BIRCHWOOD INVESTMENT MANAGEMENT LTD

NEWSLETTER

April 2019

It's plain sailing...

Protecting your Family Should the Worst Happen

It's something none of us want to think about, but unfortunately there are two certain facts in life – we'll all pay taxes and we'll all die at some point, however, we may also fall seriously ill so we need to consider protecting ourselves and our families should the worst happen.

Life expectancy in the UK steadily improved throughout the 20th Century, meaning we now have a larger and older population, which is mainly due to people looking after themselves more, smoking less and improvements in the treatments of illnesses. However, in the last few years life expectancy in the UK has slowed down and virtually ground to a halt, according to ONS data (Office for National Statistics) *. The data showed that as of 2016, a female baby born in the UK would on average be expected to live until 82.9, while a boy would be predicted to live until 79.2.

Although cancer survival is at a record high and smoking rates are at an all-time low, every 2 minutes someone in the UK is diagnosed with cancer and every 4 minutes someone in the UK dies from this disease. Shocking as these statistics are, this is now the harsh reality of cancer in our day and age and despite on-going research, there are more than 360,000 new cancer cases reported in the UK every year - nearly 990 every day (2013-2015).

Whilst most of us don't think twice about insuring our homes and our cars, worryingly, only one in four UK "main household earners" have a life insurance policy in place according to the Association of British Insurers. We may all feel that "it'll never happen to me" but if something does, the impact of not having insurance can add to the stress and shock of receiving that news.

The research by comparison website MoneySupermarket.com showed that more men than women have Life cover, with 45% having a policy in place compared to 38% of women. Women often work part-time or opt to take a career break and stay at home to bring up children, so if they fall ill, or worse, this could effectively wipe out the family childcare, meaning the father would need to take time off work to look after his children. This is especially significant when a child is ill or has a long-term medical condition that requires full time care. Critical Illness (CI) insurance can provide a form of security as it pays out a tax-free lump sum on the diagnosis of one of a number of serious illnesses; this can apply to both the parents and children, as a parent can add their children to their own CI policy providing some financial peace of mind at such a difficult time.

Just one in five women have CI cover in place, compared to one third of men, according to research by comparison website ActiveQuote.com with only 13% of women with dependent children choosing to be covered, according to insurer Scottish Widows.

They found 40% of mothers have life insurance cover, yet a critical illness claim is far more likely. The importance of taking out private CI cover grows with more women working part-time, not at all or being self-employed meaning they won't have protection benefits through an employer.

With regard to Life cover, your policy pays a one-off payment to your dependents when you pass away and there are no income tax or capital gains tax liabilities on the proceeds. However, all proceeds that fall into your estate attract potential inheritance tax liabilities. This is chargeable at 40% after the nil rate band (£325,000 per person) is taken into consideration. it is therefore recommended to set up a life insurance policy within a trust so that the proceeds do not form part of your estate.

One particular use of life assurance is for the payment of inheritance tax. For a married or co-habiting couple, this is set up on a "joint life, second death" basis and placed in trust for the beneficiaries. The type of policy used for this purpose is usually a "Whole of Life". By covering the expected amount of inheritance tax with this policy, the entire value of the estate can pass to the designated beneficiaries.

It is always recommended to seek independent financial advice when planning critical illness cover, life assurance cover and for estate planning. Protecting your family is critical as no-one knows what is around the corner for them health wise.

How and when will the gender pay gap close?

2018 saw Iceland ranked first place for "female economic empowerment" making companies responsible for equal pay amongst male and female employees.

Britain was ranked at number 13, which was an increase from 17th place in 2000.

Despite it being almost a year since UK companies with 250 or more employees had to publish average pay for men and women, the gap last year was 17.9% for all employees, with 78% of UK companies paying on average more to their male employees.

However one in 10 employers are unsure how to reduce the gender pay gap.

In a survey of 802 senior HR professionals by YouGov on behalf of charity Young Women's Trust, almost a third felt their company had not proactively tackled this issue within the last 12 months with only 36% stating their employer was taking any action at all.

The same research suggested that removing the requirement to declare your current salary in job adverts would be one step in the right direction – currently 47% of employers ask this question.

If two equally experienced candidates apply for the same job; the man asks for £50,000 per annum and the women asks for £35,000; if the employer accepts this disparity, the woman is on the back foot financially before she even starts in that role.

If businesses defined appropriate pay for each role regardless of who applied this would improve employee retention and help to improve women's career prospects overall. In Iceland large companies must demonstrate they meet an equal pay standard approved by the Government and trade unions with variations in pay based on performance, but overall it's equal pay for equal work.

Whilst this may not address the number of men versus women in senior roles, consideration also needs to be given to more women than men occupying part time positions - 6.291million women vs 2.251million men in 2018, often due to childcare or career breaks. Addressing parental leave so more men feel comfortable taking this benefit and balancing how maternity leave impacts on women's overall careers will take several measures and significant changes in the corporate culture.

In the meantime, it's important for women to do everything they can to be as financially resilient as possible both for themselves and their families.

What age should we teach our children the value of money?

