Edition 26

Cannell Associates

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Viewpoint

Confused about pension planning?

With more UK employees saving for their retirement than ever you could argue that Automatic Enrolment has been a success since its launch six years ago. However, research from the Office for National Statistics (ONS) has revealed that many people contributing to their workplace scheme don't even realise they're saving for retirement.

Auto enrolment emerged from the Pensions Commission back in 2005. It took effect in 2012, when it was made compulsory for employers to enrol their staff into a workplace pension scheme, and rolled out in phases. Figures suggest that just over nine million individuals are now newly saving or saving more for their retirement.

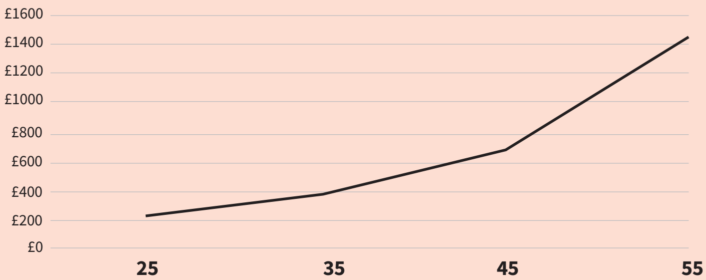
This is clearly a positive outcome of auto enrolment, but the ONS research has raised concerns that the 37% of those surveyed who didn't realise they were contributing to their workplace pension scheme could opt out - a risk which might be greater when the minimum contribution level for employees increases from 3% to 5% in April 2019.

So, do you know if you are saving in to a workplace pension? Even if you are, are you saving enough? Industry estimates for a comfortable retirement tend to range between £23,000 and £27,000 a year. A 25 year old employee earning £30,000 a year would need to save just under £300 a month to achieve the lower figure and you can see what effect age has on the amount you need to save in the graph below.

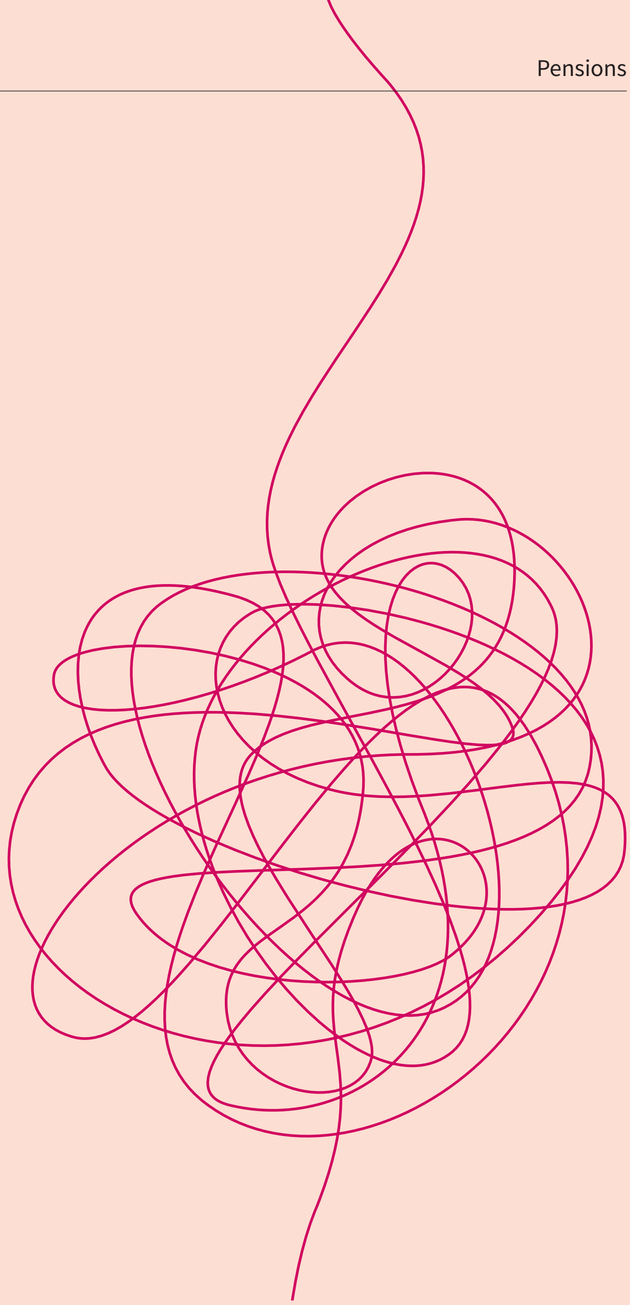
The simple fact is that the more you save and the earlier you start saving the better position you are likely to be in, subject to investment performance of course. The first thing to do if you're concerned about your pension planning is get advice.

