WE KNOW / WEALTH

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FUTUREPROOF YOUR LIFESTYLE

With Chartered Financial Planner and Director of Robson Laidler Wealth Neil Cowie

It feels like there's a lot of uncertainty about at the moment – whether it's Brexit or our next PM or the state of the economy. It may be concern about climate change or job security. Although these things seem big and out of our control there are steps, we can all take to make the future a little more predictable.

Most of the people we work with want to maintain their current lifestyle. But what is lifestyle and how much does it cost? What does your life look like at the moment? Are you happy with your life or are there things you want to do to change your lifestyle?

Lifestyle can be broken down into different categories e.g.

BASICS – these are the essential items we all need to pay for e.g. utilities, mortgage or rent, food, clothing, insurances, property maintenance, vehicle costs, petrol, debt repayments etc.

DISCRETIONARY – these are the extras that make life more enjoyable e.g. holidays, entertainment, eating out, sports & hobbies, school fees, wine (considered essential for some!) etc.

MILESTONES – these are the one off events or purchases that often create fabulous memories e.g. new sports car, world cruise on retirement, family wedding, helping a child buy a property.

Hopefully our lifestyle is currently affordable but in future when we stop earning how do we ensure we can continue to live in the same way?

Many people will receive a state pension in retirement although state pension age is constantly being pushed out. The pension received is typically only around 30% of annual average earnings and for many significantly less than this. This is unlikely to be sufficient to cover the basics.

Some people are members of their workplace pension. If you work in the public sector or a large company, you may be fortunate to have a defined benefit or final salary pension scheme, although these are becoming less common. Even if you are a member of a final salary scheme it is unlikely the benefits will exceed 50% of current earnings.

Therefore, in order to maintain lifestyle, it is essential funds are set aside in savings and investments during your working life to meet the shortfall between secure pension funds and total lifestyle costs.

If your average annual lifestyle expenditure is £40,000 and you only have secure income from state pension and workplace pension of £25,000 you have £15,000 to fund from savings and investments each year.

Assuming an average annual investment return of 5% (moderate risk) and an annual withdrawal of £15,000, a starting fund of £242,000 will be required to last 30 years. You can do the maths to work out your own futureproof fund or you can work with a Chartered Financial Planner to help determine your own number.

Another factor to consider is the rising cost of lifestyle over time i.e. inflation. Money held in bank savings tends to lose real value over time because of inflation and in the example the starting fund would be exhausted after just 20 years with inflation at 2.5% per annum.

So how will you pay for your next golf trip or fine dining experience and maybe more importantly how will you pay for it in 10 or 15 years' time?

Neil Cowie

INVESTMENT FOCUS

Our investment philosophy can be summarised as follows:

1) TRUST THE MARKET

The global stock market is a very effective information processing machine. Everyday billions of pounds worth of trades are placed between buyers and sellers which creates an efficient market price.

The market's pricing power works against fund managers who try to out-perform through stock picking or market timing. Studies show that less than 25% of US mutual funds have survived and outperformed their benchmarks over the past 20 years.

The financial markets have rewarded long term investors and historically have provided growth that had more than offset inflation.

2) DIVERSIFY

We've all heard the expression "don't keep all your eggs in one basket" and the same philosophy applies to investments i.e. spread your risk. Many investors place a large proportion of their money in UK shares or funds but the UK equity market only accounts for around 6% of the global equity market. Why miss out on the opportunities offered by the remaining 94%?

3) MANAGE EMOTIONS

As humans we experience a broad range of emotions but unfortunately this is a bad recipe for good investment decisions. We are bombarded with news headlines about investment markets which can stir anxiety about the future or tempt us to chase the latest investment fad. It is important to try to maintain a long term perspective and investment discipline.

4) CONTROL COSTS

High investment costs act as a drag on long term performance and you increase your chance of outperforming by selecting lower cost investments where appropriate. Even a small difference in cost can have a significant effect over the longer term. E.g. if you invested £100,000 in two funds which achieved an average return of 7% p.a. before costs you would have £196,700 after 10 years. If one fund had an ongoing charges figure (OCF) of 0.50% p.a. and the other and OCF of 0.20% p.a. the value at the end of 10 years would be £187,700 and £193,000 respectively – a difference of £5,300.

INVESTMENT STATISTICS

The FTSE 100 index closed at 7,207 at the end of August 2019. This represents a rise of 472 points in the year to date or 7.02%. The annualised total return of the FTSE 100 index over the last 5 years is 5.24% p.a.

The MSCI All Countries World Index (Global Stockmarket) has grown 17.25% in the year to date at the end of August 2018. The annualised total return of the MSCI All Countries World Index over the last 5 years is 12.27% p.a.

The latest Consumer Prices Index (CPI) measure of inflation rose to 2.1% in the year ending 31 July 2017.

The Bank of England base rate has remained at 0.75% since August 2018

Amanda Cowie

LATER LIFE CARE – A FINANCIAL TIME BOMB?

Local authorities are cash strapped – fact. The Dilnot Report capping the cost of Later Life Care fees keeps being delayed. Something has to be done to address this.

The Pensions Policy Institute (PPI) has published 'Care in later life: incentives to use assets to pay for care' sponsored by The Association of British Insurers (ABI).

