eNews
SUMMER 2019

The Investment
COACH

PLANNING

Embrace the joy of tidying

Prioritise peace in your life: extend the Marie Kondo tidiness craze from your home to your finances.

Have you ever looked at a room in your home and wondered how you accumulated so much stuff? You might well remember when you acquired each item, but the questions of why and whether you still need it can be more awkward to answer.

What applies to household surplus can be just as relevant to excess baggage in your personal finances. But working out what investments, savings and insurance cover you have, why each one is there and whether you still need it can be a daunting task. For example:

- Do you have any old stocks and shares ISAs – perhaps they were even once PEPs – bought in an end of tax year rush long ago?
- Do you have cash invested in bank or building society accounts opened more than a couple of years ago?
- Do you have any pension plans where contributions have long since ceased and perhaps the provider has closed to new business?

> *Accounts more than two and a half years old typically pay less than half the interest rate offered by newly opened accounts.*

We can help you tidy up your finances, a process that can have a range of benefits. Charging structures now often favour bringing together holdings in one place, which can also make it easier to manage a portfolio. For cash deposits, Financial Conduct Authority research from 2018 showed that accounts that were more than two and half years old typically paid less than half the interest rate offered by newly opened accounts.

✢ The value of your investment 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.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice or cash deposits.

INVESTMENT

If it looks too good to be true...

The recent failure of a promoter of high return investments was a reminder of the dangers of being lured by headline numbers alone.

Last year London Capital and Finance Plc (LCF) marketed what they claimed to be Innovative Finance ISAs offering fixed interest rates of 8% – and this was at a time when no fixed rate cash ISA offered even half as much return. Unfortunately, LCF's 8% rate did prove too good to be true. In January 2019, LCF called in the administrators and two months later HMRC announced that the LCF ISAs did not comply with ISA regulations and their income (while it lasted) was therefore taxable.

Investors may only receive back as little as a fifth of the amount they invested. While LCF itself was regulated by the Financial Conduct Authority, the mini-bonds issued by LCF to back their ISA were unauthorised and were not covered by the Financial Services Compensation Scheme.

Ironically, investors might have had a chance of compensation if a regulated financial adviser had (badly) advised them to invest in LCF. However, LCF sold its products directly rather than through advisers.

The lesson from LCF is an old one, but no less valid for being so: investment without advice may look cheap but it can carry its own heavy cost.

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INVESTMENT

Dividends riding high, but...

After enjoying bumper dividends earlier this year, shareholders faced the news that some high profile names have recently slashed their payouts.

UK-listed companies paid out £19.7 billion in the first three months of 2019 – a first quarter record according to Link Asset Services, with the value of dividends paid out through to 2018 rising by 85%. However in May, Vodaphone, Royal Mail and M&S all announced dividend cuts of 40%.

Companies usually share surplus profits as dividends twice a year. With any reductions having an impact on pension and ISA funds as well as individual shareholders, companies are reluctant to make dividend cuts, even when it may make economic sense to do so.

The early record figures have been attributed

Credit: Istock/ipopba

to several one-off 'special' dividends. For example, the global resources company BHP Group paid a huge £1.7 billion dividend following the sale of its US shale oil interests.

Oil giants, utilities, pharmaceutical, tobacco and financial companies traditionally have had good track records for paying dividends. In contrast, smaller, fast-growing companies often pay low – or no – dividends, as surplus profits tend to be reinvested in the business. Investors may also want to look at equity income funds, which focus on companies with good dividend track records.

Reinvesting these payments can create benefits from higher compound returns. However, dividends can also be a useful way for investors to earn an attractive income from their investments without having to dip into their capital. As so often in investment decisions, the devil is in the detail, now more than ever, so sound advice is crucial.

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PENSION

Pensions and divorce – not just about the split

When it comes to dividing up assets on divorce, pension rights can turn out to be one of the most valuable elements – and often the most overlooked.

Credit: Istock/AndreyPopov

Last October, the Financial Conduct Authority reported that employee benefit consultancies were recording "the average size of transfer at over £250,000". Such large values mean that pensions can currently represent the greatest asset to be considered as part of a divorce settlement.

In the UK, there are currently three main ways of dealing with pensions on divorce:

- **Pension sharing** The ex-spouse/civil partner's pension(s) are shared, with a percentage (or specified amount in Scotland) allocated to the ex-spouse/partner. The shared element is either retained in the existing pension scheme or, more often, transferred to the ex-spouse's/civil partner's scheme.
- **Pension offsetting** This option involves offsetting the transfer value against other assets. For example, one spouse might gain a larger share of the family home in exchange for receiving no pension benefit from the other spouse.
- **Pension attachment orders (pension earmarking in Scotland)** Under these arrangements, the ex-spouse/civil partner receives a proportion of the pension and/or lump sum when the divorced member starts to draw benefits (in Scotland it's just the lump sum that can be earmarked).

If you are involved in a divorce, expert guidance is essential to achieve a fair pension outcome. We can help:

- Explain how each of the options would work for you.
- Assess the transfer value that has been calculated for any benefits.
- Advise on any pension transfers required.
- Explain how you can improve your financial position at retirement.

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Occupational pension schemes are regulated by The Pensions Regulator.

RETIREMENT

Moving the 65-yard line

Sixty-five years old has long been considered a pivotal age. For example, the Office of National Statistics splits the labour market into two main categories: aged 16 to 64 and aged 65 and over.

Some concessionary prices are based on having reached age 65, which is still widely thought of as the age when men receive their state pension.

However, 65 ceased to be the state pension age (SPA) – for men and women – on 6 December 2018. It is now somewhere between four and five months beyond 65 years. By 6 October 2020, SPA will have reached 66. Five and a half years later another step up to 67 will begin, finishing in April 2028.

Coincidentally, National Statistics show that more than one in ten people aged 65 and over are in work. If this year's summer holiday makes you dream of retirement, don't get ahead of yourself. You might well be working beyond 65.

Credit: Istock/Jfanchin

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