Money Matters

NAVIGATING THE FINANCIAL LANDSCAPE

Winter 2016

Keeping your investments on track in tough terrain

7IM's Chief Investment Officer on preparing for market turbulence

IN THIS ISSUE

WREN STERLING

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Welcome to the Winter 2016 edition of Money Matters

Since our last magazine, it's fair to say the world has been through a turbulent spell with markets and the pound fluctuating dramatically then settling as a result of the vote to leave the European Union. For many people with investments, the days immediately after the referendum were up and down to say the least, so we decided to interview Chris Darbyshire, Seven Investment Management's Chief Investment Officer, about how 7IM prepared for the outcome of the referendum and where risk lies in the coming months for investors.

Of course, as a long-term process the financial planning world carries on regardless of market activities, so I'm delighted to introduce you to two of our clients talking openly about their financial journey. Subjects like inheritance tax really are where we add value to our clients given its many complications and the difficult emotional circumstances that come with the territory.

As usual, we've included some tips for clients. This time one of our accountancy partners, TaxAssist Accountants, covers landlords' rental income and tax and our own private medical expert, Tony Haire, talks through the corporate private medical insurance market with tips for companies looking to improve their offering and save money.

Looking ahead, in order to receive our Autumn Statement reaction and report, plus our regular client email updates with related news and views, please email: **marketing@wrensterling.com** including your client reference, which can be found on the letter accompanying Money Matters.

I hope you enjoy Money Matters, and as ever, if any of the articles prompt you to think about your own circumstances, please don't hesitate to contact your adviser.

Ian Darby
Executive Chairman

How fund managers keep investments on track in turbulent times

The summer of 2016 is not one that Chris Darbyshire, Seven Investment Management's (7IM) Chief Investment Officer, will forget for some time, and not because of a memorable summer holiday.

For a few weeks at the end of June and the start of July, the financial markets lurched from sudden lows to incredible rebounds and the pound sunk to levels not seen for many years on the back of the UK's vote to leave the European Union. Since then, the UK has experienced political upheaval that many of the population have never witnessed; a new Prime Minister, an opposition party embroiled in an existential crisis and a nation split down the middle on whether the vote to leave is the right one for the future of the UK.

In the middle of that turbulence are the group of investment managers selected by Wren Sterling (of which 7IM is one partner) to run our clients' investment portfolios. They are tasked with generating a return for investors in all conditions over the long term. Chris talks here about how 7IM prepared for Brexit, where he sees future risk and what the outlook is like for investors.

"The decision was taken to cancel my summer holidays this year and postpone them until Christmas because the summer months have been rotten for the past few years", says Chris as he recalls events leading up to the referendum to leave the EU in June. "I remember it well, we were sitting in the office thinking it was going to be a damp squib as it looked like Remain had won. Nigel Farage had accepted defeat and the bookies were incredibly confident. It was about 3.30am that we realised definitively what was happening and we started buying US dollars from traders in the Far East, something we hadn't done before, at $1.36 in the pound, which looks like a good decision now."

To the outsider looking in it must have been panic stations, but the key for 7IM ahead of the referendum was preparation. When pressed about how 7IM held its nerve when the pound was plummeting and the pre-Brexit prophecies of economic meltdown were looking like they were coming true, Chris is very relaxed. As you would expect, the investment team modelled the different outcomes and planned accordingly, buying foreign currency to guard against a drop in the pound.

"We thought the reaction to a vote to leave might be through currency rather than the stock market, so we prioritised holding foreign currency rather than sterling because assets held in foreign currency would go up if the pound fell. If you have a good process in place, you don't need to take spur of the moment conviction trades where you can lose a lot of money."

But what made 7IM go that way?

"From the moment the referendum was announced up until the vote itself, we noticed potential weaknesses in the pound. When Boris Johnson came out for Leave the pound dropped – one of the most sudden drops in history.

"That was the day we knew the pound was definitely sensitive to the referendum. At no point did we feel that way about the UK stock market.

"We try to predict relationships, the direction of the relationship – i.e. Brexit and pound up or down and the extent of that direction and plan accordingly.

"As a result, when everything was down 8-10% a couple of days after the referendum, we didn't need to sell anything. After that, when everyone loved risk, we were fortunate enough to make some money."

Since then of course, markets have rallied and are in a better place than they were pre-Brexit but the pound remains weak, vindicating Chris' decision to back foreign currency.

The UK's Prospects

So was Brexit all a big fuss over nothing?

"Investors have certainly reacted that way, but I believe there is more risk to come. I would say since the vote my team has had to shift our area of expertise away from economics and become political analysts, as that is where the next tranche of risk is going to come from. The UK hasn't actually left the EU yet and we don't know how investors will react to that. Furthermore, we're looking at a political shift in this country and across Europe that will shape investment decisions."

So has the UK weakened its historic attractiveness for investors by voting for leave? Chris can see both sides of that debate.

"People loved the UK's political stability and the fact that perhaps more than any other country we've opened our borders to trade. However, there is a great deal of uncertainty still to be unleashed on the UK and the question that we don't know the answer to just yet is 'how does that hit portfolios?"

On the flip side, Chris thinks the pound might have largely bottomed out, but he knows that means changes to the 7IM investment portfolio coming up.

"As a result of the recovery, we have been hedging foreign currency on the expectation that the pound could rally.

