Money Matters

NAVIGATING THE FINANCIAL LANDSCAPE

Summer 2018

Pension consolidation:

How combining pension pots built up throughout our careers is helping us plan for a better retirement

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A warm welcome to the Summer 2018 edition of Money Matters.

Producing this magazine twice a year creates natural periods for reflection on what we've seen over the past six months and to take stock of the impact on financial planning.

On the investment front, we saw a dip in the stock market for the first time in a while, reminding each of us of the volatility of markets and emphasising the need for a balanced approach to investment that allows for the natural ups and downs and retains focus on achieving long-term objectives.

In one of our articles, 7IM looks in more depth at recent market highs and lows and explains how a fund manager tries to ride the waves and cover the dips at the same time.

There are contributions from Wren Sterling's experts on some really topical areas of financial planning including pension consolidation, the use of trusts, the unique requirements of directors, and what to bear in mind when encashing a bond.

For our clients who also run businesses, we've got a piece on the rising value of financial education in the workplace and there's a reminder about our new Personal Finance Portal, which I would encourage all of our clients to sign up to. We live in a digital world and as your financial adviser we want to demonstrate our commitment to data security, your convenience, and our green credentials.

I hope you enjoy the magazine, and if there's anything you need to discuss with your adviser, please don't hesitate to get in touch.

Yours sincerely,

Ian Halley
Chief Executive Officer
Wren Sterling

Up and up and up?

After a long bull run in global stock markets, recent movements have unsettled many investors and have led to questions on whether stock markets are even able to head higher going forward, or whether the cycle has had its day.

Robert Hardy, Head of Intermediary Sales at 7IM

Robert Hardy, Head of Intermediary Sales at Seven Investment Management (7IM), sat down with Ian Jensen-Humphreys, 7IM's Chief Investment Officer, to discuss this.

In this article, they talk about how the team at one of the investment managers selected by Wren Sterling to run clients' investment portfolios is looking to manage turbulence in the markets. Ian also outlines which risks 7IM believes are important, and how current events could play out in the future.

As Ian reflects on the first quarter of 2018, he said "One of the most pertinent quotes about the market at the moment is one from Ben Graham (a mentor of Warren Buffett and widely seen as the 'father' of value investing). In 1949, he stated that:

'In the short run the market is a voting machine, but in the long run it is a weighing machine'.

"When people review the recent history of markets, what they're really focusing on is the popularity of particular stocks, sectors, or indices. The headline most recently published about that investment is present in investors' minds, and it affects their behaviour. While harsh, Ben Graham dismisses many of these people as speculators who typically pay more money in transaction charges than they make in returns."

"Investors, however, do recognise that they should be taking a longer term view. Investors should be evaluating and acting on analysis of the fundamental qualities of companies and markets. They should be looking to buy high-quality investments at a good price and which should, over the long term, gain in value because of the return on capital and expectations for future growth against projected scenarios. But it's a difficult task to achieve, especially in the face of messages that short term storylines can convey."

This is a challenge for most investors, no matter how long they have been active in the markets. How do you sift through all the information being published to determine what's important and what isn't? For Ian, this screening is part and parcel of the investment process that underpins the team's portfolio decisions. It's an approach that he believes helps the team look through the market 'noise' and determine what newly available information should be driving their decision-making.

"We had well over a year of calm, where markets seemed to gloss over, even ignore, any bad news – whether it was economic, financial, or political – and carry on moving steadily higher. By the time December 2017 had ticked past, media headlines almost seemed duty-bound to include the words 'record high' across asset classes. However, it was a situation that caused us concern. Research showed that the last time the markets had been so calm was in 1965. In 2017, we saw just 8 out of 252 trading days where the S&P 500 moved by 1 per cent or more, following the second half of 2016, which had seen just 10 such days. These levels are well below the long term average number of days when the market typically moves in a year – usually about 50. So it was always a question of *when* the market would begin moving up and down more frequently rather than *if*."

Although the team has positioned itself to take advantage of an increasingly improving synchronised

global growth, they have remained mindful of the risks and the return to a more traditional level of market movements.

"We have always taken a risk-conscious approach to managing money," explains Ian. "The low volatility meant that 'buy the dip' was not an action being played out over weeks or months, but over days or even hours – as was the case when Donald J. Trump was elected U.S. President in November 2016. Complacency was king, and our experience and process highlights how often complacent markets become dangerous ones."

Since this period though, volatility has returned. The S&P 500 index fell by nearly 10 per cent in the first week of February. This percentage drop is seen by professional investors as a 'correction' rather than anything more serious (a correction back to a level that makes sense). These movements are within the levels of what we would consider normal. We have not continued to see markets slide towards a 20 per cent drop that would denote a bear market, or the 30 per cent that often heralds the start of a recession – sometimes 6 to 12 months later. And while volatility has returned, so too has the markets' focus on news.

Ian cites the example of the tech sector, which he believes demonstrates the attention that the market is now paying to headlines, and in particular how it is reacting badly to negative news.

"The technology stocks of Facebook, Apple, Amazon, Netflix, and Google (which have become known as the 'FAANG stocks') helped the growth the U.S. equity market over the course of 2016 and 2017. In fact, the performance of these stocks alone represented some 20 per cent of the total performance for the S&P 500 in 2017. However, the recent fallout for Facebook from the Cambridge Analytica revelations, its data gathering, and the subsequent knock-on effect on the stock price highlights how fortunes can turn."

"There is also a longer term threat to the sector, given that governments and regulators are in the early stages of developing their interaction with these businesses. There will certainly be bumps in the road and challenges to their business models. One hurdle will definitely come as governments agree a consensus on taxation. In a world where governments are hungry for revenue to plug deficits, global corporations with 'efficient tax optimisation' are easy targets. One example is Amazon. I purchase a UK-manufactured product from a UK company as a UK citizen via Amazon, yet my bill is routed via a Luxembourg-domiciled entity, even if every stage of that product's life cycle has remained on these shores. These practices make such firms an easy target for both the media and politicians, which in turn will affect their share prices."

Aside from the technology sector, where else does Ian foresee risks?

"A trigger for market weakness is from the U.S. where a data point highlights that wage inflation could be coming through. However, we believe that inflation will remain contained over the coming year, as we believe there is still sufficient slack in the U.S. economy, which is being concealed by the low headline unemployment rate. Meanwhile, over the last quarter, the fundamentals underpinning stock markets could be seen to have

improved – particularly in the U.S. as the impact of the tax reforms and deregulation are beginning to be felt by businesses."

