INSIGHT

ISSUE 19

A WEALTH OF ADVICE

THE TIME TO OVERCOME

Chartered Financial Planners

PREPARING FOR YOUR YEAR-END PLANNING - WHY THIS YEAR IS SO IMPORTANT

SAVINGS VERSUS INVESTING - THE CONUNDRUM

DOES FINANCIAL ADVICE MAKE A DIFFERENCE?

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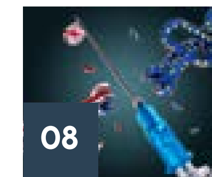

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WELCOME

Welcome to our latest issue of Insight. We hope you, your families and your loved ones continue to remain safe and well. At this time of the year we not only have to grapple with the flu season but also the new strain of the Covid virus. As a result we continue to remain in lockdown with The Government trying to balance restrictions with protecting the economy.

At Armstrong Watson we continue to work as effectively as we can to support our clients. At the time of writing all our offices remain open with strict social distancing measures in place but we can also support all our clients remotely by phone or video if you prefer. Our list of articles in this issue include:

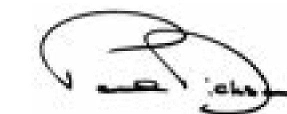
This health crisis has hit investment markets hard in the early part of the year but they have recovered, and, with a Brexit Trade Deal UK stocks are recovering as a result. Richard Cole, Future Money's fund manager discusses how economies and markets are faring in to 2021.

As we move to the end of the tax year it has probably never been so important to take advantage of the tax reliefs and allowances that are currently available. The Chancellor may have to find ways of paying for the unprecedented support given and there has been lots of media speculation as to what might happen in the March Budget.

The importance of reviewing financial plans resulted in our clients changing their protection plans to include critical illness. This meant that, when the worst happened, they were able to make a claim, therefore taking the pressure off them financially to just concentrate on their health. Protection is often overlooked but it forms the foundation of any financial plan.

The self-employed sector can often be overlooked by many. Over the course of the pandemic this group may have seen their incomes drop significantly during the various lockdowns. However, we must remember that we will come out this. Many self-employed people don't think enough about their retirement. Saving in to pensions is crucial to help them ultimately achieve the retirement they are aiming for.

We hope you enjoy this issue of our magazine. If you would prefer to download a digital copy or subscribe to new issues electronically, please visit www.armstrongwatson.co.uk



PAUL DICKSON

CHIEF EXECUTIVE AND MANAGING DIRECTOR ARMSTRONG WATSON

PREPARING FOR YOUR YEAR-END PLANNING

– WHY THIS YEAR HAS BECOME SO IMPORTANT?

As 5 April creeps closer, now is always a good time to try and get ahead with your year-end tax planning.

Of course with the Autumn Budget having been abandoned for a second successive year and now rescheduled for 3rd March, planning sooner rather than later might be more crucial than ever as several areas of tax and allowances may come under some scrutiny following various Treasury-commissioned reviews.

Broad tax increases are unlikely while economic conditions are still fragile, but more targeted measures could be a possibility. There has been wide speculation that money has to be raised to help pay for the recent unprecedented borrowing. With that in mind, your year-end planning checklist would be well advised to include the following.

Pensions

Tax relief is coming under increasing pressure. A flat rate of tax relief for all pension contributions has long been argued over which, if adopted, would affect those in the higher tax band and above. Check if you have any unused pension annual allowance from 2017/18, when the maximum annual allowance (before tapering) was £40,000. You have until the end of the current tax year to mop up this past allowance or lose it completely. However, it can only be used up to the level of available net relevant earnings and once you have exhausted your 2020/21 annual allowance, which may be higher than in previous years because of changes introduced in the March 2020 Budget.

You can go on to pick up more unused relief from the years after 2017/18, although you can also only do this if you have used up your current year's allowance. Unsurprisingly, the calculations can quickly become complex, so getting advice is crucial if maximising "today's" pension tax relief is important to you.

> IT MIGHT BE WORTH TRYING TO ESTIMATE YOUR INCOME FOR THE FULL TAX YEAR TO 5 APRIL 2021, BECAUSE IT COULD POINT TO TAX-SAVING OPPORTUNITIES.

