TPO Insight

WINTER 2018

ACHIEVE YOUR LIFETIME FINANCIAL GOALS

PROBATE FEES TO RISE

Are you losing out on your divorce settlement?

MARKET OVERVIEW

tpo
the private office

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Welcome to our winter newsletter

Welcome to the latest edition of our Insight newsletter, bringing you news, features and opinion from TPO and the world of money and finance.

In this edition we have an analysis of the Autumn Budget announcement, a piece about the upcoming rise in probate fees, and our stop press section is brimming with information about a variety of current issues. We also take a closer look at cash flow forecasting and how it can help people understand the steps they need to take to achieve their lifetime financial goals.

Our regular features include the usual saving rates tables with data provided by our sister company, Savings Champion, along with the investment market update from Rob Morse (Chair of the TPO Investment Committee) and a day in the life of our People and Development Director Lucie Thornton.

Thanks to the continued support of our clients, 2018 was another high-achieving year for The Private Office. At the close of the year we managed £1.2 billion worth of clients' assets, achieved a score of 4.8 out of 5 from over 300 independent client reviews, and saw 93% of our clients' money invested into our asset allocated growth, income and passive portfolios outperform their benchmark in what is a challenging climate. We are also delighted that we been awarded a number of industry awards, notably the Gold Standard Award for Independent Advice at an event at the House of Commons, being named yet again as one of wealthnet's Top 25 Financial Planning Companies and one of FTAdviser's Top 100 Financial Advice firms in the UK. We are immensely pleased with our achievements and are looking forward to a productive 2019.

We are very proud of the work we do for our clients and as you will be aware client referrals are a vital way of us growing our business with people we enjoy working with. If you are happy with the service we provide or know of anyone who you think may benefit from talking to us, we would be delighted to have an opportunity to speak to them and for referrals from existing clients, we offer a free initial financial planning consultation either in person or over the phone. Please contact your adviser or one of our team.

For each new client referred, a clean water well will be sponsored in a number of water deficient countries around the world. We are proud to be working with the Penny Appeal for this, and to support the development of wells in the regions that need it the most, including India, Nepal and East Africa.

As the first edition of the new year, we would like to take this opportunity to remind you about the upcoming tax year end on the 5th of April. We believe it's never too early to start planning, and if you'd like any assistance with yours for this year, or even to get a head start on next year, please do not hesitate to get in touch.

We hope you enjoy this edition of Insight and welcome any feedback you may have.

Best wishes,

Stuart & Alistair

Stuart Phillips
CHIEF EXECUTIVE
THE PRIVATE OFFICE

Alistair Callander
CHIEF EXECUTIVE
THE PRIVATE OFFICE

Market overview

ROBERT MORSE
SENIOR PARTNER
CHAIR OF THE INVESTMENT COMMITTEE

It is difficult to make predictions, especially about the future.

2018 started with signs of the first crack in market consistency. The inexorable rise in equity prices, especially in the US, with very occasional and short-lived minor corrections, has changed and, with it, investor sentiment, which is causing the market volatility we are currently experiencing. The global growth picture has most certainly changed. In June 95% of the month's rise in the S&P 500 was attributable to the large cap technology stocks. This narrowing of market breadth, which had started in February after the first shakedown, along with other similar market technicals was the first indication that the mood was changing and changing fast!

Global growth for much of 2018 was deemed to be on an upward, synchronised path, but the global economy is visibly slowing as developed market central banks have become marginally less accommodative. At the beginning of 2018 the continuing rise in US interest rates started to trigger outflows from Emerging Market (EM) economies with some spectacular devaluations in Argentina and Turkey (Venezuela was already in crisis). In 2017, with cheap money still available, EM looked a good play. Certainly, for the long term, but, as is often the case, not for risk-on, hot money. With just another two rate hikes from the Federal Reserve, EM markets should continue to experience capital outflows and pressure on their currencies as other developed market central banks continue the normalisation experiment.

There are a number of indications that we should observe when trying to position our portfolios. As motorists we are all guilty of missing signposts, speed limits and the like; and as investors we tend to be no different and lean to our own view of the world and perhaps inevitably miss seeing something we should have.

Europe's structural governance issues are becoming more visible considering a less accommodative European Central Bank.

The EU has structural flaws related to the monetary-only nature of the union. The necessary move towards a fiscal union is resulting in the spread of populism, even France is not immune. Moreover, the monetary union itself has several chinks in its armour. All sovereign debt issued within the union, regardless of country of issue, receives the same collateral treatment within each country's banking system. The result has been a mispricing of some European sovereign debt. Only recently, for example, have Italian BTP (bond) spreads begun to widen relative to Bunds (German bonds). The current tussle between the Italian government and Brussels is the beginning of an existential struggle to maintain the dream of a unified Europe.

Central banks won't sit idly by while the global economy careens off the road. Not unlike the safety systems of the modern automobile, central banks have become more sophisticated when it comes to collision avoidance. For most of 2018 it seemed likely that the Fed would stay the course and raise rates relatively aggressively into 2019 based on domestic economic health, largely fuelled by the impact of misguided and temporary fiscal policy, at the same time the rest of the world slows. As Chairman Powell's statement at his recent appearance at the Economic Club of New York suggested, rates were "just under neutral," walking back some of his previously hawkish statements.

In summary a quote from Cantor Fitzgerald. "It seems that market participants have been lulled to sleep by "fake news" based on temporary U.S. fiscal stimulus and the strong U.S. data it is producing. Like a bodybuilder on the wrong side of a steroid cycle, the U.S. economy will struggle if Congress exercises even a modicum of fiscal restraint. When U.S. consumers feel this good, it's rarely a good thing."

Whilst the end of the bull market is likely upon us due to the impact of past and current policy normalisation, central banks are unlikely to ignore the signs. They will react quickly if they sense a collision is imminent, but further massive injections of liquidity are not the solution and will only provide temporary solace. We continue to believe that a defensive stance within our portfolios is still warranted despite the market moves since the summer and the possibility of a Christmas rally extending into the early part of the new year, unless and until market breadth improves.

To read our full monthly market commentary please visit www.theprivateoffice.com/marketcommentary.

