early models were luxury items. It was Henry Ford’s innovative use of mass production and his affordable Model T that caused a seismic market shift. Affordability is a key driver in the adoption of new technology.

While nearly all sectors of the economy will experience change, we feel there are four areas where there is a real prospect of disruption:

- how will alternative energy generation such as solar and wind affect the utilities sectors; what is the outlook for electric and driverless vehicles?
- will capitalism self-destruct as swathes of white collar jobs are lost to automation and machines?
- how vulnerable is the healthcare sector to the predicted shift to designer drugs and personalised medicine?
- how will blockchain affect the current financial ecosystem?

Beware the hype

Experience shows that technology can be a sure-fire way to destroy wealth. While a particular technology can show potential you need to identify how it will be adopted and which companies will profit.

The dotcom crash of 2000 reminds us of the risks of believing the hype without appreciating how to extract value from the business model. From 1997, analysts became increasingly credulous about the impact of the internet and how companies might make money from it. Many were start-ups and years from making profits; some didn’t yet have any revenues.

The ability to value a company gave way to a vision of the future in which a company used technology to create a new market or displace existing providers. When the stock market fell, many start-ups went bust, their capital used up in development or costly advertising campaigns.

There is much hype about the ‘internet of things’ and big data, making it difficult to identify what will actually happen, and how best to invest in their potential.

> Technological shifts may not be obvious for years and often depend on marketing and adaption to reach a critical tipping point.

How to invest?

The opportunity cost of not investing in technology could be huge. Is it better to invest directly in smaller technology companies, trying to spot the next Amazon or Google? Or do technology funds, managed by specialists, offer diversification against the inevitable failures in these high-risk areas?

Alternatively, the current tech giants could be the answer; Google and Amazon are using their huge cash flow to buy smaller companies to augment their offering (and, arguably, to neuter the threat from rival technologies).

Could the forthcoming developments mean that companies in every sector benefit from falling costs as technology ‘commoditises’ the world? Consumers rather than the innovators may benefit - the winners may be retailers, insurance or engineering companies; technology companies may destroy shareholder value through price wars or bad financial decisions.

Disruptive technologies could have a disastrous effect on investment portfolios rendering whole sectors obsolete. Active investing is arguably better suited to this as technologically-vulnerable behemoths can be avoided in favour of smaller ‘new tech’ companies. Active investors can more easily invest in the leaders of tomorrow, while avoiding the companies that will be disrupted.

Article written by, Julian Chillingworth, Chief Investment Officer, Rathbones Investment Management

The views and opinions expressed within the article are those of Rathbones, who may or may not have acted upon them, and are not intended to be directly acted upon.

Investing monthly for your future

Discipline is all important when it comes to saving effectively for your future. Directing an affordable amount each month straight to your Individual Savings Account, or ISA, is one way to help make sure that you're setting aside money sustainably for your future.

If you're looking to build a nest egg to help pay for things you might want or need later in life, a stocks and shares ISA – one way to invest in assets like bonds and shares – might be a better option than a cash ISA.

Up to £85,000 of your money is however secure in a bank or building society through the Financial Services Compensation Scheme, unlike stocks and shares or fixed interest investments which are less secure.

In the current climate, where interest rates are at historic lows, you might effectively be losing money on cash savings if the interest is less than inflation. Indeed, in December 2016 the average interest rate on cash ISAs was 0.4%, while retail prices rose at an annual rate of 2.5%.

In exchange for accepting some investment risk, you can gain exposure to potentially higher returns if your investments do well.

The power of compounding

You should always make sure that you can afford any monthly investments, bearing in mind that the value of your investments will fluctuate, meaning they will fall, as well as rise, and that you may not get back the original amount you invest.

Even a relatively modest monthly investment could, over time, grow into a larger sum than you might have imagined.