"What benefited our portfolios at the time (high levels of foreign currency) could hurt us if the pound surges, so that's why we need to do something now. Sterling has bounced along the bottom for a while, but we see it going up at some point."

Investors may increasingly need to look beyond Europe for investment returns

The European Outlook

With political events now seemingly having more influence on stock market and currency fluctuations than before, Chris sees risk in the European political landscape both as a result of, and independently of, Brexit.

"I think in the UK we're seeing the emergence of a left-wing anti-immigration movement as the 'Leave' demographics showed. I see similarities in the rise of a left-leaning, anti-immigration party in Germany, Alternative fuer Deutschland, which recently beat Angela Merkel into third place in a regional election in her own constituency. It sends a clear message to the political establishment and could affect markets."

As Brexit showed, uncertainty and speculation is as damaging to markets, if not more so, as a vote itself. Chris does see some positives in Europe, but is generally cautious.

"Germany is the engine of growth. The German consumer is really consuming – like an American. We've also had a bit of recovery in the periphery with Spain returning some better economic performance.

"Italy and France have been lacklustre though, so that is disappointing.

"I suppose what's annoyed us about Europe is that larger companies have failed to generate growth. They've let us down with their earnings. Growth has been among smaller companies and this is less liquid, so therefore more risky and we tend to stay liquid as an investment house.

"We've been trimming our Eurozone positions post-referendum on the assumption that any change in the UK economy would have a knock-on effect on the rest of Europe although it's still a bit too early to say if that will materialise."

The Trump Card

Looking further afield, the US elections in November is another crunch point and while it doesn't inspire Chris at all, he's not too nervous about the outcome.

"We're looking at the two least-appealing candidates in history. If Hilary Clinton gets in we will be looking at increased government spending but you can expect mainstream economic theory to largely play out. The Democrats should win, but they've certainly made it hard for themselves. If Trump manages to win, I can see the markets staying relatively calm, largely because the president doesn't set the economic tone."

The last word is on diversification though, which Chris says is an all-weather strategy that he will be standing by in the near future and expects others to adopt it where uncertainty can be expected in the coming months.

"The much diversified nature of our portfolios protects investors. If Europe slows after Brexit, it's the ability to successfully diversify into America and Asia that will save you.

"But what this referendum taught me above everything else is that diversification can really work well for you when your home country is at the centre of the hurricane."

Chris Darbyshire on the medium term prospects for investors

Low risk

"My sympathies lie with those with low risk portfolios because they are likely to have a significant allocation in bonds and the bond market has been distorted by the actions of the central banks since the credit crisis. I do question their value and wonder if they're safe.

We've been trying currencies or alternatives, but it's hard to find an alternative when markets are falling.

Gold has done this in the past, but it's not a reliable relationship."

Medium risk

"In these portfolios I see more room for manoeuvre because you're not so reliant on bonds. If the bond markets are not as safe as they were, you're probably looking at taking on more risk as the alternative is cash, which will eat away at your worth due to inflation.

This could mean a world in which balanced portfolios include a wider range of asset classes to choose from and might include more exposure to emerging markets. Importantly, how sterling moves will affect your portfolio more than anything else over the next year or so. There's an opportunity for investors to stabilise their portfolios, but there's risk."

High risk

"You don't need to worry about the bond market for a start. The question is where to put money.

For me there's only one country that is big and growing so you need to gravitate your adventurous portfolio towards Asia. You can take advantage of the fact that some people are avoiding China because of the opacity of economic data and the fact that it can be quite hard investing there. We see China looking to engage with the developed world though. China has growth, but needs the money to finance it. The developed world lacks growth, but has the money and that simple relationship will put the two together eventually and become a great success. If you're an adventurous investor, head east."

This interview took place on 5 September 2016 and reflects the thinking of Seven Investment Management at that point in time. It should not be taken as investment advice and please speak to your adviser prior to making any investment decisions.

How did Wren Sterling's clients react to the EU Referendum result?

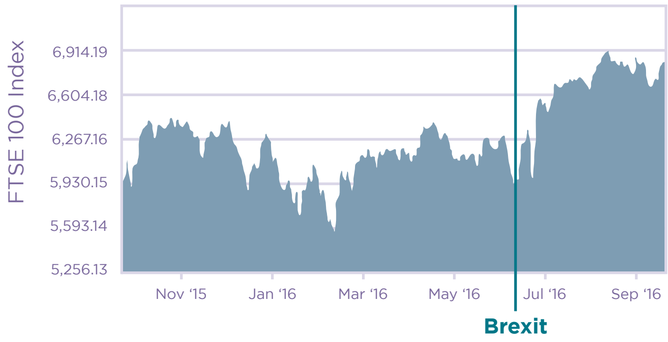
Paul Gegg, an Independent Financial Adviser with Wren Sterling reflects on how his clients reacted to the Brexit vote in June. It's fair to say the media reaction and the amount of activity taking place in portfolios did not match up.

Money Matters: Hi Paul, it's fair to say one event has dominated society this year. How have your clients reacted to Brexit?

Paul Gegg: I've been asked plenty of questions about it, but on the whole I've seen a balanced approach from clients. It might have been different had the initial drop in the markets continued, but we've actually enjoyed a bit of a boom overall in portfolios since the vote, so that has definitely contributed towards a sense of calm.