The table below shows our current view across all asset classes in terms of the relative weighting of each asset class against our own strategic asset allocation:

TPO VIEW
ACROSS ALL ASSET CLASSES

ASSET CLASS VIEW		TPO View	LAST MONTH	NOTES
Government Bonds	Developed market conventional	⇔	⇩	We may see a flight to safety in the short term – Fed rhetoric is the key.
	Developed market inflation linked	⇧	⇧	A hedge against future inflation?
	Emerging Market Conventional	⇩	⇩	Watching currency devaluations for a sign that the bond rout is ameliorating.
Corporate Bonds	Investment Grade	⇩	⇩	Too expensive, even with the Draghi "put" in place for European corporates.
	High Yield	⇩	⇩	Yields too low to justify risk other than short duration issues.
Equities	UK	⇔	⇔	A Brexit deal may provide a short-term boost but likely to be short lived.
	US	⇩	⇩	Markets are still expensive.
	Europe ex-UK	⇔	⇔	Cheaper than it was but still a lot of issues to contend with.
	Asia ex-Japan	⇔	⇔	Attractive long term.
	Japan	⇧	⇧	In a trading range but still upside potential especially for value stocks.
	Emerging Markets	⇔	⇔	Attractive long term but US rates a drag.
Commodities	Gold & Precious	⇧	⇧	The best insurance against central bank policy errors.
	Industrial	⇔	⇔	The commodity complex has not turned up yet.
Currencies	US Dollar	⇔	⇔	Benefits from being the main reserve currency and strong as long as the Fed continues to raise rates.
	Euro	⇩	⇩	Structurally challenged.
	Japanese Yen	⇧	⇧	Traditionally a strong market and currency go hand in hand.

Please refer to page 22 for an additional note from our Investment Committee.

Key

⇧ Overweight compared to strategic allocation

⇔ Neutral position compared to strategic allocation

⇩ Underweight compared to strategic allocation

Past performance is not a reliable guide to future performance.

Post budget analysis: the key things you need to know

SANDY PABIAL
ADVISER

General consensus in planning circles is that the Budget on 29 October 2018 was a bit of a damp squib. Here's our run down on the main topics.

Personal Taxation

The announcement that plans to increase the Personal Allowance to £12,500 and higher rate threshold to £50,000 would be brought forward to the 2019/20 tax year, a full 12 months earlier than expected, garnered a lot of attention on 29 October.

While you will be hard pressed to find anyone who is opposed to these increases the Chancellor chose to remain silent on the corresponding rise in the national insurance threshold in his speech.

The rise in national insurance thresholds will offset the benefit of the rise in tax allowances to a degree as individuals earning over £50,000 will pay £860 less in income tax, but £343 more in National Insurance as class 1 contributions will be paid at the higher rate of 12% on a larger slice of income. This has the effect of reducing the income tax savings by £343, a net gain of £517. For those who earn over £100,000 and are subject to a tapered personal allowance the impact of this increase will potentially be greater.

Pensions

Possibly the biggest surprise, other than the escalation of plans to bring forward increases in the Personal Allowance and higher rate threshold was that pensions tax relief was, once again, left intact.

Pensions tax relief costs the exchequer £25bn annually and it seems almost inevitable that the availability of this relief, which provides significant benefits to high earners, will be subject to a further reduction at some point in the future.

The introduction of the Tapered Annual Allowance on 6 April 2016 started the ball rolling by gradually reducing the starting allowance of £40,000 for individuals

with total "income" over £150,000. In this context "income" includes the monetary value of any pension contributions paid on your behalf by your employer. For every £2 of total income above this threshold you lose £1 of annual allowance.

Once total income reaches £210,000 or more individuals are restricted to an annual allowance of £10,000, once available unused allowances have been exhausted.

You are only able to bring forward unused allowances from previous years once you have fully funded your allowance for the current year and you can only access unused allowances for the previous three tax years if you held a pension plan during those years.

Anyone who has not fully utilised available allowances from previous years, and particularly those individuals who have not fully utilised their allowances from the 2015/16 tax year, should speak to their financial adviser and consider maximising this planning opportunity before 5 April 2019.

Investment Bonds

Investment gains arising from UK Investment Bonds are subject to income tax rather than capital gains tax and an investor's liability to basic rate income tax is satisfied by the internal taxation applied by the insurance company while it is invested.

Broadly speaking, if you are surrendering your UK Investment Bond you are able to divide the investment gain (current value plus any withdrawals from the start of the plan less the original investment and any previous chargeable excess gains) by the number of complete years the investment bond has been held to calculate a 'top slice'.

This top slice is added to your other taxable income in the year of encashment and no further tax is due if your income, including the 'top slice' does not cause you to cross into the higher rate band.

For individuals already on the cusp of higher rate tax, and who are planning to surrender their Investment Bond, delaying the surrender until after 6 April 2019 may mean that they do not have an income tax bill to pay when the surrender proceeds are received as a result of the increase in the higher rate threshold to £50,000.

A word of caution - calculating tax due on investment gains arising from a UK Investment Bond is complex and should not be undertaken without speaking to your usual TPO adviser as other adverse tax consequences may apply.

Capital Gains Tax changes for homeowners

During his speech the Chancellor re-confirmed government commitment to ensuring that families do not pay capital gains tax on increases in the value of their home when they move; this exemption is known as private residence relief.

However, some aspects of private residence relief extend beyond that objective and provide relief for people not using the home as their main residence.

The current rules allow for relief to continue to be available for a period of up to 18 months after you have vacated your home, for example where you have moved to a new property before your former home has been sold. The final 18 months of your period of ownership always qualify for relief, regardless of how you use the property in that time, as long as the dwelling house has been your only or main residence at some point.

From April 2020 the final period of occupancy that will qualify for relief, once the owner has moved out, will reduce from 18 months to 9 months. There will be no changes to the 36 months' final period exemption available to disabled people or those in a care home.

Lettings relief can reduce the capital gains tax on the sale of a property which was at some point used as the taxpayer's residence, but which has since been let out as residential accommodation. To better target private residence relief at owner occupiers, from April 2020 the government will reform lettings relief so that it only applies in circumstances where the owner of the property is in shared occupancy with the tenant.

Help for First Time Buyers

The challenges of getting a foot on the property ladder have been well documented for a number of years, particularly for those living in London and the South East.

This, together with a tightening of lending criteria by mortgage lenders has resulting in increased interest in shared ownership. The government has confirmed that it will extend Stamp Duty Land Tax (SDLT) and first-time buyers' relief in England and Northern Ireland so that all qualifying shared ownership property purchasers can benefit, whether or not the purchaser elects to pay SDLT on the market value of the property.

This change will apply to relevant transactions with an effective date on or after 29 October 2018, and will also be backdated to 22 November 2017 so that those eligible who have not previously claimed first-time buyers' relief will be able to amend their return to claim a refund.

Another Budget on the way?

A note of caution, Brexit is still looming large on the horizon and, should the Government fall or there be a last-minute hitch in negotiations, we could be faced with an Emergency Budget before the start of the new tax year on 6 April.

We, along with you, will wait for developments with interest.

Probate fees for some to rise by more than 2500%

JOE O'SHEA
PARTNER

In early November it was announced that heavily criticised plans to increase probate fees are to go ahead from April 2019.

The Ministry of Justice previously postponed a planned increase in probate fees following the announcement of a snap election on 8 June 2017 as there was insufficient time for the Government to push through all of its legislative agenda before Parliament was suspended in preparation for the country going to the polls.

