

# LIFE CENTRED PLANNING

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SENECA REID LIMITED  
AUTUMN 2019

If you want to discuss how the details in this newsletter  
may affect your financial plan please contact us



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# How inflation eats into your returns

## Food price comparison

	1989	2019
<b>White sliced loaf</b>	49p	£1.09
<b>Chicken (fresh / per kg)</b>	£1.89	£2.77
<b>Milk (per pint)</b>	28p	44p
<b>Oranges (each)</b>	17p	38p
<b>Draught lager (per pint)</b>	£1.06	£3.69

**The value of your investments can fall as well as rise, and you could get back less than you invest.**

**Understanding inflation and its impact on your portfolio is important because rising prices can reduce the value of the money you get back from your investments.**

## What is inflation?

Inflation is a term used to describe a rise in prices. In the UK, it is measured by the Consumer Prices Index including owner-occupiers' housing costs (CPIH), the Retail Prices Index (RPI) and the Consumer

Price Index (CPI). CPI the most commonly quoted measurement tracks the changes in prices of several hundred household goods and services including food, clothing and recreation. The Office for National Statistics publishes CPI figures on a monthly, quarterly and annual basis.

Prices increase for a variety of reasons, such as a rise in the cost of the raw materials used to manufacture goods, or tax cuts which encourage consumers to spend.

In the UK, inflation has drifted above the Bank of England's (BoE) target of 2% since the Brexit referendum as political uncertainty has caused sterling to weaken against other major currencies. Weaker sterling means goods imported from outside the UK become more expensive.

Most other major central banks set a similar target because a healthy level of price rises reflects a strong economy. If inflation races ahead for any reason, the banks can use interest rates to get it back under control.

## Why does inflation matter to investors?

Inflation reduces what is known as your purchasing power. In short, when prices rise, you can buy less with your money. This effect does not just impact your day-to-day spending though, it also eats into the returns generated by your investments.

Say your portfolio increased in value by 5% in a year. This is your nominal rate of return. However, prices rose by 2% during that time, consistent with the BoE's target. To determine your real rate of return, you need to subtract the inflation rate (2%) from your nominal return (5%). In this case, the value of your portfolio increased in real terms by 3%.

## Inflation proofing your portfolio

An investment portfolio should ideally be designed to deliver returns that beat inflation over the long term (five to ten years), even if it does not achieve this aim consistently throughout the whole investment period.

Bonds play an important role in the diversification of risk in your portfolio, but they may underperform when prices rise because payments become worth less. Fixed interest payments received by bond investors stay the same regardless of inflation, while equity investors earn a variable return which they expect, to some degree, to reflect changes in inflation. Alternative asset classes such as commercial property and commodities might also benefit from rising prices. Conversely, with interest rates at record lows since the 2008 financial crisis, holding cash will generate negative returns.



# Reviewing your pension contributions

## Did you know...?

### Gender pay gap

Pensions for women are £7500 less than men on average and yet on average women live for three years longer than men.

### A nation unprepared for retirement

Over half of the British population admits to either not saving for a pension or not saving enough for the retirement that they would like to live.

### The rise of pensioners

In 1901, there were ten people working for every pensioner. By 2050 it has been predicted that there will be one pensioner to every two workers.

*The value of your investments can fall as well as rise, and you may get back less than you invest.*

*HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.*

As you approach retirement, you probably want to know when you can afford to stop working. Having worked hard throughout your career you deserve to enjoy your retirement without having to worry about your finances. It may be worth reviewing your pension contributions to make sure you are taking advantage of the incentives offered by the government and your employer.

## Make the most of tax relief...

The government tops up your pension contributions in the form of tax relief at your highest rate of income tax to encourage you to save. Basic rate taxpayers receive tax relief of 20%, while higher rate and additional rate taxpayers can claim back 20% and 25% respectively through their tax returns.

## ...and understand employer contributions

Since 2012, employers have been legally obliged to automatically enrol employees in a pension scheme, although you can opt out. As an incentive, employers top up employee contributions. The government increased the minimum contribution to 8% from April 2019 - at least 3% from employers with employees making up the balance. It is worth remembering that the employee's contribution includes tax relief.