Capital gains tax

Capital gains tax (CGT) could be subject to some changes. In July 2020 the Chancellor asked the Office of Tax Simplification (OTS) to undertake a broad review of CGT. The first report from the OTS emerged in November and rather than make specific recommendations, the OTS offers several alternative suggestions, leaving it up to the government to decide which meets its priorities and some could feed into Budget proposals to reform the tax.

One OTS proposal put to the Chancellor is a reversion to the regime which existed until 2008. Back then, CGT was levied at full income tax rates, which would now mean rates of up to 45% rather than the current maximum of 20% (28% for non-exempt residential property and carried interest). The OTS report suggested the CGT annual exempt amount should be reduced from the current £12,300 to a nominal figure. Obviously it remains unknown what changes, if any, the Chancellor will make, all we do know for certain is that these matters are currently under consideration.

PAUL MOODY

FINANCIAL PLANNING CONSULTANT - PENRITH

Inheritance tax

A separate OTS simplification review has been considering the area of inheritance tax (IHT). It was not in the March 2020 Budget, but a few experts think this has been left on a shelf gathering dust. Some reliefs and exemptions could be under threat, such as those that apply to business assets and large regular gifts out of income. Currently you have a £3,000 annual gift exemption, individual gifts of up to £250 and regular gifts out of disposable income and also the ability to make any larger lifetime gifts.

Income planning

Your income may have dropped this tax year because of reduced earnings during the Covid-19 pandemic, falling dividends or minuscule interest rates. So it might be worth trying to estimate your income for the full tax year to 5 April 2021, because it could point to tax-saving opportunities.

For example, if your income is above £50,000 and you have or live with someone with children, you could be subject to the High Income Child Benefit Charge. Bringing your taxable income down – by making a pension contribution or charitable gift for example – could reduce or even eliminate that charge. There are similar opportunities above the £100,000 threshold when the phasing out of the personal allowance begins.

If you are considering advice around retirement, investing or even inheritance tax planning, now might be a good time to do so, whilst all existing reliefs and allowances remain available for those who are in a position to take action.

SAVINGS VERSUS INVESTING THE CONUNDRUM

Retaining an appropriate level of deposit based funds is a key ingredient to any robust personal financial plan, whether you are working or retired. The level of cash to provide the required level of comfort can vary significantly depending your circumstances and preferences. We would usually suggest 3-6 months of regular expenditure be held as a cash reserve, but this figure needs to be sufficient to cover any planned expenditure plus unplanned or emergency expenditure. For some it may be £10,000, for others £50,000 or more. This will then provide a sense of comfort without the need to disturb longer term investments.

A reason for the distinction made between cash reserves and longer term invested funds is the assumption that cash will not keep pace with inflation, whereas one would usually expect longer term invested monies to at least keep pace with inflation whilst also of course introducing some risk to capital invested. Monies retained in a deposit environment will usually fall in value in respect of its buying power, so the compromise is accepting this "loss", to ensure immediate access to funds. Getting this balance right; between funds held in savings and funds invested is important so that we do not inadvertently have too high a proportion of our wealth falling in value in real terms.

If we consider the rate of inflation for the 10 years to 2019, (source: CPI Bank of England (BOE) inflation calculator). To have the same buying power in 2019, £1,000 held, would need to have grown to £1,351 or 3.1% pa from 2009. The average return of a balanced managed investment fund over the time period was 6.3% pa (Source: Trustnet – AFI balanced sector 2009-2019). The BOE inflation target is currently 2% pa but in the last 12 months the rate has been well below this level. The BOE base rate is now only 0.1% and we have seen savings rates plummet within the last year to such a level that a recent article in the Daily Mail referenced that saving via cash ISA's in the UK's biggest banks would have paid savers as little as £38p on a £1,000 balance.

The higher the interest rate earned, the lower the level of inflationary "loss" and for the last couple of years it has though been possible to get a close to market leading rate with 100% Financial Services Compensation Scheme (FSCS) protection through National Savings & Investment (NS&I) including for example income Bonds which, until November 2020, paid 1.16%pa. This relatively "high" rate saw a huge influx of funds into NS&I, especially from March 2020 when the Bank of England base rate dropped to 0.1% and world stock markets fell significantly. In September alone £5bn of retail funds flowed in.