"However, while corporate earnings, corporate profits, and global growth are encouraging for the future, the potential for a trade tiff between China and the U.S. does pose a risk. We had apparently been on the brink of a nuclear stand-off between North Korea and the current U.S. Presidency before common sense seemed to reassert itself, leading to more measured statements, and that could even lead to progress talks. A similar scenario could easily play out between China and the U.S. if China seeks to redress issues flagged by Trump's investigation into intellectual property."

"But whatever other news flows through to the markets, one thing we do see continuing to play out and affect investors is volatility. We've been taking steps to protect our portfolios through the use of 'put' options, which are contracts that should deliver profits if the markets start to slide below pre-agreed levels. However, these are not universal remedies and would only smooth the path of the portfolios over time."

"Our focus remains on the fundamentals. We are increasingly conscious of the timeline of the current economic cycle, and we realise that at some point there will be a slowdown. As such, we remain vigilant to any hints from key economic and market indicators that start to signal a potential downturn."

This interview took place on 4 April and reflects the thinking of Seven Investment Management (7IM) at that point in time. It should not be taken as investment advice. Please speak to your adviser prior to making any investment decisions.

www.gov.uk/government/publications/reducing-the-money-purchase-annual-allowance/reducing-the-money-purchase-annual-allowance

Ian Jensen-Humphreys, Chief Investment Officer at 7IM, on medium-term prospects for investors

An opportunity: "European equities have lagged in the post-2008-financial-crisis recovery versus U.S. and Emerging Market equities. This has partly been down to the impact of negative interest rates on the banking sector, and a very low weight of the technology sector, which has led the bull market in other regions. Since there are limited opportunities to invest in technology, the potential for growth in the Euro Stoxx 50 may also be limited because of their popularity. However, this potential negative could be offset by stronger performance of the shares of Europe's financial institutions, which would be helped in an environment of rising interest rates.

Some potential: "We are still investing less in the FTSE 100 than our benchmark allocation, but are closer to a neutral allocation than we have been at any time in the last four years. Even though the momentum in Sterling represents a headwind, the index still benefits from the underlying strength of the global economy, and still seems to be undervalued by international investors, who are wary of the implications of the ongoing Brexit discussions."

High risk: "High-yield bonds (i.e. typically higher risk corporate bonds) have often performed well when stock markets have been outperforming. While we don't think the economic growth will fall off a cliff, high-yield companies tend to be the first shoe to drop – as rising rates that bite into company profits are felt most acutely here. As such, we will continue to closely monitor our allocation to high-yield bonds over the coming weeks and months."

Moving multiple pensions into one for a clearer retirement journey

Will Grier, Independent Financial Adviser

Keeping track of store cards, credit cards, current accounts, direct debits, utility bills, and the rest of our daily financial commitments can be difficult. Very often, we opt to simplify these and put them in one manageable place so we know what we've got coming in and going out.

The same can apply to pensions. The days of 'a job for life' are gone and it's normal to have an employment journey with multiple pensions. Keeping an eye on all of these is tough, especially if you can't remember who the scheme is with and when you paid into it.

Pension consolidation is a process that allows you to pull all the strands of your retirement savings together into one manageable pot. There may be several benefits to doing this, including lower management charges, which can increase the value of your fund over the course of its investment.

Making choices about your pension

You can choose to move and manage the consolidation of your pensions yourself, but this requires a level of confidence in your financial knowledge. Some platforms and providers will even decline to act with you directly and will only deal with authorised and regulated financial advisers. You will also need to decide which of your pensions to keep, whether to invest in new funds – and which are the most appropriate ones for you.

Before you make any decisions, it's important to know the benefits and charges you are paying on all of your pensions, not just those you are currently paying into.

Let's say you are paying an annual management charge of one to two per cent on each of your pensions, but you aren't investing in them – you could be losing money each year.

One of my clients came to talk to me about a 'With Profit' pension that they were no longer paying into. They didn't realise that their bonus rate was zero per cent, and as nothing was going in, nothing was happening to that investment. For ten years, their pension was stagnant and the client was completely unaware.

Risks of transferring away

Before consolidating your pensions, you should also consider whether you'll lose any of their benefits. Potentially, you could transfer out of a pension without understanding what you are giving up, but if you take advice, it shouldn't happen – or your adviser will inform you that you will be giving up benefits and help you find a more suitable pension.

When looking at your pensions, it's important to know the amount of investment risk attached to it compared to the level of risk you are comfortable accepting. Low-risk pensions are safer, but your money is unlikely to grow as quickly as higher-risk pensions, whose value (like any investment) can go down as well as up, and is not guaranteed. How your pension is invested and its risk level can change depending on the strategy it adopts. Choosing your pension's investment funds will also depend on the level of risk you are comfortable with, which can change over time.

Changeable risk and unsuitable benefits

Many existing plans will have a 'life-styling' facility – a benefit that may no longer be suitable for clients today given modern 'at retirement' options and the increase in life expectancy (in England, ONS says life expectancy is now 76.8 years for men and 82.4 years for women). With life-styling, the investment risk is typically managed out from age 50 and underlying funds change to become lower-risk. This benefit was designed to allow clients to make an annuity purchase at age 60 or 65, however, if you don't intend to draw your pension until later or to use flexi-access drawdown at retirement, then this money may not be an appropriate investment strategy.

There are more options now thanks to pension freedoms rules, which came into effect in 2015. Life-styling is just one example of how a single pension benefit can be an advantage to some but hazardous to others.

What can a financial adviser add to the process of pension consolidation?

Many of the clients who consult me about their pensions do so because they don't know what they're looking for. They have the ostrich 'head-in-the-sand' approach because they just don't know how their pensions work and end up doing nothing. To help clients consider what they want from their pensions, I often ask questions like:

- Do you want a flexible / phased retirement?
- What are your aspirations and goals for the future – and into retirement?
- How can you use what you already have to help you get there?

When speaking to my clients, I'm able to explain what their pension arrangements mean for them in a human and client-friendly way. If they agree to my recommendation, Wren Sterling take on the significant work of obtaining scheme information and creating a retirement plan.

With support from a financial adviser, you can benefit from an ongoing advised service, with regular reviews and a risk-appropriate portfolio monitored and managed on your behalf.