## Are you saving enough?

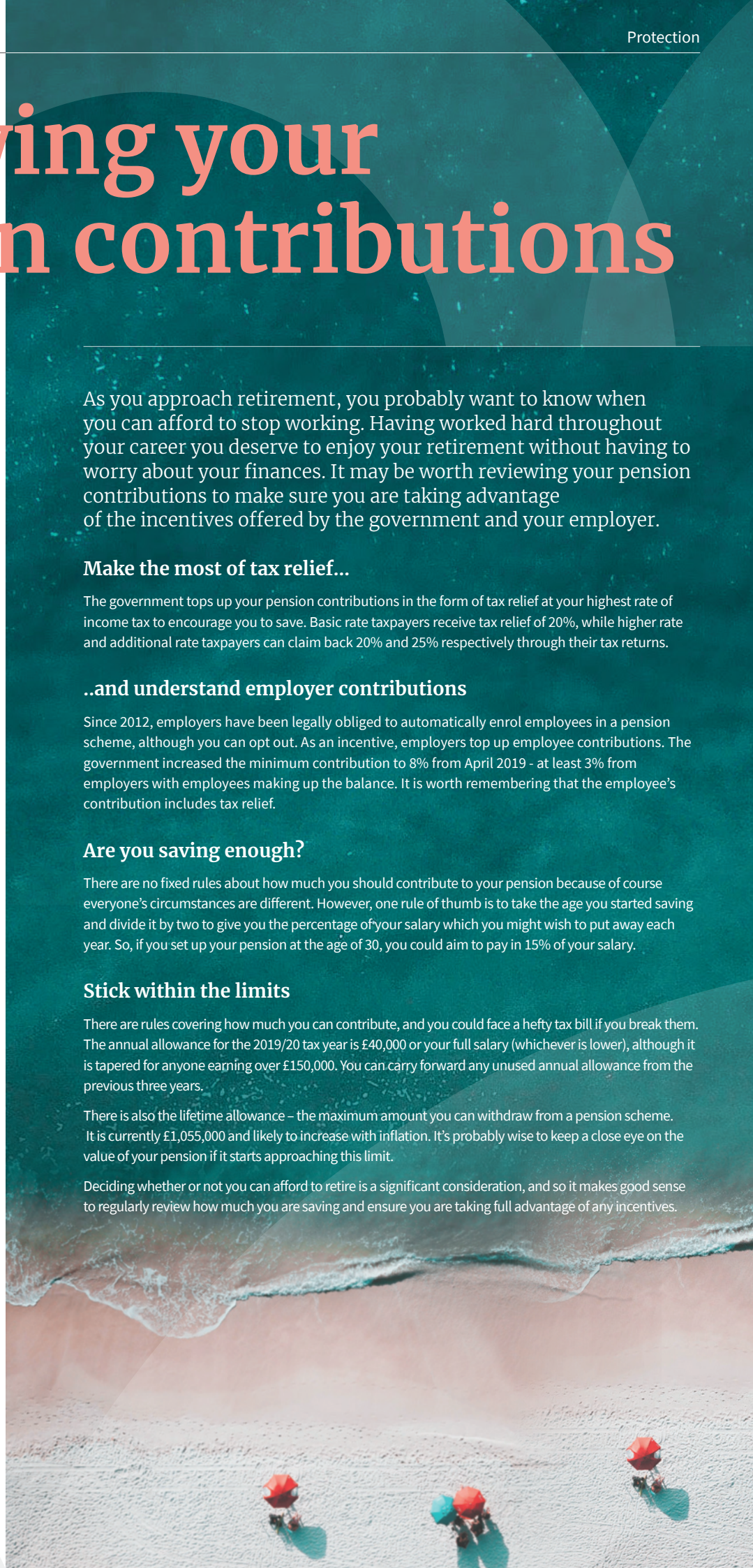
There are no fixed rules about how much you should contribute to your pension because of course everyone's circumstances are different. However, one rule of thumb is to take the age you started saving and divide it by two to give you the percentage of your salary which you might wish to put away each year. So, if you set up your pension at the age of 30, you could aim to pay in 15% of your salary.

## Stick within the limits

There are rules covering how much you can contribute, and you could face a hefty tax bill if you break them. The annual allowance for the 2019/20 tax year is £40,000 or your full salary (whichever is lower), although it is tapered for anyone earning over £150,000. You can carry forward any unused annual allowance from the previous three years.

There is also the lifetime allowance - the maximum amount you can withdraw from a pension scheme. It is currently £1,055,000 and likely to increase with inflation. It's probably wise to keep a close eye on the value of your pension if it starts approaching this limit.

Deciding whether or not you can afford to retire is a significant consideration, and so it makes good sense to regularly review how much you are saving and ensure you are taking full advantage of any incentives.





Thanks to pension freedoms introduced in 2015, savers over 55 have a wide range of options when it comes to drawing from your savings, and this brings opportunities although it's also easier to make a mistake.

**There are now essentially four main ways for you to access your pension savings:**

- 1. Buy an annuity** which guarantees an income, typically for the rest of your life but in some cases for a fixed period
- 2. Flexi-Access Drawdown** allows you to withdraw from your savings when you need to, while the balance remains invested
- 3. Take it all out as cash** with the first 25% tax free and you pay income tax at your marginal rate on the rest, although you may face a hefty tax bill the following year
- 4. Take part of it out as cash** with the first 25% tax free with the rest taxed at your marginal income tax rate. You can do this as many times as you like until you no longer have any pension savings.