Please give us a call and we'll help you get a clear picture and straightforward plan to put you on track.

What an individual would need to contribute each month to achieve an annual retirement income of £23,000



Age at which you start saving into a pension



According to the ONS

27% don't think they can afford to save for retirement

13% are put off because they think they don't know enough about pensions

7% think it's too early to start saving for retirement and 3% think it's too late

Those aged between 16 and 24 feel the least equipped when it comes to making decisions about their pension.

If you'd like more details about the Omnis funds and fund managers, or for wealth management advice, please speak to us.

Why active investing is more effective in volatile markets

A glance at the performance of the major stock indices in 2018 shows that volatility was a common theme. US equities followed an upward - although somewhat choppy - trajectory from early March, but they had a turbulent start to the year. Meanwhile, UK, European and Japanese equity markets experienced fluctuations of various magnitudes as they drifted sideways or downwards over the same timeframe.

Geopolitical events drove most of this volatility. On a global scale, trade tensions rattled the markets. US President Donald Trump made some progress with his immediate neighbours but reaching an agreement with China proved more challenging. Closer to home, the protracted and confrontational nature of Brexit negotiations led to a high degree of economic uncertainty. Later in the year, the Italian coalition government's plans to increase fiscal spending in its first budget raised concerns that it would breach EU rules.

Navigating volatile markets is difficult, but it is under these conditions that active fund managers can add the greatest value. As the name suggests, they buy and sell investments in an effort to outperform a benchmark such as the FTSE 100 or S&P 500. This flexibility allows active managers to respond to what is happening in the markets, so they buy a share when they identify an opportunity, and sell one if they spot a threat.

Active vs passive

Compared to actively-managed funds, passive investments, such as exchange traded funds (ETFs) or index trackers, tend to underperform in volatile markets. They attempt to mirror the performance of a benchmark by buying and holding similar assets, and they only sell when a company drops off the index. As their asset allocation is static, passive investments cannot react to changing economic conditions, making them less effective in fluctuating markets.

The Omnis range consists of actively managed funds because the investment team believes they can identify fund managers who add enough value in both smooth and volatile markets to outperform in the long run.

Regardless of whether you invest in active or passive investments, the value of your investments and any income from them can fall as well as rise. You may get back less than you invest. This update reflects Omnis' view at the time of writing and is subject to change.

OW1791 Exp. 14/03/2019

Deadline to Breadline

For its latest 'Deadline to Breadline' report, Legal and General surveyed 2,000 full and part-time workers to assess how long they could survive on savings if their income stopped due to serious, or long-term illness, or death. The rather worrying answer was 32 days.

The research also revealed that just over a quarter wouldn't have enough savings to last them a week and 30% of UK workers have no financial back-up plans whatsoever - despite the average household debt standing at around £4,600. This lack of preparedness would result in potentially serious financial exposure if things went awry.

UK Protection gap

L&G's research is important because it highlights just how many people could be gambling with their homes and their family's wellbeing, by not having a back-up plan. And when you consider that the average UK gross annual salary is £28,677, the support you could expect from the State is not sufficient to provide a reasonable safety net, especially if you are the sole breadwinner.

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Statutory Sick Pay can be paid for up to 28 weeks @ £92.05 a week

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Employment and Support Allowance @ up to £73.10 a week for the first 13 weeks then up to £110.75 after that (for a single person)

For less than the cost of a daily cup of takeaway coffee you can help protect yourself and your family and be in a better position to deal with the consequences that could occur from illness, accident, unemployment or death. That's why, when we talk to clients about protection, we talk about value, rather than cost.