Setting aside £100 a month into your stocks and shares ISA might not sound like a lot, but if we assume average returns of 3% a year, paid monthly, after fees and charges, you would have a pot worth £14,000 after ten years. If you invested £250 a month, over that decade you would have investments worth £35,000. Please note that this is an illustrative example, and investment returns are never guaranteed.

The more you invest, and the longer your money is invested for, the greater the effect of compounding. Where gains are reinvested in the market, they can magnify cumulative returns by generating extra returns themselves. Over time, the effect of compounding can be significant – especially if investments are more successful.

The law of averages

Investing regularly shifts the emphasis away from timing the market, to time in the market.

By making a one-off investment, you might just as easily buy assets when they are overpriced as when they are cheap. Picking the right moment to invest is notoriously difficult, even for experienced investors.

Let's say, for example, that you invest £100 a month. In January, the fund price is £5 so you buy 20 units. By February, the price falls to £4, so you buy 25 units. By March, the price returns to £5 so you buy 20 units. After three months you have in this instance amassed 65 units, now worth £325. Had you invested a lump sum of £300 in January, you would have bought 60 units, still worth £300.

"Drip-feeding" your money into the market reduces the danger of making a lump sum investment at the worst possible time when its price has peaked. When you invest the same amount regularly, you buy fewer units of an asset when the price is high and more when the price is low.

Article written by M&G Investments

Important information

The value of investments will fluctuate, which will cause fund prices to fall, as well as rise, and you may not get back the original amount you invested.

The views expressed in this document should not be taken as a recommendation, advice or forecast. M&G are unable to give financial advice. If you are unsure about the suitability of your investment, speak to your financial adviser.

Income Protection: Living the dream

Illness needn't be a barrier to your long-term financial aspirations, all you need is a little early planning and a small regular investment to safeguard your future.

We live in uncertain times. UK employment levels are at record highs, yet more of us are unable to work due to illness with over 765,000 people in the UK currently claiming incapacity benefits[1]. Given that the average family would have to cut their household expenditure by 48%[2] to survive on Employment and Support Allowance, and that the average length of a serious or critical illness insurance claim is over four years[3] it's surprising that so few of us take out some form of protection for lost earnings.

Consider this, too: Macmillan Cancer recently published a report saying there are approximately 30,000 cancer sufferers in the UK between the ages of 40 and 50 whose mortgages are being paid by parents. It's safe to say that no one wants to find themselves in this awkward financial situation.

There are other, longer-term implications of a sudden loss in income: for example, as we get older and thoughts move toward retirement, what impact would this have on your ability to maximise pension contributions? Would a loss of income due to incapacity mean pushing back your chosen retirement age? Or accepting a lower retirement income? And if that were the case, how would it revise your perspective on later life in general?