However this NS&I rates were slashed on 24th November 2020, the same income Bonds are now earning just 0.01%. Research by AJ Bell in December 2020 showed that of 500 NS&I customers approached, 31.7% were unaware of the rate cut with many savers unaware of the personal impact to them of this change. On a balance of £100,000 the previous rate would have provided a gross interest return of £1,160 pa compared to the new return of £10 pa so the impact is substantial.

It is clearly now more difficult than ever to generate any sort of meaningful return from deposit based savings. This does not though mean we should not hold funds in savings indeed it is important that we do, however, we should be clear about the compromise being undertaken – a guaranteed loss of buying power to retain access to and control of funds versus holding the right proportion of our wealth in savings. Placing funds on deposit is not a substitute for investing and what can be critical to ensuring personal goals are met is selecting the right balance between saving and investing.

There has even been speculation recently that there could be a further BOE base rate cut and the potential for negative interest rates. Recent research published by Aegon suggests that if this were to occur 42% of those surveyed would use it as an impetus to invest. Investing can include of course, making contributions to pensions which provide the immediate benefit of tax relief. The net cost, for example, to a basic rate tax payer of making a £10,000 pension contribution is £8,000 and for a Higher Rate Taxpayer the net cost would be only £6,000.

Therefore whether interest rates simply remain very low or could go negative, there are clear factors in play which appear to encourage savers to consider committing further funds to investments. One key factor of course which can put people off investing rather than saving is the potential of loss of capital, especially in the face of significant world events e.g. the 2009 Banking Crisis and the Covid-19 Pandemic. The short term effects of the current pandemic on investment markets was indeed significant. Using the same AFI balanced sector referenced earlier, and over the last 12 months, returns fell by around 20% to the middle of March 2020 but have since recovered strongly, such that the full 12 month period has shown a positive return of 7.1%. (6.3% pa average over the last 10 years). Clearly before any decision to invest is taken, full consideration of attitude to risk, capacity for, and tolerance to loss, needs to be undertaken, as does investment experience, objectives and timeframe.

DAVID SQUIRE

JOINT MANAGING DIRECTOR AWFP

At Armstrong Watson we work with you to construct a robust plan with a sound financial base to cover emergencies and help plan for the future. With our ongoing review service we will regularly review these plans so they remain on track.

THE TIME TO OVERCOME

> 2021 IS LIKELY TO BE REMEMBERED AS THE TIME OF COVID, BUT WITH A LITTLE LUCK AND SUCCESS IN VACCINATIONS, IT WILL INSTEAD BE REMEMBERED AS THE TIME WE OVERCAME.

2020 was a year dominated by Brexit, the US election, and of course, Covid-19. The former two may now be fading as market moving events but attention on the coronavirus looks set to persist.

Resetting the Relationship

Following a dramatic negotiation period, the UK and EU have signed a free trade deal. With the services sector not included and with greater red tape surrounding the movement of goods, economic activity with our largest trading partner will be impacted. Yet the threat of widespread disruption appears behind us as a no-deal departure has been avoided. Following five years of investors worrying over the extent of bridge burning, there is now room for confidence to rebuild in UK investments. As the deal emerged in late December 2020, markets rewarded UK focused assets, looking forward to a time where tense talks and brinkmanship no longer fill the front pages.

A Blue Wave

2021 also looks to be the year when a page can be turned on US politics. After securing the presidency and the House of Representatives in November, Joe Biden's Democratic Party also managed to take control of the US Senate in January's Georgia run-off vote. As President, Joe Biden is expected to take the US back towards its leadership role in international affairs and is likely to do so in a calmer tone than his predecessor. This in itself is likely to be welcomed by global markets over the coming years, but in the shorter term too there are expected to be benefits of the "blue wave" that swept the Democrats to power. By gaining control of Congress, Biden has removed a roadblock to his domestic agenda, paving the way for an acceleration in fiscal stimulus, which should boost both the US and the global economy.

Two Down, One to Go

Conclusions to two of the three dominant stories facing markets can now be drawn, but with the coronavirus still ransacking global confidence this particular battle is not yet over. In the short term economic conditions will remain extremely difficult for both individuals and for businesses, with lockdown restrictions still required to suppress transmission. To ignore the current challenges would therefore be inappropriate. However, with vaccination programmes ramping up rapidly, the case is strong for the reopening of society later this year and the subsequent economic recovery this should bring.

