2plan®
wealth management

# financial Newsletter

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## Base rate

The Bank of England's Monetary Policy Committee voted to maintain the base rate as 0.5%.

## UK economic outlook

- The UK economy almost stalled in the first quarter of this year growing by just 0.1 per cent, the Office for National Statistics recently reported.
- This was down from the 0.4 per cent expansion registered in the final quarter of 2017 and well below the 0.3 per cent City analysts had expected.
- It was also the weakest quarterly growth rate since 2012, while GDP per head actually fell by 0.1 per cent.
- Economists said that the Beast from the East was partially responsible for the disappointing figures but also identified underlying signs of weakness among households, stemming from the squeeze on incomes due to the slump in sterling in 2016 and also trepidation from businesses ahead of Brexit next year.

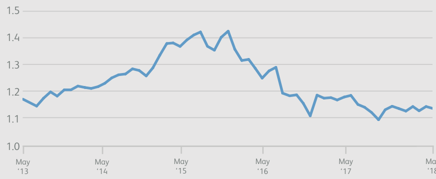
## Inflation

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.3% in March 2018.
- Since reaching a recent high of 2.8% towards the end of 2017, the rate has fallen back to its lowest since March 2017.
- The largest downward contribution to the change in the rate between February 2018 and March 2018 came from prices for clothing and footwear rising by less than they did a year ago, with the effect coming mainly from a range of items of women's clothing.
- Price movements for alcoholic drinks and tobacco also made a downward contribution to the change in the rate;
- The Consumer Prices Index (CPI) 12-month rate was 2.5% in March 2018, down from 2.7% in February 2018.

## UK unemployment

- Estimates from the Labour Force Survey show that, between September to November 2017 and December 2017 to February 2018, the number of people in work increased, the number of unemployed people decreased and the number of people aged from 16 to 64 years not working and not seeking or available to work (economically inactive) was little changed.
- There were 32.26 million people in work, 55,000 more than for September to November 2017 and 427,000 more than for a year earlier.
- The employment rate (the proportion of people aged from 16 to 64 years who were in work) was 75.4%, higher than for a year earlier (74.6%) and the highest since comparable records began in 1971.
- There were 1.42 million unemployed people (people not in work but seeking and available to work), 16,000 fewer than for September to November 2017 and 136,000 fewer than for a year earlier.
- The unemployment rate was 4.2%, down from 4.7% for a year earlier and the lowest since 1975.

*What is the British Pound worth vs. Euro?*




*What is the British Pound worth vs. Dollar?*

*FTSE 100 Chart*

| KEY FACTS & FIGURES – The UK Economy | | |
|---|---|---|
| BoE Base Rate | 0.5% | Mar 2018 |
| Unemployment | 4.2% | Apr 2018 |
| Inflation (CPI) | 2.3% | Mar 2018 |

*Agenda*


*Modern retirement trends and how to receive income tax-efficiently*

*The oil sector: bearing out the beef?*

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*Income Protection: Living the dream*

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*How bonds could help navigate rising interest rates*

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*Six golden rules for investing*

*Let retirement set you free…*

# Modern retirement trends and how to receive income tax-efficiently

Everyone has different Retirement plans but why take all your tax-free cash at once?

There has been a significant amount of research into how retirement is changing. Much of this has looked at the way people are accessing their savings, but not why they're changing their habits.

For many, retirement is a journey or a gradual transition, rather than a moment in time. As working patterns change, people need and value the flexibility to choose how and when they access their pension savings and what they spend it on.

### Phasing in retirement

Although everybody's different – with their own unique needs and priorities – in general, we're living longer and fuller lives in retirement. For people looking to phase in their retirement, popular options include: moving to part-time work before retiring; taking contract roles for a few months a year; or having an extended break before returning to part-time work.

### "Unretirement"

A growing trend for people who've retired is to "unretire" and return to work; usually for social or financial reasons. The financial affairs of many of these are likely to be complicated, with a need for on-going advice.

### ...Driving the need for Increased flexibility of Income in Retirement

Changing attitudes to later-life work and retirement mean that many people need a high degree of flexibility in their retirement income.

> Since the introduction of pension freedoms, there has been a substantial move away from the traditional annuity purchase at the point of retirement. However, many people are still opting to receive all their tax-free cash at once. With all aspects of retirement becoming increasingly fluid, and many people working reduced hours, is this still the best option?

### Protecting your needs

Advisers are starting to challenge the validity of people taking all their tax-free cash in a single lump sum. This is to ensure income needs are met in the most tax-efficient way, and to keep funds invested in the tax-sheltered pension environment for as long as possible.

