

ESSENTIALLY WEALTH

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THE EU REFERENDUM
Challenges in a post-Brexit world

INCOME NEEDS
Planning for a sustainable retirement

FINANCIAL DECISIONS
Who makes them in your house?

LIFETIME ISA

Just the job for the
self-employed?

**HAVE YOU REACHED
YOUR PEAK?**

Reaching your peak
earnings potential

**BANK OF MUM
AND DAD**

Set for a lending spree

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ACTION POINTS

- Keep calm
- Avoid knee-jerk investment reactions
- Talk to your adviser
- Focus on longer-term investment horizon, if suitable for your circumstances
- Diversify your assets

CHALLENGES IN A POST-BREXIT WORLD

The vote to exit the EU came as a shock to many, including the City which was clearly expecting a Remain vote. Many have been left contemplating what the future holds and how markets will react, especially considering that the formal negotiations to leave the EU are likely to be lengthy.

Commentators have suggested that growth is expected to slow in the short term, and as a result of the decline in sterling, inflation could be set to jump. The Bank of England has offered emergency

liquidity and interest rates may well be set to fall even further.

On a more positive note, sterling’s decline may act as a stimulus and encourage export trade as goods priced in pounds become more affordable to foreign purchasers. The Chancellor will be reviewing and reducing Corporation Tax rates in a positive move designed to signal that the UK is still open for business.

Market volatility set to continue

It’s likely that the UK market will continue to exhibit a high degree of volatility as events unfold and the terms of departure become clear. Whilst the risks surrounding Brexit can seem immense, many commentators

have said that although the UK’s departure from the EU has had a destabilising effect, they do not see it fundamentally affecting global economic recovery over the longer-term.

Diversify and review

Against this backdrop of uncertainty it’s natural for investors to feel apprehensive. When markets rise and fall on a daily basis, it’s important to maintain a longer-term focus. To counter some of these economic uncertainties, diversification of assets is key to ensuring that you are not overly exposed to one share, sector or market. In addition, regularly reviewing your portfolio and circumstances with your adviser makes good financial sense, especially in challenging markets.

IT’S LIKELY THAT THE UK MARKET WILL CONTINUE TO EXHIBIT A HIGH DEGREE OF VOLATILITY AS EVENTS UNFOLD AND PEOPLE BEGIN TO DIGEST THE TERMS OF DEPARTURE FOLLOWING THE INVOKING OF ARTICLE 50

The value of investments and pensions and the income they produce can fall as well as rise. You may get back less than you invested.

HOW ARE FINANCIAL DECISIONS MADE IN YOUR HOUSEHOLD?

Whilst many more couples now share the household chores, it's increasingly women who make the financial decisions for the household, such as choice of utility company or savings account. Survey results from market researcher Mintel¹ show that 84% of mums surveyed say they have influence when it comes to taking financial decisions on behalf of their family.

Women, the research found, know that they need to do their homework before taking any major financial decision, and are prepared to do their research thoroughly. Once they know more, they will instigate the decision-making process with their partner as a joint endeavour.

Retirement and pensions

By contrast, when it comes to retirement planning, evidence from an attitudinal survey carried out by the Department for Work and Pensions² shows that couples perceive pensions as being an individual rather than a joint financial decision.

A report by Scottish Widows³ shows that women are still lagging behind their male counterparts when it comes to making provision for their old age. Although there is evidence that women in their 20s are beginning to think more seriously about pensions, by their 30s, just 31% of women think they are saving enough for retirement, compared to 48% of men. Researchers see this as being due in part to the gender pay gap that still exists in many quarters, coupled with the high childcare costs often shouldered by women.

When Andy Haldane, the Bank of England's Chief Economist, said recently that he found pensions impossible to understand he was, it seems, speaking on behalf of many. In the Scottish Widows survey, 71% of women admitted that they didn't know how much they needed to save for retirement, compared with 52% of men.

¹Mintel, Mum's both queen and king of the household as she leads purchasing decisions across all categories, 2016

²Department for Work and Pensions, Household financial decision making, 2012

³Scottish Widows, Women and Retirement Report, 2015



If you're making plans for your financial future and would like some straightforward savings or pensions advice, then please get in touch.

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AUTO ENROLMENT UPDATE

In a bid to make the prospect of workplace pensions more enticing, you may have noticed a purple monster called Workie popping up on your TV screen. He has been deployed to raise awareness and engage the public with workplace pensions.