How can you protect yourself?

If you have a mortgage or people who rely on your income it's important to take steps now to understand what would happen if your income suddenly stopped. If you have any existing insurance policies, check the details to make sure they reflect your current circumstances and would still meet your needs if you needed to make a claim.

If you don't have cover in place we can talk to you about a range of different types of protection insurance that would help to pay the mortgage and provide a financial lifeline for your family if you were temporarily, or permanently, unable to provide for them. This includes cover for serious and critical illness and income protection, which pays out a regular tax-free income if you're unable to work. We can also advise on a range of life insurance plans, including:

Term insurance - normally taken out to cover mortgage payments, these plans are the simplest form of life insurance and can be tailored to suit your budget.

Family income benefit – pays out a regular income as an ongoing lifeline for dependants.

Whole of life insurance - lasts as long as you do (or until you stop paying the premiums) and provides a lump sum on death.

With some types of life cover it's also important to consider writing the plan in trust. This is a legal document that allows you to determine what happens to the money after your death and can ringfence the pay out from inheritance tax.

Whatever your situation, advice is important to make sure you get the most value from your protection insurance. Please get in touch to find out more.

How risk influences asset allocation

To strike the right balance between risk and reward in your investment portfolio, it's important to carefully consider how you divide your capital among the various asset classes. In the investment industry, this process is known as asset allocation.

Some assets carry greater risk than others, so well-defined goals are crucial. Say you're saving for retirement and you plan to stop working over the next few years. That means you will need to start drawing an income from your investments within a relatively short timeframe. In this scenario, you would typically start rebalancing your portfolio into less volatile assets like bonds. Bonds - especially those issued by governments of developed countries like the UK and US - are considered among the least risky investments because the danger of a government defaulting on its debt is low.

If you are younger and retirement is twenty or thirty years in the future, you could afford to take greater risk with your capital. Your portfolio could be overweight in equities, which are more volatile than bonds but also potentially generate superior gains. As your investment horizon is longer, your portfolio has more time to recover from short-term market fluctuations. It's also worth bearing in mind that some equities are more volatile than others, for instance, emerging markets may offer better growth prospects due to demographic trends, but their economies tend to be less stable than developed countries.

Of course, cash is the safest asset class. It also generates the lowest returns, and your spending power falls if inflation exceeds the rate of interest your money is earning. Nevertheless, most investment portfolios hold a certain amount of cash.

