Money Wise

BROOKS WEALTH MANAGEMENT LLP
Financial Planning and Asset Management

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istock/Artur

Ringing the changes of the new tax year

Starting 2019/20 as you mean to go on

Inside...

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Building your assets with infrastructure funds

Infrastructure funds are one of the less well-known types of investment but they can offer options for those looking to diversify their portfolio.

Infrastructure funds offer investors the opportunity to put their money into funds for large physical assets, for example bridges, airports or renewable energy projects.

These funds provide access to markets that are not closely linked to the values of most other bonds and shares, with fewer value fluctuations across a diversified portfolio. They can also be attractive if you're looking to generate an income from your investments.

Of course, like any investment, there is no guarantee that this income won't be reduced, or disappear altogether in certain circumstances.

How to invest in infrastructure

Individual investors have found it difficult to access infrastructure funds as direct investment into a power station or windfarm, for example, requires large capital sums. As such, these funds have tended to be the preserve of professional investors and large pension schemes.

In recent years, however, a number of funds aimed at retail investors have been launched. Some are UK-focused funds, others have a global remit. This is a niche area, and it is worth remembering that even large pension funds only have a small proportion of their portfolio in such assets.

In addition to pension funds, some multi-asset funds will also have exposure to infrastructure assets, and it is important to check the extent to which you might already be exposed to this sector. Retail investors should not invest directly and only invest in regulated funds provided by well-known investment providers.

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

Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

Planning for the 100-year life

It may sound fanciful, but a 100-year lifespan is well within the bounds of probability. That could have profound implications for your retirement planning.

While the average 70-year-old man now has a 4.1% chance of reaching his 100th birthday, an average 40-year-old woman has a 13.8% chance of becoming 100. And the number of people who will live beyond 90 has soared.

There are three big issues to look out for in planning a long retirement.

Income in retirement

If you retire at 65, your pension income could need to last for 35 years. The only way to guarantee your income throughout life is to purchase an annuity. Today, a simple fixed annuity starting at age 65, with no increases, costs about £18.50 for every £1 of pension.

You could take income withdrawals from your pension fund and other investments, although that would not give a throughout-life guarantee.

Inflation

Taking a fixed retirement income cannot be a realistic long-term option because of inflation. Over the last 35 years the pound has lost over two-thirds of its value as measured by the RPI. An inflation-proofed annuity for a single person costing £100,000 at age 65 would currently provide only a little over £3,200 a year.

Funding your retirement

The minimum level of pension contributions for auto enrolment will be 8% of band earnings from 6 April 2019. Yet pension experts consider this will be nowhere near enough to fund a comfortable retirement for most people.

There are plenty of suggestions for how much to save, but for a more accurate answer we can offer an individual calculation, based on your personal circumstances.

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Ringing the changes of the new tax year

The tax year 2018/19 ends on Friday 5 April, which means it is time to start planning for the new tax year and tie up the loose ends of the old one.

Planning for the new tax year is now affected by the shift of the Budget schedule to autumn. The result is that changes announced in October, or in Scotland's December Budget, have now passed into legislation in time for the new tax year. So, what does 2019/20 hold in store?

A higher personal allowance

The first £12,500 of income for most people in the UK will be free of income tax.

An increased higher rate threshold, outside Scotland

The higher rate income tax threshold (the personal allowance + the basic rate band) will be £50,000 for England, Wales and Northern Ireland. The jump of nearly 8% could mean it is worth reviewing how married couples and civil partners own their investments to ensure income falls in the right hands. In Scotland, the threshold stays unchanged at £43,430.

An increased national insurance contributions (NICs) upper threshold

The UK-wide upper threshold for full rate NICs (12% for employees) will also increase by nearly 8% to £50,000 from 6 April. This could potentially claw back some or, in Scotland, almost all of your income tax savings. However, the increase does offer more scope to potentially gain benefits from salary sacrifice arrangements for pension contributions.

Personal pensions

The lifetime allowance will rise by almost £25,000 to £1.055 million for 2019/20. The annual allowance and its associated taper limits

remain unchanged. Double check whether you have any unused allowance from 2015/16 to carry forward before 6 April arrives and the opportunity disappears.

Employer pensions

The minimum level of pension contributions for automatic enrolment increases from 6 April 2019. For employers, the minimum rate rises from 2% to 3% of 'band earnings' (£6,136–£50,000 in 2019/20), while employees must pay enough to bring the total up to 8%.

Individual savings accounts (ISAs)

Only the Junior ISA investment limit will increase in 2019/20, and by just £9 a month. It will be the third successive year the overall ISA limit has been fixed at £20,000, a reminder of the wisdom of contributing as much as you can each year (including 2018/19, if you have not already done so). The Help-to-Buy ISA will disappear for new investors (aged 16 upwards) from December 2019.

Capital gains tax (CGT)

The CGT annual exempt amount increases to £12,000 in 2019/20. The exempt amount could result in a potential tax saving of up to £2,400 (£3,360 in the case of residential property). If you have not used your 2018/19 exemption, combining the two with sales straddling the tax years could remove £23,700 of gains from tax. That might provide the funds to top up ISAs and pensions.