*The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.*

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*Information contained in this article concerning taxation and related matters are based on Openwork's understanding of the present law and current legislation.*

# Your pension savings, your future options

## Why you should consider modernising your pension

As well as giving you greater freedom over how you access your savings, there are several other benefits when modernising your pension:

- Take full control of your pension savings
- Choose when and how to draw an income to suit your retirement planning
- Keep your options open for drawing an income in the future
- Optimise your tax efficiency - both on any money you might leave invested, and Inheritance Tax.

If your pension plan does not offer all four of these options, then you should think about switching it.

## What else do you need to think about?

There are other factors to take into account when switching to a modern pension.

Firstly, the chances are the costs will increase. You may end up paying as much as an extra 1% of the value of your savings annually. So, if you have saved £200,000, your provider could charge up to £2,000 more per year. And if you seek financial advice, your adviser may also levy a fee, either upfront or as an ongoing service charge. These additional fees eat into your pot, but you could equally benefit from the flexible access as well as greater visibility and control.

Another consideration is tax. Regardless of whether you stick with your current pension or switch to a modern one, your income- other than the first 25% of a partial or whole lump sum- is subject to your highest rate of tax. Seeking professional advice can help you access your savings in a tax-efficient manner.

There is certainly plenty to consider and it is wise to regularly explore your current and potential retirement routes.







# Does diversification matter?

**When it comes to building your investment portfolio, you might have been warned about avoiding putting all your eggs in one basket. It's wise to spread your money across a range of different investments. That way, if the value of one of them falls, it should have a limited effect on the overall performance of your portfolio.**

## **How to diversify your portfolio**

In practical terms, diversity involves investing in different asset classes across various countries and regions.

The two main asset classes in most portfolios are shares and bonds, and these behave differently. When you invest in shares, you buy into a company's ongoing operations. The value of shares fluctuates according to the fortunes of the company, so they are riskier than bonds. Of course, the returns can be greater too.

A bond is effectively a loan to the issuer in return for a fixed interest payment. A government bond, such as a gilt, is considered among the least risky investments, as the UK government is unlikely to default, although returns can be lower.

Most portfolios will also diversify holdings across developed countries, like the UK, the US and within Europe, and regions such as emerging markets (EMs). Developed countries typically have relatively stable economies and stock markets comprising large, well-established companies. EMs on the other hand, are growing faster so they offer greater potential rewards, however, they tend to be more unpredictable so they are regarded as higher risk.

## **How diversification works**

During times of uncertainty, bonds usually rally as investors move their money out of shares and into safe-haven assets. When the outlook improves, shares rebound as investors switch back to taking greater risk in return for what they hope will be a higher reward.

As for geographical diversification, any number of economic or political factors can weigh on the financial markets in one country or region without necessarily spreading into others.

Assets and regions are not always uncorrelated in the short term. Most asset classes fell towards the end of 2018 due to concerns about global trade, slowing economic growth and the prospect of rising interest rates. They then rose in tandem at the start of 2019. As long as your portfolio is well diversified, it should weather market fluctuations.

*The value of your investments and any income from them can fall as well as rise and you may not get back the original amount invested.*



# You're not average

## What does average look like?

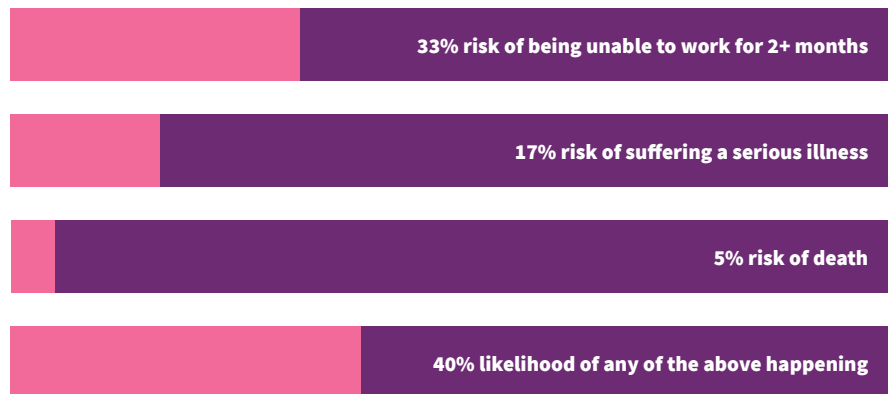
Information released by the Office for National Statistics shows the average British man, Mr Average, is 38, will live to 85 and earns £31,103. The average British woman, Ms Average, is 40, will live to 88 and earns £25,308.

