FROM SMALL ACORNS

12 How a relationship forged 13 years ago has enabled one client to indulge in his passion for forestry

06 LIFE STAGES
Meeting the protection needs of young couples without children

08-09 PAY OUT
Discover what percentage of protection claims Zurich paid in 2018

10-11 HOT DEBATE
Advisers' differing views on centralised retirement propositions
Should advisory firms operate a centralised retirement proposition, separate and distinct from their investment approach for clients in accumulation?

It’s a question we believed we’d get a spread of opinions on (we were right on that), but one we still felt was important to ask as drawdown sales continue to outpace those of annuities.

Take a look at pages 10-11 to read the range of views we collected (including, as an indicator of how polarising this issue currently is, “I’m very surprised any adviser doesn’t have a CRP”, and “It’s just not worth the hassle”). Where does your firm stand?

Elsewhere this month, we’re highlighting our protection claims figures for 2018, which again show the vast majority of claims, whether they be for life insurance, critical illness, or income protection, are met.

In fact, Zurich paid out on 96% of all retail protection claims in 2018, with payments of more than £233 million benefiting thousands of customers and their families.

Following on from last month’s in-depth look at the myriad taxes that landlords need to consider (and their advisers need to consider on their behalf), on pages 16-17 we’re analysing four tax ‘traps’ in particular.

Meanwhile, we’re also continuing our series celebrating the adviser/client bond with a visit to Mattioli Woods. When company director Doug Brown and his late business partner sought pension advice, they did not envisage Doug Ryan becoming part of their lives. Please visit pages 12-13 for more on that.

As always, we’re keen to hear your thoughts and ideas so we can continue to improve Advice Matters. You can drop us a line at zurich.intermediary@uk.zurich.com...
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Refer to page 19 for the Zurich legal disclaimer
1. **GET OUT OF YOUR COMFORT ZONE**
   How many seminars or events have you been to completely alone? It might seem scary to go to events alone, but I assure you they will broaden your knowledge and understanding of opinions. Meet and learn from some of the wonderful individuals in the profession – most don’t bite – and you won’t look back.

2. **ADMIT TO WHAT YOU DON’T KNOW**
   Clients can ask some in-depth, complex questions. Don’t be afraid to say: “That’s a very good question, would you mind if I look into it for you?” Mistakes happen, but it’s always better to confidently suggest looking into the details, rather than giving an answer you aren’t certain of, only to later have to correct your statement.

3. **CHARTERED EXAMS ARE WHERE IT’S AT**
   I passed R01-6 and achieved my DipPFS status in May 2016. I admit I had little industry experience at the point of qualification. Real client experiences help us to learn practical knowledge, but chartered exams back up that knowledge and provide methods to call into action when client situations are complex. They are tough, but don’t be afraid to fail; I did and rebooked the same day. The only failure is giving up!

4. **DEATH AND FINANCES CAN BE COMPLICATED**
   Some widows and children are left in a financial mess. It can be burdensome and time-consuming for beneficiaries to deal with the financial ramifications of the loss of a loved one, not forgetting that they sometimes have their own jobs to do. Coaching clients to simplify their financial affairs prior to illness or later life wherever possible will help to relieve some of this stress on families.

5. **POSITIVE CLIENT OUTCOMES ARE THE MOST SATISFYING**
   I have assisted clients who have been in unfortunate situations with health. Having such tough conversations with clients can be challenging and it can sometimes feel like clients want to hide away. Remain calm and insist where points must be dealt with; clients will absolutely thank you for it. The self-fulfilment in making a very real difference to people’s lives is worth so much more than any fee.

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“The only failure is giving up!”

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Lewis Birch is a chartered financial planner at Hampshire-based Grosvenor Birch
I’ve experienced the stigma surrounding financial advice both in the UK and my native Australia. It’s pretty clear that as a profession we want to change this.

Prospective clients are reluctant to meet or listen to advice as they are wary of simply being flogged products. I think it’s something we are combating through increasing professional standards, removing commission and improving transparency, but if I were King for a day this is something I would continue to work on.