FTSE performance since Brexit

The Brexit vote triggering a surge at the beginning of July



It's also important to remember that, despite unprecedented political upheaval, nothing has actually changed in terms of the UK's membership of the EU – yet. Of course, there is considerable uncertainty within the wider economy – and that will be present for some time. When we get a view of what the UK's long term relationship with Europe might look like and how companies react to that relationship, then we might see more significant movement.

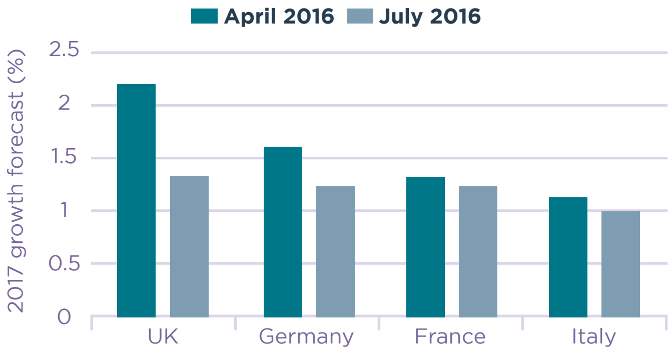
I would say that although the Brexit vote might have felt like a significant cultural event, its impact on portfolios and financial planning for my clients has been limited.

MM: We've heard a lot about rebalancing portfolios, so what does this mean for your clients in the future?

PG: It's reasonable to assume that there might be a drop in UK economic performance somewhere along the line, which is why it is sensible to only ever have a portion of investments in the UK. If this drop turns out to be a long term problem, we may consider moving more investments abroad to accommodate that.

We consult our investment committee and use the expertise of our investment partners to help us make the best fund choices for our client.

UK expected to outgrow Germany, France and Italy



Growth expectations for the UK have been revised down since the EU referendum. (Source: IMF)

MM: Looking at products, is there an area where the uncertainty might impact clients?

PG: Since Brexit there has been a focus on annuities suffering due to the fall in gilt yields, but annuities have had a poor few years, if we're honest. Fundamentally they're still the best way to ensure a regular income through retirement, but in a low inflation environment, they don't create a tremendous amount of income from their capital, so fixing income now carries risks.

Flexi access drawdown, for certain clients, has been a more popular product for a little while now and I expect this to continue.

With flexi-access drawdown, when you come to take your pension you reinvest your pot into funds designed to provide you with a regular retirement income.

This suits people who want control over their retirement income or who are worried about annuity rates, and it avoids the emotional wrench of seeing a lump sum disappearing into annual amounts. It needs to be made clear though that this income may vary depending on the fund's performance and it isn't guaranteed for life.

MM: And what about an interest rate cut as a result of Brexit, what effect does that have?

PG: Aside from giving people reason to talk about interest rates again, I don't see this as having a significant effect. We've been in a really low environment for years now and another small drop won't make much difference, although psychologically it could prompt people to give investments greater consideration over savings.

What people need to look out for is inflation. If we enter a period where inflation moves ahead of wage growth and interest rates remain where they are, cash starts to lose value and investment is a logical way to counter this.

> The decision to access your pension savings is an extremely important one. Before you do so, please speak to your adviser to be certain you fully understand your options, including the difference between flexi access drawdown and annuities.

How our independent Investment Committee protects you, our clients

Roderic Rennison chairs Wren Sterling's Investment Committee, the body that provides oversight and scrutiny on the investment managers selected by Wren Sterling to manage clients' investment portfolios. He explains why the Investment Committee exists and the value it delivers for clients of Wren Sterling.

Money Matters: In short, how would you sum up the purpose of the Investment Committee?

Roderic Rennison: Briefly, the Investment Committee meets quarterly to ensure there is appropriate, consistent and systematic oversight of the investment managers, their investments and the product providers selected for clients of Wren Sterling. We do this for several reasons, but ultimately it is to make sure the products and funds our clients' money is invested in are going to produce the right outcomes for them, according to their risk appetite and personal financial goals.

This level of oversight gives our clients peace of mind, reassuring them that Wren Sterling is doing the right thing to protect their interests and help them meet their financial goals.

MM: Who is on the Wren Sterling Investment Committee?

RR: I'm the chair and I'm an independent and external chair for exactly those reasons – I don't have any internal influences and I bring experience of what good external governance looks like to ensure the Committee meets its objectives.

Alongside me there is Wren Sterling's Director of Compliance and representatives from our adviser and paraplanner population alongside people responsible for research and proposition development. We're also assisted by RSM Research, an independent investment fund research firm who help us navigate the hundreds of investment options available on the market.

MM: Can you describe how our clients benefit from the Investment Committee?

RR: First of all I think it's important to say that Wren Sterling has a great deal of confidence in the investment managers it works with currently to select the right funds for its clients and manage them appropriately. Even taking that into account, Wren Sterling would not be doing its duty as a business if it didn't scrutinise the financial strength, performance, integrity and management of suppliers on behalf of its clients.

Asking the right questions in a systematic way means Wren Sterling's partners have to regularly satisfy defined governance processes. We have the power to change if we believe an investment manager or other provider has fallen short of our standards in terms of management or if the funds they have recommended are inappropriate for our clients in any way.

The Investment Committee reports to Wren Sterling's Board and generally our recommendations are accepted but they can and do challenge us on occasions when they want to explore certain aspects or satisfy themselves on particular issues.

MM: How does it cater for clients with different approaches to risk?