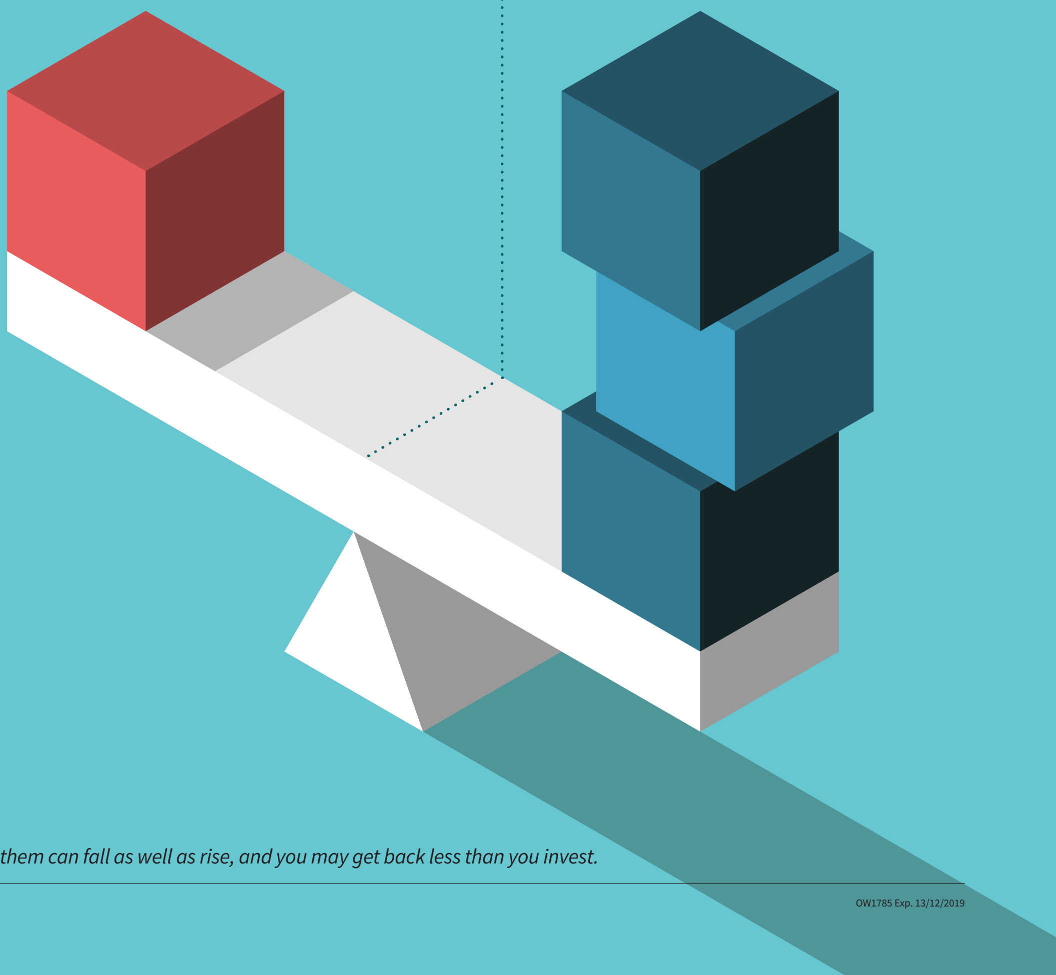
While this list is not exhaustive, it should help you understand the risk profile for each of the main asset classes. Working out the optimal mix of assets is difficult and time-consuming though. Fortunately, because we are part of Openwork, the Omnis investment team can take care of these decisions, and the ongoing oversight of your portfolio, on your behalf.

Asset allocation within the Omnis range

Through Omnis, you can either invest in the Graphene model portfolios or the Omnis Managed Portfolio Service (OMPS). Graphene portfolios automatically rebalance back to their original asset allocation every six months. OMPS, on the other hand, are actively managed by the investment team, and they adjust the allocation within a clearly-defined range in response to opportunities or risks they identify in the markets.

Both sets of portfolios offer a choice of risk profiles: Adventurous, Balanced and Cautious, the main difference being the asset allocation. The Adventurous portfolios invest mostly in the Omnis range of equity funds, while the Cautious portfolios hold a higher proportion of Omnis bond funds. The Balanced portfolios fall roughly in the middle.

If you have any questions about which portfolio your money is invested in, or you'd like to know more about the Omnis funds and range of model portfolios, please get in touch.



The value of your investments and any income from them can fall as well as rise, and you may get back less than you invest.

OW1785 Exp. 13/12/2019

Helping you to save

Help to Save is a government savings account aimed at an estimated 3.5m people on low incomes. The scheme pays a bonus of 50p for every pound saved over four years, representing better value compared to the 1 - 2 per cent returns on savings bonds offered by high street banks.

Eligible savers can open an account using their 'government gateway' ID and pay in up to £50 each month over the four-year term. Once the four years are up, or the account is closed (if earlier) there's no opportunity to use the scheme again.

Savings and bonuses

You could receive two tax-free bonuses over four years of the account being open; at the end of years two and four. The first bonus is based on the amount saved in the first two years, the second bonus will be calculated from the additional savings added during years three and four. The most you can save is £50 per calendar month, meaning over the four-year term the maximum savings pot is £2,400 attracting a total bonus of £1,200.

You can withdraw money from your account at any time and this will be paid into your bank account. However, depending on when and how much you withdraw you could lose your final bonus.