Proposals to re-introduce the tiered fee structure for Probate, which were heavily criticised at the time, were announced to Parliament on 5 November by Parliamentary Under Secretary of State for Justice Lucy Frazer QC MP, she confirmed that 'we have listened very carefully to the concerns raised and under today's proposals we have revised fees so that they will never be more than 0.5% of the value of the estate.

Probate by numbers

On average a total of 220,00 probate applications are processed each year at a current cost of £155 - £215 per application depending on whether a professional is engaged in the process. *

The proposed new tiers, effective from 1 April 2019 are in the table below.

The proposed new fee structure will see estates valued over £2 million paying probate fees of £6,000! Whilst this is significantly less than the original proposal of £20,000 (2017) it is still a considerable increase and, as there are no regional variants, will hit those living in London and the South East particularly hard due to high property values in these locations.

On a more positive note, moves to increase the estate value threshold below which no fee is payable from £5,000 to £50,000 have survived the review intact and will lift approximately 25,000 estates annually out of fees altogether.

Despite the introduction of the transferable Nil Rate Band in October 2007 and the facility to pass your pension fund to successive generations outside of your taxable estate on death in 2015, inheritance tax (IHT) receipts have continued to rise year on year since 2009 by, on average, 12% each year. The rate of increase between 2014-15 and 2015-16 was a staggering 22% when IHT receipts totalled £4,673 million**.

Estate value	Probate fee	Additional tax burden on your estate**
Less than £50,000	No fee payable	-
£50,000 - £300,000	£250	£95
£300,001 to £500,000	£750	£595
£500,001 - £1 million	£2,500	£2,345
£1 million - £1.6 million	£4,000	£3,845
£1.6 million - £2 million	£5,000	£4,845
More than £2 million	£6,000	£5,845

*** where a solicitor is involved*

What can you do?

Probate fees are payable on the net value of your estate when you die meaning that you do not pay probate fees on the value of assets passing by survivorship or held in Trusts set up during your lifetime provided certain conditions are met.

Establishing a Trust is not a suitable planning solution for all and, where a Power of Attorney is in place, can only happen with the consent of the Court of Protection.

However, there are a multitude of exemptions and allowances which can be used during your lifetime to help reduce the overall value of your estate.

If you would like to know more about the steps you can take to maximise the value of your estate passing to your beneficiaries, please speak to your usual TPO adviser or download a copy of our guide to inheritance tax planning at https://www.theprivateoffice.com/ihtguide

*source https://www.gov.uk/performance/moj-probate-applications

** source https://www.gov.uk/government/statistics/inheritance-tax-statistics-commentary

"The need to take expert advice on inheritance and estate planning to reduce the tax burden for your beneficiaries has never been greater."

Achieve your lifetime financial goals through cash flow modelling

DEAN MCSLOY
PARTNER

MARK HALL
HEAD OF ADVICE DELIVERY

Cash flow modelling helps you develop a better understanding of the steps you need to take to ensure that you can achieve your lifetime financial goals and can help you and your family make life changing decisions.

What is Cash Flow Modelling?

This analysis will provide you with clarity on your current financial position and what it might mean for the future, which will help you to make the decisions needed to meet your lifetime financial goals and aspirations.

This work will help identify what core fund you need to ring fence for your own needs as well as what surplus fund may exist for other objectives (i.e. increased expenditure, provision for care in elder age or helping your children financially).

It will also help you better understand what risks you need to take with your capital to meet your needs and whether there is a disconnect between this and the risks you are currently taking. This will then help you understand whether the risks you need to take are those that you are prepared to take and what, if any, compromises may be required.

We will then regularly review this with you to sense check how on-track you are to maintain your current standard of living for the remainder of your life and achieve your lifetime financial objectives.

How can it help you?

This insightful analysis can help answer questions such as:

- What's the magic number – i.e. how much do I need to retire?
- Can I afford to retire today or earlier than I had planned?
- Do I need to save more between now and my retirement?
- How much can I spend in retirement without being a burden on my family later in my life?
- How much do I need to sell my business for to support my retirement?
- Can I afford to send my children to university?
- Can I afford to give money to my children to help them get on the property ladder?
- What rate of return do I need to make on my investments to meet my financial plan?

What does this mean?

Simply put, cash flow modelling can help you and your family make life changing decisions and help you stay on track to achieve these.

Case Study

Adam is age 55 and is married to Sarah who is age 50. They are both working, and their income is enough to meet their current expenditure needs, including university costs for their two children for the next two to three years.

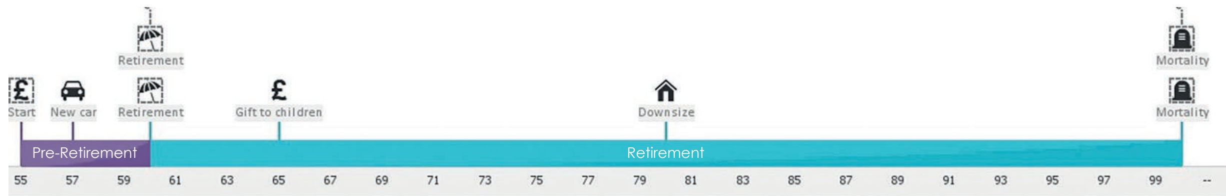
They have provided their TPO adviser with details of their assets, savings, income and expenditure, which are as follows:

- Employment income is £100,000 gross per annum for Adam and £60,000 gross per annum for Sarah
- They hold a total of £150,000 in various bank accounts and NS&I savings products
- They hold a total of £250,000 in a combination of equity ISAs, individual shares and taxable investments
- They fully fund their ISA allowances each year from income
- They each have various money purchase pensions valued at £450,000 for Adam and £250,000 for Sarah
- They own their own home valued at £800,000, which is mortgage free
- They will both be entitled to a full State Pension at their respective State Pension ages

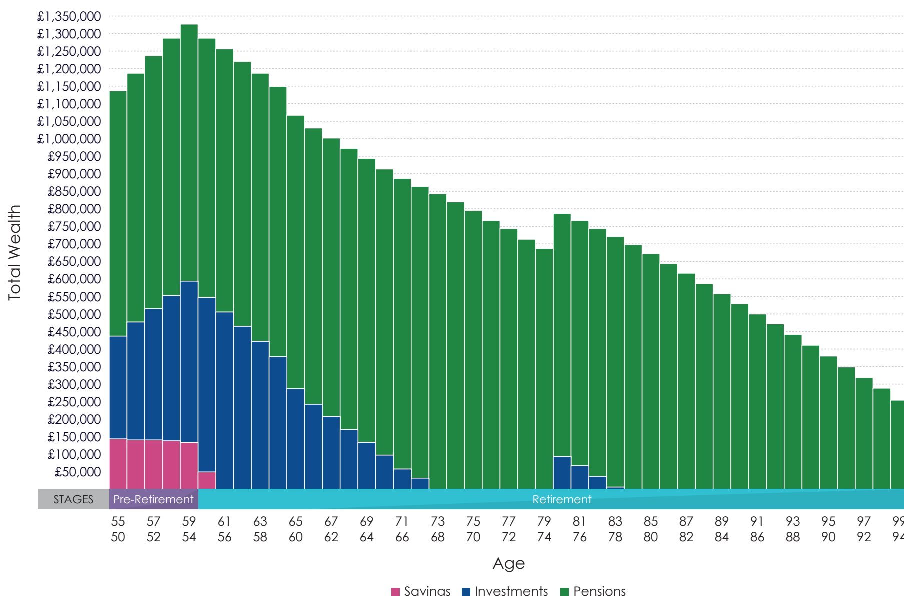
We established their lifetime financial objectives to be:

