FOCUS

SHARING A WEALTH OF WISDOM

SPRING 2014

MARKET UPDATE
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PROPERTY INSURANCE
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OFFICE NEWS

BOOLERS

BOOLERS ARE COMMITTED TO DELIVERING INNOVATION, INTEGRITY AND RELIABLE SERVICE, ADDING GENUINE VALUE TO BOTH PROTECT AND ENHANCE OUR CLIENTS' WEALTH.

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“OUR SKILL AT FINDING A POSITIVE TO PLAN AROUND HAS BEEN THE CORNERSTONE OF OUR SUCCESS”

DAVID BALL

I remember in 2010 at the commencement of the coalition Government, I commented that time will tell how successful spending less would be in turning around the economic fortunes of the country. Taking the economics to one side, this Parliament has presided over a rollercoaster ride of changes in the way we engage with clients, pensions legislation and the structure of our regulator.

The latest headline change surrounds pension income, which as little as two years ago was suppressed with seemingly no hope of substantial increases being to hand.

What a change. The mercurial Osborne has opened the treasure chest of pension funds to all. Seemingly an unlimited amount of income will be allowed to be drawn without reference to sustainability or indeed the wisdom of each transaction being tested.

The coincidental positives to the economy and the Exchequer of turning capital into income have not been unnoticed by many commentators. Taking the rhetoric away it leaves our business with a tremendous opportunity to advise both existing and new clients. The new legislation (if it stays as proposed) will allow us to demonstrate our skills of investment management and more importantly advice in connection with income drawdown.

As a business we have tended to have a bullish approach to most of the market changes that have taken place over the last two decades - our skill at finding a positive to plan around has been the cornerstone of our success. The danger will come should too many positives be drawn from this legislation with the State having to pick up the pieces of over ambitious planning for those that could not afford to take the risk of drawing excessive amounts of income.

We will try to guard against this in our planning. Let’s hope others do so as well.

Let’s hope it is a case of “All or Nothing” (Small Faces 1967) as opposed to “Freedom Come, Freedom Go” (The Fortunes 1971).

David Ball

This publication is for general guidance only and does not constitute financial advice.
If you do require specific advice relating to your personal circumstance please contact us.

Andrew White
Investment
Director

MARKET UPDATE

We are now well into 2014 and markets are in a slight hiatus at present, due to three main concerns:

- The situation involving Ukraine and Crimea
- The future of Quantitative Easing (QE)
- Chinese economic growth

Perhaps rather surprisingly, looking at March overall the impact of the crisis in Ukraine on most financial markets was limited. Despite initial falls in global equities and in associated currencies, overall sentiment seems to be that the annexation of Crimea is unlikely to lead to more widespread problems in the region. Indeed, there has been a general recovery in the prices of most assets following the lows early in the month.

The UK equity market was actually one of the weaker stock markets meaning that UK indices are broadly back to where they were at the beginning of the year. Emerging Markets, which have had a pretty torrid time over the last six months or so, have seen some recovery in the short term. Markets were buoyed by talk in China of stimulus (construction of railways and housing for the poor) in order to try to boost growth.

Performance over the short term will, we suspect, largely be down to sentiment and markets may remain susceptible to further weakness. However, some sectors appear oversold and we are confident that many of these so-called “frontier” markets will provide positive returns based on a long term view, but whether the timing is right to invest at current levels is one that is open to debate.

We do believe that European equities remain good value over the long term and markets in the region have generally been positive this year. We do need to be mindful of possible deflation, which would be a poor scenario for equities, and the strong pound has not been helpful for a UK investor in this area, or indeed anywhere outside the UK.

Fixed interest does not hold much attraction in terms of its potential for a strong overall future return. However, although we remain positive for equities generally, an exposure to fixed interest does provide diversification and a balance of risk.

Back to UK equities where we traditionally have significant exposure which we are likely to maintain. Clearly our economy continues to strengthen and the outlook remains good, but we are ever mindful that stock markets react well in advance of events in the “real” world.