Hope for the Future

Despite challenges from Brexit and the US elections, last year will be primarily thought of as the time of the Covid-19 pandemic. With case numbers still high, over the coming months stock markets and the global economy will continue to be bound to the path of the virus. Like 2020 therefore, 2021 is also likely to be remembered as the time of Covid, but with a little luck and success in vaccinations, it will instead be remembered as the time we overcame.

Look out for regular updates on economies and investment markets on the AW website and on their YouTube channel.

Important Information

Please note that the contents are based on the author's opinion and are not intended as investment advice.

Any research is for information only, does not constitute financial advice or necessarily reflect the views of the author and is subject to change.

Past performance is not a reliable indicator of future performance. The value of investments and the income derived from them can fall as well as rise and investors may get back less than they invested.

RICHARD COLE CFA

FUND MANAGER, FUTURE MONEY ASSET MANAGER

> WITH VACCINATION PROGRAMMES RAMPING UP RAPIDLY, THE CASE IS STRONG FOR THE REOPENING OF SOCIETY LATER THIS YEAR AND THE SUBSEQUENT ECONOMIC RECOVERY THIS SHOULD BRING.

CAN YOU AFFORD TO RETIRE IF YOU'RE SELF-EMPLOYED?

New research shows the majority of the self-employed are not saving for retirement.

Just 16% of Britain's self-employed workers are saving into a pension, according Institute for Fiscal Studies (IFS), a marked decline on the 48% recorded in 1998. This equates to more than 3.5m people of working age who are not putting money aside into a private pension.

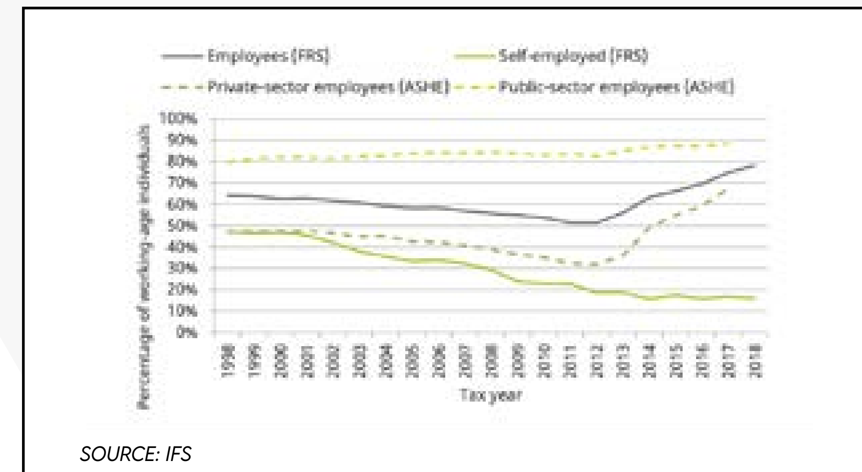
The proportion of self-employed workers contributing to a private pension has been steadily declining since the 1990s. The self-employed are not directly affected by automatic enrolment and by definition they have no employer who can enrol them into a pension scheme by default. This is in contrast to private-sector employees, for whom the rate of pension participation has dramatically increased as a result of automatic enrolment.

Some of the findings in the report found:

- In 1998, 48% of the self-employed contributed to a private pension, and by 2018 this had declined to just 16%.
- This decline in pension participation of the self-employed has taken place at the same time as the population of workers who are self-employed has grown. The number of self-employed workers rose from 3.4 million (12.9% of the workforce) in 1998 to 4.8 million (15.1% of the workforce) in 2017.
- Affordability remains the main reason most give for not saving in a pension. with a lack of trust in pension firms and not understanding how pensions work also common reasons. In contrast, automatic enrolment, rolled out in 2012, has increased the number of employees saving into a pension, with nearly 80% of working-age employees contributing to a scheme in 2018.

All this adds up to an education gap when it comes to the importance of pensions for the self-employed.

Saving for retirement is tougher when you are self-employed, as there is no one to organise a pension for you and no employer making contributions on your behalf. On top of that, self-employed workers often don't have a regular income, so many will focus on setting aside money as a safety net if they cannot work. You also could be just starting out your new business venture and building it up is the biggest priority.