How do you choose what to recommend?

There are many different types of pensions and retirement options. Choosing the most appropriate solution requires advisers to discuss a client's circumstances and their needs. This will include their assets, lifestyle, health, attitude to risk, and what they want to happen to their funds after their death.

Pension consolidation in practice

When I first met John, 59, he had undergone significant heart surgery the year before, causing him to rethink his priorities and his retirement plans. His understanding of his current pension arrangements was that he believed he would receive a small pension income at age 60, a more significant pension income at age 65, and the state pension at age 67. He felt he would have to work to age 67 (another eight years), irrespective of his health, as his personal pensions weren't enough to allow him to retire early – even though he would rather stop working at age 63 to coincide with his wife's retirement. Following his surgery, John also wanted to go on a 'holiday of a lifetime' but lacked the funds to do so.

I researched his eight existing personal pensions (total value around £250k), which had differing investment strategies and future retirement ages and were invested in a variety of funds. None of his pensions allowed him to go into a drawdown arrangement and so I looked into consolidating his pensions. My recommendations will allow him to:

- Purchase an enhanced annuity* and retire early at age 63
- Have access to total tax-free cash of £62.5k (25 per cent of £250k)
- Release enough tax-free cash immediately to fund his proposed trip at age 60
- Consolidate all eight plans into a single personal pension with one overall investment strategy aligned to his attitude to risk
- Take the offered final bonuses on his 'With Profits' pension policies
- Retain the capacity to take tax-free cash or ad hoc withdrawals from the remaining funds flexibly

Find out where you stand

Even if you're not sure what you want your retirement to look like, take the time to dig out your scheme details and understand your current position.

If you don't know what you've got and where it is, you could be losing out. Small adjustments or a pension consolidation exercise now could make a significant difference when you come to draw your pensions and enjoy your retirement.

Important: Accessing pension benefits early may impact on levels of retirement income and access to means-tested benefits, and is not suitable for everyone. You should seek advice to understand your options at retirement.

There may also be taxation implications. You should seek professional advice on your own circumstances. The rates of taxation may also be subject to change.

*An enhanced annuity pays a higher annual income for those with medical conditions that may reduce their life expectancy. Even if you suffer from a minor ailment such as asthma, you can apply for an Enhanced Annuity. Please note, this case study should not be interpreted as a suitable investment strategy and you should seek independent financial advice regarding your own retirement plan before embarking on any course of action.

Why directors have unique financial planning requirements

Phil Jenkins, Chartered Financial Planner

Company directors have more options than employees when it comes to financial planning because they can utilise their business to create a remuneration strategy. However, as Phil Jenkins (a Chartered Financial Planner at Wren Sterling) explains, with opportunity comes complexity.

The financial planning landscape for company directors has changed recently, and like anything in financial planning, is subject to constant scrutiny to ensure loopholes are not being created and exploited.

Traditionally, company directors could choose from three options if their business had generated cash: keep profit in the company, use cash for expansion, or pay it out to themselves. Usually, paying money out would take the form of a combination of salary and dividends, with the typical strategy of a low salary / high dividends due to the way that dividends have previously been taxed. The Dividend Allowance introduced in April 2016 has also become less beneficial due to a recent reduction to just £2,000 a year (from 6 April 2018).

Despite changes such as the introduction of the Dividend Allowance and its subsequent reduction, being a company director rather than a salaried employee still has distinct advantages in some of the key areas of financial planning. This article looks at typical financial planning topics and the key differences.

Retirement planning

An increasingly popular strategy for directors is to reduce liability for profits through company pension contributions. This equates to a 19 per cent Corporation Tax saving, plus the additional benefit of saving personal tax and National Insurance (NI) contributions (in comparison to withdrawing the profits as either salary or dividends). Company contributions to pensions are theoretically unlimited, but an individual's Annual Allowance (AA) of £40,000 a year is still in place and will act as a cap to contributions in the prevailing tax year.

Importantly, in most cases this strategy will not be dependant on the salary level of the company director, so it is compatible with the common remuneration approach of lower salaries / higher dividends.

High dividend income example

Mr Patel, aged 60, has total remuneration of £100,000. This consists of £8,424 salary and £91,576 dividends. He will also be able to make use of his Personal Allowance (the amount of income you can earn before paying tax. This is £11,850 for Mr Patel for the tax year 2018/19).

His salary attracts no Income Tax and leaves £3,426 of the Personal Allowance, which is covered by some of the dividends.

The remaining dividends will be taxed as follows:

£2,000 @ 0%

£33,500 @ 7.5% = £2,512.50

£52,650 @ 32.5% = £17,111.25

His total tax bill = £19,623.75

Alternatively:

If Mr Patel takes £8,424 salary and £16,576 dividends and his company makes £75,000 employer pension contribution, his salary and the first £3,426 of dividends remain within the Personal Allowance. The remainder is taxed as follows:

£2,000 @ 0%

£11,150 @ 7.5% = £836.25

This results in £18,787.50 less tax, plus a Corporation Tax relief of 19% on the employer contribution of £14,250.

As Mr Patel is over 55, he can also benefit from the availability of his 'tax-free cash' and can take 25% of the £75,000 pension contribution (£18,750).

The remainder of the pension is taxed at marginal Income Tax rate (assume basic), which is £56,250 @ 20% (£11,250).

His Annual and Lifetime Allowance limits should also be considered, as well as the fact that the pension sits outside of the individual's estate for Inheritance Tax (IHT) purposes.

Pension taxation assumes no growth and no associated costs for the purposes of this illustration.

Protection

Company directors can use their business to make sure they're protected and save money by making the business the owner of their protection policies.

A Relevant Life Policy is essentially a life insurance policy written by the business and offers potential tax benefits. Premiums are paid by the company and may be treated as a business expense (subject to agreement with HM Revenue & Customs), and the cover does not contribute to an individual's Lifetime Allowance.

Executive Income Protection will provide a replacement of income in the event of the director being unable to work due to sickness or accident. This is similar to a standard Income Protection policy, except the business is the policy owner in this case. In general, the business may be able to offset the premiums against tax as an allowable expense, but this depends on the nature of the business, so make sure you speak to your financial adviser.

	Salary	Dividends	Employer Contribution	Income Tax Saving	Corporation Tax Saving
Scenario 1	£8,424	£91,576	£0	–	–
Scenario 2	£8,424	£16,576	£75,000	£18,787.50	£14,250

Succession planning

In much the same way as an individual would look to pass wealth on to loved ones, a company director (who may have a large proportion of their wealth tied up in a business) will typically look to pass on wealth in a tax-efficient manner.