One only has to look at recent political and regulatory interference in the Utilities (power) and Life Assurance sectors to see that potential banana skins are ever present for investment managers. Although the announcements in the Budget for pensions and savings, detailed elsewhere in this Newsletter, are most welcome as an encouragement to save, our Regulator’s recent botched announcement into a review of some older savings arrangements had a dramatic impact on a handful of shares in a matter of minutes.

I make this point to show that such outside influences could easily detract investors from an ever improving economy and the potential that the UK stock market still has, in spite of the returns that have been achieved over the last few years. The recovery does not solely depend on a housing bubble, with recent data and surveys supporting a combination of rising exports, increasing capital expenditure by businesses, reducing inflation, actual wage growth and a generally positive outlook by business managers and owners.

All of this can only be good for UK equities, subject to investors not paying too high a price for future growth potential which we do not believe to be the case at present. UK equities generally are also expected to provide dividend growth of 5%-6% this year.

Since the low points in equity markets exactly five years ago, there have been many scares and bouts of weakness along the way. Those investors who have withstood the somewhat bumpy ride, and even taken advantage of weakness by investing cash (in the words of Warren Buffett “being greedy when others are fearful”) have been rewarded for their patience. Although it is unlikely that we will see similar returns over the next five years, with interest rates likely to remain low in historic terms a significant allocation to equities is likely to continue to provide a better return than cash and fixed interest.

Please feel free to speak with one of our Investment Managers or your usual contact.

DISCRETIONARY INVESTMENT MANAGEMENT SERVICE

Gavin O'Neill
Chartered
Financial Planner

We are pleased to announce that we have re-launched our discretionary management service.

Discretionary management allows us, as the appointed investment manager, to take the responsibility for making all investment decisions within your portfolio in line with your objectives and attitude to risk. The need to monitor investments regularly cannot be underestimated and this service enables your dedicated Investment Manager to react quickly to any changes in the global financial markets, economies or asset classes.

Over the course of the last year we have strengthened our investment team and developed the new offering which we believe will provide a more dynamic, flexible investment solution generating superior returns for clients. We believe that we have a very competitively priced offering with full transparency of costs, a point not shared by all wealth managers within our industry!

The new service further enhances our investment offering to clients alongside our standard advisory service. Discretionary management will not be suitable for all clients and for practical reasons we have a minimum threshold of £100,000.

We will be discussing our investment services with clients at annual meetings as part of our ongoing investment review and initial feedback has been very positive. If you would like to discuss the new service in more detail before your meeting then please speak with your usual Boolers contact.

Individual Savings Accounts (ISAs)

Under their current format, a UK individual can invest up to £11,880 within ISAs in the 2014/2015 tax year. As with previous years this amount can be solely invested in Stocks & Shares or split 50:50 with a Cash ISA. Junior ISAs have been introduced and allow investment for under 18's up to £3,720 within an ISA and again this can be split between Stocks & Shares and Cash on a 50:50 basis.

The recent Budget announced that ISAs will be simplified into a New ISA (NISA) with effect from 1st July 2014. This will see a new increased ISA allowance of £15,000 per individual available and this can be held solely in, or in any combination of, Cash or Stocks & Shares. The Junior ISA limit will also increase in July to £4,000. ISAs will also have a wide range of investment including retail bonds with less than 5 years to maturity, Peer to Peer lending and AIM stocks.

This new increased ISA allowance is most welcome and allows investors to ring fence a meaningful sum, particularly over a period of time, with no further assessment for Income Tax or Capital Gains Tax.

PENSIONS UPDATE - CH-CH-CH-CHANGES

...as David Bowie sang in his early 70's hit. Even if George Osborne had launched into song at the last Budget, with this ditty having been appropriate, it probably would have surprised me less than the sweeping reforms that he proposed to bring to pensions.