Eligibility for an account

To be eligible for an account, you must either:

— *Be entitled to Working Tax Credit and receiving Working Tax Credit or Child Tax Credit payments; or*

— *claiming Universal Credit and your household income in your last monthly assessment period was £542.88 or more*

You can apply for an account if you live abroad providing you are either a:

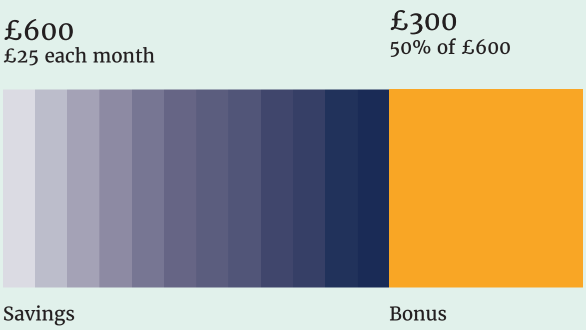
— *Crown servant or their spouse or civil partner; or*

— *a member of the British armed forces or their spouse or civil partner*

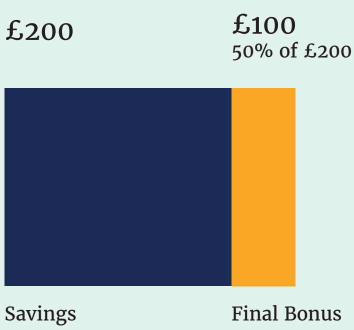
For information and advice on a range of savings and investments that suit your circumstances, please get in touch.

Example:

Year 1 and 2



Year 3 and 4*



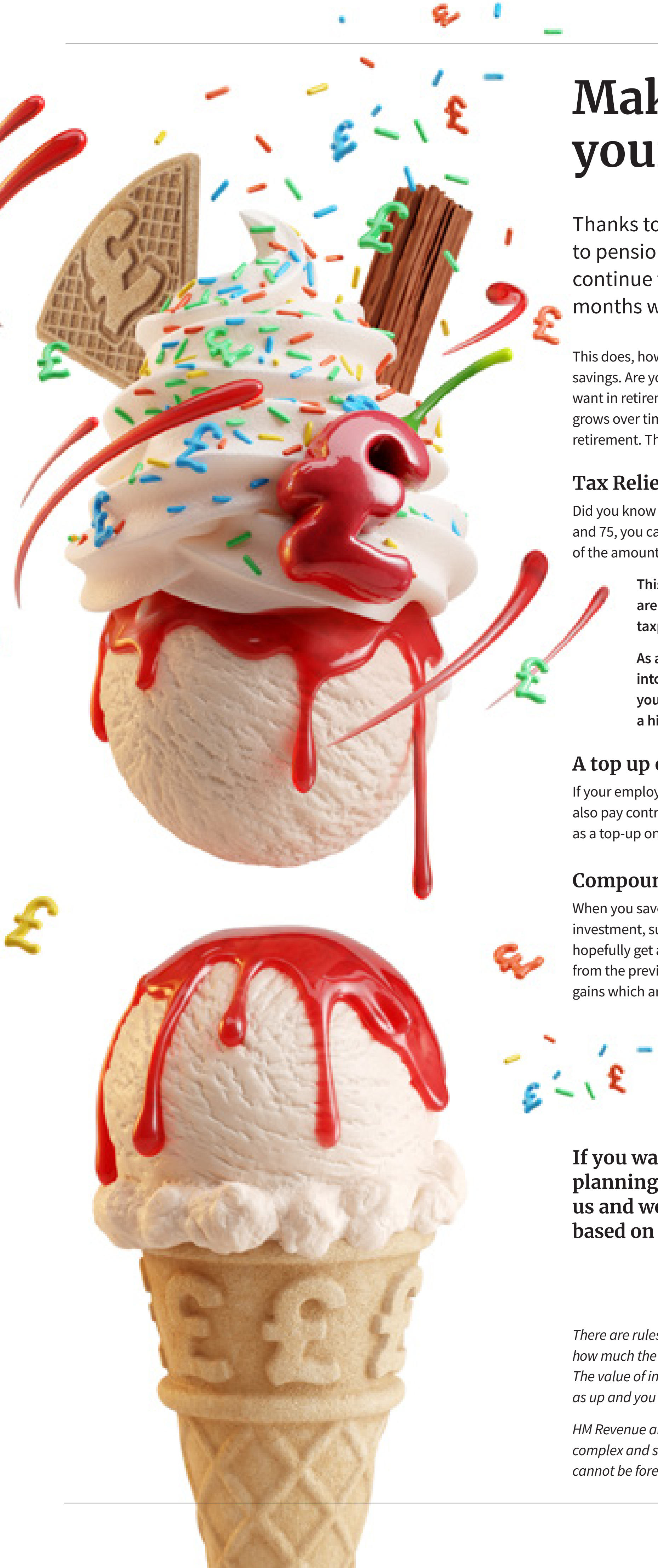
*you can withdraw money in year 4 without affecting your bonus