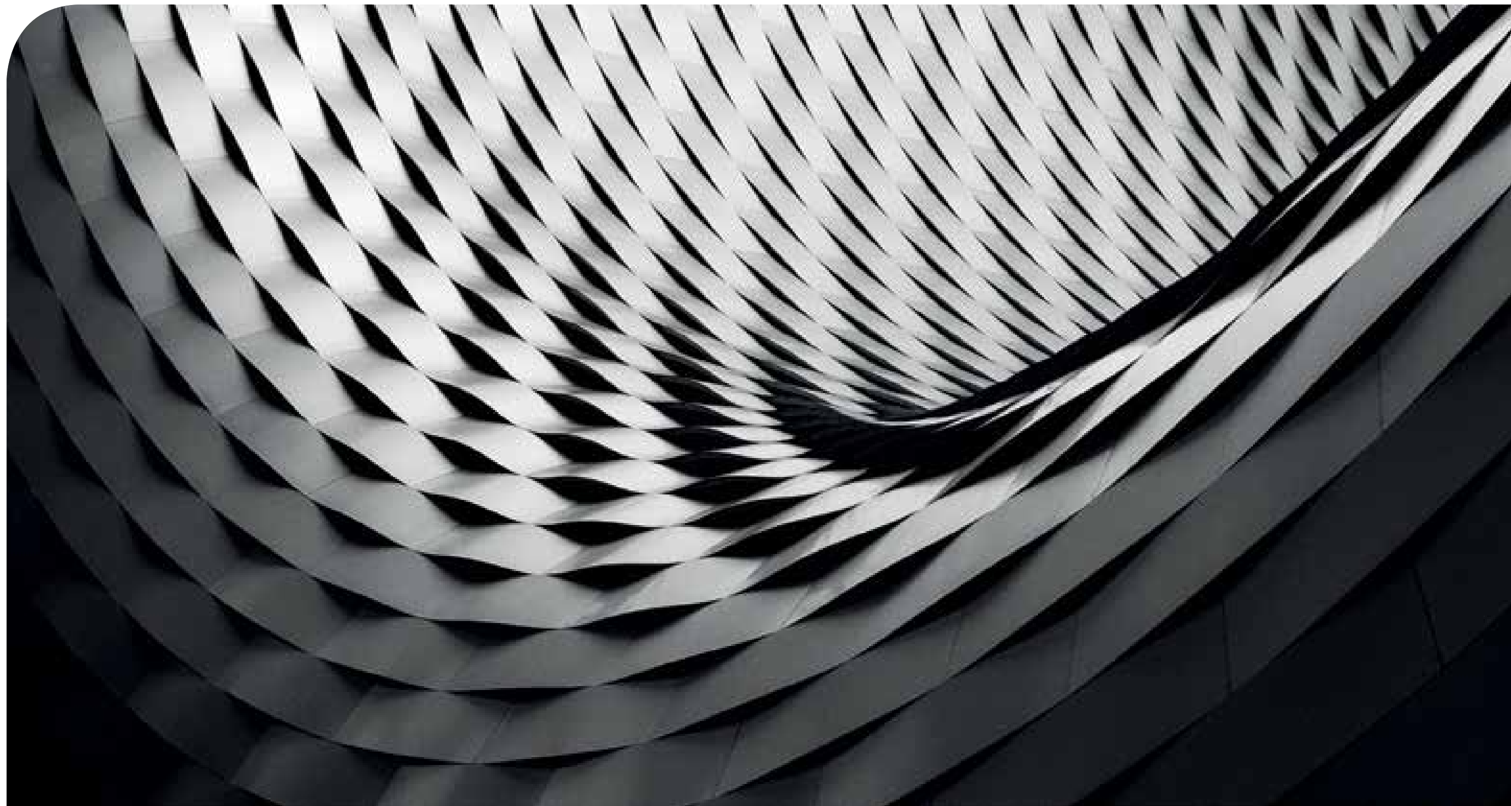
Our Income Protection pays a monthly tax-free income until you're well enough to go back to work, which you can use to help pay your bills, mortgage or medical costs. It covers you for absences caused by a wide range of illness, injury or disability. You can get it even if you're self-employed. And you can get pay-outs from just seven days after your policy starts.

Given its relatively small cost when compared to other protection products, Income Protection should be considered as soon as we leave the parental home to venture on our own path to financial independence. Whether we're renting or saving towards a deposit to buy a property, very few of us can withstand the impact of a long term illness on our finances.

A good way to highlight Income Protection's many benefits is to focus on your life goals and dreams. Income Protection helps to protect these dreams and aspirations – the family home we've saved years for, giving your children the best opportunities in life, the care-free, financially secure retirement we all want. It's at this point that Income Protection becomes an essential part of the protection conversation. Historically overlooked when compared to life and serious illness cover, Income Protection really should be the product at the heart of our protection priorities.

Article written by Andy Philo, Director of IFA Distribution, VitalityLife

1. ONS, Out of Work Benefits, 2017
2. Protection Insurance Survey 2015,
3. Drewberry Insurance, Feb 2015



Time to look again at Europe?

The UK may be leaving the European Union, but investors appear to be rediscovering the allure of European stock markets. After a long period of stagnation, company earnings now have plenty of room to rise as the regional economic recovery continues. Political risk remains a concern, but this appears to be diminishing allowing investors to start to focus on improving economic and corporate fundamentals.

