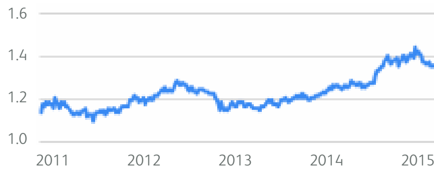
2plan®
wealth management

financial Newsletter

Edition 17

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	0.5%	Jul 2015
Unemployment	5.5%	Mar – Jul 2015
Inflation (CPI)	0.1%	Jun 2015

Agenda

1 Key economic and market update
2 Investing with passive funds
3 Further education finance
4 Transparency with fees and charges
5 Automatic enrolment
6 Automatic enrolmentThe value of a guaranteed lifetime incom

UK economy showing promise

The Bank of England's Monetary Policy overwhelmingly voted to again keep the base rate at 0.5%.

UK economic outlook

The UK economy expanded by just 0.5% in the third quarter, 0.2 percentage points slower than in the previous quarter.

Uncertainty about the scale of China's slowdown in addition to the UK's dominant services sector growing at its weakest pace for more than two-years have resulted in there being no month on month change between August and September.

Inflation

- The Consumer Prices Index (CPI) fell by 0.1% in the year to September 2015, compared to no change (0%) in the year to August 2015.
- A smaller than usual rise in clothing prices and falling motor fuel prices were the main contributors to the fall in the rate.
- The rate of inflation has been at or around 0% for most of 2015.

UK unemployment:

- The number of unemployed people decreased by 79,000 to 1.77 million over the past quarter (to August 2015), the Office for National Statistics said.
- The number of people aged from 16 to 64 not in the labour force (economically inactive) was 9.01 million during this period, down 13,000 compared with a year earlier.
- The total number of people now in work is 31.12 million people, a rise of 140,000 on the previous quarter.
- 73.6% of all people aged 16 to 64 were classed as employed.

Investing with passive funds

Are you looking to invest? With so many choices, it can be tough to pick the solution that best suits your needs.

Keeping up to date with the changes in financial markets can be difficult even for investment professionals, and for an individual investor it can seem a little overwhelming.

Depending on your circumstances, a simple solution could be to invest in passive funds. Passive funds are referred to by a variety of names, including index trackers, index funds or even just tracker; the term 'passive' reflects the fact that your investment is designed to mirror the returns of its selected market or benchmark.

What's a benchmark?

The majority of funds have benchmarks against which their performance is measured. The key point is that passive funds are designed to match the rise of the relevant benchmark, whereas active funds look to outperform their chosen benchmark.

One well-known index that is often used as a benchmark is the FTSE 100. The FTSE 100 is composed of the 100 most valuable companies listed on the London Stock Exchange. When used as a benchmark, the FTSE 100 would act as a point of reference against which the performance of the fund can be compared – your fund should mirror the returns of the companies in the index. This allows a clear and simple measurement of the performance. There is one obvious question to be asked here - if active funds are trying to beat their benchmark, why would you invest in a fund that only looks to match its benchmark? This is when you need to start getting into the detail, and where a bit of research and knowledge comes in handy.

Picking an active fund manager that regularly beats an index fund is very difficult; if it wasn't, everyone would be beating the market! Active funds rely on the conviction and research of the manager and their team – sometimes they pick well, other times their luck is out. An active fund based on sound principles can be very successful one year, but not necessarily do well the next. Changes in the market, company management or the political landscape are just some of the things that can see the best-laid plans fail to bear fruit. It all starts to get a bit tricky.

When comparing returns, you also need to take management fees into consideration; these are generally lower for passive funds than for equivalent active funds, and these cost savings are passed onto investors.

What are the benefits of passive investing?

Compared to active funds, passive funds offer investors a lower cost route into the market. The process is very transparent and rule based.

This means that fees are generally lower and investors are able to access market growth more cost effectively. While active managers are able to add performance over and above an index they can also underperform, and many investors therefore prefer the more consistent approach of a passive fund.

Are passives risk free?

No. With all their benefits comes the trade-off of receiving index-like return; markets can go down as well as up, so if you are invested in a tracker fund and the market your fund is replicating drops, then your investment could lose value. By investing in a fund that mirrors market returns you will be benefiting from the good and the bad, which could mean positive or negative returns; the upside as well as the downside.

In fact, there are certain areas of the market where we believe passively managed investments are not likely to be as effective as actively managed ones. The reduced liquidity of opaque markets such as high yield or alternatives can make it more difficult for a passively managed portfolio to achieve its objective of providing a return similar to the index.

Who invests in passive funds?

Passive funds are bought by many types of investor, including high net worth individuals such as Warren Buffett, charities, large pension funds, and even savers who are able to put a bit aside into an ISA. The amounts invested range from a few thousand to billions of pounds.