- To retire in five years' time
- To spend £4,000 net per month (£48,000 net per annum) in retirement for the remainder of their lives
- To buy a new car in two years' time for £25,000
- To gift £25,000 to each of their children in 10 years' time
- To downsize their home at age 80 (Adam) and release capital of £250,000
- Pass on wealth to the children in a tax efficient manner on death

The following diagram shows Adam and Sarah's future plans laid out in a timeline from the point that they want to retire. You can see all the life events and goals that they want to achieve.



This chart illustrates the impact on the couple's wealth over time, assuming their spending plans outlined above (the value of their property is excluded from the assets shown below):



Conclusion

We were able to provide reassurance that Adam and Sarah had secured financial independence and were on track to meet their lifetime financial goals. Namely, meeting their desired lifestyle and making gifts to their children.

With careful planning, there could be a surplus of realisable wealth remaining in the pension fund only that would pass to their children free of Inheritance Tax which could result in a tax saving of almost £110,000.

If you would like more information please speak to your usual TPO adviser.

Are you losing out on your divorce settlement?

DAVID DODGSON
PARTNER

JANET VAN DER HOVEN
FINANCIAL PLANNING EXECUTIVE

It is sometimes said that the best negotiations are the ones where both sides feel dissatisfied afterwards. If so, this is never truer than in divorce proceedings, where both sides are likely to feel emotionally – and financially – drained by the time the case is settled.

Reaching a financial settlement on divorce is often a complicated and drawn-out process which requires the former couple to gather information about all of their assets and a judge to sign off an agreed split of the marital assets. Divorcing couples often instruct solicitors to negotiate a fair division of marital assets, so that neither feels that they have 'lost out' compared to the other. At this stage, the standard approach is to divide assets based on an equal split of value, whether that value is present or future. This can require comparing, for example, the value of a final salary pension with the marital home - the former is a significant source of future value, which can be discounted back to a current value, while the latter can only be valued in current terms.

Although it may sound like a financial planning exercise, this is largely based on actuarial tables and a general legal doctrine of fairness, and if you do not have a firm grasp of your financial requirements you may find yourself unable to retire on time or afford the lifestyle you have become accustomed to if you agree to certain divisions of assets simply for expediency or fairness.

Financial advisers can assist one or both parties (depending on the level of contention in the divorce) to understand what your future plans might require in terms of funding, and therefore what structure any settlement requires.

You should treat this as an opportunity to identify what your financial assets actually are, where they are kept and whether they are still suitable. During your marriage, you will have likely formed joint decisions on what your future, including retirement, would look like. After a divorce, you will probably no longer have the same attitude towards investment risk, the same capacity for loss, or you may not be able to maintain the same lifestyle. A good financial planner can help you discover your new future using tools that will enable us to model your lifetime financial forecast.

A typical client journey

The diagram below demonstrates a typical client journey which often results in a financial adviser being engaged once a settlement has been agreed. However, is this too late? Have you missed out on crucial planning that could have avoided you both paying unnecessary taxes or provided a longer lasting maintenance order? What difference might a financial adviser bring to your circumstances when engaged earlier? And when is the right time?

We believe it is important to engage a financial adviser at the point when you start to list your assets, and certainly before the divorce is finalised in order to help create evidence of what is possible and sustainable that will assist both parties in arriving at a financial settlement which is fair and practical. Sometimes this will be entirely in agreement with the solicitors' assessments based on a fair and simple division of assets, but other times an adviser may suggest splitting a pension pot that might otherwise have been left intact, or that one party would be better keeping the house and offsetting the balance using investments.

As part of your settlement and in order to achieve a clean financial break from each other, one party is often awarded a lump sum (such as a pension or disposal proceeds from a property) rather than maintenance payments for a specified term, though these are still fairly common where the total marital assets are insufficient to provide the clean break.

Each settlement award has its own limitation and a good financial adviser should be able to help you make the best of your situation. This will take account of tax, risks and opportunities for each of the settlements awarded.

A pension award can be tax efficient during your lifetime and when passed to heirs upon your eventual death, however, if you are under age 55, you may not be able to access the benefits of the pension fund, which could cause problems if you do not have an alternative income source. Similarly, whilst the main residence may be a valuable asset, it is illiquid if you intend to live in it, therefore it is unlikely to provide an income or a lump sum to support your outgoings without significant planning.

It is also important to consider the less obvious taxes that might come into play following separation of assets. Capital gains tax is not a common occurrence for most people, especially as couples can freely transfer assets between one another to use both sets of annual allowance, but after separating a portfolio and deciding on a new strategy, there may be a need to sell a number of assets without the benefit of timing for tax efficiency purposes. Ahead of deciding the split, it is important to consider which assets carry significant gains to ensure that one party does not bear a disproportionate amount of capital gains tax on the eventual disposal of the marital investments.

You will need to ensure that any lump sum awards are managed properly and in a manner that is aligned to your objectives, your attitude towards investment risk and your ability to absorb any losses. Sometimes, cash savings are the right place until you have clarity and certainty after you have considered your options.

Why should you engage a financial adviser?

If you choose to engage a financial adviser, they will be able to help by:

- Providing expertise in the analysis of your assets such as pensions which can be very complex.
- Designing a tax efficient division of assets.
- Creating an accumulation strategy ahead of retirement and an income strategy in retirement.
- Analysing upcoming life events and associated costs using financial modelling software, including numerous ‘what if’ scenarios.
- Identifying your attitude to risk and advising on what this means for you in terms of investments and the achievability of your goals.
- Assessing other financial risks and offering advice on how to mitigate these (especially relevant if you are awarded maintenance payments that could cease on the death of your ex-spouse).
- Advising on equity release plans if you need to turn your home into a lump sum or income to support your retirement.

