Still not enough
Pension contribution increases fall short

Dividend payouts
Record highs for investors take a knock

The price of education
How to cover rising school fees

MONTPELLIER
ASSET MANAGEMENT

Bulletin

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SUMMER 2019

IN THIS ISSUE:

Welcome to our Summer Newsletter and let's dearly hope that the forthcoming months can be as hot and sunny as last year's heatwave and, for those of you that can remember, a few 1976s in a row would not go amiss either. The expansion at Montpellier continues apace and we would like to take this opportunity to introduce to you our latest Wealth Manager, Mr Ian Vasey.

Ian began his career with Lloyds in the eighties and acquired a significant wealth of experience and knowledge whilst holding advisory roles with leading banks and building societies. In the nineties he then made the move over to Wealth Management which enabled Ian to offer the optimum service to his clients, most of whom have been with him for many years and we would now like to welcome Ian's clients to Montpellier Asset Management to carry on the best practice already in place.

In other news, we have once again renewed our sponsorship of Kingsholm Cricket Club in the lovely Gloucestershire village of Sandhurst and we wish all the teams there the best of luck for the forthcoming season.

The Montpellier office has enjoyed a few days out this year; once we had overcome our fear of heights, we particularly enjoyed riding the Cheltenham Ferris Wheel in Imperial Gardens, with its spectacular views of our beautiful regency town and the surrounding Cotswold hills. As we say in financial services an overall view is always a good way to put things in perspective!

This quarter's newsletter concentrates on p wutting your own finances in good order and looking at the optimum portfolio for retirement in addition to the importance of using authorised advisers to safeguard your investments.

We shall, of course, be contacting you all for your regular reviews but in the interim please do not hesitate to contact us and discuss your immediate queries.

Best wishes from all the Montpellier Team

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INVESTMENT

Dividends riding high, but...

After enjoying bumper dividends earlier this year, shareholders faced the news that some high profile names have recently slashed their payouts.

UK-listed companies paid out £19.7 billion in the first three months of 2019 – a first quarter record according to Link Asset Services, with the value of dividends paid out through to 2018 rising by 85%. However in May, Vodaphone, Royal Mail and M&S all announced dividend cuts of 40%.

Companies usually share surplus profits as dividends twice a year. With any reductions having an impact on pension and ISA funds as well as individual shareholders, companies are reluctant to make dividend cuts, even when it may make economic sense to do so.

The early record figures have been attributed

to several one-off ‘special’ dividends. For example, the global resources company BHP Group paid a huge £1.7 billion dividend following the sale of its US shale oil interests.

Oil giants, utilities, pharmaceutical, tobacco and financial companies traditionally have had good track records for paying dividends. In contrast, smaller, fast-growing companies often pay low – or no – dividends, as surplus profits tend to be reinvested in the business. Investors may also want to look at equity income funds, which focus on companies with good dividend track records.

Reinvesting these payments can create benefits from higher compound returns. However, dividends can also 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.

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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.

PENSION

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.

Last October, the Financial Conduct Authority reported that employee benefit consultancies were recording “the average size of transfer at over £250,000”. Such large values mean that pensions can currently represent the greatest asset to be considered as part of a divorce settlement.

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

- **Pension sharing** The ex-spouse/civil partner’s pension(s) are shared, 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, more often, transferred to the ex-spouse’s/ civil partner’s scheme.
- **Pension offsetting** This option involves offsetting the transfer 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.
- **Pension attachment orders (pension earmarking in Scotland)** Under these arrangements, the ex-spouse/civil partner receives a 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).

If you are involved in a divorce, expert guidance is essential to achieve a fair pension outcome. We can help:

- 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.
- Explain how you can improve your financial position at retirement.

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Occupational pension schemes are regulated by The Pensions Regulator.

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 step up to 67 will begin, finishing in April 2028.

Coincidentally, National Statistics show that more than one in ten people aged 65 and over are in work. If this year’s summer holiday makes you dream of retirement, don't get ahead of yourself. You might well be working beyond 65.

PENSIONS

How much is enough for pension contributions?

Recent pension contribution rises may still not be enough for 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 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'.

The 8% total contribution figure is widely quoted, but the fact that it does not apply to all earnings is often overlooked. For example, based on the Office for National Statistics' latest (February) estimate of average pay of £528 a week (£27,508 per year), the true AE contribution is approximately 6.2% of total pay.

In the foreword to a 2017 Department for Work and Pensions report on the future of AE pensions, the then Secretary of State for Work and Pensions said, "...contributions of 8 per cent are unlikely to give all individuals the retirement to which they aspire". His proposals included:

> *AE contributions of 8% only provide around half the level of savings needed for most people to enjoy an adequate retirement.*

- 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 savings above the 8% level.

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

How much to contribute?

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 contributions should more than double for the average employee. 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.

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?

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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 were 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 sold its products directly rather than through advisers.

The lesson from LCF is an old one, but no less valid for being so: investment without advice may look cheap but it can carry its own heavy cost.

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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.

New rules will stipulate that landlords must provide a 'lawful' reason for terminating the agreement. For example, tenants might have fallen into arrears with rent, or the landlord might want to sell the property.

There have been concerns that some unscrupulous landlords have served section 21 notices to tenants who simply 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

Credit: Istock/Gwengoat

can still be used for eviction, but it can be challenged in court. The government has tried to address these fears by pledging to improve court processes, so disputes can be resolved more quickly.

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

Profits have been increasingly squeezed as income tax relief has been curtailed and a 3% stamp duty surcharge (4% in Scotland) has been introduced on purchases of additional property.

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

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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.

EDUCATION

The school fees equation

School fees are rising faster than the rate of inflation, creating financial challenges for parents.

Private school fees rose by 3.7% this year, according to the Independent Schools Council, with the average independent day school charging £14,289 a year in 2018. But inflation, as measured by the consumer price index, was only 2.1% for April 2019.

How can parents fund rising fees? Some may be able to meet costs out of earnings, but many parents will need to build 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 your children will enter the private system.

2. **Make the most of tax-breaks:** ISAs allow each parent to save up to £20,000 a year, tax free. Equity ISAs may be suitable for those with a 10-year plus savings horizon, otherwise better to stick with cash.

3. **Get family involved:** If relatives make regular payments they can potentially reduce their inheritance tax liability and one-off payments would normally be disregarded providing the donor survives a further seven years.

Credit: Istock/Steve Debenport

4. **Ask about bursaries and scholarships:** The number of pupils being helped by these schemes has risen by 3% over the past year.

5. **Remember insurance:** income protection insurance, for example, could cover the fees if you were too ill to work.

Of course these savings tips can also help meet future higher education costs.

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INVESTMENT

National Savings reduce investments

National Savings & Investments (NS&I) introduced two significant changes to its products on 1 May 2019, neither of which benefits investors:

- If you reinvest a maturing holding of Index-linked Savings Certificates, the return on your replacement certificate will be based on the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI). The new rate will be applied to all certificates that mature on and after 1 May 2019. The change, which was announced last October, is forecast to save the taxpayer – and thus cost investors – £610 million over the next five years. Over the past five years to March 2019, the RPI rose by 11.9% whereas the CPI only increased by 7.3%.

- New issues (and maturity reinvestments) of Guaranteed Income Bonds and Guaranteed Growth Bonds will no longer offer an early encashment option after the first 30 days. The changes will prevent holders paying a small penalty to switch to other more attractive issues mid-term, if interest rates rise.