Financial Observer
Observing, Advising, Coaching & Preserving Wealth

NEWSLETTER

February 2018

The Right Advice At The Right Time

Contents

Market Update – Fund Manager and Company Views

"The current global market sell-off is likely to be a storm in a tea cup", **said deVere's Tom Elliot.**

Elliott, international investment strategist at deVere Group, said: "We will probably see a recovery rally…" and continued, "analysts will be referring to this as having been a 'much needed correction as part of an ongoing rally'.

"Financial history is full of false warnings of imminent bear markets – but right now we miss any key component, with no imminent recession in a major economy, no financial crisis, no one particular over-extended sector of the economy or stock market."

Daniel Zurbruegg, Swiss SEC-certified financial adviser from BFI Infinity, said he thinks the sell-off has little to do with fundamentals or a fear of higher rates or inflation.

Zurbruegg says at present it does not look like the sell-off will develop into a longer-term correction, but it will take some time to normalise.

"There is always a risk that a bigger correction can develop, and sentiment can turn chronically bearish, but I think the chances of that happening are pretty low," he added.

The Biggest Change to Wills and Estate Planning in the Last 50 Years – The Residential Nil Rate Band

The introduction of the Residential Nil Rate Band (RNRB) in 2017 sent shockwaves through the world of Wills and Trusts. Action required to qualify for this new tax allowance. Please don't rely on deeds of variation especially if you have beneficiaries under the age of 18 because beneficiaries have to consent and a minor cannot consent. Your Will needs to ensure that "lineal descendants" (commonly Children and Grand-Children) receive an interest in your home after your death. Unfortunately, the vast majority of those Wills made before 2015 are unlikely to satisfy the various requirements. By using a Deed of Variation, a family can ensure that, if necessary, the RNRB is obtained by "redistributing" a proportion of the estate to the "correct" person.

Signing a Will is a big step towards providing financial security for your family, however an outdated Will that hasn't taken into account new legislation, exemptions and reliefs can actually leave your Beneficiaries with a significant headache.

Why You Should Make a Will – It's never too early but often too late!

You can put off making a Will until it is too late and this poses all sorts of problems for the people left behind. Not making a Will could mean that some, or all of your Inheritance either goes to the wrong person, or to the state. Making a Will enables you to plan exactly what will happen to your property (Estate) following your demise. This ensures that those you would like to benefit actually do so, in accordance with your wishes, and at the same time avoiding any possible disputes between relatives. Most importantly is the peace of mind making a Will provides.

Without a Will:

- You cannot be sure those you would wish to benefit will actually do so.
- Your spouse/civil partner will not automatically inherit ALL of your Estate.
- 'Common Law' partners may not receive anything.
- Minor children could be taken into Care whilst Guardians are appointed.
- There could be lengthy delays for your Beneficiaries and disputes.
- You cannot prevent certain family members from benefiting.
- You will not be able to leave something to friends, colleagues or charities, which fall outside of the Rules of Intestacy.

In the time it takes to read our newsletter, someone, somewhere will have died Intestate - that is, without leaving a valid Will.

Equity Release - An Overview

Did you know that if you're over 55 and a home owner, you could secure the extra cash you may need against the value of your property through an Equity Release plan?

Your retirement years should be some of the best years of your life, when you have time to fulfil many of the dreams and activities that you may have had to put off during your working life. Also, you may well have a long retirement ahead of you. Of course, the fact that people are living longer does come at a cost, with increased pressure on how much the state can continue to provide.

The baby boomer generation will also have an additional impact, as the high birth rates of the late 1940's/early 1950's will mean an increasing proportion of the population are now entering retirement.

Benefits of Equity Release

Along with low interest rates offered on savings, the impact of inflation, poor (ish) returns on annuities and other forms of pension income, it's no wonder that many people are considering equity release to either survive retirement, or to ensure they fully enjoy their 'golden' years. Even if your finances are delivering enough for your needs, you may also want to help out your family at a time when you're still around to see them benefit. Equity release could be a route here too. And a great plus of equity release, is that it will enable you to remain in your own home, rather than downsizing, which of course is an option to consider should you need to raise funds.

Additionally, you may decide that you'd prefer to buy a new home in a similar (or higher) price range, that's better suited to your retirement needs. Again, equity release could be the solution.

Recap

So let's recap on some of the areas that may require additional funding:

- Paying off bills, or settling any amounts outstanding from an interest-only mortgage.
- Improving your standard of living.
- Helping other family members.
- Going on the longed-for trip of a lifetime.
- Much needed home improvements.
- Funds that allow you to secure a new home more appropriate to your retirement needs.