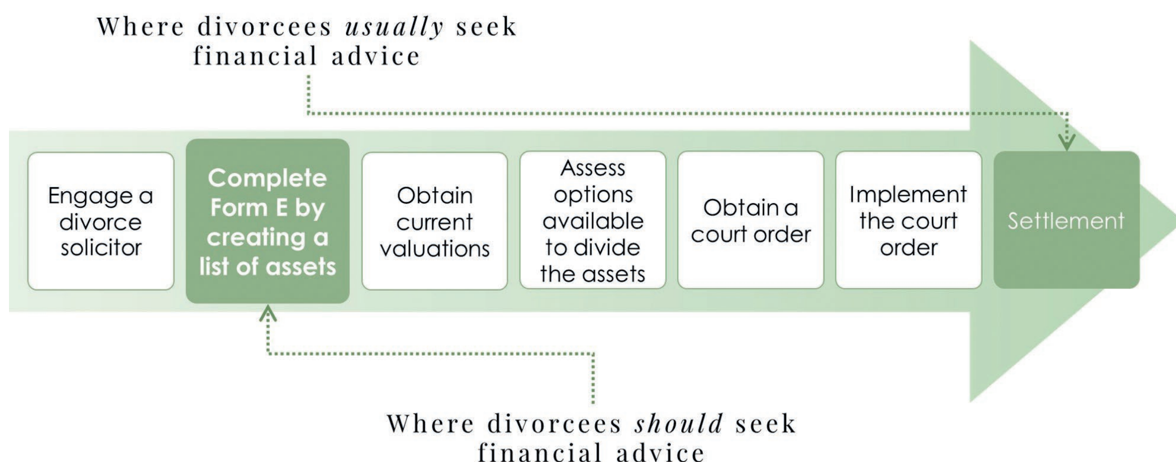
Ultimately, they can help you make important financial decisions and prioritise your financial tasks.

In summary

Many people get divorced and subsequently seek financial advice. This is a period where some of the most important financial decisions of your life are being made and it would make sense to engage a financial adviser who has experience in this field earlier in the process, as critical information can be provided to help you achieve a fair financial settlement and a better financial future.

Understanding the legal principles, process and the common mistakes of designing and agreeing a financial settlement is essential. Our experience in this field is extensive and has proven very valuable to our clients.

If you would like more information please speak to your usual TPO adviser.



A day in the life of...

LUCIE THORNTON
PEOPLE AND DEVELOPMENT DIRECTOR

Our usual 'Day in the life of' segment is a little different in this edition; Lucie Thornton, our People and Development Director, shares her views on why our people are so important to our business and what makes our people approach different.

When asked to write this article I took some time reflecting upon what may interest the reader, I am biased and think I have an interesting job, but I am also aware that not everybody has the same view about my chosen career! So instead I hope to give you an insight to the culture and the people approach we take at TPO, after all, they are who you interact with and who represent TPO.

Some companies view HR as a bit of an 'outsider' and not an integral part of the business. The people you go to when you have 'people problems'. The hirers and firers. An inward-looking department, across in the corner, surrounded by motivational posters.

This is not where HR sits in The Private Office. HR is very much client facing.

I view people as TPO's wealth. An investment accrued by building an attractive and unique offer for its employees. Setting clear pathways and expectations with colleagues we can then set out how best to gain interest from our amassed human capital.

I truly believe that growth is not limited here. It is accelerated by developing employee skills and knowledge to maximise their potential. Creating a shared sense of purpose. Ensuring that everyone understands their role and impact on strategy means that we all feel supported and empowered to work, wherever they happen to be.

> "I truly believe that growth is not limited here. It is accelerated by developing employee skills and knowledge to maximise their potential"

Consequently, HR's relationship with our employees is collaborative. There is mutual benefit. Employees are rewarded when company objectives are met. I believe that reward systems that recognise the balance between 'we' and 'me' are vital to building the feeling of inclusion or, sense of belonging within TPO. We have a wide range of reward schemes, but we are also determined to be creative and genuine with our schemes. This year we launched our colleague share scheme, all permanent colleagues are awarded an entry level number of shares and then any future awards are awarded to those who are 'adding value' to the company and improving the client experience.

> "In January we will be launching the Talent Pool academy where all aspiring 'Advisers' can learn about what it takes to become an adviser"

This is proving to be a great success, and everyone is ensuring that value is driven from every opportunity.

HR manages the recruitment process to ensure employees have the right skills to foster collaboration; being culturally aligned to us is key to a successful

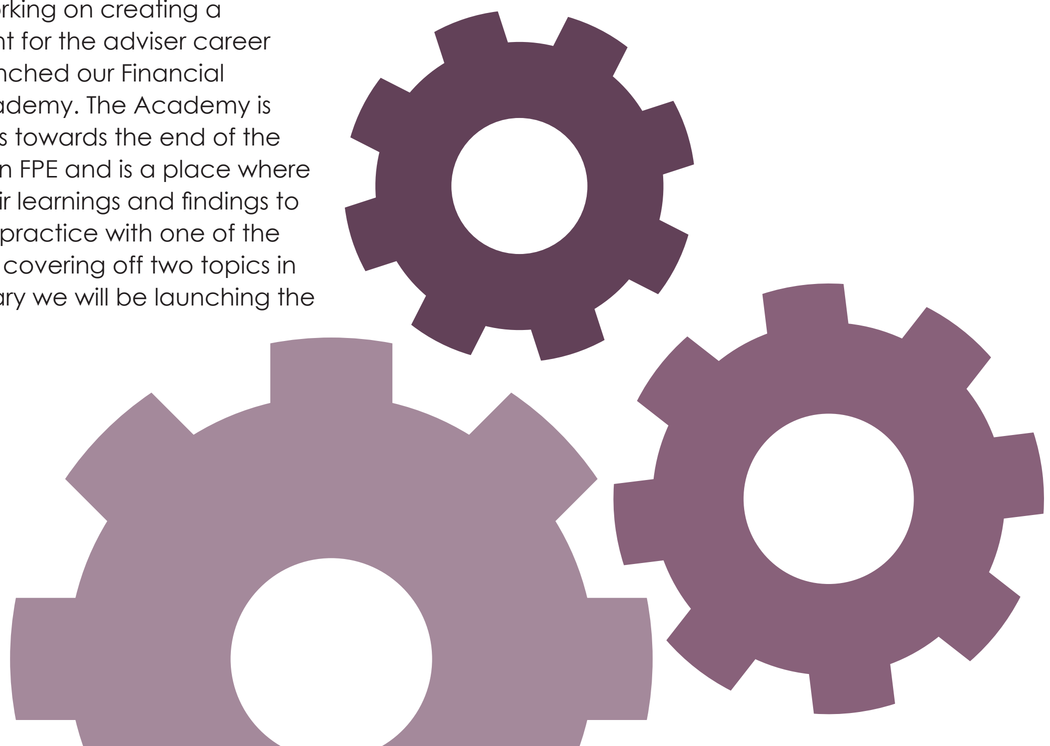
hire. A one-size fits all approach no longer suits the diversity of today's workforce. This is not just about the younger, millennial population, but also older workers who may have been in the company longer, and those in the middle making career changes or juggling the demands of bring up children or caring. We operate flexible working patterns, and this has proved an important benefit to our employees to help them create a healthy work life balance.