Lifting the stigma surrounding advice goes hand-in-hand with what I would like to spend my day focusing on, which is encouraging more people to seek advice in the first place.

Financial advice is something that everybody can benefit from. The right advice at the right time can change lives; I’ve seen it happen. In my experience, clients are reluctant to seek advice for one of three main reasons: they don’t see the benefit, they are concerned about the cost or they’re victim to advice inertia.

I’d focus primarily on reducing the costs involved – in terms of making advice accessible this is the main hurdle. It’s a tricky one because good advice is not cheap to prepare; the work involved takes time (a lot of it!). This is a problem that robo-advice has tried to fix, but that’s far from the answer in terms of holistic advice.

What is? Solving this issue involves collaboration between advisers, clients, regulatory bodies and the government – not just a King full of ideological ideas. I’d spend my time putting together a team whose prime focus is coming up with the solution to this conundrum over the long term – perhaps a means-tested subsidy would make an impact? This problem needs more than just a day’s thought, but for now, my time is up – over to you, team.

Ben Kehoe joined Equanimity, based in London, in 2016 after an eight-year career with a financial planning firm in Australia.

Ian Hart is a chartered wealth manager at Unbiased Financial Analysis, and an investment director of its Unbiased Portfolio Management subsidiary, which provides outsourced investment support for advisers.

We are always looking for funds that provide diversification. The manager presented the VT Gravis UK Infrastructure Income fund to our investment committee in 2016 and I am really pleased with its performance. At first glance it looks like an income fund which invests in listed companies in the UK’s infrastructure sector but delving a little deeper reveals a vast and largely unappreciated collection of assets, which form the backbone of the UK’s economy.

Gravis, the manager, has picked a selection of closed-ended investment companies, which invest in literally hundreds of single purpose vehicles, which in turn own solar parks, wind turbines, GP surgeries, healthcare assets, schools, fire stations and so on. Each asset generates cash from rent or electricity generation. The fund only invests in investments denominated in sterling, which have most or all of their activities in the UK.

What appeals most about this model is the total lack of ‘market noise’ associated with the investments, amply demonstrated by the smooth performance.

The £350 million fund pays around 5.3% and has ongoing charges of 0.65%. It does not shoot the lights out but is up around 27% since launch in 2016. You’d probably expect this performance to come with relatively high risk-taking, but the volatility of just under 5% per year, around one-third of the MSCI UK index, suggests otherwise. In fact, it was flat over the fourth quarter of 2018, giving it a well-deserved place in my cautious and balanced models.

The manager is allowed to own a few equities, REITs and bonds, which further diversifies the risk. All in all, it leaves me able to catch a good night’s sleep in a world beset with worry prompted by Brexit, high street closures, the ever-constant threat of a downturn and Trump!
In this series, we’re examining the various protection needs of clients as they travel through life’s many stages. Here, we take a look at young couples without children.

**THE CIRCUMSTANCES**

James and Sophia are junior doctors. They met at medical school and have been married for two years. They’re not planning on starting a family just yet as Sophia has only been a junior doctor for two years and James will be looking to specialise next year. While this will bring a considerable increase in salary, it also comes with a bigger workload.

They’ve just bought their first house with a decent-sized deposit and a mortgage of £150,000 (repayable over 25 years), and, when they have the time and the money, they like to go skiing.

Despite some bad press, working for the NHS does have some significant advantages, such as the pension and sick pay scheme.

Both James and Sophia are aware of protection, as their financial adviser tried unsuccessfully to persuade them to take out life cover and income protection alongside their mortgage.

**THE OBJECTION**

Let’s have a look at the NHS sick pay scheme. Good as it is, it still has its limitations. The benefits are tapered over the first five years of service.

For someone in their first year of service, it’s one month’s full pay followed by two months’ half pay. It then increases each year (although not in the even steps you might expect) until they have more than five years of service, when they receive six months’ full pay followed by six months’ half pay.

James currently earns £36,000 per year, while Sophie earns £28,000 per year. James, with five years’ service, is at the final stage, but Sophia, who is in her third year of service, only has four months’ full pay and four months’ half pay.