Tax-free lump sums have often been taken to pay off outstanding mortgages or loans. But in many cases, they are simply taken just because they are available and appear to be an attractive option. However, if those funds are not required, they may then sit in a bank account, gaining little interest and being potentially taxable, and also potentially falling into the person's estate on death and being subject to IHT (Inheritance Tax).

### An alternative to the lump sum

Another strategy is to phase the withdrawals by combining small, more regular amounts of tax-free cash and taxable withdrawals to meet the need for income. This can minimise tax and potentially give rise to a greater value of total tax-free cash over time.

Drawdown is now a popular option; even for smaller funds. It could be considered that people with more modest pots have an even greater need to make the most of their funds.

Using tax-free cash as part of an income payment means that 25% will be tax-free, and less of the total withdrawal is subject to income tax.

### Tax-free cash as a regular withdrawal

There are compelling reasons to consider using tax-free cash as part of a regular withdrawal to help boost total income. For example, for people on lower incomes, withdrawals can be managed to ensure as little income tax as possible is payable, by keeping taxable income below the personal allowance and making up the rest with tax-free cash. This will ensure the person receives the greatest benefits from their funds; potentially paying no income tax at all during retirement.

The opportunity to control a person's tax liability by phasing income payments is not unique to those who have smaller pots. It can also be a valuable tool for all people to help reduce their income tax liability.

In addition, for those who are wishing to gradually reduce their working hours in preparation for retirement, phasing benefits can help maintain an overall income should they decide to partially retire. For example, a combination of income and tax-free cash could be used to top up income in the most tax-efficient way: particularly beneficial where the person's income requirements are around the higher rate threshold. Using more tax-free cash at this point may be advantageous to limit the payment of higher-rate

tax. They can then take a greater proportion of income when they fully retire and are subject to basic-rate tax.

## Other advantages

One of the other key advantages of phasing benefits is that a person will retain more of their pension fund in the retirement planning or pre-retirement part of their pension fund. This means they will potentially increase the total amount of tax-free cash they receive from their pension fund.

## The opportunity to generate more tax-free cash

If you and your adviser decide to crystallise your full pension entitlement at retirement and withdraw all tax-free cash in one payment, no further tax-free cash will become available (unless you make further contributions). However, by phasing benefits there is the opportunity that the pre-retirement part of your pension fund will benefit from investment growth, and over time this will generate additional tax-free cash entitlement for you.

## What does this mean for you?

Regardless of your personal Individual Retirement goals, it's important that:

- The pension vehicle chosen by your 2plan adviser to facilitate your retirement income should be flexible enough to adapt to your changing needs and tax circumstances, offering the full range of retirement-freedoms flexibility.
- The recommended investment funds should meet your attitude to investment risk and offer a balance of volatility control and equity exposure, at a cost acceptable to you, covering advice over a lengthy period.

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*Authors: Iain McGowan, Scottish Widows – Head of Fund Proposition, Investment Strategy & Execution and Roy Vickery, Senior Manager, Retirement Propositions*

# The oil sector: bearing out the beef?

Back in 2016 when the oil price was under US$30 a barrel, I had spare change for a Mars bar when filling up my little VW Tiguan. The world had called time on the oil industry, the share prices of global integrated oil companies were through the floor and I had a near 20% weighting in the sector: it was prime time for a pity party at the pumps.

Two years on, the oil sector has made a remarkable recovery from these lows, in part due to a rising oil price but more broadly as a result of some serious capital discipline. Faced with their own mortality, integrated oil majors have responded with stringent measures to cut costs and drive efficiencies across their businesses, underlining their commitment to delivering shareholder value. But while the oil price tracked up over 2017, oil-related companies continued to experience muted share price performance. So what's the market's beef?

I meet quarterly with the management teams of the oil companies in my portfolios – BP, Royal Dutch Shell (Shell) and Total. These are teams that have worked tirelessly to bring down the cost of production and cover their dividend pay-outs (income paid to shareholders) with cash; all three firms have drastically pared back costs in order to adapt to the economics of making profit at an oil price of US$50 a barrel. They have achieved this to such an extent that the ability of these companies to pay out income in the form of a dividend, is better now at an oil price of US$63, than it was when the oil price was over US$100!

Delivering total shareholder return has remained a strategic priority for these companies through the lower pricing environment and remains at the forefront of their thinking as the industry assesses the wide-reaching implications of energy transition over the longer term.

## I remain optimistic that the efficiencies achieved thus far can be sustained and oil remains the sector where I see the most compelling opportunities.

### Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

### Important information

Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice.

This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication. The information provided is for illustrative purposes only, it should not be relied upon as recommendations to buy or sell securities.