Shareholder Protection can ensure a smooth conclusion to any business succession problems, minimise the impact to the business of the loss of a key shareholder, and provide the shareholder or their family with the true worth of their shares.

A Business Will is another consideration for directors. For certain businesses, the business must cease trading on death. This could have a catastrophic effect on the value of the business, meaning that the beneficiary or beneficiaries may receive little or no inheritance.

Providing that Business Property Relief is permitted (the company must be a trading company / not an investment company), then potentially there will be no IHT payable by the beneficiaries when inheriting the company.

This is just a brief summary of the succession planning options open to company directors, but this is a complex area and requires advice from your financial adviser and often a solicitor as well.

Exiting the business

Planning can be undertaken to either sell or wind up the company and can mean that the directors qualify for Entrepreneurs' Relief (ER), providing it is granted. In this case, capital gains tax (CGT) is attached to the disposal / value of the business' assets at a rate of ten per cent up to an amount of £10 million.

Contractors

Historically, contractors may have wound up their business and restarted a new one on a regular basis, and benefiting from reduced rates of tax. HMRC has tightened the rules on this practice, and guidance now says that directors are ineligible for ER if the purpose of the wind up was to target tax advantages. Issues may arise if contracting is restarted within two years, and HMRC may challenge the original distributions under the anti-avoidance rules. There's also a risk if directors try to get around the guidance that HMRC could investigate previous activity.

The risk of holding too much cash

If a business holds too much cash, it is prudent for directors to look at how the company is structured to avoid potentially losing a value benefit such as Business Property Relief, which could mean successors could pay CGT on inheritance. For example, if you're a grocer turning over £200,000 a year, yet you've built up cash reserves of £800,000 over many years of trading, HMRC could deem you to be an investment company as your main business activity.

This is one area where it pays to talk to an expert – as an adverse outcome in this situation can critically impact tax treatment in several areas.

Profit extraction

In many ways, the content of this article is responsible for this next issue! Directors can sometimes hoard cash for fear of falling foul of taxation because they don't understand the complexities of the tax regime, yet this can result in another risk. If a company holds lots of cash in a current account instead of investing it, it is effectively losing value, so it is prudent to look at corporate investment options.

Next steps

Businesses are moving all the time, so as well as a one-off review, it's important to have regular reviews with your financial adviser.

The value of the business, policy excess, dividends legislation, the Lifetime and Annual Allowance, changes to company directors, inheritance, and succession plans can all change at a moment's notice and have a knock-on effect on the best-made plans.

If you're a company director and have never considered your business as a financial planning tool, or it's been several years since you revisited your plans, please get in touch with your adviser to arrange an appointment. If you don't have a Wren Sterling adviser, please contact **marketing@wrensterling.com**

Important: The levels, bases, and relief from taxation are subject to individual circumstances and may be subject to future change.

Using trusts to preserve wealth for future generations

Paul Allan, Independent Financial Adviser

There will be a time when we're no longer able to manage our money, but that doesn't mean that we're not able to choose how it should be used. Trusts can be used to protect your assets for future use. Like many financial instruments, there are several different types of trust, and ways to use them – from tax purposes to estate planning. When used appropriately, trusts can be one of the most effective tools in a financial adviser's toolbox.

What is a trust?

Trusts allow you to set aside assets for specified beneficiaries. You can put conditions on how the trust is used, who will benefit from the assets (beneficiaries), and who will manage them (trustees). You can even choose to give your trustees powers over the trust – to make decisions about releasing assets (perhaps for young beneficiaries, allowing the funds to be used for university fees or buying their first home).

When you're creating a trust, you need to decide whether you want to put any conditions on it, as trusts will become a separate legal entity, and the assets placed in trust no longer belong to you (the settlor).

Did you know you may already have a trust – or even more than one? Your pension funds will be held in a discretionary trust, helping you put money aside for your future needs.

Arranging a trust

Taking advice when setting up a trust is invaluable – as the legal wording needs to be precise, and you'll need to choose your trustees and beneficiaries very carefully. There are fees associated with setting up a trust, but talking with your financial adviser beforehand could help you decide whether or not a trust is the most appropriate way to achieve what you want. It will also let you know whether a solicitor should be involved (depending on the complexity of your situation). As there are several types of trusts, and many other financial products, there may be more appropriate ways to structure your finances. A financial adviser can help you to structure a financial plan, mapping out your future needs and how your finances can be used to meet them. In this article, we're going to look at different ways that trusts can be used, and why you might consider using them.

Using trusts to safeguard your assets

Life assurance

When considering a life assurance policy to protect your spouse, partner, or your children on your death, you could consider putting it in trust. Let's look at an example.

Alan purchases life insurance to protect his family upon his death. If this policy is not placed in trust, the money from this policy will form part of his estate, and may be subject to inheritance tax (IHT). Without a trust, this payment could be delayed until confirmation or probate is obtained, and the funds would not be available to Alan's children to pay for funeral expenses and other costs. If the policy was placed in a trust, the sum would be available immediately to Alan's beneficiaries and would not be considered part of his estate.

By using a Discretionary Trust, if Alan dies during the term of his Life Assurance plan, the trustees have discretionary powers over how the trust assets can be used for the benefit of his chosen beneficiaries. This is particularly useful if the beneficiaries are minors at the date of Alan's death. The trustees could decide to provide a regular income stream, ad-hoc withdrawals, or if appropriate pay out the entire trust proceeds. The key here is that they have discretion and an obligation to act in the beneficiaries' best interests in relation to the trust assets.

By placing their Life Assurance plan in trust, the settlor (Alan) is able to make the monies more freely available upon his death, avoid unnecessary tax, and create a framework where his trustees can have some control over how to use the trust assets for his chosen beneficiaries.

Protecting your property

Including a trust in your Will is one way you can protect your home for your spouse and your descendants. Care costs are means-tested, and depending on where you live and the cost of your care, your home and your legacy could be used to pay for care fees.

An elderly couple, John and Mary, are worried that if their health deteriorates, the value of their family home might be swallowed up by care costs. While they are in good health now, they own their home jointly, and have a joint Will that currently leaves everything to each other, and then to their children. They decide to consult a financial adviser to discuss their options.