RR: What Wren Sterling does is to make sure the funds offered are of a wide enough range to cater for clients across the risk profile spectrum. Within that framework, individual advisers will decide whether their client's appetite has been catered for from the range of available funds. A client falling outside this range would be rare and assessed on an individual basis within the ordinary course of business.

MM: Will certain products be banned?

RR: Yes, there are certain products that we have decided as a group, are inappropriate for Wren Sterling's clients – and even within products we deem acceptable, there will be some that are not offered to clients at an individual level because they exceed clients' risk tolerance.

The Investment Committee is a forum for ideas to be debated and in the past few years we've discussed peer-to-peer lending, venture capital trusts and unregulated collective investment schemes to name a few.

As new products enter the market and advisers and clients question whether they would be appropriate investments, we analyse and debate each one and then make an informed decision.

Feeding back our findings to advisers helps them stay contemporary in their knowledge and to pass that on to clients at their reviews.

MM: Does the Investment Committee have an opinion on Brexit and other external risks?

RR: Absolutely, external risks like Brexit are items on our agenda as they directly affect the performance of the funds our clients' money is invested in. Unlike the Treasury, our fund managers did prepare for both results, which is what we expected of them. Again, assessing these risks in tandem with returns, volatility, the financial stability and performance of our fund managers etc. is part of the process that ensures we're providing the level of oversight our clients expect of us.

Private medical insurance: The right fit for your business and your employees

Tony Haire is Wren Sterling's private medical insurance (PMI) expert. Widely regarded as a cornerstone of a comprehensive employee benefits package, Tony believes there isn't an employer or employee that wouldn't gain from a policy in the workplace, but there's many ways to make sure you're getting the right policy for your people for the right price.

There's no doubt that any organisation's principle strength is its workforce. It is always advantageous to have a fully fit and healthy workforce and PMI is central to helping employers achieve this.

As well as medical and mental wellbeing, PMI can act as a retention tool for businesses and as a replacement for salary at times when paying cash is difficult, something I saw used extensively in the aftermath of the most recent financial crisis.

From the employees point of view, retiring from a company doesn't necessarily need to mean they have to relinquish their PMI. 'Individual continuity' is available to those that have been a member of a group policy and wish to continue cover on an individual basis.

Wren Sterling can also arrange private medical insurance for clients without a group policy so they can enjoy the benefits of knowing they and their loved ones have access to specialist medical services when they require them. I'll cover this in more detail at the end of the article.

The case for PMI

Statistics from the Office of National Statistics (ONS) show just how prevalent sickness and injury are in the workplace. Recent ONS reports show how the most common causes of absence affect the workforce as a whole.

- Latest estimates show that annually over 600,000 workers are injured in workplace accidents and a further 500,000 workers suffer a new case of ill health which they believe is caused or made worse by their work.
- The construction industry has the largest estimate of occupational cancer cases, with 3,500 cancer deaths and 5,500 cancer registrations each year from this industry.
- The total number of cases of work related stress, depression or anxiety in 2014/15 was 440,000 cases, a prevalence rate of 1,380 per 100,000 workers. The total number of working days lost due to this condition in 2014/15 was 9.9 million days. This equated to an average of 23 days lost per case.
- The ONS estimates the cost of workplace illness and injury in 2013/14 to be over £14bn of which employers shouldered £4.9bn of that cost.

These statistics show that employers simply can't ignore illness and injury in the workplace.

The important thing is to get the right policy for your business, investing in that policy and making sure your people understand the benefits available to them. Illness and injury are a fact of life, but covering for them as an employer can help you out a lot in other areas of your business, like staff retention and productivity.

Understanding what employees value

I often find PMI policies in a state of neglect and no longer appropriate for the workforce they were initially designed to cover.

When I'm asked to review an existing policy, I'm usually focusing on three key areas; cost, service and benefits. Without regular reviews, all three of these areas tend to slide.

As with almost any other insurance, if you just leave it as it is to renew each year, you won't be able to take advantage of other new or improved products on the market.

Organisations that don't review their policies probably don't take the time to understand its effectiveness or take-up. Without this, they will not know how popular their policy is with staff, increasing the chances of them paying for benefits that are neither used or appreciated.

> Without meaningful management information (MI) organisations can't make a value judgement on their PMI commitment. They have good intentions but the policy isn't optimised so there will be waste that can be eliminated.

Furthermore, understanding what your employees value can help focus your attention and derive greater reward for your investment for you and your employees.

Annual cost of workplace illness and injury

£14bn
overall

£4.9bn
cost to the employer

Tailoring PMI and reducing your premiums

Where MI does exist and employers can analyse the take-up of PMI and the cost of the policy, there are several areas to look at that will make the policy more effective.

Reducing the cost of the premium by introducing an excess for employees is a popular move now. In cases like a round of physio, most people realise that they will get seen much faster by a private practician and that will alleviate pain, so a small excess could be seen as worth paying for their private as well as their working lives. I don't think it devalues the provision of PMI for the workforce as a whole and makes sense for all parties.

Sometimes the vagaries of PMI premiums open up opportunities for employers too, like the cost of providing hospital care to employees in London.

Ask yourself whether you really need to include some London hospitals as options for your employees. Some of them are incredibly expensive in comparison to the rest of the UK, so if you've recently shut or downsized a London office, or your people mainly commute to London from outside, you could save on your premium there.