It's important to remember that choosing between active or passive investing is not the only decision investors need to make. An investor must remember that asset allocation will dictate a large portion of the investors risk and return profile.

Asset allocation is how much, as a proportion of your total investment, you choose to allocate to various asset classes such as equity, property, bonds or cash. Diversifying your investment is an established way to guard against market volatility - in essence, don't put all of your eggs in one basket.

Passive investing could be for you

Passive management can play a role in your portfolio. It's really about evaluating what you want from an investment and prioritising what is most important to you. The bottom line is that having a bias for or against any style of investing could mean that you miss out on the potential benefits of another solution.

Actively managed funds offer the chance to beat the market, but you need to pick the right manager and remember that they carry higher risk and higher fees. Passive funds might offer less potential upside, but they are simple, effective and affordable.

If you are after a low cost investment strategy that's simple to understand, easy to implement, and may give you the chance to beat the average actively managed fund's returns over the long term then passive investing could well be for you.

Further education finance

From next year, students could face record bills when it comes to supporting their educational ambitions, with many parents being asked to help pick up the tab.

A university education can be a valuable advantage for young people entering today's increasingly competitive job market. But the cost of attaining a degree now comes at a significantly higher cost than in previous decades.

Consumer body Which? estimates that the cost of a three-year degree outside of London (including tuition fees, accommodation and living expenses) is typically between £35,000 and £40,000.

A 2014 report from The Institute of Fiscal Studies paints an even starker picture. It suggests students will leave university with an average debt of £44,035 – a figure estimated to be nearly £20,000 higher than under the old system, which ended in 2012.

Students from households earning up to £42,620 per year were, until now, able to subsidise their living costs with a student maintenance grant.

This funding will be scrapped from August 2016 and replaced with a loans system. For new full-time students in England starting their courses from this date, the maximum of support will rise by £766 to £8,200 per year (up to £10,702 for those studying in London) depending on your circumstances.

However, it will only apply to students with household incomes of £25,000 or less per year.

Evidence also suggests fewer students are combining part-time work with their studies, increasing the financial burden on many parents even further.

A report from the UK Commission for Employment and Skills reveals that the number of 16 and 17 year-olds combining part-time work with their studies has halved over the past 20 years, from just over two-fifths (42%) in 1996 to less than one-fifth (18%) in 2014.

Conversely, the number of young people participating in full-time education has grown substantially, from 2.1 million in 1996 to 3.2 million in 2014 – an increase of 50% - creating greater competition for each job opportunity.

With costs rising and further changes on the horizon, the importance of a robust financial strategy to support your children's (or grandchildren's) further education has never been greater. Your 2plan wealth management IFA can assist you in identifying your objectives and assisting you to put suitable plans in place.

Investing for children rather than yourself is subject to a specific set of rules. These can vary depending on the ownership, tax status and term of the investment, so it makes sense to seek advice before making any investment decisions. And, as with most investments, the sooner you put plans in place and begin saving, the better.

Transparency with fees and charges

The Retail Distribution Review, or RDR for short, was the name given to a set of rules and professional standards brought in to the financial services industry at the beginning of 2013.

The rules were introduced to encourage greater transparent in the industry, in order to give consumers the confidence that the advice they are provided with is best suited to their needs.

Perhaps the most significant change was that financial advisers are no longer able to earn commission from product providers, instead agreeing fees at outset.

Since 2013, when engaging with your 2plan wealth management your Independent Financial Adviser (IFA) would have provided you with a Personal Client Agreement (PCA). The PCA sets out the basis on which your 2plan IFA conducts business with you and on your behalf, covering each of the stages of the advice proves – Consultation, Advice, Implementation and Ongoing Service.

Your 2plan wealth management IFA, prior to commencing any aspect of our work with you, agree the services you would like them to deliver and how you will pay for them. No charge or payment is made until it has been agreed with you.

You can choose how you want to pay for these services from a given menu of options which can be tailored to suit your needs. Where you receive advice with regard to an investment or pension product we will agree a fee, commonly known as an adviser charge. Alternatively for a protection product, we can either be paid a commission from the product provider or agree a fee.

Where required an agreed ongoing service can also be put in place. This involves a process being put in place to review your plans to ensure that they remain appropriate to your ongoing needs. The frequency and method of delivery

In respect of any agreed ongoing service it will be agreed whether the charge will commence immediately or after a specified period of time.

This approach, we believe, allows us to be open and transparent with you in terms of the service and offering we provide, enabling us to build a trusted and professional relationship with you over the long term.

Automatic enrolment

The number of individuals participating in a workplace pension scheme has increase to its highest level in a decade, with younger people and those in lower paid jobs in particular benefiting from the introduction of automatic enrolment.