SOURCE: IFS

Saving for a pension is still important, as no one wants to work forever. And no matter what your employment status, having money to fund your retirement is essential, as the State Pension, currently £9110 per annum, is unlikely to be enough to fund a comfortable retirement.

If you leave an employer and become self-employed, you should continue to pay in to your workplace pension if possible. Some workplace pension schemes allow you to carry on saving once you have left your employer and become self-employed.

Running your own business will be a busy time, and you will be feeling the financial pressures from all directions, especially at this time during this health crisis, so it's understandable that a pension might not be on your immediate radar. However, there are potential tax benefits to making pension contributions.

However, as we look towards the Budget in March there could be changes to the pension relief given to pensions.

The government launched a consultation in July 2020 on a technical aspect of pension income tax relief, a move that could be a precursor to a broader reworking. A flat rate of tax relief for all pension contributions has long been argued over by a variety of stakeholders.

In the March 2020 Budget, the Chancellor actually added to the cost of pensions tax relief by relaxing the annual allowance rules. There is a now a distinct possibility that, in his next Budget, the Chancellor could try to claw some money back by reducing tax relief for higher and additional rate taxpayers.

This is in addition to other allowances and reliefs that could come under threat such as Inheritance Tax and Capital Gains Tax. What we do know, however, is that the country's finances and books are going to need rebalancing and that a 'wealth tax' is clearly something which is being seriously considered.

At Armstrong Watson our quest is to help our clients achieve prosperity, a secure future and peace of mind. Our guidance for anyone considering taking advice is that now would be a good time to do so, ahead of the forthcoming budget, whilst all existing reliefs and allowances remain available for those who are in a position to take action.

MARCUS DODDS

CHARTERED FINANCIAL PLANNING CONSULTANT - CARLISLE

SENIOR ARCHITECTURAL SYSTEMS (SAS)

'INNOVATIVE WINDOW, DOOR & CURTAIN WALL SYSTEMS THAT BRING BUILDINGS TO LIFE'

Based in Doncaster, we are the UK's largest privately owned fenestration systems company. Founded in 1991, the company supplies aluminium window, door and curtain wall systems to fabricators throughout the length and breadth of the UK.

Over the last 30 years, the company has grown from small beginnings to become a £40 million business, with 155 employees and branches in Doncaster, Newport and Livingston. This success is thanks to the company's innovative approach and one of the reasons why we won the Manufacturing Innovation category at the 2020 Made in Yorkshire awards.

Our aim is to revolutionise the UK fenestration industry and that's exactly what the company has done.

- SAS was the first to deliver outstanding customer service.
- The first to provide powder coating with a no quibble guarantee.
- The first to introduce a composite Aluminium/Timber range (Hybrid Systems).
- The first to patent an aluminium system with an innovative high insulation polyurethane foam thermal barrier (the PURe® range) giving exceptional thermal efficiency.
- And most of all the first to remove the uncertainty of the supply chain by providing a complete package – fenestration system and powder coating.

Senior's products are now supplied to over 400 fabricators in the UK who take the company's aluminium profiles and manufacture them to form stunning windows, doors and curtain walls. Wherever you go in the UK, you won't be far from one of Senior's building projects. Working closely with architects, main contractors and fabricators, Senior's systems have been installed in offices, schools, hospitals, shopping centres, apartment blocks and private homes nationwide.

Some of their most iconic projects include the Hilton Garden Hotel at Old Trafford, the Clydeside Distillery in Glasgow, New Walk Building in Leicester, the Marks & Spencer Eco Store at Ellesmere Port, Slough Ice Arena and the Horton Building at the University of Bradford.

The company has a major focus on sustainability and protecting the environment. Low maintenance products with extended life spans, maximum recyclability and outstanding thermal efficiency help to make the best use of the world's finite resources. All materials are responsibly sourced from reliable suppliers who have good environmental credentials, and wherever possible local UK suppliers are used to reduce transport miles. The company has also recently signed up to the Government's climate change agreement, committing to reduce energy usage by 8% every year until 2025.

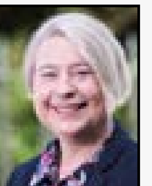
After a structured management buy-out in 2018, the company set out to improve the overall efficiency of the company. Outsourcing the payroll function to Armstrong Watson is the latest initiative to improve performance. This arrangement gives Senior a bespoke payroll input sheet, access to online payslips/ P60's, a full suite of management reports, a dedicated payroll contact and a flexible payment structure depending on number of employees.