If your business has a low record of claims, you could also ask to be assessed on a claims-related basis. It is common practice for policies to be underwritten based on age, but this may not be good value for all companies. Note, a corporate claims-related basis, is dependent on group size and is usually for a minimum of 50 employees.

Finally, companies can split out the benefits available to their workforce, restricting benefits for some people who may not need it as much or using it as an attraction and retention tool for top talent.

There will probably be people that need looking after more from an operational perspective (if they're field sales and need to be able to drive you would want to have them treated immediately, for example), so it makes sense for companies to look pragmatically at their people. One size rarely fits all in life and this is certainly true of PMI.

TIPS FOR REDUCING YOUR PREMIUM:

1. Could your employees pay an excess?
2. Could dental and optical be offered as separate benefits that are paid for by employees? A low-cost cash plan for example.
3. Has your company recently moved to or away from London? The cost of hospital beds in the capital is markedly more expensive than the rest of the UK so this could affect your premium.
4. Could you reduce outpatient benefits?
5. Introduce a 6 week option where the insurer will not pay for inpatient/day patient treatment, if the treatment is available on the NHS within 6 weeks of when the treatment should take place.
6. Do you have a low claims record? Ask to be assessed on claims rather than by age.
7. Tailor benefits to particular groups of employees, because not all benefits are appropriate for all employees.

Making sure your people use and appreciate their benefits

Where employees are confident they have selected the right policy for their workforce and are happy with the premium, an often overlooked aspect of implementation is financial education – making employees aware of the benefits they are entitled to.

Many employees don't read the small print on their benefits packages. A simple presentation or workshop on the range of benefits on offer can help organisations gain value from their commitment. When I deliver these workshops I invariably hear "I didn't realise my company offered that" or "how do I go about proceeding with private medical treatment? Do I need to go through my GP?". There's not only the time out of the workforce that is costing the employer, but the employer is missing out on good will and sentiment towards them for looking after the wellbeing of its employees.

Retaining your group PMI policy when you retire

When retiring from work, it can be advantageous to retain the terms of your group policy and take them on an individual basis. Naturally, there may be an increased premium as you're no longer part of a group containing younger people, but typical advantages include no additional underwriting if there has been no break in cover.

No company PMI but interested in PMI cover?

PMI offers many benefits. Typically waiting lists are much shorter, hospitals are cleaner, diagnostic tests are quicker, there's a choice of hospitals and consultants, more privacy and a wider range of drugs and treatments. If you don't have PMI or if you are dissatisfied with the level of cover provided by your employer and would like to arrange policy for you and your family, please speak to your adviser.

Case studies

These are recent examples of where Wren Sterling has advised on PMI cases for an existing client and a new client with a focus on providing affordable cover.

Case Study 1 (new client)

A small precision engineering company, based in the West Midlands was looking to offer PMI to their directors and staff (14 employees) as a result of reviewing their company's overall employee benefit packages.

Some of the main reasons the company selected a group plan included relatively low cost, the fact that the company pays for its employees while giving employees the option to cover their eligible dependants at their own cost (with the advantage of benefiting from group rates).

For the employer, its primary motivation included attracting and retaining good quality staff. The management consider a full benefits package to be essential for being recognised as an employer of choice. It is their belief that in the current economic climate, with salary increases either capped or below inflation, a healthcare package would have a high perceived value for employees.

PROPOSAL: A comprehensive age-rated PMI plan with a reduced yet realistic outpatient limit was recommended. A relatively small excess per person and suitable hospital access based on location was agreed, achieving an affordable total premium.

Case Study 2 (existing client)

An existing client, a London-based 'trader' with 85 employees had made a recent acquisition of a further 45 staff, all un-insured.

The client is currently assessed using age rated formulas and subject to full medical underwriting. The company recorded two high claims in the previous year for cancer and heart problems and although both claims are now complete they are still showing in their recent claim history. This resulted in substantial premium increase at renewal, even though claims in the current year are reasonably low, due to age increases and the insurance premium tax rise.

The client also has a relatively high number of employees with benefit restriction (exclusions) due to past, or existing medical conditions.

PROPOSAL: The recommendation was for the client to stay with the same insurer, but switch to a claims/experienced rated corporate plan, giving enhanced benefits by transferring to a 'medical history disregarded' contract. The corporate pricing eliminated the past two completed high claims resulting in a lower premium compared to the age rated renewal terms.

The group size increased from 85 to 130, and with further expansion expected due to future planned acquisitions, a simplified enrolment process was required. Only two age brackets remain, under 65 and over 65, therefore employees 'flat' rated. As part of the arrangement, the insurer is providing monthly MI in order to monitor claims and the plan performance.

If you need to review your PMI cover or you are thinking about establishing PMI for your business, please contact your adviser for more information and to set up an appointment.

Wren Sterling also arranges private medical insurance for individuals through one of our carefully selected partners as part of our holistic approach to financial planning. Please ask your adviser for more details.

Long term relationships: Financial planning for all the family

Long term relationships really are the backbone to successful financial planning. Very often this crosses generations as advisers seek to ensure financial goals are met and wealth can transition efficiently from one generation to the next.

Money Matters spoke to Jenny and her son, Julian, about their decade-long relationship with Clive Barwell, Wren Sterling's Head of Later Life Advice.

Money Matters: First of all, could you quickly recap on how you came to work with the family, Clive?