Re-balancing how investments are working and looking at new market opportunities is not just a job for our investment team, we are constantly ensuring that the investment we make into our largest asset (our people) is producing the right returns and outcomes. Developing a focus on innovation ensures everyone in the business is working toward better business practices by improving efficiency, performance and developing higher quality services. We are constantly looking at ways to improve ourselves and we are big advocates of promoting from within, our career path enables us to move people to roles that best suits their skill set and career aspirations, it doesn't constrain it enhances the business and the individual.

Recently we have been working on creating a sustainable pipeline of talent for the adviser career path. In December we launched our Financial Planner Executive (FPE) Academy. The Academy is delivered over three months towards the end of the 12-month training plan as an FPE and is a place where all the FPE's can discuss their learnings and findings to date and then discuss best practice with one of the experienced advisers whilst covering off two topics in a half-day session. In January we will be launching the Talent Pool academy where all aspiring 'Advisers' can learn about what it takes to become an adviser, what our expectations of them will be should they choose to take this career path and then develop a plan to enable them to achieve this goal.

This is just a flavour of the HR experience and how we work within the business and we are always looking to improve ourselves. A question we are always asking is 'do we have an engaged workforce?' I truly believe we do at TPO and it's always good to get it validated externally having recently received a 2 out of 3-star rating from the Best Companies Survey, (2 star = outstanding commitment to workplace engagement), this feels like we are on the right path. But that doesn't mean we are stopping here - there is always more we can do!!

For those interested to know… there are no motivational posters round our desk and I hope that this has given you an insight to HR at TPO and maybe you can see why I love the job I am doing.



10 million State Pension forecasts: Do you have yours?

DANIEL BLANDFORD
ADVISER

On 6th April 2016, the State Pension was overhauled through the introduction of the new single-tier State Pension – the most radical reform since its inception.

Data produced by the Pensions Policy Institute in July 2018 reports that, on average, pension income from the State represented 51% of pensioner's total income in 2016/17 and the figure has been broadly unchanged in the last 20 years. The decline of final salary pension schemes, combined with the introduction of the new pension freedoms in April 2015, has led to greater numbers of pensioners choosing to draw a retirement income directly from their pension funds rather than securing a guaranteed income for life through the purchase of an annuity. This choice is often made without the benefit of advice, and it is not unreasonable to speculate that the number of retirees choosing to draw an income directly from their pension funds (with or without the benefit of financial advice) will rise in the future.

With this in mind, as we approach the third anniversary of the introduction of the single tier State pension, it seems appropriate to refresh our understanding of this valuable source of retirement income.

Qualifying for a State Pension

You need a minimum of ten qualifying years to receive any State Pension and qualifying years can be achieved through payment of Class 1, Class 2, Class 3 and Class 4 National Insurance contributions. You can also qualify through National Insurance credits if certain eligibility criteria are met. A full State Pension requires 35 qualifying years under the new system; however, this can still be insufficient if you have been contracted-out at any stage. Transitional provisions apply to those with a National Insurance record from before and after 6 April 2016 and they receive a state pension based on the higher of what they are eligible for under the old and new state pension systems.

How much can I expect to receive?

The value of the State Pension is often overlooked. From 6 April 2019, the full State Pension will reach £168.60 per week, or £8,767.20 per annum. An annuity for a 65-year-old male which would broadly replicate these benefits would cost in excess of £284,000[1].

When George Osborne unveiled the single-tier State Pension in the 2011 budget speech, he remarked "it would be a flat-rate, so people know what to expect"[2]. In reality, of the "new pensioners" who retired between 6th April 2016 and 30th August 2016, over 59% received less than the full flat-rate[3].

For anyone who started their working life before 2016, eligibility to receive the full single-tier State Pension could be affected by:

- Membership of your employer's contracted-out defined benefit (final salary) scheme prior to April 2016

[1]Based on iress research; £8,767.20, escalation with RPI, no guarantees, paid monthly in advance.
[2]https://www.telegraph.co.uk/finance/budget/8923191/Autumn-Statement-2011-George-Osbornes-speech.html
[3]https://www.theweek.co.uk/pensions/83832/thousands-missing-out-on-full-state-pension

- Membership of your employer's contracted-out defined contribution (money purchase) scheme prior to April 2012
- Establishing a rebate-only personal pension to contract out of the State Earnings Related Pension Scheme (SERPS) or State Second Pension between 1988 and 2012
- Gaps in employment

In the case of points one, two and three, NI contributions were diverted to pension schemes at the expense of a complete state pension National Insurance record.

Whether the NI contributions directed to a private pension will sufficiently replicate the potential benefits of a higher State Pension remains to be seen.

Foundation Amount – The Science Behind Each Forecast

If you are one of the millions of people who have been contracted out at some point during your working life, you may be left wondering how much you can expect to receive when you reach your individual state pension age.

Prior to the introduction of the new State Pension, a "foundation amount" was calculated for every individual who had not reached their State Pension Age on 5 April 2016, comparing your entitlement to the State Pension under the older and new systems.

Pre-6 April 2016 Calculation

The value of Basic State Pension and Additional State Pension less any contracted-out element.

New State Pension

The individual is treated as though the new State Pension had applied from the beginning of their working life.

Outcome 1: Foundation Amount Exceeds Single-Tier Pension

If your foundation amount under the old state pension is higher than the single-tier State Pension you will not lose out. The difference between the foundation amount and the weekly State Pension in 2016/17 is a 'protected payment'.

When you retire, the protected payment is paid in addition to the State Pension but only qualifies for increases in CPI rather than the full "triple lock" - this is explained later in this feature article.

Any further National Insurance contributions will not increase entitlement to the State Pension.

Outcome 2: Single-Tier Pension Exceeds Foundation Amount

If your foundation amount was lower than the single-tier pension, your State Pension can be bolstered through further qualifying years up to State Pension age.

You can do this even if you already accrued 35 qualifying years, which is great news for anyone who has been contracted out for part of their working life as it provides an opportunity to re-build your contribution record and increase your single tier State pension entitlement to the maximum level (or closer to it).

It is important to note that you cannot increase your state pension entitlement above the standard single-tier level.

The long-term value of your State Pension

We are all living longer and, as we get older, become more vulnerable to inflation risk if our retirement income can't keep pace with the rising costs of living.

The State Pension is subject to the "triple lock" guarantee, which has also applied to the Basic State Pension since April 2012. Through the "triple lock", the State Pension increases annually by the higher of:

- Consumer Price Index (CPI)
- Average Earnings Growth
- 2.5%

The table below depicts how the "triple lock" has been applied since the introduction of the Single-Tier State Pension.