Economic momentum is picking up

Europe's economic turnaround is now starting to gain momentum and this is making investors sit up and take notice. Unemployment is perhaps the key positive indicator. The jobless rate is still high, but it's coming down and there is plenty of room to fall further. The market cares more about the change in unemployment than the level of unemployment, so unemployment continuing to fall could well support both the economy and markets.

The trend in retail sales and industrial production is also recovering, showing that the recovery is broad based. And business sentiment surveys are suggesting that growth should remain comfortably in positive territory and could accelerate from current levels. European equities could benefit if the continued economic recovery and any subsequent pickup in inflation feed through into corporate earnings growth.

Company profits have room to grow

One of the biggest headwinds to European market performance in recent years has been sluggish corporate earnings. Companies have struggled to grow earnings since 2011, thanks to pressure from a second recession followed by a strong euro and then the collapse in commodity prices.

Economic recovery should normally be expected to lead to an improvement in earnings growth. For years, earnings expectations for Europe have started the year high and then been downgraded throughout the year. This year earnings expectations are actually being revised up.

It's not only expectations that are improving: actual delivered earnings are growing too and the growth is broad based, spread across most sectors. Energy is still acting as a drag but should soon see earnings turn positive too.

Sector composition has hurt Europe

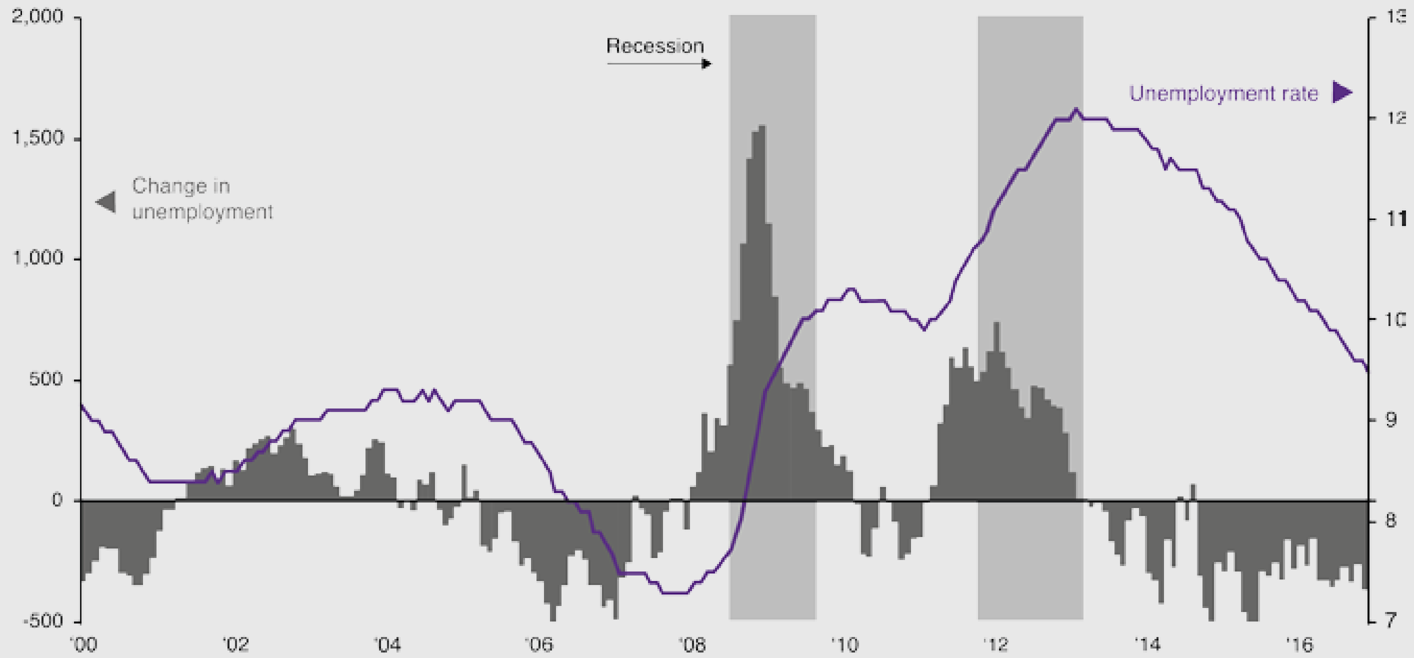
Earnings growth really matters for the performance of European equities. The underperformance of European equities since the financial crisis can be almost entirely explained by the underperformance of European earnings.