As the transition period after leaving the EU comes to an end Senior are well placed to grasp the opportunities that this new era will bring. As a UK based privately owned company they are in the very fortunate position of manufacturing and testing all their fenestration systems in the UK. This gives the company a competitive advantage and with a strong and steady pipeline of new projects well into 2021, the company sees a bright future ahead.

"We looked at a number of providers and following feedback and review ratings decided to pursue the service Armstrong Watson could offer. Their flexible approach was exactly what we were looking for in a payroll provider. The implementation was smooth and executed professionally and in a timely manner, ensuring all our employees transitioned across with minimal impact." Damion Vozniak Sears, HR Manager.

We were approached as they were experiencing a number of processing errors from their existing payroll provider. Our Payroll Specialist worked closely with S.A.S during the onboarding process to ensure the smooth transfer of their payroll onto our bespoke software. We were able to identify some anomalies with auto enrolment and proposed a solution that S.A.S were able to implement to ensure ongoing compliance. Now they now receive a dedicated single point of contact administrator who liaises with them on a monthly basis. S.A.S were a pleasure to work with and they now enjoy an error free processing service.

KAREN THOMSON
PARTNER, HEAD OF PAYROLL & PEOPLE - CARLISLE



MATTHEW NICHOLLS
BUSINESS DEVELOPMENT MANAGER, PAYROLL - CARLISLE

WHEN I'M 66 –

STATE PENSION AGE LATEST MILESTONE

The latest phasing of State Pension Age (SPA) increase is now finished.

On 6 October 2020, the SPA reached 66. Unless current legislation is changed, it will remain there until 6 April 2026, at which point the next increase, to age 67, starts to be phased in over the following two years. Thereafter the move to 68 is less certain.

Over two years ago the Department for Work and Pensions (DWP) announced that the phasing to 68 would start in April 2037 and again run for two years. However, at the time the DWP avoided introducing any legislation, saying that it would undertake a review of the latest life expectancy projections before acting. Since then the Secretary of State at the DWP has changed three times, but there has been no news of a review. Meanwhile the rise in life expectancy has slowed dramatically, suggesting that the step up to 68 may be delayed.

The arrival of an SPA of 66 prompted the Institute for Fiscal Studies (IFS) to publish a briefing note examining the impact of the SPA changes to date. These started with the controversial stepped increase in women's SPA from 60 to 65 between April 2010 and November 2018. With the help of DWP data, the IFS showed that each year's increase in women's SPA produced a corresponding increase in the proportion of women remaining in work.

For example, the employment rate of 65-year-old women jumped from 21% in the third quarter of 2018 to 35% in the second quarter of 2020 as they were no longer able to claim a state pension. For 65-year-old men, there was also a sharp rise over the same period, from 34% in the third quarter of 2018 to reach 45% in the second quarter of 2020.

How much is enough in retirement?

The Retirement Living Standards, based on independent research by Loughborough University, have been developed to help us to picture what kind of lifestyle we could have in retirement. It shows what retirement could look like at three different levels – Minimum, Moderate and Comfortable – and what goods and services would cost for each level.

This can be found at www.retirementlivingstandards.org.uk.

The research is eye-opening! A single person will need about £10,200 a year to achieve the minimum living standard, £20,200 a year for moderate, and £33,000 a year for comfortable lifestyle. For couples, it is £15,700, £29,100 and £47,500 respectively.

A 'minimum' lifestyle covers all your needs, with some left over for fun and social occasions. You could holiday in the UK, eat out about once a month and do some affordable leisure activities about twice a week.

A 'moderate' lifestyle provides more financial security and more flexibility. You could have one foreign holiday a year and eat out a few times a month. You'd have the opportunity to do more of the things you want to do.

Around half of employees are projected to have an income between minimum and moderate.

A 'comfortable' lifestyle allows you to be more spontaneous with your money. You could have a subscription to a streaming service, regular beauty treatments and two foreign holidays a year.

About one in six employees are projected to have an income between moderate and comfortable.

