DIVIDENDS RIDE HIGH BUT...
Record payouts for 2019 give way

PENSIONS AND DIVORCE
Key assets go overlooked

THE PRICE OF EDUCATION
Private school fees soar

BKL
Wealth Management Ltd

Financial FOCUS

Tel: 020 8922 9365 • Fax: 020 8371 3112 • www.bklwealth.co.uk • post@bklwealth.co.uk

SUMMER 2019

How much is enough for pension contributions?

You may need to save much more than you think for a comfortable retirement

iStock/natthanim

SUMMER 2019

In this issue...

Welcome to the summer edition of our newsletter. The changes of the new tax year have had a chance to settle in and now we have an opportunity to analyse their impacts more closely. We look at the latest increase to auto enrolment pension contribution rates and what they mean for long term retirement savings. This is the second contribution rise in two years, but will it provide the retirement we expect? There was good news for those investing in UK companies – dividend payouts improved by 85% in 2018. But some recent high profile dividend cuts highlight the importance of getting into the detail on investment decisions. For families with children in private education, or planning to take that route, such income could come as a welcome addition to help cover school fees. The cost of private education is rising at almost double inflation so we offer some tips for keeping up with the increases.

Cover image: iStock/AleksandarNakic

PLANNING

The joy of tidying

Prioritise peace in your life: extend the Marie Kondo tidiness craze from your home to your finances.

Have you ever looked at a room in your home – or even at your office desk – and wondered how you accumulated so much stuff? You might well remember when you acquired each item, but the questions of why you did so and whether you still need it can be more awkward to answer. 'Seemed like a good idea at the time' and 'No, not really' could be the embarrassing truth for many of us.

What applies to the curiously coloured article of clothing or the novelty mobile phone holder can also be relevant to excess baggage in your personal finances. Working out what investments, savings and insurance cover you have, why each one is there and whether you still need it can be a daunting, but ultimately rewarding task. For example:

- Do you have any old ISAs – perhaps they were even once PEPs – bought for their league-table-topping funds and then forgotten when past performance proved to be no guide to the future?
- Do you have cash invested in bank or building society accounts opened more than a couple of years ago?
- Are your investment funds held on a single platform or spread across several platforms, or are any of your funds held directly with the asset managers?
- Do you have any pension plans where contributions have long since ceased and perhaps the provider has closed to new business?

We can help create some coherence to your finances. The process can have a range of benefits, even if it is simply to bring your investment funds under a single umbrella. Charging structures now often favour bringing together holdings in one place rather than spreading them over several providers or platforms.

A consolidated approach can also make it easier to see the bigger picture and carry out any necessary adjustments. For cash deposits, Financial Conduct Authority research from 2018 showed that accounts that were more than two and half years old typically paid less than half the interest rate offered by newly opened accounts.

✣ *The value of your investment 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.*

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

iStock/CatLane

INVESTMENT

Dividends riding high, but...

Istock/PeskyMonkey

Shareholders enjoyed bumper dividend payouts in early 2019, but it's not all plain sailing.

The value of regular dividend payments has increased steadily after the financial crisis of 2008. Dividends paid out by UK-listed companies through to 2018 rose by 85%, with £19.7 billion paid out in the first three months of 2019 – a first quarter record according to Link Asset Services. In May, however, a number of high profile companies, including Vodaphone and Marks & Spencer, slashed their dividends by 40%, creating a less rosy picture.

Companies usually pay regular dividends quarterly or twice a year, as one interim and one final payment. You don't have to be a direct shareholder to benefit – dividends are also paid to many pension and ISA funds.

The impact on both institutional and individual shareholders means companies are reluctant to cut their dividends, even when it may make economic sense to do so.

The record figures this year have been attributed to several one-off 'special' dividends. For example, the global resources company BHP Group paid a huge £1.7 billion special dividend, following the sale of its US shale oil interests. But even excluding these, regular dividend payments still rose 5.5%, to £17.6bn prior to the cuts in May.

Many of the largest companies listed on the UK stock market are global conglomerates. The low value of the pound has also helped boost profits, once overseas earnings are converted into sterling, and this has helped push up dividend payments.

CHOOSING CAREFULLY

Given the general history of consistent gains, it is not hard to see how dividends can help boost overall investment returns. Those looking for dividend payments might want to consider equity income funds, which aim to invest in companies that have a track record of growing their dividend payments.