While automatic enrolment has been rolling out across the UK since 2012, it is only now that 1.8 million small and micro employers are being required to take action to help their staff to save for later life.

Over 95% of the first small and medium-sized businesses who were required to enrol into a workplace pension scheme have now done so. By some measures, automatic enrolment has been a success. By March this year, 6.1 million people had been auto-enrolled into a pension and 110,000 employers had registered their compliance. With 10% of those enrolled choosing to opt-out, affordability remains the top reason for people choosing to opt out, which could prove a problem when employee contributions rise in 2018 and again in 2019.

Transitional period extended

In the Autumn Statement the Chancellor announced a six month delay in the next two phases of auto enrolment rate rises, to simplify administration for smaller employees and bring them in line with the tax years. The contribution rise on the company side will now come into force in April 2018 (to 2%) and 2019 (to 3%), instead of October 2017 and 2018.

If you are an employer then the legal obligation to meet these duties rests with you. With time running out speak to your adviser who can help you examine your needs and implement a suitable solution.

MISTAKES TO AVOID WHEN PLANNING YOUR PENSION

How often do you pause to think about your pension plan? Are you saving enough for a comfortable retirement, or will your standard of living fall? Are you missing out on valuable tax relief on pension contributions? These are mistakes you should avoid at all costs.

Thinking you'll get by on your state pension

Although the basic state pension has increased to £155.65, not everyone will get this amount as it will depend on their contribution record. Getting a pension forecast from gov.uk will show you what you are likely to receive. The state retirement age is set to increase too, so if you were born after 6 April 1978 you won't be entitled to receive your state pension until you're 68 years old. You don't have to be a maths genius to see that the basic state pension won't amount to much more than £8,000 a year, falling well short of the UK average wage of £27,600.

Not joining a workplace scheme

By 2018, all UK companies will be required by law to offer a pension scheme. Joining is simple and means you will have an additional source of income in retirement. Employers pay into the scheme on behalf of their staff, provided they don't opt out, and employees receive tax relief on their contributions.

Believing you can just keep working

Many people put off making proper plans on the basis that they'll never give up work. This is a dangerous assumption. Physically, we all age at different rates and you may not feel fit enough to continue into old age.

Banking on a windfall

Whilst some people will receive money from their families, figures from the Prudential¹ indicate that just 28% of people retiring this year believe they will have money spare to leave to loved ones on their death. With life expectancy steadily increasing and the cost of care continuing to rise year on year, hoping for an inheritance from the older generation shouldn't be a substitute for proper pension planning.

Selling a business or property

Relying on your home or business to provide money when you want to retire poses a number of problems. Finding a buyer might prove difficult as markets can go up and down. If you plan to sell your home to raise funds, you will have to find a suitable property to live in, and there will be costs associated with the sale and purchase.

Pension planning can seem complicated, but taking professional advice and regularly reviewing the progress of your plan with your adviser can mean the difference between enduring and enjoying your retirement years.

¹Prudential, 2016



INCOME NEEDS IN RETIREMENT

Retirement presents a series of opportunities and challenges; a primary concern for many people is ensuring they don't run out of money. A sustainable, well-structured retirement income strategy is therefore desirable for any retiree.

To enjoy a comfortable old age means doing some in-depth thinking well in advance, asking yourself what your goals are and how much money you want to have at your disposal. Other prime considerations should be - will I be able to maintain my lifestyle? Do I want to leave an inheritance? How might my financial circumstances change? Will I run the risk of outliving my retirement pot?

So how should you approach creating a robust financial plan?

A hierarchy for retirement income

Many people find it helpful to think in terms of Maslow's famous Hierarchy of Needs. His pyramid contained different levels of need that human motivations move through, starting with the physical requirements for human survival and ending with mankind's highest aspirations. Using this hierarchical approach in a personal finance context was pioneered by money guru Mitch Anthony, who employs it as a useful aid in deciding how to plan your income in retirement.



Survival Income

At the base of the pyramid, survival income comprises the income you need to pay all your basic day to day household expenses. It involves drawing up a budget to cover your regular bills and running costs.

Safety Income

The next layer up, safety income is the amount you might need to meet life's unexpected events. This could include health and later-life care costs and any emergency financial help you might want to give your family.