Money is one of the least talked about subjects in British society. Families find it a taboo subject; friends rarely discuss their income and who hasn't told a little white lie about exactly how much that new outfit or gadget cost.

So when do we address money with the next generation? As parents, we may think our own relationship with money is not particularly healthy, so we therefore refrain from discussing it with our children.

According to the Money Advice Service*, 57% of UK parents feel they're the main influence on their child's financial education but 58% admit they struggle to talk about it at home. Eight years of age is the average age when pocket money starts and we start to engage in conversations about savings by age nine, however Young Money, a charity specialising in financial education teaching resources, found money habits start forming from seven years of age.**

Financial education became part of the secondary school curriculum from September 2014, but so far is not compulsory in primary schools.

With personal debt in the UK amounting to £1.58 trillion, teaching children about saving and simple budgeting would help improve young people's understanding of money before they get lured into overspending once they've either started work, or left home for university. By parents giving children a clear jar in which to save money, they can watch this grow the same way adults do through money saving apps on their phones. Or when children ask for things whilst out shopping, explain how much things cost and the need to prioritise essentials over luxuries; switching off lights at home and explaining the costs of mobile phone contracts!

With more single parent households and working parents juggling the office and childcare, children can gain an insight into the costs of running a home without burdening them with too much detail at a young age. As they grow into teenagers, money can be earned for chores; a savings goal can be set for an expensive item they want and not replacing things when lost; educating them on mistakes we as parents made and not resorting to credit for unnecessary purchases.

The Millennial Money Survey (4000 adults aged 18-35) shows 30% of those surveyed don't feel they have sufficient understanding of saving money or investing, with a keen interest in improving their overall financial knowledge.

Almost 10 million millennials have "traditional" life goals but 7.8 million lack the savings or investments to realise these ambitions. With 40% not owning a credit card and 60% without an overdraft it's clear that some good financial behaviours are already being formed, but with 32% held back from investing due to the risk of losing money, involving children in financial decisions later in life and encouraging them to seek professional advice could go some way to reducing the long term level of UK personal debt.

Market Report

April 2019

Global Review

Global Equity markets have experienced a strong bounce after a painful end to 2018, which saw share prices depressed by a continuation of the Federal Reserve's (Fed) interest rate hiking cycle and heightened tensions between the US and China. Since the turn of the year however, the Fed has taken a far more pragmatic approach whilst there appears to be a genuine want on both sides to reach a resolution on trade between the world's two largest economies.

In Europe, ECB President Mario Draghi ruled out any rate hikes in 2019, as Italy entered its third recession in a decade and Germany narrowly avoided the same fate. Draghi pointed to the uncertainty surrounding Brexit as a contributor to weakening economic data in the eurozone, as Theresa May desperately seeks a clear direction ahead of the Brexit deadline.

In the emerging economies Turkey and India struggle to adjust to inflation of over 20% and 5% respectively as a result of currency depreciation, whilst new Brazilian President Bolsonaro has given the region's equity markets a welcome boost.

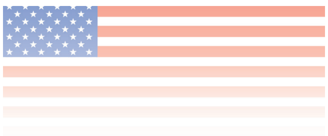
UK

The UK economy expanded by 0.2% in the three months to the end of 2018, easing from the 0.6% growth seen in the previous quarter. Despite this, UK unemployment fell to 3.9%, representing a 44 year low, whilst wages grew by 3.4% to the end of January.

Inflation remains close to the Bank of England's target, although did increase to 1.9% in February as the rise of food prices offset the fall in clothing. Despite the largely positive data coming out of the UK, the Bank of England has kept rates at 0.75% as their hands remain tied by the ongoing uncertainty in Brexit.

At the time of writing Theresa May either has to get her deal over the line or agree to extend the negotiation period if the UK is to avoid crashing out of the EU without a deal. MPs have already twice rejected her proposal, with a huge margin of 149 votes on 13 March, and speaker John Bercow has ruled that she cannot take her deal back to parliament unless significant amendments are made. The EU 27 nations will have to agree to further extend Article 50, which could prove difficult as the focus of the European Parliament switches to the MEP elections in May. UK equity markets have headed up for the year to date, whilst sterling has bore the brunt of any negative news coming out from Number 10.

US



The S&P 500 has rebounded strongly from the lows reached at the end of last year, and has posted double digit returns since markets reopened in January. The US has long been the driver of global growth, and whilst economic data remains strong relative to the rest of the developed world, it has weakened slightly this year.

Final quarter GDP growth was above expectations at 2.6% but the Federal Reserve are expecting it to fall to 2.3% for 2019. Wage growth now stands at 3.5% year-on-year for the world's biggest economy, which is significantly ahead of core inflation of 2.1%. The Fed have announced a pause in the rate cycle and the Fed's policy makers have indicated no hikes in 2019 and only one in 2020.

Markets have been buoyed by the dovish rhetoric of the Fed, and have reacted well to increased harmony between the US and China. The US import tariff was scheduled to increase at the turn of March but has been delayed amidst ongoing negotiations in Beijing. It remains to be seen if President Trump can reach an agreement with his Chinese counterpart, but markets appear optimistic that this can be done.