Established oil giants, utilities, pharmaceutical, tobacco and financial companies have traditionally had good track records for paying dividends, although there's no guarantee these will continue. It's worth noting that many banks stopped paying a dividend following the financial crash, although a number have now reinstated these payments.

> *Many investors choose to reinvest their dividend payments – reaping a further investment return on their investment return.*

In contrast, smaller, fast-growing companies often pay low – or no – dividends, as surplus profits tend to be reinvested in the business.

DIVIDEND REINVESTMENT

Many investors choose to reinvest their dividend payments to benefit from higher compound returns – reaping a further investment return on their investment return. This can significantly increase the value of holdings over longer periods of time.

Dividends can be a useful way for investors to earn an attractive income from their investments without having to dip into their capital.

As so often in investment decisions, the devil is in the detail, now more than ever, so sound advice is crucial.

+ 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.

RETIREMENT

How much is enough for pension contributions?

Pension contributions have recently risen for many people, but the increase may still not be enough to fund a comfortable retirement.

The latest round of pre-planned increases to minimum contribution rates under automatic enrolment (AE) workplace pensions came into effect in April. If you are one of the 10 million people who have been automatically enrolled, then broadly speaking, provided your yearly earnings are at least £10,000:

- Your employer must now contribute a minimum of 3% of your 'band earnings' into a pension (band earnings in 2019/20 are between £6,136 and £50,000); and
- You must make up the balance to bring the total contribution to 8% of 'band earnings'. So, if your employer pays the minimum 3%, you have to contribute 5%. In most instances you will receive at least basic rate tax relief, which will bring your effective cost down to 4%.

The 8% total contribution figure is widely quoted, but a lot of people overlook the fact that it does not apply to all earnings. In fact, the true AE contribution is approximately 6.2% of total average pay – based on the Office for National Statistics' latest (February) estimate of average pay of £528 a week (£27,508 a year). There are similar effects across the pay scale, with the maximum true rate of contributions approximately 7% of total pay, which is at the 'band earnings' ceiling of £50,000.

CURRENT CONTRIBUTIONS ARE NOT ENOUGH

Despite the increases, the government accepts that the current level of AE contributions falls far short of funding requirements. In the foreword to a Department for Work and Pensions report on the future of AE pensions, published in December 2017, the then Secretary of State for Work and Pensions said,


istock/AleksandarNakic

"...we recognise that contributions of 8% are unlikely to give all individuals the retirement to which they aspire". His proposals included:

- Removing the lower limit on 'band earnings', so that the 8% was based on full earnings (up to £50,000);
- Reducing the minimum age for inclusion in AE from 22 to 18; and
- Encouraging people to save more than the 8% level.

Eighteen months (and two new Secretaries of State) later, there have been no further developments. The fact that there have been

> *The 8% total contribution figure does not apply to all earnings. In fact, the true AE contribution is approximately 6.2% of total average pay*

AE contribution increases in both April 2018 and April 2019 may well have encouraged the government to pause, if only to see the reactions of employees.

WHAT IS THE SHORTFALL?

So how much should your pension contributions be?

As far back as 2005, the Pensions Commission acknowledged that the state pension with additional AE contributions of 8% would only provide around half the level of savings needed for most people to enjoy an adequate retirement. The implication is that the contribution rate should more than double for the average employee.

More recent statistics on longevity and the number of people remaining in work beyond usual retirement age have made the picture even more complicated. But how much should your contribution levels increase? The amount will depend on several factors including:

- When you plan to retire and whether that is before you reach your state pension age;
- Your existing level of pension savings, including state benefits;
- Other savings on which you can draw in retirement; and
- Any limits imposed on you by the pension annual and lifetime allowances.

The calculation can become complex very quickly, so why not ask us to carry out an assessment of what your personal contribution rate should be?

✣ The value of your investments and your 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.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

INVESTMENT

If it looks too good to be true...

The recent failure of a promoter of high return investments was a reminder of the dangers of being lured by headline numbers alone.

Last year London Capital and Finance Plc (LCF) marketed what they claimed to be Innovative Finance ISAs offering fixed interest rates of 8% – and this was at a time when no fixed rate cash ISA offered even half as much return. Unfortunately, LCF's 8% rate did prove too good to be true. In January 2019, LCF called in the administrators and two months later HMRC announced that the LCF ISAs did not comply with ISA regulations and their income (while it lasted) was therefore taxable.