Freedom Income

This layer involves assessing the likely cost of doing all those things that you maybe never had time to do prior to retirement. This would include holidays, major purchases or other indulgences.

The pinnacle of the pyramid

Many people add a gift layer representing money they want to pass onto children and grandchildren during their lifetime. Some add a dream layer, their ultimate 'bucket list', to the very top.

By viewing your finances in this way, you can gain a clear picture of how much you need to have saved by the time you reach retirement.

By working with your adviser, you can decide how much income you would like to meet your needs for various stages of your life, taking into account your personal and financial circumstances, lifestyle goals, attitude to risk and capacity for loss. Your adviser will be able to recommend the right mix of assets to help you achieve your goals.

TO ENJOY A COMFORTABLE OLD AGE MEANS DOING SOME IN-DEPTH THINKING WELL IN ADVANCE, ASKING YOURSELF WHAT YOUR GOALS ARE AND HOW MUCH MONEY YOU WANT TO HAVE AT YOUR DISPOSAL.

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PENSION FREEDOM

– WHAT A DIFFERENCE A YEAR MAKES



ACTION POINTS

There is more choice than ever before...

- Give careful consideration to your requirements and income needs in retirement
- Think about the time scale
- Plan wisely as early as possible
- Consider all of the options
- Take advice

It's over a year since the Chancellor's pension revolution began. There's now more choice available than ever before to those approaching retirement and this brings with it the added responsibility of planning wisely to ensure that funds are available throughout later years.

Whilst there had been concerns that people would raid their pension pots and blow the lot on fast cars and luxury holidays, good sense prevailed, not least because of the massive tax bill that would have resulted had they done so. Those who have accessed their pension pots

have used some of their money to pay off debts, make home improvements, or pass on funds to the next generation to pay for education or a deposit on a home.

The role of annuities

There was much media attention focused on the fact that under the changes no-one would be forced to buy an annuity. Sales of annuities fell initially, but have picked up latterly as the volatility of stock markets convinced some retirees that the certainty of income an annuity provides can be a good way to cover basic living costs.

How the cash was taken

Not everyone opted for tax-free lump sums. One of the new methods of accessing cash from pension savings is called

uncrystallised funds pension lump sum (UFPLS). This was the choice of 34% of people, allowing them to access their money in instalments while leaving the rest of the fund invested and sheltered from tax. 40% used the drawdown facility to take an income.

The way ahead

In response to the changes, many more new products are coming onto the market, some combining income drawdown facilities with a type of annuity contract to give a balance between access to funds and a degree of financial certainty.

Tax treatment varies according to individual circumstances and is subject to change.

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THE VALUE OF ADVICE – ONLY 36% OF SAVERS WITH A £250K POT TAKE IT!

According to research from investment company Franklin Templeton¹, only 36% of people with more than £250,000 saved for their retirement, select to take advice from a financial adviser.

In the survey of over 2,000 UK adults, more than a quarter do not have a retirement income plan and 70% of those say that it is informal and primarily exists in their head.

With such a significant number of those approaching retirement having little or no plan in place, UK Country Head at Franklin Templeton, Ian Wilkins commented, *“These findings are concerning on a number of levels, but most worrying is the fact that so few people have given any considered thought to a retirement plan.”*

“While most people undoubtedly put time and effort into seeking advice and a clear plan over their mortgage or insurance arrangements, it seems that retirement planning is falling by the wayside for a disturbingly large number of people.”

¹Franklin Templeton, 2016

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EMERGING MARKETS AND FRONTIER MARKETS – I’VE HEARD THE TERMINOLOGY BUT WHAT DOES IT MEAN?

Amongst the myriad of terms used in the world of investment are some geographic references for certain investible areas. Whilst there’s no universally-agreed definition as to what constitutes an emerging or frontier market, there are some generally-accepted views.

An emerging market describes a country whose economy is developing, which economists and fund managers expect to achieve higher investment returns, but at a greater risk. This will include countries that may become developed markets. The four largest are commonly referred to as the BRIC

countries (Brazil, Russia, India and China). The next five are often considered to be Mexico, Turkey, South Korea, Indonesia and Saudi Arabia. Iran is also included in this category by some.