It's clear that most people are unprepared for the possibility of a social care financial time bomb, according to the latest ABI research. At the same time, separate new analysis shows that over a third of the population could benefit from incentivising ways of self-funding care, for example through tax exemptions. The ABI is calling on the Government to urgently publish the social care Green Paper and consider how to target interventions for self-funders to help solve the social care funding crisis.

Publishing polling research from Populus alongside analysis from the Pensions Policy Institute (PPI), the ABI said that a massive new campaign was needed to raise awareness of social care funding and new incentives should be considered to encourage people to make provision to pay for care in the future.

KEY FINDINGS FROM THE RESEARCH INCLUDE:

- 89% of over-65s have made no plans to pay for social care, while only 10% have, despite around half of all care users having to self-pay in some way.
- 51% of people saw the state pension as the most likely source of funding to pay for care, with only 17% saying insurance and 26% saying they would sell their home.

- An effective target group for incentives to help self-funders are those who have savings of more than the means test threshold (£23,250), but less than £200,000. This target group makes up approximately 37% of people in England aged over-50.
- Among the target group, 90% of those aged 65-79 own their home outright, and half of these have over £300,000 in housing wealth. Among 60 to 64-year-olds in the target market, 25% have over £230,000 in pension wealth, and this is likely to increase in future. Therefore, many of the next generation who need care will ultimately have to use housing wealth to pay for it, but pension savings can play an increasing part in the longer term. The report shows that this target market would benefit from incentives to help them plan.

The report analyses five options for self-funding of social care, and sets out the challenges and opportunities of each. These are:

- No income tax payable on pension income used to pay for care.
- Tax-free pension withdrawals if used to purchase an insurance product that covers care costs.
- Introducing a new Care ISA with no Inheritance Tax paid on residual amounts at death.
- Releasing equity from a property to purchase an insurance product that covers care costs.
- Pledging equity from a property to cover care costs.
- The Pensions Policy Institute report 'Care in later life: Incentives to use assets to pay for care', sponsored by the ABI, can be found here.

Amanda Cowie, Director and Chartered Financial Planner at Robson Laidler Wealth is an accredited member of the Society of Later Life Advisers.

COAST TO COAST CONQUERED

Last month I posted an article on my training for the Coast to Coast (C2C) cycle ride. I'm pleased to report our team managed to conquer the ride last weekend despite atrocious weather.

We set off enthusiastically from Fernwood House on Friday morning loaded with enough fruit, water and chocolate bars to open a supermarket. As we travelled across the A69 towards our starting point at Whitehaven the sky grew darker and darker.

Before we disembarked from the team bus the rain was coming down heavily, driven by the strong westerly wind. As we stepped off the bus our initial enthusiasm started to wane although we managed to keep a smile on our faces for the obligatory team photo at the start.

The first 10 miles were reasonably uneventful until I got a puncture. Nobody really wants to change a tyre but especially not in the pouring rain. The team helped with the repair and we were back on our way.

Our first stop was at Whinlatter (excellent coffee and cake). We had planned to stop at Keswick for lunch, but we decided to plough on to Penrith and our first night's accommodation.

The sky was still grey as we started day 2. The initial steep climb out of Penrith got our hearts pumping and was a good warm up for the big hills ahead. After a quick refuel in Langwathby we tackled the start of Hartside. Paul, our most experienced rider, was quickly in his stride and got to the top first. My pace was more sedate (laboured) and the sausage sandwich and tea at the summit was very welcome although we did have to shelter in the support van because of the driving rain and strong winds.

Thankfully the rain stopped, and we were able to make quick progress down Hartside to Alston. I managed to record 42mph at one point on the decent but quickly applied some brake to calm my nerves.

After lunch in Alston (sweetcorn and coconut soup – yum) we faced a relatively short section to our accommodation in Allenheads. This did however include a couple of steep (17%) climbs out of Nenthead to the highest point on the route at Black Hill.

The beer at the Allenheads Inn tasted delicious and we enjoyed an impromptu pool match against rival C2C riders. A hearty breakfast set us up well for day 3 and thankfully the weather had started to improve. We were climbing straightaway out of Allenheads and within 90 mins we were at the foot of the fearsome Crawleyside Bank climb coming out of Stanhope. I managed to keep pedalling to the top of the climb, but it wasn't pretty or quick.

The whole team gathered for a celebratory cake at the café at Parkhead, knowing the worst was behind us. The 35 miles or so from the café to Tynemouth was pretty much downhill all the way and after a final lunch stop at the bottom of the Derwent Walk (Moroccan vegetable soup – delicious) we were cruising along the north bank of the Tyne through Newcastle Quayside, Wallsend and Walker. Unfortunately, one last puncture, 5 miles from the end, slowed our progress but we eventually made it to Tynemouth before a final shower of rain.

Our reception committee cheered us over the line and uncorked some celebratory fizz (thank you Mark). After 137 miles and some serious hills a fitting way to end.

The team managed to raise around £3,500 for our nominated charity (Freeman Heart & Lung Transplant Association) and the Just Giving page is still open for any late donations.

Neil Cowie, Director and Chartered Financial Planner.

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