Tax Year	CPI (Preceding September)	Average Earnings Growth	Guaranteed 2.5%
6 April 2016	-0.1%	**2.9%**	2.5%
6 April 2017	1.0%	2.4%	**2.5%**
6 April 2018	**3.0%**	2.3%	2.5%
6 April 2019	2.4%	**2.6%**	2.5%

The additional state pensions payable under the old state pension system (SERPS, S2P) and any protected payment under the new system increase in line with CPI rather than the triple lock.

continued over page

Whilst the scope for indexation on the State Pension has become an increasingly politicised matter, it has also helped highlight the importance of an index-linked income as a counterweight to investment risk taken with wider assets (such as money purchase pension schemes).

The "triple lock" has only been guaranteed for this Parliament, up to 2020, and the future of pension increases remains uncertain. An increasing number of economists, including the International Monetary Fund (IMF), have called for its replacement with a single or double lock because either option would provide significant cost savings for the Exchequer.

Obtaining your forecast

Understanding your personal entitlement to a State Pension is a vital step in planning for your retirement.

The government's State Pension forecast service can provide you with a statement of your present entitlement to the State Pension; and the potential State Pension based on earning qualifying years between the forecast and State Pension Age.

A State Pension Forecast can be obtained through tthe following methods:

Online - https://www.gov.uk/check-state-pension

You will require the details of your Government Gateway or a verified gov.uk account.

Postal - BR19 Form

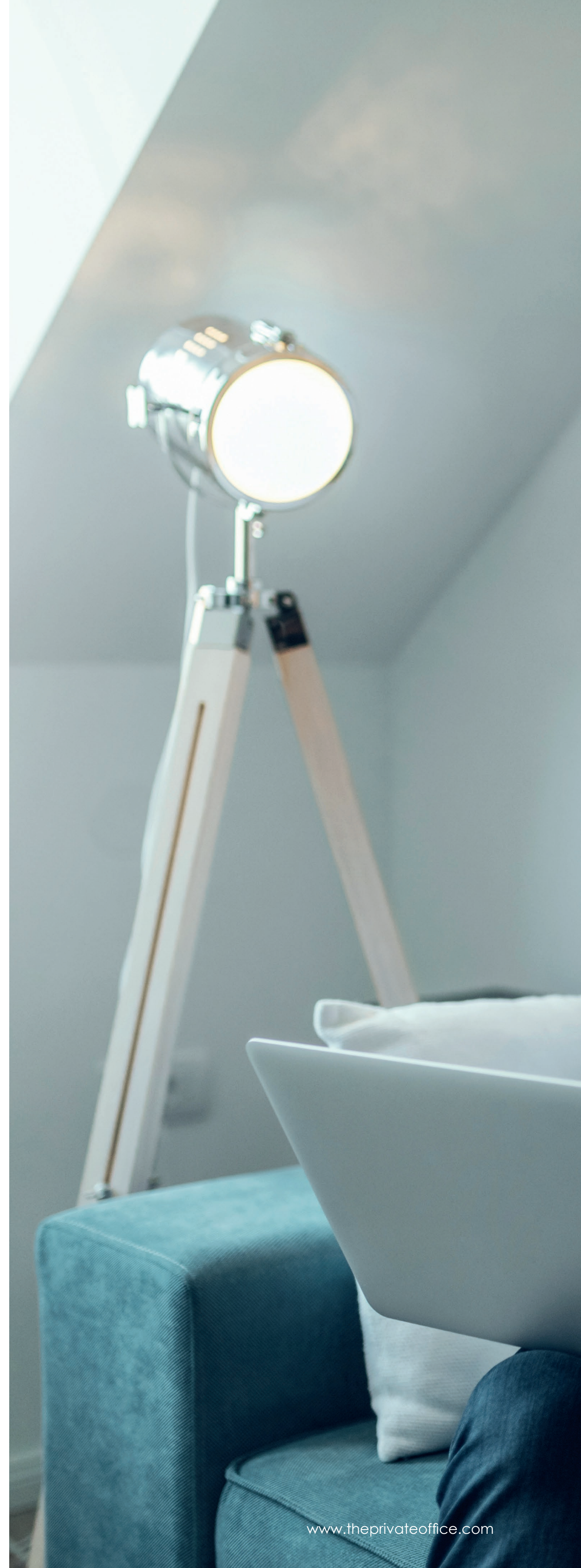
A BR19 Form can be completed and forwarded to:

Newcastle Pension Centre, Futures Group
The Pension Service 9
Mail Handling Site 1
Wolverhampton
WV98 1LU

Telephone - Future Pension Centre

0800 731 0175

If you are approaching retirement in the next few years, why not pre-order your free copy of our pre-retirement planning guide by emailing marketing@theprivateoffice.com.



Stop Press

Have you renewed your Legal Entity Identifier?

The Legal Entity Identifier (LEI) initiative is part of the global effort to stamp out money laundering in financial services and new rules were introduced in the UK on 3 January 2018 which prevent anyone classified as 'an entity' from buying and selling particular types of investments unless they have registered for a Legal Entity Identifier (LEI) code.

For **UK personal investors** the relevant identifier is your **National Insurance Number** so the introduction of this requirement did not require you to take any specific action in most cases.

However, the following legal entities, investing in reportable instruments, were required to obtain a unique, annually renewable, LEI code via the London Stock Exchange:

- Corporate Clients
- Trusts (Bare Trusts are exempt)
- Pension schemes set up under an individual trust i.e. SSAS arrangements
- Charities

As your LEI is only valid for a period of 12 months from the date of issue it is important that you complete the renewal process as you cannot buy or sell your 'reportable' investments without one. The current cost of renewal is £70 plus VAT per annum and can only be obtained through the London Stock Exchange Una Vista website.

If you have not received your LEI renewal notification or require assistance, please contact your usual TPO adviser for guidance.

National Savings confirms change from RPI to CPI for index linked certificate holders

From 1 May 2019, existing holders of Index-linked Savings Certificates who renew into a new term will receive index-linking based on the Consumer Prices Index (CPI) measure of inflation, rather than the Retail Prices Index (RPI).

This will, in all likelihood, lead to a reduction in the returns received by certificate holders in the future as CPI has historically lagged behind RPI due to variances in both the basket of goods which is used to calculate each index and the method of calculation. Official figures released by the Office of National Statistics (ONS) in December 2018 reported an RPI figure of 3.2% in November 2018 compared to CPI of 2.3%.

The change from RPI to CPI will be applied to all Certificates that mature on or after 1 May 2019 and where certificate holders choose to renew into a new Certificate. Although Index-linked Saving Certificates have not been on sale since 2011, existing savers are able to renew them when they mature.