Frontier markets are countries that have less-developed economies than emerging markets but that are beginning to open up. Also referred to as pre-emerging markets, they are viewed as having future growth potential. Whilst these markets can produce potentially high returns, they are less-sophisticated economies, and come with a much higher degree of risk attached. Around 32 countries fall into this category, with Argentina, Croatia, Kenya, Bahrain, Vietnam and Pakistan featuring on the extensive list.

BANK OF MUM AND DAD SET FOR LENDING SPREE

Yet more evidence has emerged underlining the role played by the Bank of Mum and Dad in helping the younger generation move into the property market.

Recent research shows that in 2016, the Bank of Mum and Dad looks set to lend £5 billion. It will be instrumental in facilitating 25% of all the UK’s property purchases, providing deposits for over 300,000 mortgages on homes worth £77 billion. This prodigious amount of lending will rank the home-grown bank amongst the top ten UK mortgage lenders.

Gifts and loans for deposits

The survey, carried out by Legal & General¹, illustrates how unaffordable property has become for many first-time buyers. The amount provided by parents and grandparents averages £17,500, or around 7% of the average price of the property purchased.

Of these contributions, 18% are in the form of interest-free loans, 57% are outright gifts, with only 5% made as loans repayable with interest.

Not once but twice

Parental contribution doesn’t end with that first all-important step onto the housing ladder. Research from Lloyds Bank² estimates that almost one in five ‘second steppers’ need to receive a further cash injection from the Bank of Mum and Dad in order to move further up the housing ladder, this time needing around £22,000 in order to complete their purchase.

Pressure on young and old

In some quarters fears have been expressed that if prices continue to rise at the current rate, the Bank of Mum and Dad could face its own funding crisis. Whilst parents are eager to offer much-needed support, they need to ensure that they retain enough cash for their later years.

¹Legal & General, May 2016

²Lloyds, Second steppers still need ‘Bank of Mum and Dad’, October 2015



LISA – JUST THE JOB FOR THE SELF-EMPLOYED?

The new addition to the Individual Savings Account range (ISA), the Lifetime ISA (LISA) looks set to help millions of self-employed people make provision for their retirement when it launches in April 2017.

Research by insurer Royal London¹ refers to the UK's 4.4m self-employed business people as the 'Forgotten Army,' concluding that when it comes to pension provision, this group needs a substantial nudge to encourage them to save more.

The LISA could provide a welcome incentive for long-term savings. Designed to provide a deposit for a first home or to be held until age 60, it offers a valuable bonus incentive. It will be available to those aged 18 to 40 who want to save up to £4,000 each year. The government bonus means that for every £4 saved, the government will add a further £1, meaning that anyone contributing the maximum will receive a further £1,000 at the end of the tax year.

A LISA can be held until age 60 (although bonuses are only paid up to the saver's 50th birthday). After 60, all money saved can be taken tax-free. Penalties will apply if the money is withdrawn before 60; the bonus will be forfeited and there will also be a 5% charge.

Whilst making regular contributions into a pension plan could ultimately represent a better, more tax-efficient way of providing for retirement, a LISA is a welcome addition to the savings range.

Tax treatment varies according to individual circumstances and is subject to change.

¹Royal London, Britain's "Forgotten Army", 2016

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HAVE YOU REACHED YOUR PEAK?

When will you reach your peak earning potential? Many people assume it will be towards the end of their careers, perhaps at some point in their 50s, giving them more time to plan their finances before they approach their retirement years.

However, figures from the Office for National Statistics¹ show that in actual fact workers can expect to reach their peak earning powers between the ages of 40 and 49. From then on, incomes start to fall. This can come as a wake-up call to those who have yet to make adequate provision for their financial future.

Family protection is paramount

Most people in their 40s have a lot of calls on their time and money. It can be hard to cope with all the financial pressures of raising a growing family, like mortgages and the cost of education. That's why every family needs a back-up plan that includes an emergency cash fund, and adequate life insurance to cover the mortgage and protect their income.

When it comes to pension planning, it's worth bearing in mind that pension contributions attract valuable tax relief, and due to the beneficial effect of compound interest and reinvestment of dividends, even small sums saved now can make a difference to the level of pension you will enjoy when you retire.

Working with your adviser you can make the most of your earnings, whatever your age, and ensure you have the right plans in place to protect your future.

Tax treatment varies according to individual circumstances and is subject to change.

¹Office for National Statistics, 2014



It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.