Considerations

As with most retirement planning, it's important to take advice. For example, taking out an equity release plan may affect 'means-tested' state benefits, or local council grants, which you may already have in place, or perhaps you're entitled to.

So do make sure that you talk to us to find out more.

Lasting Powers of Attorney - What if I am unable to manage my affairs?

Growing old can mean problems for us and our loved ones such as:

- Loss of mobility or illness can make it difficult to manage your affairs.
- The prospect of unpaid bills can cause unnecessary stress and anxiety and delay someone's recovery.
- Even the young can encounter problems due to accident or illness.
- An elderly relative losing capacity is difficult enough for loved ones to deal with, without the added worry that finances are becoming muddled.

There may come a time in your life when you are unable to manage your financial affairs or personal welfare, owing to some form of incapacity and you will need someone to act on your behalf.

Even when we are young, we can find ourselves incapacitated owing to illness or injury and it can be invaluable having a reliable person, who is able to manage your personal affairs and remove the anxiety of having unpaid bills, at a time when you most need peace of mind.

Similarly, as we get older, the need for an attorney increases as we are more prone to illness and injuries.

Lasting Powers of Attorney – vital at any age and being sought throughout the world.

We had a client whose son was away at University and was involved in a car accident. The friend that was with him called his parents and said: "Your son and I were in a car accident and he is being taken to hospital." "Which Hospital?" "I don't know."
Based on where the accident took place, the parents concluded it would be one of two hospitals and they started calling. "Is my son there?" The hospital's response was, "We can't tell you." Imagine having an 18 year old who just moved out of the house and now you find out that your child may be dead, in a coma or may be just fine, though you don't know, they are miles away and you can't even find out where they are. It's one of the scariest things that could happen.

As a result of that, I ask a lot of people to make sure their children have Power of Attorney.

Another client mentioned in passing, "Our son is going to South Africa as an exchange student, do you think he should have a Power of Attorney?" "Absolutely, there is not doubt in my mind", was my response. "Well, we're so busy, I'm not sure we can arrange a meeting to see you before he goes." I told them honestly, "I don't know what your list of priorities is between now and then, but this is the very first thing you do. Before you even pack his clothes, lets get an appointment in the diary so a Health & Welfare Power of Attorney can be signed." The hope is always that nothing will go wrong, the client's son became ill during his stay and they would not have had the power to bring him home were it not for this document.

These types of event can happen to anyone, at any time - don't leave life to chance.

Pensioners Playing Life Expectancy Guessing Game

A survey has found that nearly half of younger retirees (44%) are withdrawing more than 10% of their pension savings each year, risking running out of money because they underestimate their lifespan.

The survey, by AJ Bell: 'The Pension Freedoms Engagement Gap', found that 51% of people in the 55- 59 age bracket anticipate that their anticipated income could need to last for 20 years or less.

However, the latest ONS data released in November 2017, showed that men in the age bracket were expected to live for another 24 to 27 years on average and women were expected to live for another 26 to 30 years.

Similarly, 47% of people aged 60 – 64 anticipated that their pension income would need to last for 20 years or less, whereas men can expect to live for another 20 – 23 years and women, another 22 – 25 years.

Younger retirees were more likely to underestimate how long their pension income would need to last for and are making larger, unsustainable withdrawals.

Based on the average level of pension savings of £118,000, withdrawals at 10% per annum, the average withdrawal, would only last for a maximum of 12 years. If the level of withdrawal was reduced to 6% of the starting value per annum, the money could last 'a more comforting' 26 years the survey found.

AJ Bell surveyed 250 British adults aged over 55 who have been able to access their pension since April 2015.

What we can do to help?

Future Mapping - Our Cashflow Planning Reports

Without a plan, how do you know:

- If you are on target to achieve your objectives
- If you can afford to start gifting
- If you have enough to draw more out of your pensions and investments
- Are you drawing down too fast if you take longevity into consideration?

Financial Needs Analysis
This report caters for any future financial transaction or cash flow planning options.

Financial Strategies
A wealth accumulation / distribution report with content to suit your requirements.

Retirement Test Drive
An advanced retirement planning report – decumulation and how long will your money last?

