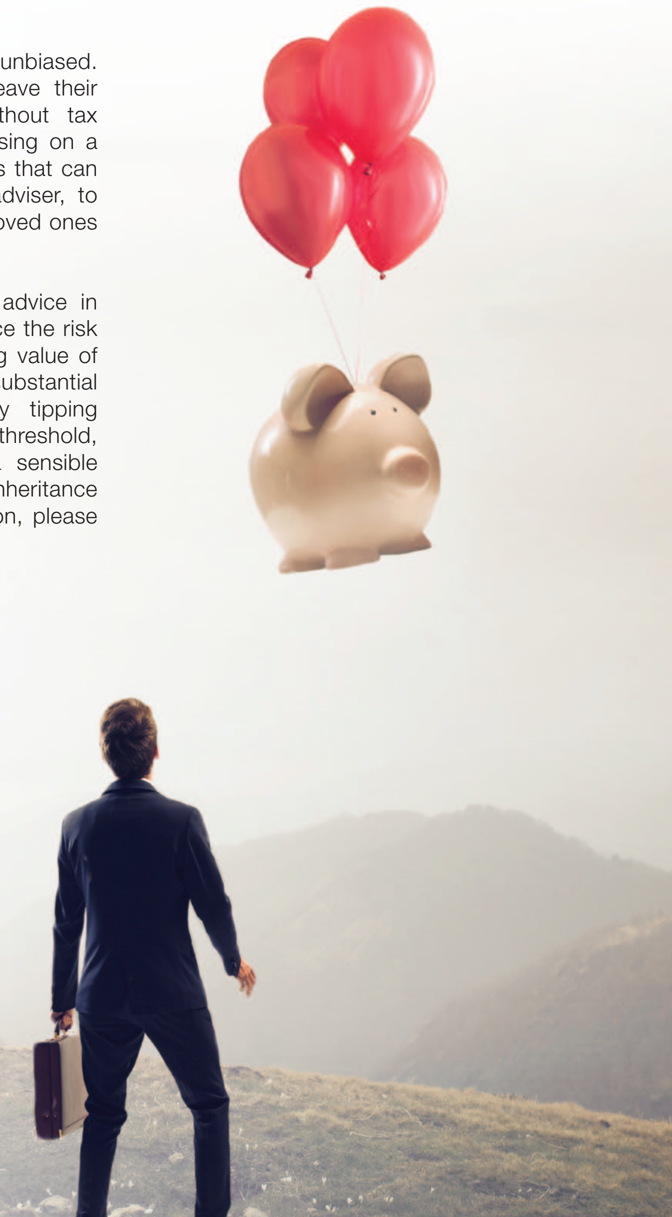
BIRCHWOOD INVESTMENT MANAGEMENT LTD NEWSLETTER

July 2015

It's plain sailing...

Brits set to pay £550m too much in inheritance tax



Families could be missing out on millions of pounds from loved ones' estates because people are failing to take inheritance tax planning steps, according to new research.

The 2015 TaxAction Report from unbiased.co.uk, which enables consumers to find independent professional advisers, suggests that up to £550 million could be wasted in inheritance tax (IHT) this year. The figure is £20 million more than last year and an increase of £78 million on 2013.

IHT planning steps people are failing to take include placing life protection policies under trust. By placing a policy in trust, a £100,000 life insurance pay-out could be reduced by as much as £40,000 for an estate above the IHT threshold of £325,000.

The report, produced in association with financial products provider Prudential, said that the improving economy and rising house prices could result in more estates exceeding the £325,000 threshold, despite government proposals for a new additional allowance for family homes.

Yet more than one in five (22 per cent) of the 2,003 adults questioned for the research said they had no plans to seek financial advice to help them reduce IHT.

Karen Barrett, chief executive of unbiased.co.uk, said: "People want to leave their estate to loved ones, but without tax planning you could also be passing on a hefty bill. There are several things that can be done, with the help of an adviser, to significantly reduce the bill your loved ones will face."