After considering several options, Mary and John take their adviser's recommendation and Split Title on the property (often called 'Tenants in Common') and create a new Will trust. Now if either partner were to die, the deceased's half of their property goes into trust to provide a legacy for their children, rather than allowing the whole of the value of their property to be used for care costs.

After making this new Will, imagine that five years later John needs to go into a care home. As long as Mary remains in the family home, it is normally disregarded when paying for care fees. But what if six months later, Mary died unexpectedly? Without the new Will, the whole value of their home could be used to pay for John's care as he would have inherited the whole property.

Trusts are also very widely used in IHT planning. The two examples we have discussed in this article both concern ways to use 'Will trusts' – trusts that only take effect once you pass away. But there are many different types of trusts, and depending on your unique financial situation and what you want to do with your money, a financial adviser can help you consider which options could work best as part of your financial plan.

IHT planning

Placing assets in a trust may ensure that they are no longer considered to belong to the settlor, and are not taken into account in their IHT bill. Using a trust means that the settlor doesn't have to hand over control of those assets in their lifetime, and allows assets to be managed for young or vulnerable beneficiaries.

Let's look at an example. Daniel and Olivia have both turned 70. Recent press articles have made them aware that when they die, their children Sarah and Colin are likely to have an IHT bill to pay and they would like to take steps to reduce it. Currently, their Will leaves all their estate to each other on first death and then is split equally between Sarah and Colin on second death. Daniel and Olivia decide to get help from a financial adviser to find out their options.

	Allowances			
Assets	**Daniel**	**Olivia**	**Joint assets**	**Total**
Main residence			£300,000	£300,000
Cash deposits	£300,000	£200,000	£100,000	£600,000
Investment ISAs	£150,000	£100,000		£250,000
Totals	£450,000	£300,000	£400,000	**£1,150,000**

Currently, their total estate is valued at £1,150,000. To work out their current IHT liability upon the second death, they would need to consider their Personal Nil Rate band (NRB) and Main Residence Nil Rate band (MRNRB):

Total estate value:	£1,150,000
Personal Nil Rate band (£325,000 for the 2018/9 tax year; this is doubled as this case includes both spouses' NRB)	£650,000
Main Residence Nil Rate Band (£125,000 for 2018/9 tax year; doubled as this case includes both spouses' MRNRB)*	£250,000
Amount liable for IHT	£250,000
Rate of IHT	40%
Amount to be paid	£100,000

*As the MRNRB will rise to £175,000 by 2020/21, Daniel and Olivia's IHT bill will reduce in future to 40 per cent of £200,000 (£80,000).

Having discussed Daniel and Olivia's current financial situation, their adviser will create a plan based on how they wish to use their money, and help them achieve their financial objectives. In the following three examples, their aim is the same – to reduce their IHT liability – but the financial situations are quite different.

1. Discretionary Gift Trust:

Let's say Daniel and Olivia have a high level of pension income, and don't rely on their savings.

They could choose to place a sum into a Discretionary Gift Trust. This allows them to give this money away, but exercise some control as to when these assets are paid to Sarah and Colin.

Impact of this trust: All capital will be excluded from any IHT calculations after seven years, and will be available to Sarah and Colin whenever the trustees decide to distribute it. Any growth on the original gifted amount is outside their estate immediately.

2. Discounted Gift Trust:

If Daniel and Olivia don't have a large pension income and rely on their savings to supplement their income.

A Discounted Gift Trust could provide Daniel and Olivia with an income stream from the trust for life to supplement their pension income. On death, any residual value will go to Sarah and Colin.

Impact of this trust: A proportion of the initial value of the trust is 'discounted' or leaves the estate immediately, reducing the immediate IHT liability. The income from the trust is paid to Daniel and Olivia until either the trust assets are exhausted or for life. After seven years, the trust assets are outside the estate, and on death any residual value is paid directly to Colin and Sarah.

3. Loan Trust:

If Daniel and Olivia had an adequate income, but were concerned that their capital needs may grow in the future.

They would like to set aside future monies for their children, but would also like to be able to draw down these monies should they need them in the future – or in other words, call in their loan in the form of regular withdrawals.

Impact of this trust: The original capital investment belongs to the settlor as they have loaned this money to the trust. They could choose whether to draw down none, some, or all of this capital during their lifetime. Any growth on the trust assets belongs to the beneficiaries and passes outside the settlor's estate immediately.

How will Daniel and Olivia decide which trust to use?

With help from their financial adviser Daniel and Olivia can discuss their options and consider whether they want to use a trust, and which to use. They will need to consider their futures as they may not be able to access their funds once they are placed in trust (depending on the plan they put in place).

Next steps

We have touched on some of the uses and types of trusts available as part of successful financial planning. If you'd like to find out more about trusts and whether they could be suitable for you, please contact your Wren Sterling adviser.

The Financial Conduct Authority does not regulate taxation and trust advice or will writing.

The scenarios in this article are fictional.

Take your financial advice experience digital with Wren Sterling's Personal Finance Portal

Over 19.6 million Britons used banking apps last year, carrying out transactions that used to require a visit to a branch. Financial planning is moving in the same direction, and we know that clients want real-time information at their convenience, which is why we've launched our Personal Finance Portal (PFP).

Why use the Personal Finance Portal?

Clear financial dashboard

View your finances anywhere, on your desktop, laptop, or mobile device. The clear, visual dashboard will show you a easy-to-understand overview of your investments and savings.

The dashboard is updated every day, so you'll be able to log in as often as you like to see how your money is performing.

Uncompromised security

Our portal doesn't compromise the security of your information. Access to the portal is encrypted, so that only you and your adviser will be able to view the information stored in this account.

Document Vault

You can house any of your important documents online in the Document Vault, which is safer than your filing cabinet, and more convenient – and you can choose to share items in the vault with your adviser.

Secure Messaging Service

Unlike emails or letters, which have the potential to be intercepted, the PFP's Secure Messaging Service offers a secure channel for you to quickly get in touch with us, knowing that any information you share is encrypted and completely private.

Help us go paperless

We're all looking to minimise our impact on the planet, and we hope that our PFP will limit the amount of paper we need to send you in the post.

