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# Bulletin

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## The rewards of regular saving

*A regular savings plan is one of the most effective ways of building a nest-egg for the future.*

Saving regularly can be a painless way to accumulate funds, particularly if this money is taken automatically each pay day. Set aside £100 each month, and you will have squirrelled away £1,200 after one year, or £6,000 after five years. Trying to find a lump sum of this size to invest can prove more challenging, without a bonus, bequest or some other windfall.

Over longer periods of time, compound returns – or receiving investment returns on your investment returns – could significantly boost the value of your savings. The longer your money is invested, the bigger this effect could be.

**“** *With a regular investment plan you’re not trying to second-guess market movements.*

### Regular investments

Regular saving can also help smooth out the ups and downs of the stock market.

There is an old investment adage that it is time in the market, not timing the market, that makes investors' money. With a regular investment plan you're not trying to second-guess market movements, so you don't run the risk of missing days when stock markets rise significantly.

Of course, this also means you will keep investing through market downturns. But when markets fall, you will be buying shares, or units in a fund, at cheaper prices. You could benefit as and when markets bounce back. The technical term for this is 'pound-cost averaging'.

Please let us know if you would like to discuss your savings strategies.

✦ *The value of your investments, and the income from them, can go down as well as up and you may not get back the full amount you invested.*

*Past performance is not a reliable indicator of future performance.*

*Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.*

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## INVESTMENT

## Building assets through infrastructure funds

*Infrastructure funds are a less well-known type of investment but they can work to diversify your portfolio.*

Infrastructure funds offer investors the opportunity to put their money into funds for large physical assets, for example transport, energy, communications or commercial property.

These funds provide access to markets that are not closely linked to the values of most other bonds and shares, with fewer value fluctuations. They can also be attractive if you're looking to generate an income from your investments. Of course, like any investment, there is no guarantee that this income won't be reduced or disappear altogether in certain circumstances.



Individual investors have found it difficult to access infrastructure funds as direct investment into a power station or windfarm requires large capital sums. These funds have tended to be the preserve of professional investors, and large pension schemes.

In recent years a number of funds aimed at retail investors have been launched. Some are UK-focused funds, others have a global remit.

Some pension funds and multi-asset funds will also have exposure to infrastructure assets, and it is important to check the extent to which you might already be exposed to this sector. You should only invest in regulated funds provided by well-known investment providers.

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## RETIREMENT

## Planning for the 100-year life

*It may sound fanciful, but a 100-year lifespan is well within the bounds of probability. That could have profound implications for your retirement planning.*

While the average 70-year-old man now has a 4.1% chance of reaching his 100th birthday, an average 40-year-old woman has a 13.8% chance of becoming 100. Many more will reach over 90.

There are three big issues to look out for in planning a long retirement.

### Income in retirement

If you retire at 65, your pension income could need to last for 35 years. The only way to guarantee your income throughout life is to purchase an annuity. Today, a simple fixed annuity starting at age 65, with no increases, costs about £18.50 for every £1 of pension.

An alternative might be to take income withdrawals from your pension fund and other investments, although that would not provide a throughout-life guarantee.

### Inflation

Taking a fixed retirement income cannot be a realistic long-term option because of inflation. Over the last 35 years the pound has lost over two-thirds of its value as measured by the RPI.

An inflation-proofed annuity for a single person costing £100,000 at age 65 would currently provide only a little over £3,200 a year.

### Funding your retirement

The minimum level of pension contributions for auto enrolment will be 8% of band earnings from 6 April 2019. Yet pension experts consider this will be nowhere near enough to fund a comfortable retirement for most people.

There are plenty of suggestions for how much to save, but for a more accurate answer we can offer an individual calculation, based on your personal circumstances.

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## TAX

## The child benefit tax trap

*Around 1.4 million families now lose some or all of their child benefit because one of the parents earns over £50,000 a year.*

As soon as one partner earns over £50,000, child benefit is gradually withdrawn via a tax charge, and once earnings exceed £60,000 the whole benefit is lost.