Europe

Political uncertainty has continued to dominate the sentiment on the continent, with Brexit hampering the ability of the European Parliament to switch their attention to the upcoming elections in May. The rise of populism has been felt just as much in Europe, with the Italian coalition putting forward a revised budget after months of ignoring the European Central Bank's (ECB) requirements.

Italy is currently giving policy makers the biggest headache, with the 10 year bond yield currently at 2.45% and national debt of over 130% of GDP. The International Monetary Fund (IMF) have warned of the implications of an Italian crisis on the rest of the world.

Germany narrowly avoided entering a recession with 0% GDP growth for the quarter, whilst the ECB has cut its growth forecast to 1.1% for the region for 2019. Mario Draghi has ensured that he will end his 8 year tenure without a single interest rate rise as he looks to navigate the economic bloc through the latest economic slowdown. The European stock market has been relatively immune to the political uncertainty, and the rise in share prices has remained in line with other developed markets for the year to date.

Japan

Japanese GDP grew by 1.4% in the fourth quarter after contracting in the three months previous. Shinzo Abe is set to become Japan's longest serving Premier in November after securing a third straight term, and will continue to guide the country through this cycle of economic stimulus with ultra-loose monetary policy.

As a result the 10 year government bond yield will remain largely pegged to zero, with national debt standing at 236% of GDP. "Abenomics" has ensured that Japan has seen its strongest period of economic growth since the 1990s, but the issue of deflation looks to remain prominent for the foreseeable future.

Asia

Fears over a Chinese slowdown has yet to dissipate after real GDP fell to 6.4% for the fourth quarter. The Chinese government has already announced a series of measures to combat declining growth, with the reserve requirement ratio cut by 1%, effectively adding 800bn Renminbi (c£89bn) of stimulus to the economy, or 0.8% of GDP.

The policy of monetary easing is expected to continue throughout 2019 which has been welcomed by investors, and the Shanghai composite has strengthened on an improving relationship with the US.

Outside of China, the upcoming Indian elections could prove crucial as PM Modi looks to secure another term and continue his reforms. It had been stipulated that the leader of the ruling BJP would win this election comfortably, but he has recently come under pressure for lack of action concerning youth unemployment and manufacturing.

The Indian stock market has risen on the back of a weak currency and improved sentiment for Asia.

New data shows that the Government has over-taxed pensioners by up to £30 million in recent months

The latest figures from HM Revenue & Customs (HMRC) have revealed that the Government has repaid around £30 million to savers who were overtaxed on pension freedom withdrawals during the final three months of 2018.

The new data adds to existing research, which shows that since the introduction of the pension freedoms in April 2015, more than £400 million has been overpaid in tax and since reclaimed.

Extrapolating the information further shows that the average amount reclaimed is around £2,312, but experts are concerned that more people may be affected without realising.

HMRC has refused to change its approach to the 'emergency' taxation of money withdrawn under the freedoms, which has affected thousands who have accessed their own money flexibly.

Experts believe that the fact that few pensioners accessing their money have had to directly report their affairs via a tax return in the past due to PAYE, has led to more errors and overpayments.

Former pensions minister Steve Webb has previously said that "HMRC is perfectly happy to overtax tens of thousands of people each year and make them jump through hoops - having to choose between three different forms to complete - and then wait to get their money back.

This is a system run for the convenience of HMRC, not the taxpayer.

Probate fees of up to £6000 from April 2019

Inheritance tax (IHT) is often seen as one of the most unpopular taxes, perceived as making money from those who pass away. In 2017/18 the IHT revenue exceeded £5 billion, 8% more than the previous year*, which is perhaps indicative of the rise in the value of UK property. When someone dies leaving a will, the executors need to apply for "a grant of representation" from the probate registry in order to release the estate assets.

There are exceptions, where property is jointly owned for example, but the current cost is a flat fee of £155 (with solicitor involvement) or £215 if applied for personally.

In 2016 the Government tried to increase these rates to shore up the £1.6 billion cost of running the UK court services but amid opposition from MPs, the 2017 general election halted any further progress. Fast forward 3 years however, probate fees are about to increase to as much as £6000 (for estates worth £2 million +), and generally calculated at 0.25-0.5% of the total estate.

For estates worth less than £50,000 fees will be abolished altogether which could save approximately 25,000 estates up to £215 each, but more than 200,000 will be paying considerably more, as will those estates where IHT is not applicable – these probate fees will still be charged.

April 2019 also sees the IHT threshold increase to a starting point of £475,000 but only if the deceased has left property to their direct descendants (child/grandchild), otherwise the current £325,000 minimum level still applies.

With more than £5 billion taken through IHT a year, there is a clear need for families to plan ahead effectively, possibly gifting children amounts during their lifetime if this is feasible.

There are various investments and exemptions that can be considered without being onerous but the earlier you start to plan the better the final outcome will be.

Birchwood Investment Management Ltd, 8 Prospect Place • Welwyn • Hertfordshire AL6 9EN • UK
Tel: 01438 840 888 (Welwyn) • 0161 932 1038 (Manchester) • **Fax:** 01438 840 097 • **Email:** info@birchwoodinvestment.com