Register today

You can register for our PFP by visiting **https://wrensterlingfpltd.mypfp.co.uk**

If you need any help during the registration process, we have a dedicated helpdesk who will be happy to help – just send them an email at **pfp@wrensterling.com**

The importance of advice when encashing a bond

Five crucial questions to help you understand your investment

Financial advice is so much more than simply deciding where to invest money. Central to the value Wren Sterling provides its clients is knowing when to hold an investment and understanding the implications of making a decision to change an aspect of a client's individual plans. Taxation is key to this, and where bonds are concerned, we've picked out five aspects that influence our advice.

We always want our clients to feel as if they're expanding their knowledge of the products we recommend and how they combine to achieve financial objectives. This article lifts the bonnet on the process and rationale behind encashing a bond and determining whether it's the right decision.

When it's time to cash your investment bonds, how much you get back depends on how this investment performed and your tax liability. However, care needs to be taken when encashing (withdrawing) these investments to avoid unexpected tax bills.

To make the most of your investment, it can help to talk to a financial adviser before encashing - especially where large gains are made.

Can I take funds from my investment bond?

You can withdraw small amounts from your bond monthly or annually, or you can fully encash your policy (withdraw it all). You can withdraw up to five per cent per year of the amount invested if you'd like to avoid paying immediate tax. As any withdrawals will affect your investment, you should consult an independent adviser.

Any 'part surrenders' will also have an effect when calculating your gains – so for this article, we're going to focus on encashing the whole policy (or policy segment), as the basic premise is the same.

> Remember: Depending on the type of bond you choose, there will be differences. For example, the main difference between onshore and offshore bonds is their taxation treatment. If you are thinking of making an investment please speak to your financial adviser, as there will be more to consider than is discussed within the scope of this article, which focuses on onshore bonds.

How do I calculate my overall gain?

When encashing your bond, the taxable part of your investment is the overall gain. To find this, you add the surrender value (the amount your bond is worth at the time of encashment) and any previous withdrawals, then deduct the payments you have made to the bond, as well as any gains over the five per cent allowance.

Overall gain =			
Surrender value	+ withdrawals	– payments you've made	– gains over the five per cent allowance

What is my bond worth at the chargeable event?

When fully surrendering the investment bond, the 'chargeable event' (where any gain may result in a tax liability) is treated as having happened on the day it is surrendered – and your gain is considered as income for that tax year.

Let's use an example. Harry has a taxable income of £21,000, which is within the basic limit. Harry has decided to encash his investment bond, which has gained £7,000 in value. This means there is no additional tax to pay.

Any tax liability is calculated based on the overall gain made on the investment bond – not on the amount invested. As Harry's gain did not increase his tax liability, this was a simple calculation. However, if this gain had caused Harry's income to increase, we would need to calculate the top-slicing relief.

How will I be taxed if I am a high rate tax payer?

You will only pay tax on the overall gain if you already pay high rate Income Tax, or if the gain takes your income into the high rate band. You will then pay 20 per cent or 25 per cent tax on the gain, or part of the gain. This is because an onshore bond is effectively taxed at 20 per cent at source.

As an example, Lynne encashes her bond, causing a chargeable event gain of £7,000. Her other income for the same tax year is £43,500. Before adding the gain, Lynne's taxable income is below the high rate tax limit, but with the gain, Lynne's total income for that year will fall into the high bracket. This means that Lynne could benefit from top-slicing relief.

	Encashing Lynne's bond	Top-slicing relief
Lynne's income	£43,500	£43,500
Her Personal Allowance	£11,500	£11,500
Lynne's taxable income	£32,000	£32,000
Amount of the bond added to her income	£7,000	£1,000
Total income	£39,000	£33,000
Rate of tax to pay	High rate – 40%	Basic rate – 20%

How does top-slicing work?

Top-slicing relief can reduce the tax payable by those who are lifted into the high rate tax bracket. When an investment bond is encashed, the investment gain is split across the number of years the policy has been held, called 'top-slicing'. Only the 'slice' of the gain will be added to your income and considered when deciding if your income is considered to lift you into the high rate bracket.

$$\frac{\text{Total gain}}{\text{Number of full years the policy has been in force}} = \text{Slice of gain}$$

Lynne has held her bond for seven years. As her overall gain is £7,000, the sliced gain is £1,000. Only this slice would contribute to her taxable income for that year, and so Lynne doesn't move to a high tax bracket.

Next steps

If you have an investment bond or are considering investing in one, it's very important that you understand the tax consequences you will face when withdrawing amounts from an investment bond (especially when larger amounts are involved or incomes are high).

If you have any doubts, we recommend you seek professional advice before acting. You can book an appointment with us to discuss your investments.

The value of your investments may go down as well as up and you may not get back the full amount invested.

The levels, bases, and reliefs from taxation depend on the individual circumstances of the investor and may be subject to change.

Financial education in the workplace:

Why employers need to think beyond salary and traditional benefits to stay competitive

Sarah Herd, Director of Employee Benefits & Engagement

Sarah Herd is a financial education expert at Wren Sterling. She helps clients design and deliver effective workplace benefit strategies that support the attraction and retention of staff for organisations both large and small.

The term 'financial education' is a relatively new term to many employers, but to a rapidly changing workforce, it is a term that is starting to represent a significant commitment by an employer to the financial literacy of the workforce.

What is financial education?

Succinctly, financial education is about empowering people to make financial decisions. It's a programme of work delivered by an employer, often with help from subject matter experts and consultants, to help their people make decisions about their finances confidently.

Financial education is also about educating the employer, not just the employees. An employer's existing benefit strategy may be outdated and doesn't suit today's workforce. Therefore, getting an employer to understand this is the first hurdle and first part of the education process.

> Ultimately, financial education should lead to having a workforce that better understands their finances and appreciates their employer's efforts in facilitating that.

It's a simple equation, because stress is in the top five reasons for both short-term and long-term absence, and money concerns is the biggest cause of stress in the UK.

What is a wellbeing strategy?

Very often, when looking at financial education, a natural spin-off is wellbeing. The key question to ask is whether the employer is taking care of the physical and mental needs of its workforce.

It's founded on the belief that a workplace culture focusing on wellbeing benefits both employees and employers.

The end goal is to get the absolute best out of the employees and make it an enjoyable place to work, ultimately improving the performance of the business. For some employers, it can be a bit of a leap of faith, but that's where advisers come in. We can guide employers and make sure they're getting return on their investment through reduced recruitment costs, reduced absences, and increased efficiency. This is a commercial decision after all, not a nice-to-have.

What's making financial education more relevant to businesses?