For a number of years here at Boolers, I have been responsible for watching the Chancellor's Budget and Autumn Statement speeches and providing a commentary to both staff and clients alike. I am not quite sure how this happened, as I cannot recall anybody specifically asking me, however I digress. Over the years there have been some significant changes, although most speeches pass by with only a little tinkering to the current regulations.

This year's speech was following the regular pattern - George provided details of improving forecasts for the UK economy, a further increase in the income tax Personal Allowance and a planned fuel duty increase would be cancelled; Budget headlines are available on our website if you have not seen them.

Then the Chancellor began explaining his grand plans for pensions and I was amazed. This was big news and, perhaps more surprisingly, there had been no leak as to likely changes in the lead up to the speech. Sure, there had been the normal rumours, but nothing like this!

I would probably be doing an injustice to paraphrase the Chancellor on his major coup from the Budget so I have specifically selected some pertinent sentences below –

"...we will completely change the tax treatment of defined contribution pensions to bring it into line with the modern world.

People who have worked hard and saved hard all their lives, and done the right thing, should be trusted with their own finances.

I am announcing today that we will legislate to remove all remaining tax restrictions on how pensioners have access to their pension pots.

Pensioners will have complete freedom to draw down as much or as little of their pension pot as they want, anytime they want.

No caps. No drawdown limits.

These major changes to the tax regime require a separate Act of Parliament – and we will have them in place for April next year."

True flexibility?

I deliberately included George's final sentence above, given that many have seemed to have forgotten this point when reporting the changes. A consultation document, 'Freedom and choice in pensions', was released by the Government immediately following the Budget speech to detail the Chancellor's proposals and to request responses.

The highlights of this 48 page paper are:

- The tax-free Pension Commencement Lump Sum will remain (usually 25% of each individual pot);
- To allow full flexibility of pension withdrawals to all with defined contribution arrangements (Personal Pensions, SIPP, SSAS, etc.), with any income subject to the individual's marginal rate of income tax in the year taken;
- A proposed increase to the minimum normal retirement age from 55 to 57 after 2028 and for this to be linked to the increasing state pension age;
- A likely reduction to the current 55% tax payable on any death benefit lump sums paid once pensions are in payment;
- Possible restrictions on transfers from defined benefit schemes, i.e. final salary, to defined contribution arrangements, particularly for those in public sector schemes; and
- A Government guarantee that all individuals will receive free and impartial face-to-face guidance on approaching retirement.

Responses to the consultation are required by 11 June 2014, with the Government aiming to provide their subsequent response prior to the summer recess of Parliament and the necessary changes to legislation being in place by April 2015.

For any of you that recall the 'simplification' introduced by the previous Government in 2006, consultation documents can be subject to numerous and far reaching changes, with residential property just one element proposed for 2006 that failed to make legislation. Let's hope we do not see such significant changes this time, however if that is the case I will be truly amazed.

Immediate ch-ch-changes

In addition to his far-reaching proposals, the Chancellor made some significant changes from 27 March 2014. These were:

- The maximum annual pension for capped drawdown pensioners will be increased to 150% of the "basis amount", compared to 120% currently, for all drawdown pension years commencing on or after 27 March 2014.
- The amount of relevant income required (the 'Minimum Income Requirement') for an individual to be eligible for flexible drawdown is reduced to £12,000 gross per annum, from £20,000 currently.
- The trivial commutation limit (the maximum total pension savings allowed for early access at age 60 or over) will be increased from £18,000 to £30,000.
- The amount that can be taken as a taxed lump sum from other small pension pots will be increased from £2,000 to £10,000 and number allowed to be taken increased from 2 to 3.

These are on top of the reductions already due on 6 April 2014 in connection with the:

- Annual Allowance – the maximum annual amount of pension savings on which an individual can receive tax relief – reduced from £50,000 to £40,000; and
- Lifetime Allowance – the effective maximum for an individual's total pension arrangements in their lifetime, without triggering certain tax charges – reduced to £1.25 million, from £1.5m in 2013/14 and £1.8m in 2011/12!