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*Martin Walker, UK Equities Fund Manager, Invesco Perpetual*

# The role of government bonds when interest rates are rising

## What's been happening in markets?

2018 started much as 2017 ended, with continued confidence in global economic growth seeing most markets continue to rise in early January. However, late January and early February saw increased volatility as asset prices fluctuated sharply. Markets were buffeted by many factors including heightened expectations of interest rate rises. This followed stronger than expected inflation in the US as well as the emergence of unforeseen geopolitical risks.

Overall, the first quarter of 2018 was a poor one for riskier assets, leading to increased demand from investors for lower risk assets. This included UK government bonds (gilts) which made modest gains as investors' risk appetites reduced. We think these current gains are a short term phenomenon but holding gilts in your portfolio can provide diversification and offer some protection against significant losses.

## Rising interest rates hurt bonds

The UK could see two rate rises this year, following the first rise in over a decade last November, with current expectations for a May rise evenly balanced. In a rising rate environment bonds are generally perceived to lack value because when interest rates rise, the income from bonds looks relatively less attractive. Some investors could even experience a negative return when adjusted for inflation. However, we believe that government bonds could still be worth holding in your portfolio, even when they may be losing some value.

## What are the benefits of investing in gilts?

We don't believe that any one asset type such as government bonds or US shares or property for example will perform consistently well forever. If you group together a selection of assets that react differently to market ups and downs it can help reduce portfolio risk. In broad terms, holding gilts helps to provide portfolio diversification and could help preserve your capital. We use them specifically to provide an element of protection against increases in volatility, falling equity prices or a downturn in corporate bonds. We strongly believe that this makes gilts a key element in portfolio construction.

## Potentially preserving your capital

If we experience another disruptive event like the financial crisis of 2008 your portfolio will need an investment to act as a genuine diversifier and protect your capital. When the financial crisis hit markets, most investments moved in the same direction, meaning many elements of portfolio diversification became ineffective. The key asset class that could potentially offer that protection to your capital is top grade government bonds such as gilts.

## A possible safe haven in a crisis

Safe haven assets are those that tend to hold or increase their value in times of crisis. People usually associate this quality with physical assets like gold or strongly backed currencies such as the US dollar or Japanese yen. However it can also be provided by certain other assets including top grade government bonds. These bonds usually rise in value during difficult times due to the significantly lower risk that government backed assets will default.

## Why hold gilts now?

After a long period of relative calm and with fairly valued assets, volatility has the potentially to rise. However, if interest rates continue to rise, gilts may fall in value and look like a poor investment to hold. The key point to remember is that even if gilts lose some value in the short term, they could still provide valuable capital protection and diversification benefits over the long term. While we're not currently experiencing a crisis, protecting a portfolio for the long term is a priority and gilts have their part to play.

## Disclaimer

The value of investments and any income from them can go down as well as up and is not guaranteed. You could get back less than you originally invested. Past performance is not a guide to future performance. The views expressed within this article are those of Architas, who may or may not have acted upon them. Architas Multi-Manager Limited is a company limited by shares and authorised and regulated by the Financial Conduct Authority (Firm Reference Number 477328). It is registered in England: No. 06458717. Registered Office: 5 Old Broad Street, London, EC2N 1AD.

*Author: Alex Burn, Investment Manager, Architas Multi-Manager Ltd*

# 2connect

The way we all communicate with each other has changed dramatically over the last few decades.

For the younger generation and millennials, they think nothing of it, using iPhones, tablets, Sykpe, Snapchat, Twitter and Facebook for example to keep up to date with the latest news and developments.

For some of us older folks, we remember the days when we used to sit down and talk face to face with each other, pick up the telephone or even write and receive letters whether in a business environment or even to tell a loved one or friend that we had arrived safely at our holiday destination.

## Wow – how things have changed?

Not that there is a right or wrong method but at 2plan wealth management we have attempted to build a communication strategy that caters for all, recognising that different clients will appreciate different methods of communication whether that is;

– Face to face meetings
– Skype calls
– Emails
– Printed hard copy brochures
– Electronic hard copy brochures
– Telephone calls
– iPhone and iPad
– Our website – www.2plan.com
– Client websites

Today we are delighted to announce that for those of you with either iPhones or iPads you can visit the App Store and download our latest App, 2connect.

This will show you the current range of professional and informative literature we have in our showcase, making you aware of 2plan wealth management, our proposition, and the benefits that dealing with one of our advisers brings.

It will automatically inform you when a new brochure has been uploaded and hopefully will be a handy guide for you to refer to as you go about your daily routine throughout the year.

For those of you without Apple technology, do not despair as printed and pdf copies will still be available or download at 2connect.2plan.com

We trust you will appreciate this latest development and we will continue to develop ways to communicate and support you.

*Written by 2plan wealth management*

# 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]. Some 60 percent of people claiming the main long-term sickness benefit believe the amount of money they get is not enough to live on[2]. With the average length of a serious or critical illness insurance claim being 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 you 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 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.