Clive Barwell: I first met Rod (Jenny's late husband) after an introduction from a solicitor when Rod's mother was ill back in 2005. I was called in to do some urgent inheritance tax work (IHT) because there were no arrangements in place and a potentially sizeable IHT bill emerging.

At the time, it was also 5-6 years away from when Rod expected to retire and he wanted to get a steer on what he was going to have and in anticipation of receiving an inheritance from his mother, who was nearing the end of her life.

He was planning to gift some money to the children as my analysis showed that Rod and Jenny were going to be secure in the long term. There was a clear opportunity to cascade the money down the generations.

Sadly after we had made plans, Rod died quite unexpectedly. This meant there were two inheritances coming into the family at that time, so the planning for Jenny his wife, and her two children Julian and Alex began to take shape as the issues emerged.

MM: Jenny, this was obviously a very difficult time for you and the family – did you understand the issues?

Jenny: I must admit I didn't know much about it. Previously I had left finances to Rod so I had very little understanding. All I knew was that we had always provided for the children, Rod had a pension due to his work and we had some savings.

MM: Jenny and Julian, you've both been clients of Clive and Wren Sterling (formerly Towergate Financial) for over ten years, how would you say the relationship has evolved?

Jenny: I would say it has become a lot more relaxed. I feel comfortable talking to Clive about our finances and my understanding has certainly improved.

Julian: I first met Clive in London when I returned from studying in America. I went to see Clive because I was going to receive an inheritance. Clive had worked with my father for many years and was involved in the family's finances, and now I had an individual relationship with him as I discussed my personal financial plans for the first time. This was a real benefit, I was thinking about these issues much earlier, in my mid to late twenties, than I would have done otherwise.

MM: Jenny, what are your financial priorities in the next few years?

> I now look ahead in two to three year cycles – housing and care and things like that are on my mind now. I might need to move out of London for that, but for the moment I'm lucky enough to be able to stay where I am.

My advice to anyone else facing a situation like mine would be not to make any rushed decisions.

MM: Has your planning had any effect on your lifestyle?

Jenny: I have no complaints about my lifestyle. Travelling keeps me going and I'm fortunate to have been able to do quite a lot of that in recent years.

CB: We spoke about this early on and Jenny realised that there might be a time in the future when this might not be possible so we're looking to make sure she can do what she wants to do without compromising her long-term provisions.

Jenny and son Julian, long term clients of Wren Sterling

MM: So what about you Julian?

Julian: Well, I now have full-time employment after a long time studying and living abroad. I'm still renting, so what's prime in my mind is to stop renting and buy a property, which isn't easy in London. Thanks to the inheritance that Clive invested, at some point in the next couple of years I'll be using that as a deposit on a house or apartment.

MM: We can see how the relationship has evolved in the sense that there are changing issues for you all to deal with as you go through life, but how do you feel the involvement of an adviser has altered your dynamic as a family? Is it easier to talk about money?

Julian: I think it is easier. When I was young I never spoke to my dad about finances, then with Clive's help I was able to understand more about why it made sense to move the money to me at that stage. What really helped was the fact that we already knew Clive. It wasn't a new relationship and we didn't need to trust a stranger with the family's finances at a difficult time.

Jenny: I agree, it's been very reassuring to have Clive on hand.

It's also reassuring for me to know that my children have organised their finances independently of me, so I don't need to take on the burden of understanding new issues or feel like I need to advise them.

MM: Of course, people have different objectives at different stages of their lives. We talk a lot in Wren Sterling about people reaching their long term goals, but in your experience Clive, do people really look long term?

CB: Generally speaking, a lot of people don't make long term plans, or even look beyond the end of the month. In my experience it usually needs the catalyst of somebody like me to come in to crystallise thinking.

MM: Did you think financial advice was going to be expensive?

Jenny: I didn't really think about it that way. It's a professional service – like calling a plumber out. You could fix it yourself, but you know what's going to happen! We live in a great DIY world, but I think there's a lot at stake here. Without Clive's help we may have lost a lot in IHT in the last 10 years.

Julian: People of my generation don't necessarily look at retirement because you can't picture yourself being that old, so they might see it as expensive. I've really benefited from the professional advice though and feel like I have greater understanding of the issues that have affected our family and I know what I'm doing financially over the next few years.

CB: That's really the benefit of an experienced financial adviser. Having a concept of what it looks like at the end of the journey can make it easier to map out the steps to get there.

Do you know a friend or family member who could benefit from independent financial advice? Much of our business is through referrals, so please let your adviser know if you'd like to recommend someone to us, and how best to get in touch with them.

Older borrowers: Is the lifetime mortgage market maturing?

Wren Sterling's mortgage advice partner, John Charcol arranges mortgages for customers of all ages. Here, John Charcol's voice of the mortgage market, Ray Boulger, talks about what the future holds for older borrowers.

Until 2007, 100% mortgages were readily available to those with a good credit record and adequate earnings, with several lenders offering 100% plus. After Lehman's collapse, even 90% Loan to Value (LTV) mortgages ceased to be available but a few years ago 95% LTV mortgages reappeared and there is now a good choice of lenders offering such mortgages.

That said, the availability of some other types of mortgage which many lenders offered in the first decade of this century is still very limited, in particular mortgages for the more mature borrower.