Investors may only receive back as little as a fifth of the amount they invested. While LCF itself was regulated by the Financial Conduct Authority, the mini-bonds issued by LCF to back their ISA were unauthorised and not covered by the Financial Services Compensation Scheme.

Ironically, investors might have had a chance of compensation if a regulated financial adviser had (badly) advised them to invest in LCF. However, LCF only sold its products direct to customers.

The lesson from LCF is an old one: investment without advice may look a cheap option, but it can carry its own heavy cost.

✣ 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.

istock/hanibaram

PENSIONS

Pensions and divorce – not just about the split

When it comes to dividing up assets on divorce, pension rights can turn out to be one of the most valuable elements – and often the most overlooked.

The transfer values of final salary pension schemes have been at record levels over recent years. In a paper published last October, the Financial Conduct Authority reported that employee benefit consultancies were recording "the average size of transfer at over £250,000".

The regulator's focus has been on the wisdom of moving such final salary pension benefits to other pension arrangements. However, there is another aspect of large transfer values that is worth thinking about: the role they can play in divorce settlements.

A final salary pension benefit could be the single most valuable part of a financial settlement in a divorce. Yet there is anecdotal evidence that pensions are sometimes overlooked when agreeing a settlement, perhaps because their value is not fully appreciated, or it can all seem too difficult when more immediate practicalities are the primary concern.

UNDERSTAND THE OPTIONS

In the UK, there are currently three main ways of dealing with pensions on divorce:

- **Pension sharing** With pension sharing the ex-spouse/civil partner's pension(s) are shared (as the phrase suggests), with a percentage (or specified amount in Scotland) allocated to the ex-spouse/partner. The shared element is either retained in the existing pension scheme or transferred to the ex-spouse's/civil partner's scheme. In practice, schemes often insist on a transfer being made.

- **Pension offsetting** This avoids disturbing the existing pension and instead involves offsetting its value against other assets. For example, one spouse might gain a larger share of the family home in exchange for receiving no pension benefit from the other spouse. However, calculating the appropriate level of offset can be difficult, not least because of the tax calculations involved.

> *A final salary pension benefit could be the single most valuable part of a financial settlement in divorce.*

- **Pensions attachment orders** (pension earmarking in Scotland). Under these arrangements, the ex-spouse/civil partner receives a specified proportion of the pension and/or lump sum when the divorced member starts to draw benefits (in Scotland, it's just the lump sum that can be earmarked). A potential drawback is that the ex-spouse/civil partner may not receive any benefit if the other ex-spouse/civil partner dies before any benefit has been drawn.

Each option has its advantages and disadvantages and it is possible that the divorcing couple will see different routes as offering the best solution. For example, pension sharing and pension attachment orders/earmarking both require a court order to take effect, but this isn't necessary for offsetting.

SEEK PROFESSIONAL HELP

If you are ever involved in a divorce, make sure you get expert guidance on your pension options. There may well be more than one pension involved and it might be difficult to obtain the relevant data, so the sooner you seek advice, the better. Contact us now and we can:

- Explain how each of the options would work for you;
- Assess the transfer value that has been calculated for any benefits;
- Advise on any pension transfers required; and
- Explain how you can improve your financial position at retirement.

✢ 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.

Occupational pension schemes are regulated by The Pensions Regulator.

iStock/Deagreez

iStock/nilimage

INVESTMENT

Balancing the school fees equation

School fees are rising faster than the rate of inflation, creating financial challenges for parents who want to educate their children privately.

Private school fees rose by 3.7% from 2018 to 2019, according to the latest figures from the Independent Schools Council (ISC). This isn't a one-off hike. School fees have risen by an average of 3.9% a year since 2010. This is a much faster rate than the rate of inflation as measured by the consumer price index, which was only 2.1% for April 2019.

The average independent day school charged £14,289 a year in 2018, according to the ICS. Of course, fees vary according to location and facilities. However, escalating fees do not appear to be putting parents off, with a record number of pupils now attending independent schools.

The question for parents is how to fund these rising fees. Some families may be able to meet the costs out of earnings, but many parents will need to build up reserves. When planning to accumulate a school fees fund:

1. **Plan ahead** The sooner you start, the better chance you have of building a decent nest egg by whatever age you wish your children to enter the private system. Last minute decisions may restrict your choices.