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*Sally Burrowes; Director of Legal and Business Support for VitalityLife*

[1] ONS, Out of Work Benefits, 2017
[2] The Independent, Jan 2018 (https://ind.pn/2HbCkHn)
[3] Drewberry Insurance, Feb 2015

# An Aviva-record year for protection claims

## Providing financial support when it matters most

We paid out an Aviva record of £900m to individual protection customers last year, with 97.2% of all claims accepted.

It's made a real difference to more than 25,000 customers and their families as we settled more individual protection claims last year than ever before.

Robert Morrison, Global Life Chief Underwriter, said: "We know that consumers are doubtful and worry that insurers don't pay claims but these figures and the wider protection industry's claims data show that this is simply not true."

## The figures at a glance

We're proud to say that in 2017:

- we paid a record £900m to individual protection customers with 97.2% of all claims being accepted. That's an increase of £30m from 2016.
- over 25,000 customers and their families benefited from life, critical illness and income protection insurance policies during 2017.
- we paid around £2.5m every day to individual life, critical illness and income protection customers and their families – that's £1,700 every minute.
- we paid 98.9% of life insurance, 93.2% of critical illness claims and 88.8% of income protection claims.

Of the small number of critical illness claims which were not paid, the most common reasons were non-disclosure and for conditions not being met. Similarly, the most common reasons for an income protection claim being declined was due to the definition of disability not being met, followed by misrepresentation of important medical information either before the policy was taken out or following an accepted claim.

Further key statistics include:

- The average sum paid to critical illness customers was £79,162.
- Cancer remains the most common cause of critical illness claims at 62% of all claims, followed by heart attack (9%), stroke (6%), children's critical illness (5%) and multiple sclerosis (4%).
- Mental health conditions accounted for the majority of income protection claims at 28%, followed by musculoskeletal (15%) and cancer (9%).
- The average age at which customers claim is 42 years on income protection and 47 for critical illness.
- We paid more than £525m to life insurance customers, £337m to critical illness customers and £38m to customers with income protection cover or fracture claim benefits.

Many of these customers also had access to additional services such as Aviva's rehabilitation case management for income protection customers, Second Opinion by Best Doctors ® and Counselling and Carer support by Workplace options.

## Continuing to improve

Robert added: "We are committed to paying as many claims as we can, shown through the increase in our claims paid rates and our overall rate of 97.2% of all claims being paid. We are equally committed to providing our customers with an exceptional, quick claims service and with additional support services to help them when it matters most."

While we've helped more customers than ever, we'll keep on looking at ways to improve the amount of claims paid, our claims process and the support services we offer our customers and their families at difficult times. Likewise, reaching those with no protection in place will remain a priority.

# How bonds could help navigate rising interest rates

After a decade of record low interest rates in the UK and elsewhere, the question is not whether central banks will continue to raise interest rates, but instead 'when' and 'by how much'. This brings both challenges and opportunities for investors.

If interest rates continue to rise across developed economies, we might expect that demand for certain types of bonds will fall.

With interest rates so low, investors have in many cases been willing to accept very low prospective returns on assets traditionally seen as among the lowest risk investments. These include bonds issued by the governments of countries like the UK, Germany and the US. High demand has pushed the yield on these types of bonds – being annual investment returns as a percentage of the price paid – towards historic lows.

In an environment where higher interest rates are available on cash, such low-yielding assets could look less attractive to investors and we might reasonably expect the value attached to them to fall.

There are certain strategies for investing in bonds, however, that have the potential to navigate rising interest rates, or even perform well, in such a climate.

*The value of investments and the income from them will fluctuate, causing fund prices to fall as well as rise, and you may not get back the original amount you invested.*

## Keeping duration short

Interest rate risk is measured by 'duration' – a measure of the sensitivity of a bond to changes in interest rates. The longer a bond or bond fund's duration, measured in years, the more sensitive it is to movements in interest rates. In other words, the more value we would expect it to lose if interest rates rose (and bond prices correspondingly fell).

Bonds with a short time until maturity – when bondholders are repaid their principal by the issuing company or government – have a naturally low duration. They can therefore provide a degree of relative protection against rising interest rates.

However, short-dated bonds tend to offer lower returns than longer-dated bonds because there is less interest rate risk involved for investors. Focusing on short-dated bonds issued by companies, rather than governments, could offer more attractive returns though.

## Floating rate notes

Unlike conventional bonds, which pay a fixed coupon and can typically suffer when interest rates are rising, so-called floating rate notes (FRNs) pay a variable coupon that is regularly adjusted in line with changes in interest rates.

The income generated from FRNs will therefore rise and fall in line with interest rates. This also offers a way of benefitting from any future increase in interest rates. Of course, if interest rates were to fall, so would the value of income payments.