Most of the major lenders restrict the maximum age by which a mortgage has to be repaid to 70 or 75. Halifax and Nationwide have recently extended this to 80 and 85 respectively, and although other aspects of their criteria will limit the ability of many borrowers to obtain a mortgage from those lenders to that age, it is a step in the right direction.

Innovation for mature borrowers

However, some real innovation is now appearing and I confidently expect to see more. It is notable that the major, and even medium sized lenders, are absent from this innovation, instead it's coming from the Lifetime sector (equity release) and some of the smaller building societies.

Most borrowers in later life, whether remortgaging or moving, only need a low loan to value and so the risk of loss to the lender is low. However, assessing affordability has become more challenging as a result of the pension freedoms. With retirees no longer required to buy an annuity and the proportion of people retiring on a final salary pension scheme steadily declining, a new approach is needed.

Most lenders who would be happy to offer a 95% LTV mortgage to a younger borrower, subject to affordability and credit status, would not even consider an application for a 25% LTV mortgage from a 70 year old, whatever their income. This is bizarre, but fortunately not all lenders are so short sighted and options for this type of borrower are increasing.

Some of the smaller lenders recognise that increasingly people are choosing to retire at different ages, often slowing down by initially going part time. Some also recognise the trend of using pension pots to generate income in ways other than buying an annuity, or indeed to save for retirement wholly or partly in ways other than a pension, such as with buy to let property.

The country's wealth by head of household:

19%
65-74 year olds

16%
under 45s

Exclusive to the over 55s

Although older borrowers generally won't have access to the lowest mortgage interest rates, there is one product in the mortgage market that is exclusively available to older borrowers, which in this context means those over 55. Despite the cost of long term funds in the wholesale market being at all-time lows, no lender in the mainstream market is currently offering a fixed rate for longer than 10 years.

However, borrowers over 55 can obtain a long term fixed rate lifetime mortgage at under 5%, which, depending on their age could last as long as 50 years. Not only that, this can effectively be obtained on an interest only basis. This type of mortgage is structured as a roll up mortgage, i.e. the interest is rolled up rather than paid. Some lenders offer an option, as with standard mortgages, to make overpayments up to 10% per annum.

This means that the mortgage can easily in practice become an interest only mortgage, with the ability also to make additional capital payments to reduce the outstanding balance. Interest only is clearly more affordable than repayment, especially if the borrower's age means that repayment would have to be over a shorter than desired term.

There are many other considerations to take into account before committing to a long term fixed rate mortgage, not least early repayment charges. However for borrowers whose existing mortgage term is close to finishing or who would like to move, there could be suitable choices available now, with the options likely to increase further over the next few months.

Analysis by the Resolution Foundation in December 2015 shows that for the first time in history households headed by 65-74 year olds hold more of the country's wealth (19%), than that held by the under 45s (16%).

With 100% mortgages no longer available for their offspring, and 95% LTV mortgages expensive, the increasing choice and cheaper rates now available to older borrowers mean that even those parents and grandparents in retirement or semi-retirement, have an opportunity to help family members with a deposit for their new home even if they don't have cash savings.

For specialist advice on mature borrowing and lifetime mortgages please ask your adviser to arrange an appointment or call John Charcol on 0344 346 3672.

Your property or home may be repossessed if you do not keep up repayments on your mortgage.

Spotlight on landlords: Putting your house in order

In the wake of the challenging economic environment, the tax regime has significantly tightened up in the UK. Individuals and businesses alike have been bombarded with tax changes and now more than ever, complacency towards tax planning can be a costly mistake.

TaxAssist Accountants is the UK's largest network providing tax and accountancy advice for small businesses. As a valued partner they refer their clients to Wren Sterling for auto enrolment and a full range of services for business owners and company directors. Jo Nockels FCCA from TaxAssist Accountants updates landlords on the ever changing tax landscape.

Keeping your tax bill to a minimum does not mean aggressive or potentially tax avoiding schemes. Indeed, it could be as simple as identifying which of the many tax reliefs and allowances are available to you and staying safely within the boundaries of the rules.

In this article, we take a closer look at rental income which has been on the receiving end of a number of changes, some good and some bad. We highlight some of the most notable changes and where possible, suggest ways their impact could be alleviated.

Rental income changes

If you are a landlord, your rental income could be eligible for a wide range of expenses, including utility bills, council tax, insurance, letting agency and accountancy fees, and even advertising for new tenants and stationery.

A number of other measures have been or will be introduced which affect owners of two or more properties:

Tax changes in 2016/17

Tax relief on replacing furnishings

The wear and tear allowance was available for fully-furnished, residential properties and served to reduce property income. It was intended to cover the deterioration of the fixtures and fittings; although not anything that was deemed to be ‘integral’ to the building, such as baths, toilets, etc. However, from 6 April 2016 for individual landlords or 1 April 2016 for companies, the allowance was replaced by a relief that enables landlords to deduct the actual costs they incur when replacing furnishings in the property. This does mean that no tax relief is available on the initial cost of furnishing a property.

Increased Stamp Duty Land Tax

As of 1 April 2016, higher rates of Stamp Duty Land Tax (SDLT) were introduced on purchases of additional residential properties (above £40,000), such as buy-to-let properties and second homes. Similar changes apply to the Land and Buildings Transaction Tax (LBTT) in Scotland.