The majority of the changes and proposed changes are certainly significant, with some saying they are revolutionary, evolutionary and some other media savvy adjectives. Quite how revolutionary they are will be dependent on any changes made prior to them becoming legislation. We will continue to keep you updated with any such changes, our website being the first point of reference – www.boolers.co.uk

Chris Ward DipPFS
Pensions Manager

Better workplace pensions

In addition to these changes, the Department for Work and Pensions have recently released a response to a previous consultation in regard to defined contribution workplace pensions. With the implementation of Automatic Enrolment due to reach employers with less than 50 employees by the end of the year, and all firms by 2018, the intentions are far-reaching.

They include:

- Minimum specific quality standards and measures to ensure compliance;
- A charging cap of 0.75% per annum on default investment funds available in the arrangement from April 2015, this cap to be further considered in 2017;
- A ban on adviser commissions and Active Member Discounts from April 2016; and
- Generally more transparency in regard to costs and charges.

The industry and insurance companies are still considering the effect of these changes, to both existing and shortly to be established workplace schemes, and we will look to communicate any changes to you in due course, again with our website likely to be updated first.

Auto-enrolment – protection warning

Finally, a reminder for those with any form of protection against the Lifetime Allowance that does not allow further pension accrual or contributions – Enhanced Protection, Fixed Protection 2012 and most recently Fixed Protection 2014.

With the increasing implementation of automatic enrolment, those with pension protection should ensure that their employers are aware of their protection and actively opt-out of any workplace pension arrangement established on their behalf.

If you do not opt-out of your workplace pension within the appropriate timescale this will break your protection and potentially create tax charges of up to 55% on some of your pension savings.

INSURANCE VALUATIONS DON'T CONCERN OSTRICHES!

Following a major fire at your premises, the first question you are going to ask, after making sure everyone is safe, is "are we insured". Arranging cover through a good broker with a reputable insurer should ensure the answer to question 1 is "yes".

Question 2 is likely to be, "are we insured for enough and will the policy provide me with enough to repair or rebuild". Martyn Barrett of Barrett Corp and Harrington Ltd (BCH), one of the market leading suppliers of insurance reinstatement cost assessments, gives guidance on how to make sure the answer to question 2 is "yes"!

In most insurance policies for commercial property, part of the contract requires the policy holder to insure for the full rebuilding costs of the property on the first day of the policy (Day One). Inflation during the period of the policy and during rebuild is normally catered for in a percentage addition, often 20%, 30% or even 50%.

So often a policy schedule will show two figures, the lower is the day one declared value, the higher is called the sum insured which is the day one figure plus the uplift. The most important figure to get right is the declared value. If correct, then a valid claim is paid in full – get it wrong and the settlement will be proportionate, (known as Average), for example:

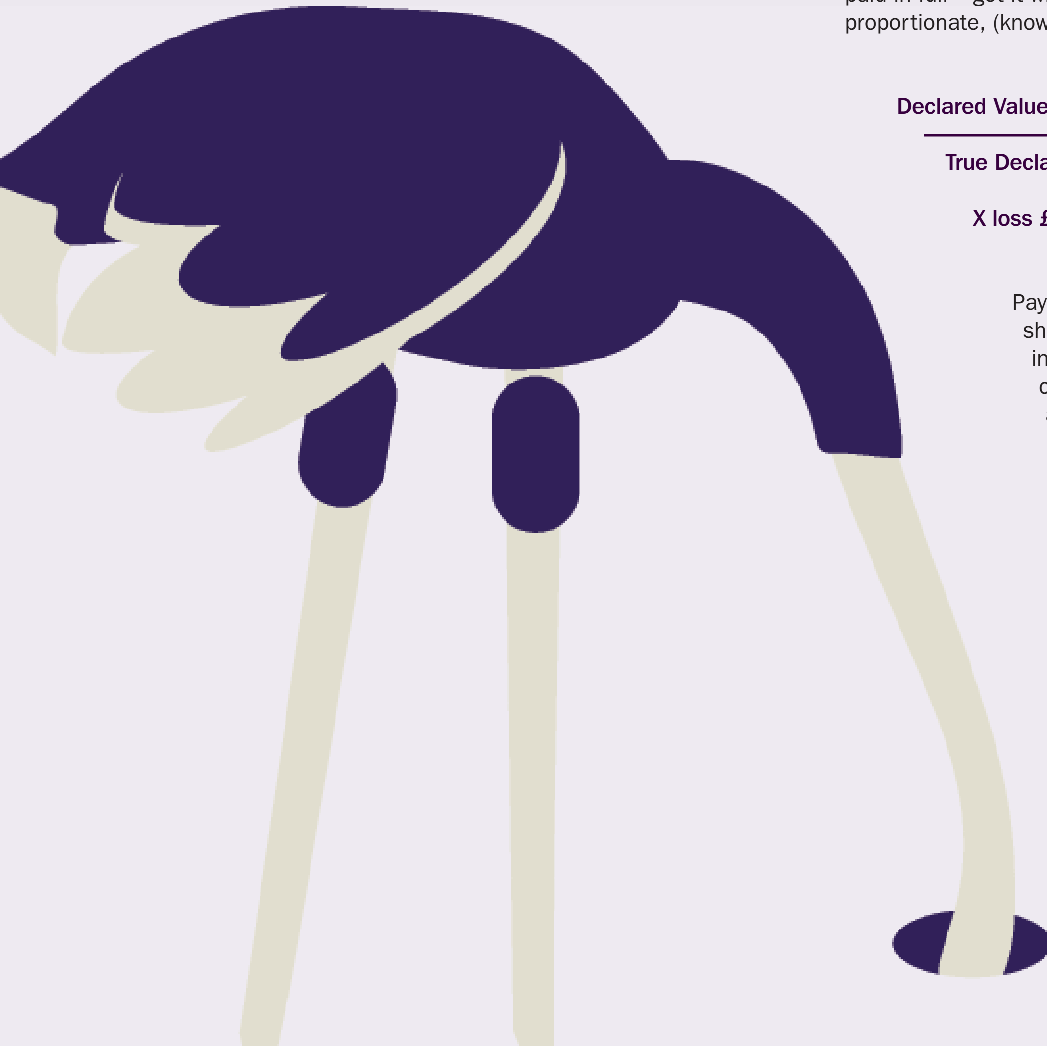
$$\frac{\text{Declared Value (Day One) £2,000,000}}{\text{True Declared Value (Day One) £3,000,000}}$$

X loss £500,000 = £333,333

Pay out from the policy is £167,000 short of cost of repair. The saving in premium through underinsuring could easily have been as low as £1,500.

BCH finds 80% of property it appraises is underinsured and the average increase is in excess of 60%. The problem is rife; a time bomb ticking away in most property in this country, a problem sitting, waiting, lurking in your assets and portfolio.

So how does underinsurance become so prevalent in the first place?



SO THE BEST TIME TO REVIEW INSURANCE VALUES IS NOW. DON'T LEAVE IT UNTIL RENEWAL.

Martyn Barrett
Barrett Corp and Harrington Ltd (BCH)

The list is not exhaustive but will help you understand the origins of the pandemic:

- Reliance on very old valuations (RICS recommends review every three years).
- Reliance on bank valuations – although caveated they are often inaccurate and unreliable, using average prices.
- Incorrect base figure, plus indexation does not correct the problem, it just compounds it.
- Too much acceptance of developers advised build costs, which are costs to them not you to rebuild.
- Failure to allow for special materials; such as stone, high end cladding and glazing systems.
- Use of 'rule of thumb' rates.
- Incorrect assumption that previous claim payments set precedent for future claims and confirm adequacy of insurance cover.
- Assuming a relationship to market value.
- Ignoring additions for external works and landscaping.
- Insufficient or no allowance for professional fees, upgrading for building regulations all of which fall within the definition of 'buildings' in a policy and should be allowed for in the assessment.
- Ignoring impact of Listed Buildings on the value.