## Flexible strategies

Certain bond funds can use financial instruments called derivatives to gain exposure to, or to help protect against, anticipated changes in the value of underlying investments.

This flexibility can allow a fund manager to position their portfolio in anticipation of rising interest rates. Depending on a fund's specific investment strategy, it might be possible to reduce the portfolio's duration to zero, mitigating their investors' exposure to rising interest rates.

M&G has an extensive range of bond funds, each with its own investment strategy, that could help you achieve your investment goals.

*We would like to remind you that M&G is unable to give financial advice. If you are unsure about the suitability of any investment, please speak to your 2plan wealth management financial adviser.*

*The value of investments and any income from them can go down as well as up and is not guaranteed, and you could get back less than you originally invested. Past performance is not a guide to future performance. The views expressed within this article are those of M&G Investments, who may or may not have acted upon them.*

Please refer to the M&G glossary for definitions of terms used in this article: www.mandg.co.uk/investor/help-centre/glossary

*Article written by M&G Investments*

# Tax planning: Six tips for being tax-wise all year round

Though the tax year runs from 6 April to 5 April, effective tax planning needn't be a mad March rush. In an ideal world, tax planning wouldn't be left until towards the end of the tax year. Here's our list of handy hints to help you get ahead*.

### 1. Your ISA allowance: Use it if you can!

With a cash ISA or a stocks and shares ISA (or a combination of the two) you can save or invest up to £20,000 a year tax free. To help you maximise the benefits of ISAs, here are four things to consider when planning for the year ahead…

- If you are in a position to, it makes sense for you and your spouse to take advantage of each other's ISA allowance, particularly if one of you has more financial resources than the other. That way, you can save (in the case of cash ISAs) or invest (in the case of stocks and shares ISAs) up to £40,000 in 2018/19
- Currently, 16 and 17-year-olds actually get two ISA allowances, as they're able to open a Junior ISA (which for 2018/19 has a limit of £4,260) and an adult cash ISA. This means that you can put away up to £24,260 in your child's name tax free this tax year.
- People aged 18-39 can open a Lifetime ISA, which entitles them to save up to £4,000 a year until they're 50. The government will top up the savings by 25%, up to a maximum of £1,000 a year.
- Remember: Some cash and stocks and shares ISAs are flexible; meaning you can take money out and replace it within a tax year without it affecting your allowance. But not all ISAs are flexible, so check your terms and conditions.

### 2. Consider topping up your pension

Normally, between you and your employer, you can pay a maximum of £40,000 into your pension in a tax year (it's called your annual allowance) before it becomes subject to tax.

Take steps to maximise your pension pot. Here are some things to consider…

1. If you don't manage to make full use of your £40,000 pensions annual allowance this tax year, you can carry it forward for up to three years.
2. You can also boost your basic State Pension by paying voluntary Class 3 National Insurance Contributions (NICs).
3. Everyone is entitled to a tax-free Personal Allowance. This is the amount of income you don't pay any tax on, and currently stands at £11,500. But you begin to lose this when you earn over £100,000** (and you don't get anything if you earn £123,000 or more). However, by upping your pension contributions, you could get some of your allowance back, as the income on your tax return will be lower to take your extra pension contributions into account.

### 3. Limiting inheritance tax

You can act at any time to help reduce a potential inheritance tax (IHT) bill when you're no longer around. An IHT bill only applies if your estate is valued above £325,000***.

One way you can do this is by giving away up to £3,000 worth of gifts* (such as money or possessions) each tax year, so they are no longer included when the value of your estate is calculated. This is known as the annual exemption.

The exemption applies to individuals – so as a couple you can make £6,000 worth of gifts. It can also be carried forward for one year so, if you didn't do this last year (2017/18), then you can, as a couple, make £12,000 worth of gifts before 6 April 2019. Who might the lucky recipients be?

### 4. Making charitable donations

Will you be donating to any worthy causes this 2018/19 tax year? If you are, you can receive full tax relief on your contributions**** through Gift Aid, or straight from your wages or pension via Payroll Giving.

If you're a higher rate taxpayer (i.e. if you pay 40% or 45% tax) you can claim back the difference between the tax on your donation and what the charity got back. You'll need to give details when filling out your Self-Assessment tax return (if you're not required to fill one of these out, get in touch with HMRC).

If you don't usually Gift Aid your charitable donations, it's certainly worth considering, as charities can claim an extra 25p for every £1 you give – and it doesn't cost you a thing. Charities will normally provide you with a form to fill out to declare you'd like Gift Aid to be claimed on your gift.

### 5. Be savvy with your capital gains tax allowance

Capital gains tax (CGT) is a tax on the gains (i.e. profit) you make when you sell something, such as an investment portfolio or second home.