At Birchwood, we offer expert advice in inheritance tax planning, to reduce the risk of future liabilities. With the rising value of property, an inheritance or a substantial redundancy payment potentially tipping more estates above the IHT threshold, taking early expert advice is a sensible step towards minimising future inheritance tax liabilities. For more information, please contact us.

1 in 4 SMEs still not ready for auto-enrolment

More than one in four businesses yet to implement pensions auto-enrolment still have not thought about finding a provider.

In a survey of 400 small and medium-sized enterprises (SMEs) carried out for NOW: Pensions, 27 per cent of those yet to start automatically enrolling eligible workers into qualifying workplace pension schemes said they were yet to think about auto-enrolment.

From 1 June 2015, more than 1.2 million smaller employers will be affected by auto-enrolment, with more than 500,000 having to comply by the end of next year. The survey findings suggest that across the UK, 350,000 SMEs are still unprepared.

Where SMEs had considered finding a provider, a quarter (26 per cent) intended to ask their accountant for help, 16 per cent were relying on an existing provider and 12 per cent planned to search the market themselves.

Morten Nilsson, chief executive of NOW: Pensions said: "Auto enrolment is fast becoming a reality for thousands of firms across the country. Although it's tempting to put it off, auto enrolment is complex and the longer you leave yourself to plan, the easier it will be. Business owners need to wake up to the reality that if they don't get this sorted, they could face fines of up to £500 a day.

"While most employers are confident that pension providers will be happy to accept their business, the reality is that not all providers will be willing to accept all employers and all employees on equal terms. If you are planning to rely on your existing provider, talk to them early to check they are willing to help."

Birchwood's pensions specialists are experienced in auto-enrolment and other occupational pension issues. We can assist employers by assessing existing schemes for auto-enrolment compliance and implementing any changes necessary or putting in place new schemes, as well as providing briefings for employees on how auto-enrolment works and what it means for them. For more information, please contact us.

Young adults turn to parents for financial advice

Younger adults have been told that while their mums and dads' advice is a good starting point for making important financial decisions, they also need to tap into professional expertise.

The warning came after new research from financial products provider MetLife and unbiased.co.uk, through which consumers can find independent professional advisers, revealed that nearly half (49 per cent) of adults under 30 were relying largely on their parents to guide them through financial decisions.

The research, published on 11 May, also found that adults in their 20s were most likely to turn to their parents for financial advice.

A survey of 2,002 over-18s found that one in five (19 per cent) would supplement their parents' advice by doing online research, rising to 33 per cent of those in their 20s.

People were most likely to seek their parents' input on decisions about long-term financial products, including ISAs (13 per cent), savings accounts (13 per cent) and first-time-buyer mortgages (12 per cent). Only 16 per cent said they would not consult their parents about financial decisions.

Karen Barrett, chief executive of unbiased.co.uk, said: "This research shows that today's young people are thinking about their finances more than any recent generation.

"Taking on board your parents' experience is a good starting point, and you know they want the best for you. However, much as they would love to, most parents can't provide the specialist insights or market knowledge that you need for such decisions.

"Our discovery of high levels of financial regret – people of all ages recognising that they've made poor choices in the past – should be warning enough.

"By not obtaining proper information at the time decisions are made, people risk being much worse off in the longer term. Speaking to friends and family can give you anecdotal knowledge, and searching reputable websites can broaden your understanding, but only independent professional advice can provide the vital blend of expertise combined with a focus on your best interests."

Market Report

24 June 2015

Global Review

After a strong start to the year the rally in global equity markets has been derailed by weaker US data and more recently by fears of Greek default. A sharp sell-off in fixed income markets has also had an impact as signs of economic improvement within the wider Eurozone has eased deflationary fears. In the UK the expectation of a hung parliament ahead of the general election in May added to negative sentiment as did disappointing first quarter growth figures from China with official numbers suggesting the slowest rate of economic expansion since the financial crisis.