The £50,000 threshold of the High Income Child Benefit Charge applies to each individual. The benefit is paid in full if both parents earn £45,000 (creating a joint income of £90,000). But as soon as one parent earns over £50,000 – even if the other does not work – they'll be hit by this charge. Parents can opt out of receiving child benefit but they should still register to receive national insurance credits if one partner is not working.

The tax charge can be reduced by increasing pension contributions to reduce taxable pay to below the relevant threshold in some cases. Remember though, money in a pension cannot be accessed until at least age 55.

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*Tax laws can change.*

*Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances.*

## TAX

## Ringing the changes of the new tax year

*The tax year 2018/19 ends on Friday 5 April, which means it is time to start planning for the new tax year and tie up the loose ends of the old one.*

Planning for the new tax year is now affected by the shift of the Budget schedule to autumn. The result is that changes announced in October, or in Scotland's December Budget, have now passed into legislation in time for the new tax year. So, what does 2019/20 hold in store?

**A higher personal allowance:** The first £12,500 of income for most people in the UK will be free of income tax.

**An increased higher rate threshold, outside Scotland:** The higher rate income tax threshold (the personal allowance + the basic rate band) will be £50,000 for England, Wales and Northern Ireland. The jump of nearly 8% could mean it is worth reviewing how married couples and civil partners own their investments to ensure income falls in the right hands. In Scotland, the threshold stays unchanged at £43,430.

**An increased national insurance contributions (NICs) upper threshold:** The UK-wide upper threshold for full rate NICs (12% for employees) will also increase by nearly 8% to £50,000 from 6 April, potentially clawing back some, or in Scotland, almost all of your income tax savings. However, the increase does offer more scope to potentially gain benefits from salary sacrifice arrangements for pension contributions.

**Personal pensions:** The lifetime allowance will rise by almost £25,000 to £1.055 million for 2019/20. The annual allowance and its associated taper limits remain unchanged. Check whether you have any unused allowance from 2015/16 to carry forward before 6 April arrives and the opportunity disappears.

**Employer pensions:** The minimum level of pension contributions for automatic enrolment increases from 6 April 2019. For employers, the minimum rate rises from 2% to 3% of 'band earnings' (£6,136–£50,000 in 2019/20), while employees must pay enough to bring the total up to 8%.

**Individual Savings Accounts (ISAs):** Only the Junior ISA investment limit will increase in 2019/20, and that by just £9 a month. It will be the third successive year the overall ISA limit has been fixed at £20,000, a reminder of the wisdom of contributing as much as you can each year (including 2018/19, if you have not already done so). The Help-to-Buy ISA will disappear for new investors (aged 16 upwards) from December 2019.

**Capital gains tax (CGT):** The CGT annual exempt amount increases to £12,000 in 2019/20. The exempt amount could result in a potential tax saving of up to £2,400 (£3,360 in the case of residential property). If you still have your 2018/19 exemption, combining the two with sales straddling the tax years could remove £23,700 of gains from tax. That might provide the funds to top up ISAs and pensions.

For more information on any of these changes please contact us now.

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## PENSIONS



## Self-employed pensions boost

*The Chancellor has abandoned plans to abolish class 2 national insurance contributions (NICs).*

Those registered as self-employed pay class 2 NICs if their profits are more than £6,365 a year in 2019/20. Then if profits exceed £8,632, they also have to pay class 4 NICs. Typically, these NICs are paid through the self-assessment system.

The planned abolition of class 2 NICs was proposed as a means of simplifying the tax system. But there were concerns it would push up pension costs for the self-employed, particularly those on lower incomes.

For 2019/20, the class 2 NIC is £3.00 a week. Class 4 NICs are 9% of their profits (between £8,632 and £50,000 for 2019/20) then 2% of profits above this level. Paying class 2 NICs gives the self-employed access to the new state pension, which is worth up to £168.60 a week in 2019/20 – depending on their NIC record.