But everyone has an annual allowance before CGT applies, of £11,700 (in 2018/19). Like the ISA allowance, it doesn't roll over, so if you don't use it you'll lose out – and may have to pay more tax in the future.

Also, it's worth remembering the allowance is for individuals, so couples have a joint allowance for 2018/19 of £23,400. Consider transferring an asset into your joint names so you both stay within your individual allowances.

Not every investment portfolio is subject to CGT. If you're looking for a tax-efficient way to invest, a Stocks and Shares ISA could be for you. Just like any investment, it carries risk – meaning you could lose some or all of your money – but if you do make a profit due to share price increases, you won't be required to pay CGT on it.

### 6. Your dividend allowance has halved

If you receive dividends outside of a Stocks and Shares ISA, or you're a company shareholder or director, you can currently receive £2,000 worth of dividends free of income tax. This allowance reduced from £5,000 on 6 April 2018.

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*Author: Scott Sinclair, Content Manager, Zurich UK*

Sources:
*This article originally appeared in March 2018 titled Six things to do before tax year end (for the 2017/18 tax year). It has since been updated.
**https://www.gov.uk/income-tax-rates/income-over-100000
***https://www.gov.uk/inheritance-tax
****https://www.gov.uk/income-tax-reliefs/charity-donations-tax-relief

# Six golden rules for investing

As Investment Director at the UK's largest investment platform I'm often asked what I think of a particular fund or investment.

While I like straight talking, I don't typically answer the question because the answer is 'it depends' – on how long you're investing for, what you're saving for, your attitude to risk and your other financial commitments, amongst other things.

That said, there are some general principles investors can follow if they want the best chance of achieving their financial goals, whether it's retirement saving, holiday planning or buying flats for the kids.

### 1. Be clear about the length of your investment

A great deal depends on how long you're investing for. Generally speaking the longer you're investing for, the greater risk you can afford to take. If you need regular or imminent access to your savings, it's better to err on the side of caution.

History shows that shares provide the highest long-term growth but they're also the riskiest type of investment. Between June 2007 and March 2009 (known as the credit crunch), the FTSE 100 (an index of the prices of the 100 biggest companies in the UK) fell by over 40% (see table two). It didn't recover until around May in 2013, five years later. This was one of the largest market shocks in recent history but it perfectly illustrates the dangers of investing, particularly if you're forced to cash in during such a period.

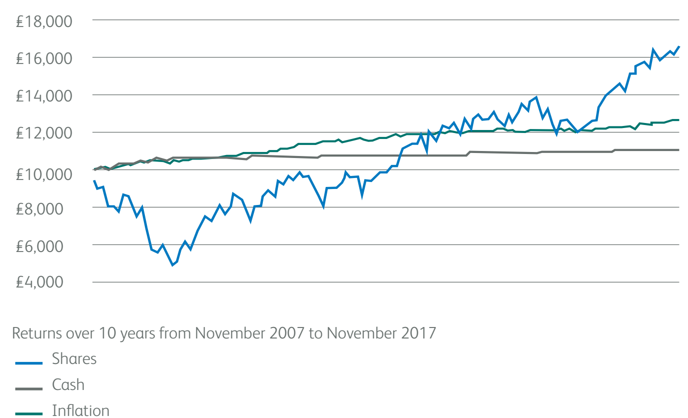
By contrast, if you'd invested £10,000 five years ago, it would now be worth over £15,622 – and you'd have more than trebled your money to £30,328 if you'd invested twenty years ago*.

Generally speaking, investing in shares is a medium to long-term strategy (more than five years) and not for those who need quick access to their savings.

If you do need regular access to your money or need to cash it in within the next couple of years, then safer assets such as cash or deposit accounts may be more suitable. Your savings are less likely to fall in value in absolute terms but returns could be so low that inflation erodes their value in real terms. As you can see from the chart, your £10,000 would only be worth £11,011 today if you'd invested in cash (the grey line) over £5,000 less than if you'd invested in shares (the blue line). And given inflation (the green line) rose by 26% over the period, the money in your pocket is effectively worth less than when you started.

For this reason, cash is perhaps not the best investment if you're relying on it to provide benefits such as your pension twenty years hence.

*Shares versus cash*




*Source: Morningstar Direct. Figures in £s with gross income reinvested over 20 years to 31 October 2017. Shares represented by FTSE 100 TR GBP and Cash by Bank of England base rate. Past performance is no guide to future performance.*

### 2. Keep some in cash

Ideally, you should never leave yourself with no choice about when you cash in an investment. If markets take a turn for the worse and you have enough money in your bank or building society to cover your monthly commitments, or until markets recover, then you won't be forced to sell investments at the wrong time and at a loss.