So what choices do you have?

Do nothing and bury your head in the sand – ostrich style! You may save premium on the way and will ride the storm at the time of loss. After all it may not happen to you!

Alternatively, you can do the responsible thing and get an RICS regulated company, specialising in insurance reinstatement costs assessments (RCAs) to undertake surveys of your property or portfolio. Thereafter have a rolling programme of review at 3 and 5 years. The cost of the survey and increase in premium will pale into insignificance at the time of a claim should average be applied.

The RCA report will be bespoke to the subject property and is likely to include full building costs, all external features, driveways, walls, perimeters and upgrades to meet current building regulations. In addition all professional fees, demolitions and debris removal; in short everything that the policy requires to be included.

Finally, there is the often overlooked subject of VAT. Remember, Insurers are not VAT registered. It is not the use of the building which dictates whether VAT should be added to the assessment total, it is the tax status of the insured. With a commercial property, has the insured elected to tax or not?

A simple test is to find out whether VAT is charged on rent, if it is then the likelihood is that tax is recoverable on repairs and thus the rebuild of the property at the time of loss and the tax should not be included in the assessment.

Two identical factory units next to each other could easily have insurance values 20% different - one insuring entity has elected to tax and the other not to tax. One could be correctly insured and the other grossly underinsured.

So the best time to review insurance values is NOW. Don't leave it until renewal. A loss can occur at any time and the last thing you want is underinsurance to be discovered after the loss, as it is too late to do anything about it then. Thankfully, major losses are not suffered by the majority of businesses and households and that is why insurance premiums are relatively cheap compared with the potential payout. A correct reinstatement value combined with a good comprehensive insurance policy is a sound foundation for business continuity and for peace of mind.

Thankfully statistically, the next big loss will not be yours, but maybe, just maybe, it might be...Don't be an ostrich!

Now where did you put that policy?

AUTO ENROLMENT

Richard Borrington DipPFS
Financial Planner

Workplace Pensions – Are you In?

Company pension schemes have had extensive press of late and you may well have seen the adverts on television with Theo Paphitis, Karren Brady and Nick Hewer. Auto-enrolment began 18 months ago and this short time frame has seen the Workplace Pension market place evolve at a rapid rate. The purpose of this article is to highlight what we have learnt so far.

Last Minute Planning

If you are an employer you have to provide a pension scheme to all of your eligible staff in time for your company's "staging date". To find out when, the Pensions Regulator Website can guide you relatively easily at www.thepensionsregulator.gov.uk. Indeed for a Government run website about pensions, it is refreshingly informative and easy to navigate. Once this has been established a timeframe of six months is advised to ensure all provision is in place.

Nobody Wants Me

One of the main points to come out of the last 18 months is the reluctance of insurers to consider work which is not particularly profitable. In the cold light of day this makes sense however after years of pension companies effectively buying business, this does leave employers with some problems in trying to find a pension company to use as an offering for their employees. However, there are solutions out there and selecting who provides your company pension scheme offering requires due diligence before proceeding.

NEST presents a potential solution, however generally we would recommend that this is only considered as an absolute last resort. This is largely due to the administration of NEST being undertaken by an Indian steel company who have no previous experience in UK pensions. The UK pension industry shunned the tender of administering NEST and so Tata won by default.

> "SELECTING WHO PROVIDES YOUR COMPANY PENSION SCHEME OFFERING REQUIRES DUE DILIGENCE BEFORE PROCEEDING"

The charges are also particularly high, an annual charge of 0.3% per annum is applicable, which in its own right is good value. However with an initial charge of 1.8% on all contributions the pension fund has to work hard to stand still. This charge is expected to be removed at some point in the future but with no specific date set it may well end up being akin to the Dartford Tunnel with the charge never being removed.