As the IFS says, "With the new state pension worth £175 per week, having to wait longer to claim a new state pension significantly reduces the incomes of most people affected by this reform." Food for thought (and reason for reviewing your private pension provision) if your retirement planning still revolves around age 65...

At Armstrong Watson Financial Planning & Wealth Management, we work with you to build your retirement plans and regularly review these so you know if you will remain on track. We can use cashflow forecasting to allow you to understand your plan more easily so you can make informed decisions.

CHRIS HILL
CHARTERED FINANCIAL PLANNING CONSULTANT - KENDAL

> **AROUND HALF OF EMPLOYEES ARE PROJECTED TO HAVE AN INCOME BETWEEN MINIMUM AND MODERATE.**

DOES FINANCIAL ADVICE MAKE A DIFFERENCE?

Background

Our clients, a husband and wife, operate a successful business and are the sole directors of the business using Armstrong Watson accounting services. They were initially introduced to our Financial Planning Consultant to explore the benefit of each of them making employer based pension contributions. In our first meeting with the clients it was identified that the business relied significantly on the direct input and involvement of our clients and to replace them would potentially mean hiring at least four or possibly more staff. Their personal financial position was also obviously intrinsically linked to the fortunes of the business.

An Initial Financial Planning Review Undertaken "With our Compliments"

Whilst not initially wishing to discuss their protection position in great detail, they were happy to disclose that they had recently applied for a level of life cover via a local mortgage broker. We suggested that we explored this further to ensure the arrangements were appropriate to their circumstances and upon further investigation identified the current arrangement had not been placed in trust, it was important for this to be the case and the level and term of the cover was also inappropriate. In addition whilst they had thought the advice was free, the paperwork indicated that upwards of £4,000 had been paid in commission to the person or business arranging the policy.

As a result, we recommended that the clients consider a more tailored protection plan and we discussed the different payment options available to them for taking advice and arranging such cover. They were unaware this type of advice could be paid for by a fee rather than paying for it out of their premiums over the term of the policy through commission. At Armstrong Watson we have the ability to work on a fixed fee basis rather than commission for protection advice which can help to reduce the monthly premiums over the term of the policy.

The clients were interested in exploring this further and also receive advice on the suitability, or otherwise, of their existing pension provision, and how best to place their intended contributions.

Our Solution

Following further research by our adviser, it was confirmed the existing protection cover in place would pay off the mortgage, however, on further investigation the policy also only covered one of the clients, not the other. In addition, following a thorough discussion around all aspects of their protection needs, they were also concerned about suffering a critical illness. Currently, they had no cover in place to protect them against this.

In their circumstances our adviser recommended the clients take out two plans, one of which would replace the existing plan they had in place. Due to their level of borrowing in total, £390,000 worth of life insurance was recommended, sufficient to repay their mortgage in the event either party should die prematurely, but also enough cover to financially compensate against the loss of income that would occur between the time of taking the cover, and their intended retirement as a company benefit. Both policies included critical illness cover, with the view that should either party be diagnosed with a critical illness, they would want to focus on their health and not the business. This would also of course likely impact on the longer term plans for the business.

Options for payment for the cover were discussed and provided to the clients, who ultimately decided to pay by way of a fee rather than commission, thereby saving themselves in excess of £18,000 in premiums over the lifetime of the two policies.

Both of the policies were also placed in Trust, so as to ensure that should anything happen to them both, the policies would not enter their estate, could be distributed in a timely manner and avoid any concerns from an Inheritance Tax perspective.

The Here and Now

11 months after their cover was accepted the clients contacted our adviser to inform us that one of them had been diagnosed with a form of cancer. The adviser instigated a claim on the policy, which required the client to give the insurer permission to speak with their GP and Consultant. With our advisers support, the claims process then progressed which ultimately led to the sum assured, as a result of the critical illness claim due to the cancer, being paid out to the clients within a matter of weeks.

We are proud at Armstrong Watson to be able to make such a tangible difference to our clients lives, even in such difficult circumstances. In this instance our advice we have been able to allow them to focus their minds on health, rather than financial matters. More so, whilst it is early days with regards to treatment, the client has thus far responded well to treatment and is optimistic about the future.