Current holdings will be unchanged until they mature, and certificate holders do not need to take action now as NS&I will write to all holders of Index-linked Savings Certificates at least 30 days before their Certificates reach the end of their term.

Less than 10% of Estate returns result in an Inheritance Tax charge

In January 2018 the Chancellor announced that the Office of Tax Simplification (OTS) would conduct a review into inheritance tax as part of the governments initiative to simplify tax. The first part of the review has been published and concludes that too many people have to fill in Inheritance Tax forms.

Returns by numbers

- In the UK, on average, around 570,000 people die each year.
- Fewer than 25,000 estates were liable for Inheritance tax in 2015/16: that's less than 5% of all deaths.
- A whopping 275,000 inheritance tax forms were completed in that same reporting period: that's 10 times more than the number of estates paying tax!
- Inheritance Tax makes up less than 1% of the total tax raised by the Exchequer.
- 38% of 889 respondents who did not engage with a professional adviser spent more than 50 hours administering an estate.

Why do you need to complete an estate return?

The need to complete Inheritance Tax forms does not depend on Inheritance Tax being due. If probate is required, then Inheritance Tax forms need to be completed even where there is no inheritance tax due. Without submitting the correct forms and paying any Inheritance Tax due, probate will not be granted, and therefore assets cannot be distributed.

Regardless of the outcome of the review, the number of people needing to complete an inheritance tax return will reduce by approximately 25,000 from April 2019 when the probate threshold increases from £5,000 to £50,000 but there will still be far too many people having to navigate the complexities of the tax system at a time of emotional distress. Hopefully the review will lead to a more streamlined process benefiting more people. We will monitor the situation and keep you informed of developments.

Investor compensation limits to increase

The Financial Services Compensation Scheme (FSCS) provides important protection to consumers, paying compensation when regulated providers of financial services products have gone out of business and consumers have suffered financial harm.

The amount of compensation currently available to a consumer who has a claim varies and different limits apply to different types of claim.

Depositor Protection (per banking license)	£85,000 per individual per claim
Investment business	£50,000 per individual per claim
Long term insurance-based contracts	100% with no upper limit per claim

Compensation limits are set per individual, per firm and per claim type. So, £100,00 spread equally across two investment firms is completely protected under current rules. But £100,000 held with one firm is only covered up to £50,000.

The Financial Conduct Authority (FCA) has confirmed that the disparity between the protection offered to cash investors and consumers investing in regulated investment funds will end on 1 April 2019 as the level of protection will be increased to £85,000 per eligible claim.

A note from the TPO Investment Committee (TPOIC)

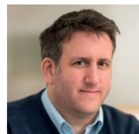
Corporate actions

The committee would like to reassure you that it monitors actions initiated by investment houses which may have an impact on your investments (known as corporate actions) on an ongoing basis. Rather than contact you directly about each and every action, there is a dedicated section on our website, to which all updates will be posted, accessible via the following link which may be typed into your browser:

http://www.theprivateoffice.com/site-services/key-investor-information/corporate-notifications

Whilst all corporate actions are posted on the website, we will take additional steps to highlight any changes which we believe are potentially significant, or require you to take action.

Latest savings rates



TOM ADAMS
HEAD OF RESEARCH

Each quarter we bring you a review of the best rates for cash deposits on behalf of our sister company, Savings Champion. Please note that as well as personal and business accounts, Savings Champion also offer services for both charities and trusts.

For more information visit **www.savingschampion.co.uk** or contact Tom Adams on **0800 321 3581**.

Personal Accounts

Account	Provider	Minimum	Gross	AER	Notes
Easy Access Account	ICICI Bank UK	£1	1.54%	1.55%	Apply and access online. Easy access. Rate includes a 0.30% bonus for the first 12 months.
Notice Account	Charter Savings Bank	£1,000	1.90%	1.90%	Apply and access online. Withdrawals are subject to 95 days' notice only; no earlier access is allowed.

Personal Fixed Rate Bonds

Account	Provider	Minimum	Gross	AER	Notes
1 Year Term	Ford Money	£500	2.00%	2.00%	Apply online or by telephone. No access within the term.
2 Year Term	Investec	£25,000	2.35%	2.35%	Apply online. No access within the term.
3 Year Term	ICICI Bank UK	£1,000	2.40%	2.40%	Apply online. No access within the term.
5 Year Term	Vanquis Bank	£1,000	2.62%	2.62%	Apply online. No access within the term.

Personal ISAs

Account	Provider	Minimum	Gross	AER	Notes
Easy Access Account	Paragon	£1	1.45%	1.45%	Apply and access online. Easy access. Transfers in of previous cash ISAs are allowed.
Notice Account	Charter Savings Bank	£1,000	1.45%	1.45%	Apply and access online. Withdrawals are subject to 95 days' notice or loss of interest. Transfers in of previous cash ISAs are allowed.

Personal Fixed Rate ISAs

Account	Provider	Minimum	Gross	AER	Notes
1 Year Term	Cynergy Bank	£500	1.73%	1.73%	Apply online. Access on closure only, subject to 180 days' loss of interest. Transfers in of previous cash ISAs are allowed.
2 Year Term	Charter Savings Bank	£1,000	1.87%	1.87%	Apply online. Withdrawals are allowed, subject to 180 days' loss of interest. Transfers in of previous cash ISAs are allowed.
3 Year Term	Aldermore	£1,000	1.95%	1.95%	Apply online. Withdrawals are allowed, subject to 180 days' loss of interest. Transfers in of previous cash ISAs are allowed.
5 Year Term	Coventry Building Society	£1	2.30%	2.30%	Apply online, by telephone, by post or in a branch. Access on closure only, subject to 180 days' loss of interest. Maturity date is 30/11/2023. Transfers in of previous cash ISAs are allowed.

Business Accounts

Account	Provider	Minimum	Gross	AER	Notes
Easy Access Business Account	Virgin Money	£1,000	1.01%	1.01%	Apply and access online. Easy access.
Notice Business Account	Al Rayan Bank	£250	1.50%	1.50%	Apply in a branch or by post. Access in a branch, online, by post or by telephone. Withdrawals are subject to 90 days' notice only; no earlier access is allowed.

Business Fixed Rate Bonds

Account	Provider	Minimum	Gross	AER	Notes
1 Year Term	BFC Bank	£10,000	2.50%	2.50%	Apply by post. No access within the term.
2 Year Term	Aldermore	£1,000	1.95%	1.95%	Apply online. No access within the term.
3 Year Term	Aldermore	£1,000	2.05%	2.05%	Apply online. No access within the term.
4 Year Term	Masthaven	£5,000	2.18%	2.18%	Apply online. No access within the term.
5 Year Term	Cambridge & Counties Bank	£10,000	2.50%	2.50%	Apply by post. No access within the term.

All information is correct as of 29th January 2019

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