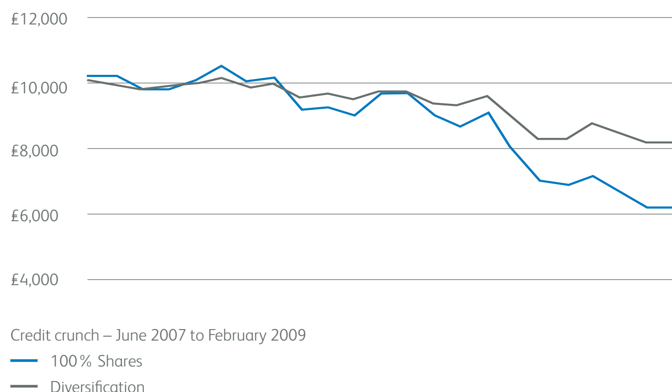
### 3. The importance of diversification

Having a mixture of different types of investments in your portfolio is a less risky strategy than investing in just one market or company. It means that, even if one of your investments runs into trouble, you still have the potential to gain from others.

Diversification means spreading your investments across different asset classes (shares, bonds, cash, and property, for example), geographies, and types of business (technology, pharmaceuticals, financial services and so on). Even different sizes of company help reduce risk, as small companies will perform better in certain markets than big companies and vice versa.

The benefits of diversification can be seen in the chart below, where you can see that the diversified investment has weathered the stock market crash much better than UK shares alone. If you'd been 100% invested in shares during the credit crunch (the blue line), you'd have seen your £10,000 investment fall by almost 40% to £6,194 but it would only have fallen by half that amount if you'd invested in a mix of investments (the grey line).

*The benefits of diversification*




Credit crunch – June 2007 to February 2009
— 100% Shares
— Diversification

*Source: Morningstar Direct. Figures in £s with gross income reinvested over period starting 1 June 2007 to 1 March 2009. 100% Shares represented by FTSE 100 TR GBP and Diversified ABI Mixed Investment 20% – 60% Shares sector median. Past performance is no guide to future performance.*

This may sound complicated but fortunately, there are lots of off-the-shelf funds that have diversification built in. They pool investors' money together to buy a basket of shares or bonds – that way they're spreading risk across a number of different companies. Of course, if you invest in a UK fund and the UK market falls then your fund is very likely to fall too, so either choose from one of the many multi-asset funds (diversified across asset class and global markets) or if you're more confident, pick a basket of funds yourself.

Ultimately, you want to avoid being over-reliant on a single source of returns, and that includes all your investments, including your property and bank accounts.

### 4. Don't try and time the markets

The temptation to sell when things are going badly and buy only when they pick up again is natural, but history has shown that when markets turn, they can do so quickly and dramatically. There's a more than even chance you'll end up actually buying when stocks are most expensive and selling when they're at their cheapest, the worst of all worlds.

One way to dampen the effect of bad market timing is to invest regularly over a long period. When you pay into an investment or pension plan, you buy units. Each day the price of these units changes, depending on how the fund is performing. By investing regularly, for example every month, you can 'smooth out' the highs and lows when stock markets are volatile. This is because when prices are low, your investment buys more units than it would when prices are high. When markets rise, the value of the units will rise too.

### 5. Attitude to risk isn't set in stone

Of course, your ability to tolerate loss matters, but don't place too much emphasis on it. You might have a completely different attitude to investing a small portion in an ISA for a holiday compared to investing your pension pot. Having to go to Torremolinos instead of Tuscany may not be your idea of heaven but it won't materially affect your standard of living. Your attitude to risk more often depends on whether you can afford to lose money. If retirement is looming, your investment strategy should, quite rightly, become more cautious. By then, you'll have a lot more to lose and less time to recover. If you're younger and can ride out the peaks and troughs of the stock market, you may feel you can take greater risk. And, you may even feel you have to if you've started saving a bit late and won't have enough in retirement to maintain your standard of living.

### 6. If in doubt, get advice

It can be helpful to get professional advice, even if you're a confident investor. An adviser will look at all your sources of income and your financial commitments to assess how much disposable income you have to invest and how you can achieve your objectives in the most tax-efficient way.

### And finally…

You may feel you're not prepared to take any risks with your investments, but no investment is risk free, including cash as we've seen with the example above. Investing is a balancing act between our need for a certain standard of living and our fear of losing money. I hope the pointers here help demonstrate that, as long as you invest prudently, you can achieve your goals without necessarily losing sleep.

The above shouldn't be taken as recommendation or advice to invest in any particular investment. Please remember, past performance is no guide to future performance. The value of investments can go down as well as up and you may get back less than you invest.