Which Staff Go In?

There are some subtle differences between eligible, non eligible and entitled workers. An employer has to establish each month who falls into these categories and ensure necessary communications are made as well as adding relevant employees to the company pension scheme. In its own right this can be an administerial headache and one that can be resolved by the use of software to interact between your payroll system and the pension provider. Greater detail of this would require all of the pages within this newsletter and therefore we would recommend a discussion takes place with your financial planner well ahead of your staging date.

The Future

There is a widespread attack on the reduction of charges in pensions which is largely seen as a good thing; however, this does reduce the ability for advice to be given. We will see charges capped at 0.75% per annum in the first instance and this may well drop again in the future. Therefore ensuring you have a pension scheme which is in place for the long term with a reputable provider can be a particularly challenging task and one that we will endeavour to help you with should you seek our assistance.

OFFICE NEWS

Jo Clamp
HR Manager

ARRIVALS, CHANGES AND NOTABLE EVENTS...

As the Business continues to grow, we have continued to increase and develop teams in order to effectively support this expansion: -

New Associates

I am delighted to announce that Chris Ward and Richard Borrington became Associates of the Business in the New Year. Chris has been with Boolers for 9 years and plays a key role in managing the Pensions Department. Richard came to us from Barclays in 2008 and is one our experienced Senior Financial Planners. Congratulations to both!

Compliance

Sophie Partyka and David Howard joined us in the New Year to support the Business in ensuring its compliance with the ever increasing requirements of the FCA.

David brings with him a wealth of compliance experience as well as extensive knowledge of Financial Services in general having spent over 30 years working in a variety of roles at RBS.

Sophie also brings with her varied experience within the Financial Services environment coming to us from a local firm of Financial Advisers where she worked as a Paraplanner. She also worked for Barclays Bank and HSBC previously.

Investments

After over 8 years working as both a Paraplanner and Adviser in the Investment Team, Louis Totaro has moved on to ‘Pastures New’. We wish him well.
The recruitment of high calibre graduate trainees, appointed in order to train and develop into key roles within the Business, has proved to be very effective. On the basis of this success we have appointed Punita Mistry to the role of Trainee Investment Paraplanner. Punita achieved a First Class Honours degree in Economics and Finance from Leicester University in June 2013 and started on 22 April 2014.

Accounts

To address the increasing accounting requirements needed to support the growing Business and its continued development of systems Hema Lad has been recruited to the Accounts Team. Hema started with the Business in March having worked as a qualified Accountant at a local firm of Chartered Accountants and she brings with her valuable knowledge and experience within the field. Hema will initially spend some of her time working in support of the SIPP Team as well as working within the Accounts Department.

Pensions

I am happy to announce that both Carole Waghorne and Sarah Makosch are due to go on maternity leave at the end of May, both expecting their second babies in June. We wish them all the very best. Chris Ward will be heading up the Pensions Team in Carole’s absence. Recruitment of further experienced SIPP support is ongoing.

Professional Development Programme

We continue to encourage staff to obtain further qualifications and congratulations go to the following staff for key exam achievements attained over the last few months: -

Ami Dewick and Azreen Karatela
- RO4 (Pensions and Retirement)

Blake Beardsley
- R06 (Financial Planning)

Arti Lad
- RO1 (Financial Services, Regulations and Ethics)

Chris Ward
- AF3 (Pension Planning)
R06 (Financial Planning)

Chris Ball
- AF2 (Business Financial Planning)

Simon Watts
- AF1 (Personal Tax and Trust Planning).
This exam success means that Simon has now obtained the Advanced Personal Finance Society Diploma and achieved prestigious Chartered and Fellowship Status.

Congratulations to all.

Charity Events

Since our last newsletter we have continued to sponsor and support a wide variety of charities again, the most notable being:

- **Marie Curie Nursing Care**
- **Prostate Cancer**
- **Parkinson Disease**
- **‘Get Kids Going’**

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