You pay in £25 every calendar month for two years. You don't withdraw any money, which means your balance halfway through the plan is £600. Your first bonus paid after two years is £300 (50% of £600).

Over years three and four you save an extra £200 to increase your balance to £800. You withdrew some money in year four but this doesn't affect your final bonus which is £100 (50% of £200), paid at the end of the term.

Your savings plan closes with a final balance of £1,200 - you having paid in £800.

Graph for illustration purposes



Making the most of your pension savings

Thanks to there being no major changes announced to pensions in the October 2018 Budget you can continue to pay into your pension over the next 12 months without any surprises to knock you off track.

This does, however, present a great time for you to review your pension savings. Are you confident you're saving enough to support the lifestyle you want in retirement? Put simply, a pension is a long-term savings plan which grows over time and provides you with an income to see you through your retirement. There are many benefits to paying into a pension plan:

Tax Relief

Did you know that if you're saving towards a pension between the ages of 18 and 75, you can receive significant contributions from the government on top of the amount you save?

This is because you receive tax relief on the contributions you are paying in: 20% for basic-rate taxpayers, 40% for higher-rate taxpayers and 45% for additional-rate taxpayers.

As an example, for a basic-rate taxpayer, for every £100 you pay into your pension, the government will top it up by £25 giving you a total contribution of £125. You can get even more if you're a higher-rate or additional-rate taxpayer.

A top up on your salary

If your employer has a pension plan set up as an employee benefit, they will also pay contributions to your pension plan (up to a certain level). Think of it as a top-up on your salary.

Compound interest

When you save money into your pension you'll hopefully make a return on the investment, subject to performance of course. The following year you'll hopefully get a return, not only on your initial investment but also on the return from the previous year, and so on. You're effectively earning money on previous gains which are all added into your pension pot.

If you want to discuss your pension planning in more detail then speak to us and we'll make a recommendation based on your individual circumstances.

There are rules regarding how much you can contribute to a pension and how much the government will add to your contributions through tax relief. The value of investments and any income from them can go down as well as up and you may not get back the original amount invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

BECOME A SUPERHERO

IN THE EYES OF YOUR FAMILY

When he was younger one of my son's favourite questions was; *"if you could have any super power, what would it be?"* He loved the idea of being a Superhero.

I think, deep down, we all like the idea of being a Superhero. Being able to do things others can't; amazing things to help those around you.

Now I can't grant you any super powers (sorry) but I can help you do something amazing to help those you love. Best of all there's no need to be bitten by a radioactive spider, hit by a strange space mist, or hail from a different planet.

And there's no need to be a heroic billionaire looking to save the city with an arsenal of high-tech gadgets. No, your new super powers are just going to need a little money.

How do these powers sound to you?

- If you die unexpectedly for any reason your family has the mortgage paid off, or there's a lump sum available to help them out
- If you are stuck down with a serious illness and need to take time off work, someone else pays the bills - and maybe they clear the mortgage too
- If you have an accident and break a bone (maybe whilst fighting crime?) someone pays money into your bank account to help ease the financial pain a little

Now, I know it's not like you can stop a bullet, or run faster than the speed of sound, but they're still pretty useful powers for your family.

Best of all, there's no need to pay for them in one go. You can rent your super powers for just a little each month. In fact, you might be surprised how little it could cost to become a superhero.

To find out more about how our range of personal and family protection insurance, please get in touch.

Please note - we can't guarantee any form of comic book franchise off the back of your new powers, nor can we promise your new powers will make you "cool" with your kids. We'd also not recommend actually trying to fight crime.

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