Comparing the sector composition of the main European equity index (MSCI Europe ex UK) to the US S&P 500 goes a long way to explaining this relative shortfall in earnings. The European equity market has low exposure to expensive growth stocks, such as some technology companies, and high exposure to financials and commodities, both of which have struggled in recent years.

Financial sector companies find it particularly difficult to grow earnings in an environment of extremely low interest rates and flatter yield curves, which reduce the gap between the rate charged to consumers and businesses and the underlying borrowing rate for banks.

Change in unemployment and unemployment rate

Thousands of people per three months (LHS); % rate (RHS)



Source: Eurostat, Thomson Reuters Datastream, J.P. Morgan Asset Management. Light grey columns indicate recession. Guide to the Markets-UK. Data as of 31 March 2017.

Reduction in political risk could be key

Economic recovery may, at last, be feeding into higher earnings and, with a clearer outlook to the political situation, fundamentals for European equities remain positive. Each election result stands to provide further comfort to investors and could boost European markets.

JPM Europe Dynamic (ex-UK Fund)

For equity investors, the potential of European equities remains enticing: valuations are not stretched and earnings should continue to grow as both revenues and margins rise. As European equities look to finally outperform, gaining pure exposure to European stock markets is more important than ever. The JPM Europe Dynamic (ex-UK) Fund employs an unconstrained best ideas approach to seek out only the most attractive opportunities in this exciting market.

Article Written by Andrew Robbens, Client Portfolio Manager, J.P. Morgan Asset Management

The views expressed in this article can change throughout time and are not to be taken as investment advice or recommendation. The value of investments and the income from them may go down and up and investors may not get back the full amount invested.

Two years of pension freedoms has brought increased choice but hidden dangers

Two years after the pension freedoms came into effect, Andrew Tully, pensions technical director at Retirement Advantage, the retirement income specialist, comments on how the retirement income market is developing, cautioning that lessons still need to be learned to ensure people receive the best outcomes from their pension savings.

Pension freedoms are clearly proving popular with retirees, but there are pitfalls for the unwary. With freedom and choice comes added complexity and a picture is emerging of fewer people receiving advice, government coffers benefiting from the extra tax take, and people continuing to fall victim to scams.

New research – why are people 'cashing in'?

HMRC's latest pension freedom statistics[1] show that over 500,000 people have withdrawn a total of £9.2bn from their pensions using the flexible rules since April 2015, with an average of three payments per person.

New research[2] from Retirement Advantage among over 55s who have used the freedoms to access their pensions flexibly shows how people are using this money:

- 28% spent the cash on home improvements
- 26% put the money in a savings account, while 19% invested the money elsewhere
- 19% went on holiday
- 13% bought a new car
- 12% paid off the mortgage or other debts

The research also reveals that 37% of people using the freedoms to access cash from their pensions have continued to pay into a pension, while 19% say their employer has. Worryingly, 67% of these people are completely unaware of the Money Purchase Annual Allowance (MPAA).

I doubt many Lamborghinis have been bought with the cash, but taking money out of a tax efficient pension to simply reinvest or put in a savings account, having paid tax on some or all of it, is a little mad.

Perhaps of more concern are the number of people who continue to work and pay into a pension, but are unaware of the money purchase annual allowance. This is likely to catch many out as The Government announced a cut to the MPAA from £10,000 to £4,000 in the 2016 Autumn Statement.