Equity markets within the developed economies had continued to post new all-time highs in April, with most noticeably the US NASDAQ closing above its previous peak set during the 'dotcom' boom in March 2000. European and Japanese markets have led with investors attracted by large scale quantitative easing measures from the region's central banks. Whilst the Greek debt problem will continue to dominate sentiment in the short-term, it will be the timing of US interest rate rises that will ultimately determine the direction of markets.

UK

A surprise Conservative majority in May's general election helped offset global concerns with particular benefit to the share prices of smaller, domestic facing companies. Whilst the FTSE 100 index has returned +8.3% in the first five months of the year, the FTSE 250 has climbed +15.2%. Markets have been encouraged by the political status quo, falling unemployment and accelerating wage growth that all point to a more stable outlook for the domestic economy.

Nervousness ahead of the election had been blamed for weaker than expected economic growth of 0.3% in the first quarter. Whilst a softening was expected, this was half the 0.6% registered in the final quarter of 2014. The Bank of England has forecast an acceleration in the second quarter despite concerns of further fiscal tightening and the promise of a referendum on EU membership by the new government. The Bank were equally relaxed on deflation as the first fall in prices since 1960 were blamed on the short-term factors of lower oil prices, cheaper food and a strong pound.

US

Both the Bank of England and US Federal Reserve are preparing financial markets for higher interest rates with the US central bank expected to move in the final quarter according to consensus. Forecasts of a first rate rise as early as June have been dismissed following the sharp fall in economic output experienced in the first quarter. An initial estimate of 0.2% annualised growth was revised down to a 0.7% annualised fall in output with bad weather and the strong dollar significant factors.

The US Federal Reserve have maintained the narrative that any future rise in interest rates will be data dependent and have offered extended forward guidance throughout the recovery. With only an initial estimate of second quarter growth available to the Federal Open Market Committee before it meets in August, it will take a very strong rebound in economic output to prompt a rise in rates in September. The International Monetary Fund have also urged the Fed to delay any hike in rates until 2016 in the absence of significant wage or price inflation.

Europe

European equity markets have delivered strong returns year-to-date in reaction to the European Central Bank's (ECB's) €1.1tn stimulus package announced in January. Prospects for the region had been deteriorating with real threats of recession, deflation and a break-up of the Euro. Positive action by the ECB, coupled with signs that both growth and inflation were beginning to pick-up, lifted sentiment despite the ever present problems in Greece. However, the inability of the new Greek government to re-negotiate the repayment terms of its bailout package has re-emerged as a major threat.

Greece has found it increasingly difficult to meet debt repayments with the European Commission, ECB and International Monetary Fund refusing to again re-negotiate terms in the absence of what it considers to be credible reforms on tax and pensions. Having already recalled cash from government departments to meet its obligations in April, Greece was the first developed economy to delay repayments to the IMF following a request for June's liabilities to be rolled over to the end of the month.

Japan

Japanese equities continue to benefit from the huge stimulus measures introduced by the Bank of Japan in October last year. The Nikkei 225 closed above 20,000 for the first time in 15 years in April as stronger economic data buoyed sentiment. The economy expanded by 1% in the first quarter, a sharp upward revision from the initial 0.6% estimate. This caps annualised growth of 3.9%, a strong turnaround from the technical recession experienced last year. It also provides momentum to the government's current programme of reforms.

After the first two arrows of fiscal stimulus and monetary easing, Prime Minister Abe and his government have been implementing a series of structural reforms that will inevitably take longer to show results. The labour market has been a particular focus with Mr Abe keen to increase the number of female workers in an attempt to boost productivity in the face of an aging population. With no plans to increase revenue beyond the consumption tax rise already planned, the government is looking to economic growth and restrained social security spending to balance the budget.

Asia

Reform of equity markets in China allowing foreign investors access to the closed A-share market has also seen a strong rally in both mainland and Hong Kong listed equities. The increased liquidity, a series of interest rate cuts and a reduction in bank reserve requirements have all provided impetus as the government seeks to lift softer inflation numbers and weaker economic growth. China's economy expanded at a rate of 7% in the first quarter, healthy by global standards but well below the government's 7.5% target.