At Armstrong Watson our quest is to help our clients achieve prosperity, a secure future and peace of mind. We take this responsibility seriously and are proud of the service, guidance and advice we provide to our clients. Protection advice is often overlooked, however, we believe it is the foundation on which good financial planning is based. Our advisers are Chartered Independent Financial Advisers with access to the whole of the market to help identify the best solutions and providers to fit a client's circumstances. This also allows us the flexibility to work with clients on a fixed fee basis, should they prefer, for protection advice.

STUART SMITH
FINANCIAL PLANNING CONSULTANT - CARLISLE

USING PENSION FUNDS FOR YOUR FINANCIAL PLANS –

THE TRICK IS TO KNOW HOW TO USE THEM

It is now over five years since "pension freedoms" were introduced which make pension contributions much more flexible and tax efficient. As a result many farming families are now considering pensions, taking in to account their many benefits, as part of their wider financial planning. Below are three case studies which show some of the ways pensions can be used.

There is a lot of speculation at present as to what the Chancellor might do in coming months and years to repay the debt created by the COVID pandemic. It is possible that tax relief on contributions could be restricted to basic rate taxpayers, but there is no suggestion that the freedom to decide on the level of benefits withdrawn each year or the Inheritance Tax benefits will be withdrawn.

Example 1: A farming family would like to purchase more land to expand their business. They operate their business through a limited company. The company can make pension contributions on behalf of all four family members which are tax deductible in the company accounts. These pension funds can then be used to purchase land. There is a further tax saving on the rent charged by the pension fund to the company. The pension contributions can be maximised, with the use of 'carry forward' of unused tax relief from earlier years. The pension fund will then rent the purchased land to the company which produces a further tax saving.

Example 2: A 60 year old farmer has £100,000 in a pension fund and expects that some of his property may be sold for development in a few years' time. This will result in a large capital gain and he is worried about the rumoured increases in Capital Gains Tax (CGT) rates. In the meantime he needs finance for building improvements on the farm. Part of the development property could be sold to the pension scheme which can sell the property tax-free in the future. The sale to the pension fund is a disposal for CGT purposes, but the gain is calculated using the current value of the property and taxed at current rates of tax.

Example 3: The senior members of a farming family have got a potential Inheritance Tax problem and wish to pass money to their grandchildren, whose ages range from 2 to 14 years old. One way of achieving this is to pay up to £2,880 per year into a pension fund for each grandchild. This can be increased to £3,600 per year with tax relief, which should grow significantly by the time they draw their pensions. Where a person makes regular gifts out of surplus income, they are free of Inheritance Tax even when they exceed the normal £3,000 gift limit.

Here are some key actions to ensure you make the most of the money in your pension funds:

- Don't forget about the State Pension – make sure you have a forecast of the amount you might receive and when you can start drawing it.
- Do you know how much tax free lump sum you can draw from your pensions? This can all be taken as a single sum, or alternatively part of every withdrawal can be tax-free.
- If you are invested through a Workplace Pension, take the time to understand the fund into which your pension is invested, and ensure it is appropriate for your circumstances.
- Most pension funds can now be left Inheritance Tax free to your family. However, not all pension providers have updated the rules of their old policies so it is important to check.
- Update your 'expression of wishes' form. This should ensure that remaining pension funds pass to the desired person on your death.
- Ensure you keep a record of historic and current pension providers, and provide them with your current address and contact details.
- Be aware of how the treatment of your pension plans would be treated in the event of your passing - older policies pay out as cash while more up to date policies provide wider options.
- Some older Pensions may have guaranteed or 'safeguarded' benefits – this may mean it is better to draw a conventional pension.
- Ensure that the firm you are dealing with is listed on the FCA Register. This will protect you against scams and fraudsters, who have been particularly active in recent months.

The above examples and commentary, including the many benefits that pensions can provide, is for information purposes only. It is important, before any action is taken, to engage with a regulated financial adviser who will fully review your individual circumstances and objectives and provide advice personalised to your situation. Depending on your circumstances there may also be other forms of savings and investments that are more suitable to your needs and requirements.

MATTHEW SLESSOR
CHARTERED FINANCIAL PLANNING CONSULTANT - CARLISLE

Our Financial Planning Team is available to advise you in these challenging times on all financial matters

We can provide advice remotely via video, telephone or, of course, face to face where appropriate

Call 0808 144 5575 to be put through to a Financial Planning Consultant

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