2. **Make the most of tax-breaks** The ISA allowance enables each parent to save up to £20,000 a year, in a fund that is free of UK tax on investment income and capital gains. ISAs can be used to build both cash savings and equity investments.

3. **Look at the range of investment options** If you have a savings horizon of 10 years or more, you might want to consider equity investments. But remember you will have to pay the fees, regardless of stock market fluctuations. To maximise returns and reduce risk, aim for a diversified portfolio of equities and bonds and keep charges to a minimum.

4. **Get the rest of the family involved** Grandparents – and other relatives – might be willing to contribute. Regular payments towards school fees (or a savings fund) might qualify for exempt treatment and reduce their eventual inheritance tax liability. Any one-off lump sum payments would normally be disregarded, providing the donor survives for a further seven years.

5. **Ask about bursaries and scholarships** Financial assistance with fees might be available. The ISC says the number of pupils being helped by these schemes has risen by 3% over the past year.

6. **Remember to factor in insurance** If you were too ill to work, for example, how would you continue paying school fees? An income protection insurance policy may help ensure your child has continuity of education.

> *School fees have risen by an average of 3.9% a year since 2010, much faster than the rate of inflation which was only 2.1% for April 2019.*

FACTOR IN OTHER COSTS

When building a savings fund, factor in future fee increases and don't forget to include 'extras' such as music lessons, school trips and sport activities.

Of course, parents whose children attend state schools may still want to consider these savings tips to help meet future higher education costs, which could include living costs as well as tuition fees.

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.

The FCA does not regulate tax advice.

Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change.

Istock/Jfanchin

RETIREMENT

Moving the 65-yard line

Sixty-five years old has long been considered a pivotal age. For example, the Office of National Statistics splits the labour market into two main categories: aged 16 to 64 and aged 65 and over. Some concessionary prices are based on having reached age 65, which is still widely thought of as the age when men receive their state pension.

However, 65 ceased to be the state pension age (SPA) – for men and women – on 6 December 2018. It is now somewhere between four and five months beyond 65 years. By 6 October 2020, SPA will have reached 66. Five and a half years later another graduated change to increase it to 67 will begin, finishing in April 2028.

Coincidentally, those National Statistics on employment show that more than one in ten people aged 65 and over are in work and the numbers have been gradually but consistently increasing over the past 12 months. If this year's summer holiday makes you dream of retirement, don't get ahead of yourself. You might well be working beyond 65.

INVESTMENT

New headaches for landlords

Private landlords could find it harder to evict tenants in future, thanks to new government legislation.

Landlords will no longer be able to serve tenants with a 'section 21' notice, which effectively enables them to cancel the tenancy at the end of the term, without giving any formal reason. This change in legislation will affect England and Wales; the practice has already been outlawed in Scotland.

Under the new proposals, landlords will have to provide a lawful reason to end a tenancy agreement. For example, the tenants might have fallen into arrears with the rent, or the landlord might want to sell the property or move into it themselves.

There have been concerns that some unscrupulous landlords have served section 21 notices to tenants who complain about sub-standard housing.

However, some buy-to-let investors fear that the new law will make it harder for them to evict problem tenants. A 'section 8' notice can still be used for evictions – but these can be challenged in court. The government has tried to address these fears by pledging to improve court processes to make it simpler to take swifter legal action against those who have broken the terms of their tenancy.

SQUEEZE ON BUY-TO-LET PROFITS

This is the latest in a series of legislative changes to hit buy-to-let investors and private landlords.

New rules on the taxation of rental income have been phased in since April 2017, curtailing the amount of interest on a buy-to-let

Istock/Gwengoat

mortgage landlords can deduct from the rental payments received, before calculating the income tax due. The latest phase of tax relief reduction came into effect this April and means many private landlords will now pay more tax on their income from letting out a property.

A 3% stamp duty surcharge (4% in Scotland) has also been introduced on additional property that is not a main residence and applies whether or not the buyer has a mortgage on their existing property.

If you think you may be affected, please let us know.

✢ *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.*

The Financial Conduct Authority does not regulate tax advice.

Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it. Think carefully before securing other debts against your home.

BKL

BKL Wealth Management Ltd
Fairchild House
Redbourne Avenue
Finchley
London N3 2BP

T 020 8922 9365
F 020 8371 3112
E post@bklwealth.co.uk
W www.bklwealth.co.uk