Tax relief on mortgage interest reduces

Looking ahead, from April 2017 the tax relief available to landlords on mortgage interest will see a phased reduction over four years, which will eventually bring the effective rate of relief down to the basic tax rate of 20%. Holding the properties in a limited company may be a way of preserving the deduction of mortgage interest but the benefits could be countered by some negative outcomes.

Seek advice if you’re weighing up the pros and cons of a limited company for your portfolio.

Renting out rooms

If you don’t own additional properties, but instead rent out a room in your house, you may still be able to reduce the amount of tax you pay. Under the ‘rent a room’ scheme, income from letting furnished rooms in your main residence is exempt from tax if the gross annual rent does not exceed £7,500 (£3,750 each if you share the income) in 2016/17.

If you are letting to lodgers who live as part of the family, there should be no capital gains tax liability when you come to sell your home. Otherwise, there may be some restrictions. A lodger can occupy a single room or an entire floor of your home. However, the scheme doesn’t apply if your home is converted into separate flats that you rent out, or if you let unfurnished accommodation in your home.

Holiday lets in the UK

If you’re renting out UK holiday lets, it’s important to identify whether your income qualifies for generous tax concessions. The Furnished Holiday Lettings (FHL) rules allow holiday lettings of UK properties that meet certain conditions to be treated as a trade for some specific tax purposes. Unlike other domestic lettings, the expenses can include capital allowances on furniture and kitchen equipment. The income counts as earnings for pension contribution purposes, and there are other advantages relating to the disposal of such properties.

To help keep up with the tax changes affecting landlords please contact your Wren Sterling financial adviser who will put you in contact with TaxAssist Accountants, whilst maintaining an overview of your financial planning.

This article is intended to inform rather than advise and is based on legislation and practice at the time. Taxpayers’ circumstances do vary and if you feel that the information provided is beneficial it is important that you seek advice before implementation. If you take, or do not take action as a result of reading this article, before receiving TaxAssist Accountants written endorsement, they will accept no responsibility for any financial loss incurred.

Insurance Update

As a client of Wren Sterling, you can benefit from our range of expert partners who provide services that complement our financial advice to ensure your financial journey stays on course. From time to time, you may require the services of a solicitor, mortgage adviser, tax expert, accountant or insurance broker, so we've carefully selected partners to provide these services and we can put you in touch with an expert who shares our commitment to quality customer service.

We also commit to keeping you updated on key changes in related markets that can affect you, like a recent rise in insurance premium tax (IPT). If you would like to review your insurance arrangements in light of the changes, please contact your Wren Sterling adviser.

Insurance Premium Tax rises to 10%

The rate of Insurance premium tax (IPT) increased by 0.5% to 10% on 1 October 2016. This increase is being levied in order to help fund flood defences and resilience measures and is expected to raise £700m.

How will you be affected?

Insurers will be required to impose a 10% tax on the following general insurance premiums:
(The higher rate of IPT, charged at 20%, will continue to be issued on private travel insurance and certain electrical and mechanical appliance breakdown guarantees.)

BUILDINGS INSURANCE

CONTENTS INSURANCE

MOTOR INSURANCE

CAR BREAKDOWN COVER

BUSINESS INSURANCE

PET INSURANCE

MEDICAL INSURANCE

What if I need to make a change to my current policy before renewal?

The rules are slightly different for mid-term adjustments. Where charges are applicable, the table below explains which rate of IPT will be applied, depending when your policy incepted or renewed, and when the adjustment is made:-

Policy Start Date or Last Renewal Date	Mid-term adjustment Date	PT rate
31st October 2015 or earlier	29th February 2016 or earlier	6.0%
31st October 2015 or earlier	1st March 2016 or later	9.5%
1st November 2015 or later	1st November 2015 or later	9.5%
1st October 2016 or later	1st October 2016 or later	10.0%

What about refunds?

If a full or partial refund is made to you, it will be refunded at the rate that you paid.

HOW CAN WE HELP?

Wren Sterling is committed to keeping all of our clients fully aware of any changes to regulation and how this may impact them. Our selected insurance partners will always aim to keep costs competitive, whilst providing you with the protection you need. Further information and advice regarding the change can be found on the Government's website: www.gov.uk/insurance-premium-tax

Are you getting the most out of your Wren Sterling updates?

Money Matters is only part of our commitment to you to keep you informed and up to date on the hot topics and any changes in personal and corporate finances that could affect you. This flagship magazine is posted. All other updates (the Budget and Autumn Statement same day highlights and our next day report, as well as our financial bulletins) are all sent via email to ensure they are received in as timely a fashion as possible. If you haven't been receiving these it's because we don't have your email address.

If you'd like to receive all of the updates you're entitled to, please email marketing@wrensterling.com from the email account you want us to use, quoting your client reference number (on the cover letter that accompanies Money Matters).

About Wren Sterling

Wren Sterling is a nationwide independent financial planning business that specialises in all aspects of investments, protection and retirement planning. We pride ourselves on navigating clients through their financial journey by providing uncompromised and objective advice. Our advisers are committed to developing long standing client relationships that span generations to achieve our clients lifetime financial goals.

Where we are

We have advisers throughout the UK, based in 7 regional offices including our Head Office in Nottingham.

- Glasgow 0141 341 5240
- Halifax 0333 0438900
- Nottingham 0115 908 2500
- Warwick 0333 043 9001
- Grantham 01476 560 662
- London 0370 1432 100
- Weybridge 01932 481069

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