For more information on any of these changes please contact us now.

✢ *The value of tax reliefs depends on your individual circumstances.*

Tax laws can change.

The Financial Conduct Authority does not regulate tax advice.

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Protecting against income cuts

You may assume you'll never need it, but if you experience redundancy or illness, you may become eligible for universal credit. The government is slowly rolling out the new single payment designed to replace six existing state benefits.

Universal credit is expected to be adopted nationwide by 2023. However, there has been controversy about the changes, and delays to implementation. Universal credit replaces the following benefits: child tax credit; housing benefit; income support; income-based jobseeker's allowance (JSA); income-related employment and support allowance (ESA); and working tax credit.

It's important to remember these benefits only provide a basic standard of living.

Greater protection

The good news is that insurance can bridge the gaps in your financial security. A range of insurance protection products can pay out if you lose your job, become too ill to work or die.

Life insurance typically pays out a lump sum if the policyholder dies before a set date. This is often a cost-effective option, because premiums are low as the chances of claiming are relatively low. However, should the worst happen, the lump sum can help ease financial worries for families at a difficult time.

Critical illness insurance pays out a fixed lump sum if you are diagnosed with a specified serious illness, including most types of cancer, stroke and heart disease.

Income protection insurance pays a monthly amount – usually a fixed portion of your regular earnings – if you cannot work because of ill-health. This normally only pays out once you have stopped work for a certain period of time.

All these policies can be purchased by individuals, but some employers also provide cover, so check what is available.

The government has confirmed that payments from these insurance policies won't affect your entitlement to state benefits such as universal credit. If you are concerned about potential consequences for your income should you become ill, please get in touch.

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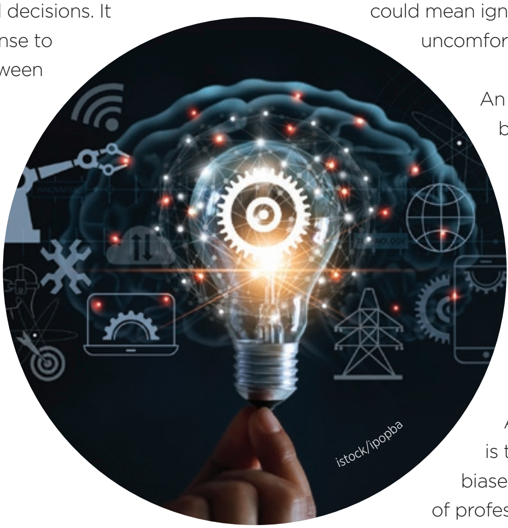
Know your investment mind

Understanding your personal biases can help you form investment strategies that work for you across good times and when the going gets tougher.

Traditional finance theory starts from the principle that markets and their investors are perfectly rational. A quick look around shows that such an idea is optimistic.

Behavioural finance studies the impact of investor psychology on financial decisions. It has developed in response to the inconsistencies between rational theory and irrational reality.

People can act in surprising ways in all sorts of circumstances. For instance, you might ask yourself if you recognise any of these behavioural finance biases in yourself or others:



Overconfidence

Many people when asked identify as 'above average', whether in terms of driving ability, intelligence or looks. By definition it cannot be true – no more than 50% can be above average. Overconfident investors can pay a high price to learn this truth.

Herding

"Everybody is investing in technology/emerging markets/commercial property/etc., so I will too." It seems the easy option, not least because human beings are inherently fearful of going against the crowd. However, the crowd's judgement is not always right.

Confirmation bias

Which do you pay more attention to: the information and comments that reinforce your views or those that contradict them? The natural response is the former, but when it comes to investment, hearing only what you want to hear could mean ignoring important, if uncomfortable, truths.

An understanding of behavioural finance ideas can help you identify your own biases. The nearer you come to acting like a rational investor, the more you may be able to benefit from the irrationality of others.

A sensible starting point is to identify your innate biases and take advantage of professional, objective advice when making investment decisions.

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Reap the rewards of regular savings

A regular savings plan is one of the most effective ways of building a nest-egg for the future.

Saving regularly can be a painless way to accumulate funds, particularly if this money is taken automatically each pay day. Set aside £100 each month, and you will have squirrelled away £1,200 after one year, or £6,000 after five years. Trying to find a lump sum of this size to invest can prove more challenging, without a bonus, bequest or some other windfall.

Over longer periods of time, compound returns – or receiving investment returns on your investment returns – could significantly boost the value of your savings. The longer your money is invested, the bigger this effect will be.

Regular investments

Regular saving can also help smooth out the ups and downs of the stock market.

There is an old investment adage that it is time in the market, not timing the market, that makes investors' money. With a regular investment plan you're not trying to second-guess market movements, so you don't run the risk of missing days when stock markets rise significantly.

Of course, this also means you will keep investing through market downturns. But when markets fall, you will be buying shares, or units in a fund, at cheaper prices. You could benefit as and when markets bounce back. The technical term for this is 'pound-cost averaging'.

Please let us know if you would like to discuss your savings strategies.

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