At Aegon it's our mission to help the UK achieve a lifetime of financial security. We've led the way in innovation that can make people's financial assets work smarter as well as harder. From online technology that gives one-stop access to a universe of investment opportunity – to retirement products that make wealth planning simple, easy and fulfilling – we're dedicated to getting people closer to their financial goals every day. Speak to your 2plan adviser to find out more.

**Morningstar Direct. Figures in £s with gross income reinvested over period of five and twenty years ending 31 October 2017. Past performance is no guide to future performance.*

*Nick Dixon, Investment Director, Aegon UK.*

# Let retirement set you free…

Retirement is, of course, a time of life to look forward to. It offers the chance to do all the things you've always wanted to do – travelling the world, taking up new hobbies and ticking off all the things on your 'to-do' list. Whatever your plans may be, the pension rules now give you the freedom to spend your retirement savings as you wish. They do however only apply to 'defined contribution' pensions, as opposed to 'final salary' schemes. Your 2plan wealth management adviser can let you know which type you have.

One well-publicised option is taking all your pension savings in one go. This is unlikely to be a sensible option for most people, who may need their pension to last 20-30 years or more, so for the vast majority of retirees, generating an income is normally the priority. I'll therefore briefly discuss the main options for generating an income in retirement. Please remember though, deciding what to do with your pension is a major decision and receiving sound advice from your financial adviser, related to your personal circumstances, is therefore particularly important when you retire.

### Tax-free cash

Before covering how you can generate an income, it's worth noting you can normally take up to a 25% tax-free lump sum from your pension, which is one of the most popular features of the pension system. This offers a potential cash boost when you retire, which can be used as you choose, be it to clear debt or perhaps to help grown-up children get on the property ladder. While taking tax-free cash can appear to be an attractive option, it isn't always the right call.

If you don't wish to spend the money right now, taking the money to remain in a bank account could come at a cost. Any returns could be subject to tax, whereas it would have grown tax free in your pension. The amount in a bank account will also be included in your estate for Inheritance Tax purposes, whereas it is normally exempt in a pension.

Your adviser will be able to recommend what is right for you.

### 1. Get a guaranteed income for life (an annuity)

Annuities are offered by insurance companies – you give them your pension savings and they pay you a guaranteed income in return. This is usually paid for life, although you can also buy fixed-term annuities. Some pay an income that remains the same, while others pay an increasing income (perhaps rising in line with inflation each year). The income is subject to Income Tax at your highest rate, just like any other earnings. The income is taxed as earnings.

The income they pay depends on different factors at the time of purchase and you normally cannot change your mind.

It's therefore important to take advice before making any decision.

### 2. Get a flexible retirement income (also known as flexi-access or income drawdown)

This allows you to take an income from your pension, while the rest of your savings remain invested. You decide the level of income to take and when to take it, which can be changed at any time, to meet your needs. This is a big advantage of drawdown. However, you need to be careful you don't take too much too soon, as the longer you live, the more risk there is that your savings could run out before you die. The income you take is subject to Income Tax at your highest rate like any other earnings. The income you take is taxable as earnings.

As your remaining pension stays invested, investment risk should also be considered and will depend on the funds you hold. Your adviser's help will be invaluable in planning a sustainable level of income, as well as recommending a suitable mix of investments for your circumstances.

### 3. Take a number of lump sums (Uncrystallised funds pension lump sums -UFPLS)

This option allows you to take lump sums from your pension savings without moving into income drawdown. You can take income as and when you like, while the remainder of your pension stays invested. This may give your pension pot a chance to grow, but it could go down in value too. However, instead of taking a 25% tax-free lump sum at outset, 25% of each withdrawal you make is tax free and the rest will be taxed as earnings. The tax implications of withdrawing money in this way can be significant and the more money you take out each time the less money is left to provide future income. Your adviser can provide more information.

### 4. Mix and match

The new rules allow you to use your savings as you wish, which means you don't have to choose just one option. So, you could, for example:

- Withdraw some as tax free cash
- Use some to get a guaranteed income for life from an annuity
- Use the remainder to take flexible retirement income through drawdown.

You may also choose to leave your pension as it is and take income from other savings first. In this way, you can ensure that you keep your pension, which is generally the most tax efficient way of saving, sheltered from the tax man for as long as possible.

As you can see, the pension rules offer you plenty of options, but this may mean you're not quite sure what to do. Don't forget, your 2plan adviser can recommend the best approach for your particular needs and circumstances. You've probably spent your whole career building up a pension pot, so taking good advice on how to use it is money well spent.

*The value of investments and the income from them can go down as well as up so you may get back less than you invest. Withdrawals from a pension product will not be possible until you reach age 55. Tax treatment depends on individual circumstances and all tax rules may change in the future. This information is not a personal recommendation for any particular investment.*

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*By Lesley Davidson, Associate Director – FundsNetwork Strategic Accounts*

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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