But relying solely on the state pension in retirement isn't a sensible idea. It's important to make some private pension provision as well. You won't have the benefit of a workplace scheme or employer contributions – but that shouldn't stop you building up your own retirement savings.

Registered pensions are a really tax efficient way to boost your income later in life.

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*The personal pension lifetime allowance will rise to £1.055 million for 2019/20.*



## PROTECTION

## Just in case: protecting against income cuts

*You may assume you'll never need it, but if you experience redundancy or illness, you may become eligible for universal credit. The government is slowly rolling out the new single payment designed to replace six existing state benefits.*

Universal credit is expected to be adopted nationwide by 2023. However, there has been controversy about the changes, and delays to implementation.

Universal credit replaces the following benefits: child tax credit; housing benefit; income support; income-based jobseeker's allowance (JSA); income-related employment and support allowance (ESA); and working tax credit.

It's important to remember these benefits only provide a basic standard of living.

### Greater protection

The good news is that insurance can bridge the gaps in your financial security. A range of insurance protection products can pay out if you lose your job, become too ill to work or die.

**Life insurance** typically pays out a lump sum if the policyholder dies before a set date. This is often a cost-effective option, because

premiums are low as the chances of claiming are relatively low. However, should the worst happen, the lump sum can help ease financial worries for families at a difficult time.

**Critical illness insurance** pays out a fixed lump sum if you are diagnosed with a specified serious illness, including most types of cancer, stroke and heart disease.

**Income protection insurance** pays a monthly amount – usually a fixed portion of your regular earnings – if you cannot work because of ill-health. This normally only pays out once you have stopped work for a certain period of time.

All these policies can be purchased by individuals, but some employers also provide cover, so check what is available. The government recently confirmed that any payment from these insurance policies won't affect your entitlement to state benefits such as universal credit. If you are concerned about



potential consequences for your income should you have health concerns, please get in touch.

## INVESTMENT

## Know your investment mind

*Understanding your personal biases can help you form investment strategies that work for you across good times and when the going gets tougher.*

Traditional finance theory starts from the principle that markets and their investors are perfectly rational. Yet a closer look reveals this is optimistic.

Behavioural finance studies the impact of investor psychology on financial decisions. It has developed in response to the inconsistencies between rational theory and irrational reality. People can act in surprising ways. For instance, you might recognise these behavioural biases in yourself or others.

**Overconfidence:** Many people when asked identify as 'above average', whether in terms of driving ability, intelligence or looks. By definition it cannot be true – no more than 50% can be above average. Overconfident investors can pay a high price to learn this truth.

**Herding:** "Everybody is investing in technology/emerging markets/commercial property/etc., so I will too." It seems the easy option: human



beings are inherently fearful of going against the crowd. However, the crowd's judgement is not always right.

**Confirmation bias:** Which do you pay more attention to: the information and comments that reinforce your views or those that contradict them? The natural response is the former, but when it comes to investment, hearing only what you want to hear could mean ignoring important, if uncomfortable, truths.

An understanding of behavioural finance ideas can help you identify your own biases. The nearer you come to acting like a rational investor, the more you may be able to benefit from the irrationality of others.

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## TAX

## Landlords losing interest from April

*The next step in changes to tax relief for landlords takes effect from 6 April 2019.*

If you have a mortgage on a buy to let residential property, from this April only 25% of the interest can be offset against your rental income, with the remaining 75% qualifying for a 20% tax credit only.

Higher rate taxpayers will lose £50 tax relief for every £1,000 of interest in 2019/20. And from April 2020 onwards, you will only receive a 20% tax credit – another £50 cut in relief for every £1,000 of interest for 40% taxpayers.

If these changes make you think about selling up, then remember another April 2020 change: capital gains tax at up to 28% on residential property will be due within 30 days of sale.

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