Higher tax take

In the Spring Budget[3], HM Treasury admitted the pension freedoms have raised far more tax than anticipated. It was initially estimated to raise around £0.3 billion in 2015-16 and £0.6 billion in 2016-17, although these estimates were subject to considerable uncertainty. In the event, the measure has raised £1.5 billion in 2015-16, while the latest estimate for 2016-17 is £1.1 billion.

This is a tax bonanza for the Treasury and, although a welcome boost to government coffers, will have been a nasty surprise for many people taking advantage of the new freedoms. Paying tax on withdrawals was predicted to act as a natural brake on retirees withdrawing too much too soon, but this clearly hasn't been the case.

Less people shopping around

The recent FCA data trend bulletin[4] shows fewer people are receiving advice at the point of deciding how to use their pension savings. It reveals that 50,000 people a year (60%) are not shopping around, even though they could be receiving a better deal by doing so.

The new rules should not be license for people to receive poor value. More choice means more complication and yet the trend since the freedoms is for fewer people to seek advice. We need to find a way to break the cycle, as there is a strong correlation between receiving financial advice and shopping around. This is important whether you decide to buy an annuity, use income drawdown or combine the two approaches.

The FCA[5] is working with the industry to incorporate annuity comparisons within illustrations, which will show customers how much they could gain from shopping around and switching provider before they purchase an annuity. The FCA is planning for implementation in September 2017.

Pension scams still a danger

Although the move to ban pension cold calling is welcome, pension scams are still prevalent and people should be constantly wary of unsolicited approaches, by email, phone or in writing. City of London Police figures show that £13.2 million was lost to pension liberation scams in the 12 months to February 2016 – an increase of 26% on the previous year[6]. Pension year 6 scammers are a modern day scourge, as reported fraud losses are counted in the millions. We must do more to help and protect people approached by conmen, and the ban on cold calling is an important step in the right direction.

Retirees should be wary of:

1. An offer to help you access your pension savings before age 55. It is only possible to do this in rare situations, for instance if you are very ill, so be careful and always check with your pension provider.
2. A recommendation to take a large amount of money, or your whole pension pot, in a lump sum and invest it. There are significant tax implications if you take lots of your savings in one go, so check the tax position before you make any decisions.
3. Warnings that the deal is limited and you must act now. Choosing the right retirement income product(s) is a big decision and shouldn't be done quickly or under pressure.
4. Being discouraged from seeking professional financial advice or talking to Pension Wise or The Pensions Advisory Service (TPAS). An adviser would be able to explain the rules and tax implications of different options and help you make the best choices for your personal circumstances, so be very suspicious if this is discouraged.
5. Contact by somebody who is not on the Financial Conduct Authority (FCA) Register. The Register is a public record of all the regulated firms and individuals in the financial services industry, including retirement income providers and investment companies (https://register.fca.org.uk/).

Article written by Andrew Tully, Pensions Technical Director, Retirement Advantage

Sources

1.https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/584292/Pensions_Flexibility_January_2017.pdf

2. Research was conducted by Censuswide between 20.3.17 and 22.3.17. Online interviews were conducted among 250 people aged over 55 years who have used the flexible rules to withdraw cash from their pensions since the freedoms were introduced in April 2015.

3.https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597335/PU2055_Spring_Budget_2017_web_2.pdf (page 49 – B.23)

4. https://www.fca.org.uk/publication/data/data-bulletin-issue-8.pdf

5.https://www.fca.org.uk/news/press-releases/customers-be-shown-how-much-they-could-gain-shopping-around-annuity

6. http://www.which.co.uk/news/2016/07/pension-scams-cost-retirees-millions-446436/

If you would like to discuss any of these topics in more detail, please feel free to contact me to make an appointment. If you have friends, family members or colleagues who you think would be interested in these topics, please pass this newsletter to them.

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