Auto enrolment was introduced in response to it being recognised that many people were not saving enough for retirement. As people are also increasingly living longer, this results in a greater strain on the State benefits system and the aim was to encourage more workers to start building up retirement benefits.

Figures show that, overall, 70% of eligible employees – almost 14 million people – paid into a workplace pension in 2014. This increase is as a result of auto enrolment, which began in October 2012, and is being rolled out in a phased approach so that larger employers have their staging date – the date from which an employer's legal duties begin – before smaller employers.

The reforms recognise that not all workers are eligible for automatic enrolment and that others, such as the self-employed, do not qualify. Provision has been made to allow those who fall outside of auto enrolment to also join pension schemes and start building retirement benefits.

Auto enrolment has been designed so that individuals don't have to take any action themselves – employers will automatically enrol employees into a workplace pension scheme and deduct any contributions that the member is required to pay from their wages or salary, and then pay into the pension scheme on their behalf.

Employers with over 250 employees had their staging date between 1st October 2012 and 1st February 2014 and those with 50-249 employees between 1st April 2014 and 1st April 2015. Smaller and micro employers began to hit their staging dates from June 2015. The staging date for firms with less than 30 employees is from 1st January through to 1st April 2017, with new employers coming on board from 1st May 2017.

Contribution levels are currently set at a minimum of 2% of an employees qualifying earnings (1% from each of the employer and employee) but is phased so that from 1st October 2018 they will increase to 8% of an employees qualifying earnings, of which a minimum of 3% must come from the employer.

All employees whose employers have reached their staging date have to be enrolled into a workplace pension scheme if they:

- Are not already in a suitable workplace pension scheme
- Are at least 22 years old, but under the State Pension age
- Earn more than £10,000 per year (tax year 2015-16)
- Work in the UK

This has resulted in almost 5.3 million people being enrolled by more than 50,000 employers with these numbers continuing to rise as auto-enrolment extends its reach between now and 2015.

Investing in a pension is one of a number of options that can be utilised. Discussing your options with your IFA will provide the best basis to ensure you can achieve your retirement planning objectives.

The value of a guaranteed lifetime income

Having the ability to access all of the money in your pension pot could be a valuable option in the approach to your retirement.

For example, it could be used to clear debts or for a one-off purchase.

However, the option to withdraw the entire pension pot, whilst tempting, needs to be balanced against the possible risks.

A decision: what would you choose?

Take Peter – at 65 years old, he's planning to retire on his basic state pension of £6,029 each year. He also has a pension pot of £40,000 and he decides to take his tax-free cash of £10,000. Peter has ruled out the option to use income drawdown because he doesn't want to take any investment risks, so he has a choice: he could withdraw all of the remaining £30,000 from his pension pot as a cash sum and pay tax at a rate of 20% (£5,085) on it, leaving him with £24,915 which he would then have to manage if he wanted to make sure it lasted for the rest of his retirement.

However, if Peter uses his £30,000 to secure a guaranteed income for life by buying a pension annuity, not only will he avoid paying the extra £5,085 in tax (as his total income of £7,729 is below the income tax threshold), but he will also get £1,700* each year, guaranteed for life, on top of his state pension income.

Using the Longevity Tool on justretirement.com Peter discovers that, as a 65 year old man of average health, he could have a 3 in 4 chance of living to age 83, a 1 in 2 chance of living to 90 and a 1 in 4 chance of living to age 96. If he does live to 96, that will be 31 years after he originally retired - this would **equate to an income of £52,700 provided by a conventional pension annuity.**

It's impossible to guarantee when you might die, or more critically, how long you might live for. How long will you need to make sure that you have an income? If you withdraw your entire pension pot, will it generate the income that you will need in your retirement? That's why it is important to weigh up the benefits and risks of all of your options, and before making your decision, to seek advice from an independent financial adviser.

**The illustration is based on the average standard rate of an individual aged 65 with a £30,000 pension fund, five-year guarantee period, monthly in advance, no escalation, no value protection, no dependant's pension, based on RH2 7RT postcode. A facilitated adviser charge of 2.0% has been assumed. Rates via The Exchange from Iress on 13.08.15.*

justretirement

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.

safety in numbers

2plan.com

The information contained in this newsletter is based on 2plan wealth management Ltd's current understanding of tax laws as at July 2015. These laws are subject to change at any time and 2plan wealth management Ltd cannot be held responsible for any decisions made as a result of this newsletter. Tax advice is not regulated by the Financial Conduct Authority.

2plan wealth management Ltd is authorised and regulated by the Financial Conduct Authority. It is entered on the Financial Services Register (www.fca.org.uk/register) under reference 461598. Registered Office: 3rd Floor, Bridgewater Place, Water Lane, Leeds, LS11 5BZ. Telephone: 0113 302 1369. Registered in England and Wales: 05998270
© 2plan wealth management Ltd. All rights reserved.

safety in numbers