Other News – so far in 2018

HMRC bans personal credit card payments

As HMRC will no-longer be able to pass on the cost of card handling fees, payment of tax bills by personal credit card will no-longer be permitted. The ban came into force on 13th January, though debit cards and corporate credit cards are still allowed. This has caused some consternation among the 0.8% (454,000) of taxpayers, who prefer to spread their tax bill using a personal credit card, as HMRC only sent written warnings with tax bill reminders in December.

Comment: perhaps this is because they no longer can add charges as they used to.

Crypto currencies: craze, phase or stays?

The world's most famous cryptocurrency smashed an array of price records in 2017, taking the flight of Bitcoin to a stratospheric level with its price rising by more than 1,400pc. Against the clamour The Telegraph looks at the top ten performing cryptocurrencies, 6 of which have experienced higher growth levels than their more famous, though flawed, forerunner Bitcoin in 2017. It is these flaws (the high transaction fees resource required to make sure payments are made quickly) later rivals are aiming to iron out. The article takes a closer look at two cryptocurrencies analysts believe are worth watching this year: Iota ($9.5bn) and Cardano ($10bn).

Comment: be wary!

Next generation advice

Prophesies that robots would soon take over the world of financial advice have proven ill founded. According to consumer site Boring Money, Robo advisers accounted for less than 1 per cent of the UK's £192bn non-advised online investment market at the end of the third quarter of 2017. What's held back take-up? Well it seems that algorithms to deliver low-cost automated services to the masses aren't quite enough. In matters of money management, people still want some level of human interaction which is leading to a new breed of "robos" who are morphing their business models to provide over-the-phone and face-to-face advisory services. Less DIY, more DIWM (Do it with me).

Comment: Interesting

Dates for your Diary:

13th March 2018 – Chancellor's Spring Statement

5th April 2018 – Tax Year End (Utilise your £20,000 ISA allowance) – any other allowances we should mention, i.e. Pension Contributions, CGT etc?

6th April 2018 – New Tax Year Begins

UK Economy in fair health

There is some good news among Brexit gloom (or at least fatigue) as latest data indicates the UK economy accelerated faster in the fourth quarter of 2017 than had been forecast. This is largely thanks to a motoring services sector that posted better-than-expected performance last month. The IHS Market / CIPS services purchasing managers' index (PMI) showed a reading of 54.2 in December, up from 53.8 in November, with economists pencilling in a figure of 54. A reading above 50 indicates growth

Comment: Bank of England and a recent Forbes report agrees, we are in rude health.

House price growth slow but not dead

UK house price growth increased 2.6% last year, confounding doom-mongers who prophesied a slump in the wake of Brexit. Yes, growth has slowed, with the 1.9 percent drop in increase between 2016 - 2017 in part due to the rising pressure on household incomes… but growth is growth. Of interest, the Times highlights that a notable exception is London where prices fell for the first time in eight years, according to Nationwide.

Comment: London fell in price, however, the rest of us have not seen any real growth either. From what I hear and see many people are opting for improvements rather than a move.

Pensions 2018

Many people could be in for a shock when they check their pay packet in April 2018. That's because a bigger slice of their pay automatically diverted to a savings pot for their pension. Automatic enrolment went live in 2012 and the total minimum amount paid in is currently just 2% of qualifying earnings. However, on 6 April this will rise to 5% – typically 2.4% from the worker, 2% from their employer and 0.6% in tax relief.

Comment: There was also the reduction in the money purchase allowance from £10,000 to £4,000. The Government cannot stop tinkering with pensions!

Open banking – the end of traditional banking?

From January 13, Britain's nine largest banks and one building society will be required to make customer account data available to approved rivals. A secure set of online technologies will essentially allow bank customers to authorise third parties to access their account details. The bold vision is that the new regime will loosen monopolistic grips, even up the playing field and, in particular, present a significant opportunity for challenger banks and fintech (financial technology) businesses who will be able to compete on a more-or-less level playing field. Interestingly five banks have admitted they will not be ready for the deadline.

Comment: This will prove interesting in practice.

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For more information on any of the topics covered within this newsletter, or if you would like to know how our services can benefit your individual circumstances, please contact us via our website: www.financialobserver.co.uk, or via email: office@financialobserver.co.uk.

Also, please do not forget to take advantage of our **FREE** Will Review Service. It is important to regularly review your Will and if it has been sometime since your Will was last review, there could be critical aspects requiring your attention.

As always, your feedback is vitally important to us, therefore we have constructed a very short questionnaire and we would be extremely grateful if you wouldn't mind sparing us 2-minutes of your time to complete the questionnaire which can be accessed via the following link:

Financial Observer Questionnaire Feb 2018