Prime Minister Modi has been struggling to push through his latest reforms after the BJP's landslide victory in India's general election 12 months ago. The initial euphoria that followed the election of the first majority government for a generation has dissipated after the success of early reforms. Revisions to sales tax, the labour market and a new land acquisition bill have all met with opposition but are critical if the country is to achieve the 7% to 8% economic growth predicted by the Asian Development Bank in the coming years.

Investors urged to take a more realistic approach

Investors are upbeat about growth over the next 12 months but have been warned that they need to take a more "realistic approach" to investing.

The Schroders Global Investment Trends Survey 2015, published on 13 May, questioned 20,706 individual investors in 28 countries, including the UK, who intended to invest €10,000 or the equivalent over the next 12 months.

It found that 50 per cent of those questioned intended to increase the amount they saved or invested, up from 43 per cent last year and 38 per cent in 2013.

A total of 88 per cent said they made a profit from investments in the past 12 months, with average gains of ten per cent, with five per cent reporting a loss. Over the coming 12 months, investors were expecting an average return of 12 per cent.

Typically, retail investors were looking to place only around 21 per cent of their investment portfolio in higher risk/higher return assets such as equities, with 45 per cent of their funds going to low risk/low return assets such as cash and around a third (35 per cent) in medium risk assets such as bonds.

Massimo Tosato, executive vice chairman of global asset managers Schroders, said: "It's overwhelmingly clear that the demand for income is prevalent as retail investors seek to meet various objectives such as financing their children's education, purchasing a first home, setting up new businesses or supplementing their existing income in retirement.

"However, our survey highlights a clear disconnect globally between retail investors' return expectations and their attitudes to risk. Expecting double digit returns within the next 12 months, while only placing less than a quarter of their investment portfolio in higher risk assets suggests that investors are not taking a realistic approach to investing.

"It's imperative that investors shape their portfolios to balance the risk profile with the returns they are seeking, and in most cases, that will require a level of professional advice."

State pension crucial to one in seven retirees

More than one in seven (15 per cent) of people planning to retire this year have no pension savings, and will either be totally or heavily dependent on the state pension as their only source of regular retirement income, according to research by Prudential.

In its eighth annual study tracking the plans and aspirations of people who plan to retire this year, the insurer also found that one in six (16 per cent) will be retiring with expected incomes below the Joseph Rowntree Foundation's (JRF) minimum income standard for an adequate standard of living for a single pensioner of £9,500.

A single pensioner exclusively relying on the full state pension of £115.95 a week has a total annual income of just over £6,000. A retired couple both qualifying for the full state pension and receiving a combined income of £231.90 a week, but with no further pension income, would be just above the household poverty line, calculated by the Department for Work & Pensions as an income of £224 a week, after housing costs.

Women were more than twice as likely to have to rely on the state pension or other savings, with 21 per cent of women saying they had no pension savings compared with nine per cent of men.

Prudential's research, published on 22 May, also highlighted the importance of the state pension to all people planning to retire this year, including those who have other forms of pension savings.

On average, the state pension will provide 36 per cent of a 2015 retiree's income. However, almost two in five (37 per cent) of the 1,012 people questioned thought it was worth more than its current value and a further eight per cent had no idea of its value.

Vince Smith-Hughes, retirement income expert at Prudential, said: "The reforms to the ways that people can use their pension savings, that came into effect in early April, present retirees with many new choices.

"However, only those with their own pension savings will be able to benefit from the new choices, while people who rely solely on the state pension are likely to have to face serious financial belt-tightening when they give up work.

"Our research shows that the state pension will make up a significant proportion of income for most people – but it is important not to overestimate its value. To secure a comfortable retirement income the best approach remains to save as much as possible as early as possible during your working life.

"With all the options now open to pensioners, a consultation with a professional financial adviser could help to avoid making decisions that might have an unwanted financial knock-on effect in later life."

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