The LV= risk reality calculator gives you a rough idea of your risk of being unable to work for two months or more, suffering a serious illness, and death.

Running the details of Mr and Ms Average through the calculator uncovers some startling statistics of what life might look like for them before retirement at age 68.

## What might be in store for you before the age of 68? (Based on a non-smoker, according to population and industry statistics)

### Men



### Women



These statistics highlight the importance of all of us taking responsible steps to mitigate the financial impact these risks may have on you or your family. While we can't wrap ourselves up in cotton wool we could consider Income Protection, Critical Illness Cover and Life Insurance policies as part of a protection portfolio.

## Income Protection

Income Protection pays out a regular monthly income to you should you be unable to work due to an injury or illness.

## Critical Illness Cover

Critical Illness Cover pays a one-off lump sum on diagnosis of any of the serious illnesses specified in the policy terms.

## Life Insurance

Life Insurance can pay a one-off payment or a regular income to your partner or dependents when you die.

If this has given you some food for thought, and you'd like to learn more about your risk, visit <https://riskreality.co.uk/openwork>.





# Crowdfunding the cost of healthcare



Crowdfunding is becoming increasingly common among people who need healthcare that's not freely available through the NHS. The increase is said to be due to access to overseas clinics and high-profile social media campaigns such as the 2014 campaign for Mike Brandon.

Websites such as justgiving.com, crowdfunder.co.uk and gofundme.com are full of campaigns from families trying to raise funds for treatments or seeking help to avoid the financial hardships that a serious illness such as cancer or stroke can cause.

Even though the vast majority of proven effective treatments for cancer are funded by the NHS, more than £20m was raised for cancer treatment not available on the NHS on crowdfunding sites during 2018, a staggering amount when you consider just £530,000 was raised this way in 2015.

## Don't rely on crowdfunding

Crowdfunding can put you under pressure and scrutiny at a time when families should be concentrating on treatment and recovery, living life to the max or maybe completing a bucket list.

Taking out a critical illness plan could help with the financial impact that the diagnosis of a serious illness could have on you and, in turn, your family's life.

## Supporting young people too

Many Critical Illness policies also include cover for children (natural, step and legally adopted) as an automatic benefit. This can pay out a lump sum if a child is diagnosed with a critical illness or is hospitalised.

Although cancer in young people is rare, it is still the most common cause of death for children aged up to 15. Sadly, around 1,600 children under 15 and 2,200 teenagers and young adults (15-24 years old) are diagnosed with a form of cancer every year.

It's a tough subject to think and talk about but taking action now could save you and those nearest and dearest to you considerable stress and worry at a very difficult time.





# Borrowing options in your later years

Retirement is an exciting time; the start of a new chapter in life. Whilst we will have worked, saved and prepared for this moment for a long time, many of us will find we don't quite have enough money to fund all the things we planned to do.

Luckily, there are an increasing number of options for borrowing in your later years, enabling people to stay in their homes for longer and help fund their retirement lifestyle.

## Mortgage

One option is a traditional residential 'capital and repayment' or 'interest-only' mortgage. Many lenders have increased their upper age cap limits in recent years, enabling mortgages to now be applied for by people up to 80 years old and allowing mortgage terms that end when a customer is up to 85 years old.

You'll have a better chance of being accepted for these mortgages if you have a good credit history. Your income will need to be high enough to easily cover the mortgage payments, so lenders will be looking for proof of pension income. This is easier to do once you are retired. However, if you are yet to retire, your pension provider can give confirmation of your expected retirement date, current pension pot and expected retirement income. The mortgage provider will also be interested in other income you may have, such as from shares and property investments.

## Equity Release

Another option is equity release. With an Equity Release Mortgage, you borrow an amount against a part-share of your home, either as a one-off lump sum or a monthly income.

You still own your home, and the payment can be used for a variety of purposes. These are, most commonly, to pay off an outstanding mortgage, pay for a major purchase or unexpected cost, or simply to help fund your retirement.

## Lifetime Mortgage

A Lifetime Mortgage differs to a traditional Residential Mortgage as payments do not need to be made throughout the term of the mortgage. Instead, the total amount borrowed plus the interest is repaid when the house is sold, which is usually after the borrowers have moved into a care home or passed away.

Both Equity Release and Lifetime Mortgages will impact elements such as how much inheritance you have available to pass on, eligibility for state benefits and your tax position.

Each of these borrowing options suits different circumstances so you must carefully consider which would be best for you in your later years.

You will need to take legal advice before releasing equity from your home as Lifetime Mortgages and Home Reversion plans are not right for everyone. This is a referral service.

YOUR HOME MAY BE REPOSSESSED IF  
YOU DO NOT KEEP UP YOUR REPAYMENTS  
ON YOUR MORTGAGE.