The relevance of financial education is increasing because we're seeing huge changes in the workplace. Employers are looking to respond to common challenges such as retention and attracting new talent. Because the dominant generations are now Generation Y and Generation Z, businesses are looking at alternatives, cognisant of their different demands. Do 20 year olds with no family and no mortgage really value or want Death in Service ahead of lifestyle benefits? Possibly not, but unless a business asks itself that sort of question, nothing changes. Markedly different generations with different wants and needs, different sectors, different geographies, and different earnings capabilities all influence the make-up of benefit strategies.

It is clichéd, but we're looking at softer approaches for younger generations. Feeling valued by an employer really counts now, and so does providing a range of workplace benefits that meet their lifestyle requirements. It's like anything else in life – if you're not providing it and someone else is, then you're uncompetitive.

How are providers enabling the market to change?

One way that providers are helping employers to move with the times is through intervention tactics and value-added services. For example, intervening before people go off sick or become stressed by offering services such as Employee Assistance Programmes. It's down to us as advisers to make sure the employer is aware of the services available to them and to help them make most appropriate use of the services.

The missing link is communication and that's where the role of the adviser is so crucial.

We look at the whole end-to-end process – from reviewing existing policies and communication practices to ensuring there's a regular communications programme that encompasses measuring engagement. We're then looking at refining benefits and communication to maximise the investment the employer is making. There's an argument that the ultimate measure of this is business performance.

Looking at smaller organisations, how can they attract and retain talent using wellbeing and financial education, when perhaps they don't have the luxury of an in-house team dedicated to this?

Everyone is talking about new generations coming through. We're moving away from the baby boomer job-for-life culture to Generation Z, who are likely to work for multiple employers, including SMEs. Their expectations are different and it's not just about basic pay.

A big driver for this has been auto enrolment. Businesses might have assumed that the younger generation would have opted out in greater numbers than they have done. In fact, we're seeing a rise in engagement among younger workers who are thinking about their future.

Auto enrolment is providing a platform for organisations to start the conversation about what their employees want from their employer – and to let them know what's available. In my opinion, there's a dearth of places for employees to go to for financial advice, and their employer – as their pension provider – is as good a starting point as any other.

SMEs definitely can compete, especially with the help of corporate consultants and providers. For example, there's professional development available with some policies. Smaller companies may be run by line managers, who themselves may not have been trained as managers. Rather they will have been good at their job and gradually risen to take on more responsibility. Again, there are providers who do offer HR advice, legal advice, line manager training, and support. It's our job to make sure they're aware of these and taking the opportunity to upskill their workforce.

Everything we've discussed sounds like it would work best as a long-term strategy. Is that your experience of the most effective financial education and wellbeing strategies?

Absolutely. This isn't the kind of business that's transactional. As an adviser, you might not be hands-on all the time, but you're aware of changes in the external environment that will affect businesses, and conveying the impact is important. Similarly, by understanding changes in the business itself, we're able to view those in the context of the workplace benefits that have been installed and to ensure plans are continually relevant.

Even if a client wants a light touch relationship, it's still our responsibility to bring these things to their attention and to ask every 6 or 12 months whether everything is still alright.

With some clients, I'm referred to as their professional adviser. This gives the client, their board, and their employees comfort that they've got the benefit of external perspective and up-to-date market knowledge.

What do you expect to change in the next few years?

Technology and communication are the big ones for me. Products probably won't change, but how they're delivered will. Workplace education, understanding benefits, and return on investment should become easier to measure through improvements to technology and communication.

There will be an increase in take-up of flexible benefits at the smaller end of the corporate market. If there's demand for new products and services, they will evolve – like gym memberships, free coffees, and health-based rewards. These are relatively new products, but they're increasingly commonplace in the market.

> In the modern workplace culture, people are more aggressive and assertive in their job-hunting and are asking "What can you do for me?" rather than saying "Thank you for a job for life".

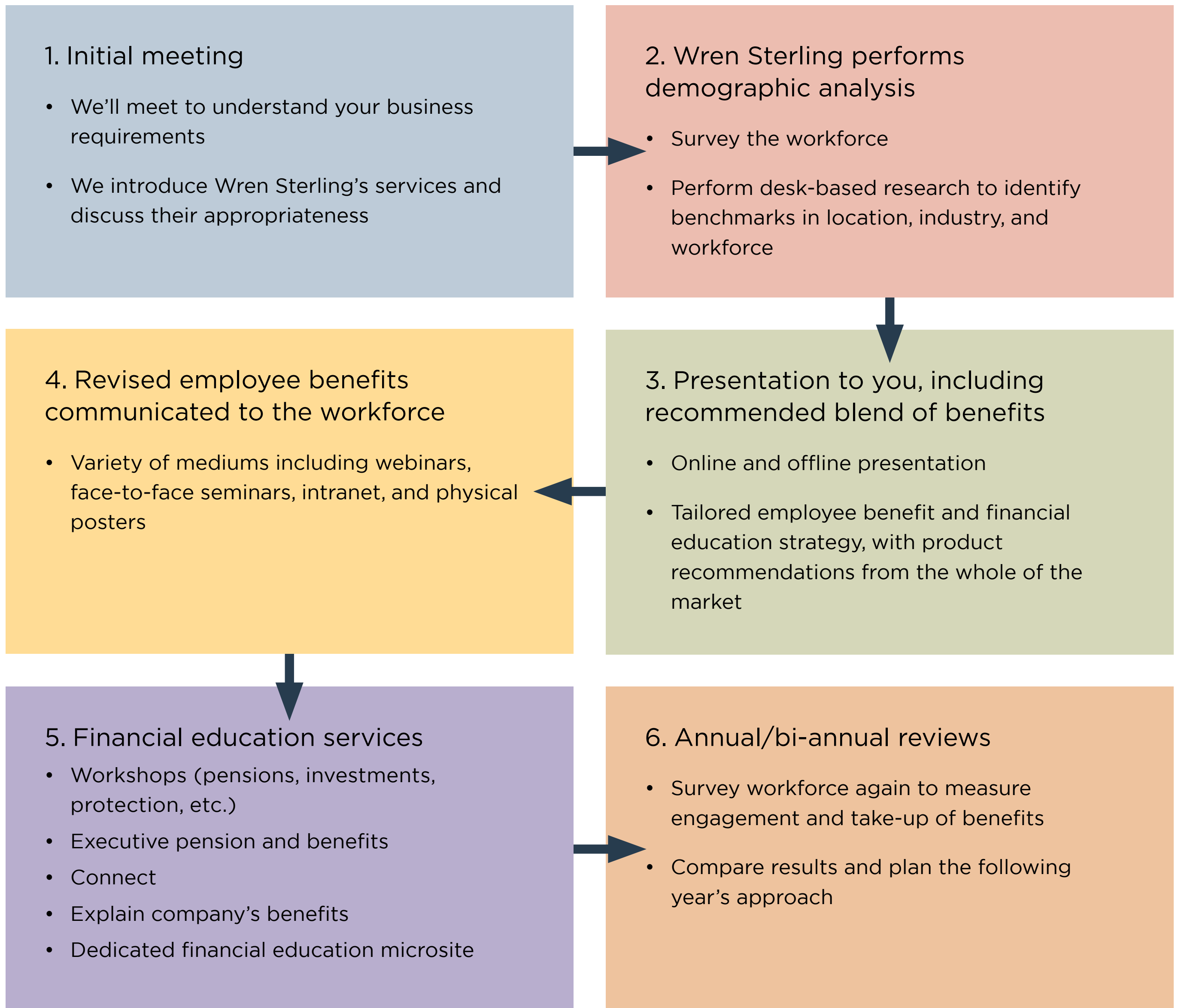
Benefits can drive loyalty, but again we come back to people understanding what they're being given.

