KENNEDY BLACK
WEALTH MANAGEMENT

QUARTERLY PRIVATE CLIENT NEWSLETTER ISSUE 10: MAY 2012

Welcome to this, the tenth edition of Kennedy Black Wealth Management's Private Client Newsletter.

One small piece of trivia, this is going to be the last edition before the Olympics. While we wish Team GB all the best, we take the opportunity here to talk about the other big event of 2012. "The Jubilee?" I hear you cry. No, the introduction of "Auto Enrolment." We pension geeks definitely need to get out more. Happy reading.

SMEs: GET READY FOR "AUTO ENROLMENT"

While recent editions of this newsletter have focused on personal wealth and tax-related themes, a large part of what we do relates to helping small businesses in respect of employee benefits (e.g. corporate pensions, death-in-service cover) and risk management relating to the death or incapacity of one or more key personnel.

Corporate pensions in particular are set for a massive change that some have touted as the biggest pension reform in a generation.

From this October, new rules (referred to as "Auto Enrolment") will require every employer in the country to provide a pension for its staff, automatically enrol its staff into it, and contribute.

While the rules are being phased in – starting with the biggest employers in October – the biggest impact will be for SMEs. Most large employers will already offer a pension and will probably already be making contributions. A lot of smaller companies won't be doing either.

This presents big challenges for small and medium-sized businesses, and we would be delighted to talk to anyone running a business about their new obligations in advance of the new changes taking effect. It may be helpful here, though, to try to summarise the new rules and how they might impact an employer.

Firstly, the new rules affect all businesses with at least one genuine member of staff (therefore only true one-man-bands will be exempt). Previously, companies with fewer than five employees had no pension obligations whatsoever.

Secondly, businesses will be required to automatically enrol their eligible employees. There are clear guidelines as to who will be eligible, so businesses need to ensure they have systems in place to flag them as eligible and enrol them (within 90 days of joining the company) or not.

Thirdly, reporting obligations are onerous. Employees can choose to opt out, but must be automatically re-enrolled every three years. The hope is that people will eventually give up opting out and resign themselves to joining. All steps to the process must be adequately recorded and records must be kept for six years.

Fourthly, employers will be required to contribute. These rates are also being phased in, rising to a total contribution of 8% of salary, of which at least 3% must come from the employer.

While there is some speculation as to how effective auto-enrolment will be (especially with regards to the opt out rate), Kennedy Black is a strong supporter of the new rules. The government is slowly waking up to the fact that an ageing population needs to take greater responsibility for its retirement.

However, in the short term, small businesses need to be prepared, and we would be delighted to help Finance Directors navigate their way through these obligations and minimise the potential Compliance risks. Get in touch if you would appreciate a chat about the new rules.

DON'T YOU… AUTO-ENROL ME!

Having addressed the new rules from an employer's perspective, it is also worth looking at the changes from an employee's perspective as well.

Essentially, unless you actively opt out (every three years), employees will be enrolled into a pension scheme into which they will have to contribute up to 5% of gross salary (unless your employer is generous enough to go beyond the bare minimum).

Unless you already make pensions contributions, you can expect your take-home pay to reduce as a result. Because of this, research from the NAPF estimates that up to 33% of employees could opt out – most likely those struggling to make ends meet. Unfortunately, when it comes to retirement provisions, these people are perhaps the ones that need it the most.

There are thus two temptations that we urge you to resist.

The first is the temptation to opt out. Unless there are clear reasons to the contrary (the need to repay expensive debts, for instance), we believe most people should not opt out. Take responsibility for your retirement, and there's no better time to start than now.

The second is the temptation to rely on Auto Enrolment and think that this 8% contribution is going to set the scene for the retirement of your dreams. In our experience, it won't. We have found that individuals with 20-30 years until retirement need to be thinking about making regular pension contributions of 15-20%+ of salary (i.e. at least twice what is required under Auto Enrolment) to stand a realistic chance of maintaining the lifestyle they want.

Save £££ on Foreign Exchange

We talk to a surprising number of people who transfer large sums of money, using their high street bank to convert one currency into another. High street banks offer poor exchange rates, in the knowledge that their customers don't shop around.

Yet there is a better way. We know of a number of FX brokers who, for sums as little as £50, can slash the cost of Foreign Exchange.

If you find yourself moving money between foreign bank accounts, get in touch and we can point you in the direction of some reputable dealers. We can also prepare you so that you know how to approach them, what to say and how to negotiate the best rates.

The rise and fall and rise of Buy-to-Let

Mortgages are proving harder than ever to obtain. Interest rates have been creeping up, and are expected to rise further on the back of recent market jitters – despite the fact that UK interest rates are at their lowest ever rates.

Furthermore, interest-only mortgages are being cut back in some style, with a number of mainstream lenders restricting interest-only to clients who have 50% deposits. Plus, those that do still offer interest only are raising their requirements when it comes to what they consider to be a 'satisfactory repayment vehicle'. A simple 'sale of property' (aka "downsizing") would have sufficed in the past; not any more.

Yet, one area of the mortgage market is in surprisingly rude health: Buy-to-Let.

In theory, Buy-to-Let should be the riskier end the market. However, strong tenant demand and the recent rise in rents have both combined to ensure that landlords are having a great time at the moment.

And lenders are recognising this. Whereas prime mortgages are getting tighter and tighter, the reverse seems to be happening in the Buy-to-Let mortgage market.

It seems that in these times of economic austerity, lenders are growing more comfortable with rental income as a means to support a mortgage rather than employment income. So don't let negative headlines about prime mortgages cloud your opinion of the Buy-to-Let market.

Your home may be repossessed if you do not keep up repayments on your mortgage. Not all buy to let mortgages are regulated by the Financial Services Authority.

Investment Rule #10:

"Focus on the things you can control"

When it comes to investing, it is crucial to identify the things you can control and the things you can't.

You can't control the market. But you can control your level of diversification (the higher the better) and you can control your costs (the lower the better).

Over 20 years, an actively managed fund (Total Expense Ratio: 2% per annum) has to outperform an index tracker (TER: 0.15% p.a.) by 44% just to recover the extra costs.

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