I expect providers will make flexible benefits more available to SMEs. Can there be more pooling of companies with similar profiles, giving them a broader range of benefits to make them more competitive in the market? I think SMEs need to address this to level the playing field.

It might sound trivial and people reading this might wonder whether a free gym membership or discounted travel really makes a difference? They might wonder whether a rise in salary, which could supplement these things, is just a better option? But it's about more than that – it's demonstrating that the business cares, and that is what can really drive retention and loyalty in 2018.

What is Wren Sterling's financial education service?

Wren Sterling's six-point plan makes sure our clients' financial education strategy is truly aligned to the make-up and requirements of the workforce, starting with a free, no-obligation appointment.



Next steps

For more information on Wren Sterling's financial education services, please contact your adviser.

If you don't have an adviser yet, to arrange a free, no-obligation consultation, please contact **marketing@wrensterling.com**

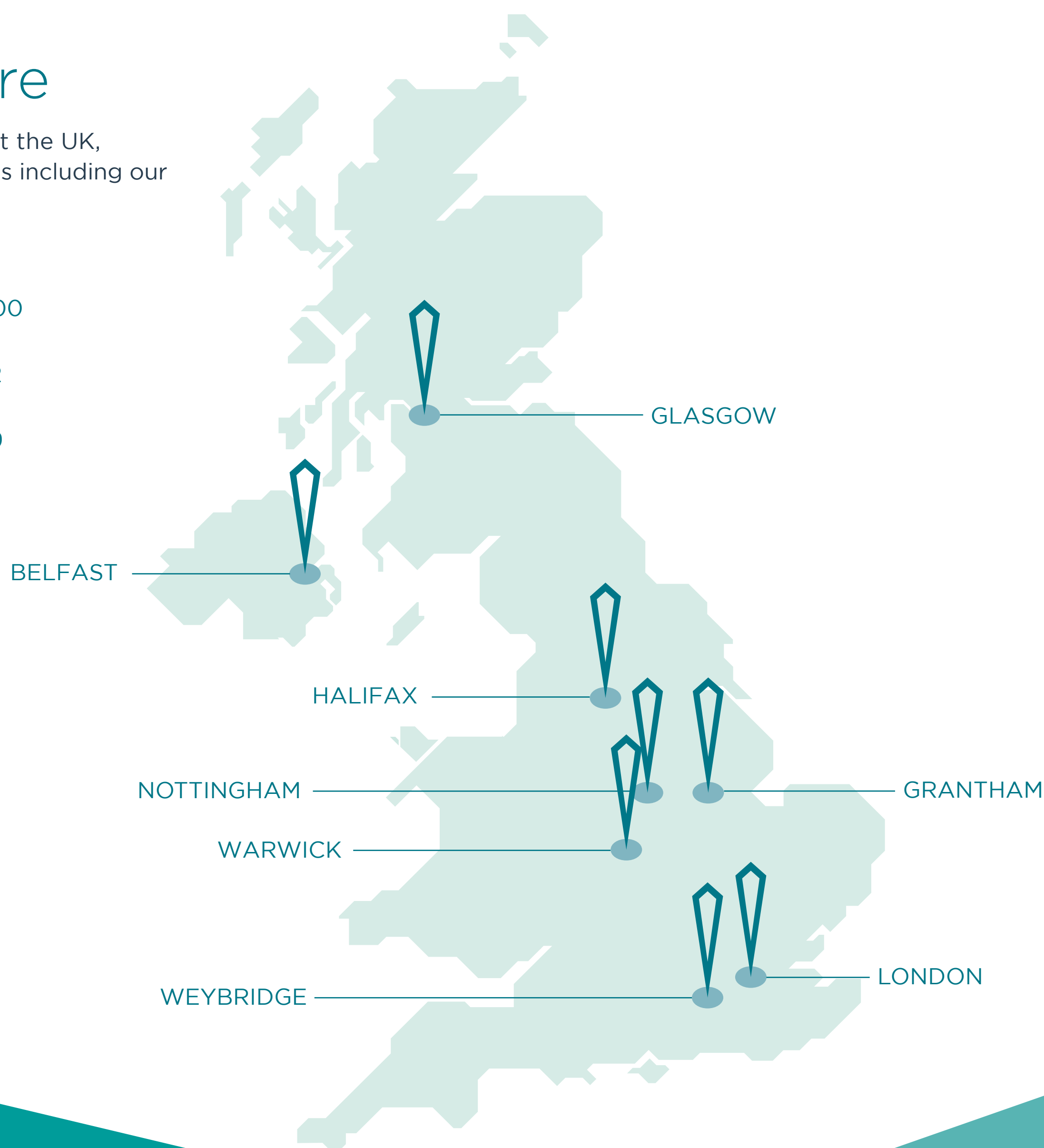
About Wren Sterling

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 longstanding client relationships that span generations to achieve our clients' lifetime financial goals.

Where we are

We have advisers throughout the UK, based in eight 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
- Belfast 0370 1432 100



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