So the questions we need to ask them are: where would your income come from if you were off work for longer than your sick pay scheme (which is eight months for Sophia and 12 months for James)? Could you both survive and pay the mortgage if one of you was not working at all or if one of you was only on half pay?

**A POSSIBLE SOLUTION**

First port of call, as always, must be to protect the mortgage. James and Sophia turned down the opportunity to take out cover when they took out their mortgage. Maybe they didn’t realise how cheap it could be?

A good starting point would be a decreasing term policy covering life or earlier critical illness to ensure the mortgage is paid off.

Next we need to look at income protection. James needs a dual deferred period policy, as his NHS scheme will pay six months’ full pay and six months’ half pay.

The maximum benefit based on 80% of net earnings is £1,856 per month, made up of £556 after 26 weeks and £1,301 payable after 52 weeks.

Sophie is a bit different. She is on four months’ full pay and four months’ half pay. This could be a problem as Zurich does not have a four months’ deferred policy. But worry not — under the special features for doctors and surgeons, regardless of how long the NHS will pay them for, if they select a dual deferred period of 26 weeks and 52 weeks, we will start paying a claim when the NHS scheme stops paying them, even if this is before 26 weeks or 52 weeks.

So we need a d26 and d52 policy for Sophie with the maximum benefit of £1,494 per month, split by £419 after 26 weeks and £1,075 payable after 52 weeks.

Bearing in mind that they like skiing, we will include total permanent disability and fracture cover along with waiver of premium to ensure premiums are paid if they are not working. The total cost is £88.51 each month – this is based on a Zurich Personal Protection policy quote from February 2019.
No inheritance tax plan can have painful consequences for clients’ heirs, but there are a number of strategies to reduce their liability, writes Justin Naughton

One of my favourite quotes is from MP Roy Jenkins, who in 1986 uttered: ‘Inheritance tax is, broadly speaking, a voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue.’

Another is from my seven-year-old daughter who, when explaining IHT to her, asked (believe it or not): ‘Why worry about it? You’re dead!’ Why worry? The Inland Revenue has a significant income stream in the shape of the so-called ‘death tax’: it’s on course to bring in more than £5.4 billion in 2020/21 (receipts were £5.2 billion in 2017/18).

With the nil rate band remaining static since 2009/10, and the residence nil rate band still tapering (as well as it only being possible to pass to direct descendants), IHT continues to be an extremely important area for you to review with your clients.

PROTECTION
One strategy to reduce this liability is the discounted gift trust, creating an immediate removal of IHT at the outset. Although useful, the biggest drawback is giving up access to capital and, if in poor health, the discount might not be as significant as hoped.

There are also drawbacks to using protection as a solution, but the benefits outweigh them.

One I often hear is that most clients ‘get rated’ and no longer want to proceed. These clients are precisely those who should be taking this seriously; as any underwriter will tell you, there is a greater chance they will die early (plus some insurers take a pragmatic approach to underwriting and we are seeing more standard decisions).

The other stumbling block is getting hold of a GP report and completing the medical. Forward-thinking insurers are moving to electronic GPRs, while clients have myriad options for a medical, including popping down to Harley Street.

The simplest way of covering this liability is to use a guaranteed whole-of-life plan. The clue is in the name: it’s a guaranteed contract that, should your clients pay their premiums until death, you will receive the sum assured.

As one of our wealth specialists, Andy Woollon, has mentioned in previous articles, treating this as a separate asset class is something to consider. With this approach, clients’ capacity for loss is created at outset – they know what the premium is and the return. The only unknown is the date of death.

NEW OPPORTUNITIES
This area can also open up new opportunities for your business. I visited a colleague in sunny Scotland recently and together we saw a number of advisers. We were discussing younger clients and the areas that may be of concern to them now and in the future.

We agreed that speaking to them about their potential inheritance and how their parents were planning for it – and specifically how they believed the 40% charge would be met – was extremely important. Doing so, particularly with couples, opens up the potential for two new clients, as both sets of parents may have a liability.

Luxury watch manufacturer Patek Philippe has a wonderful marketing slogan: ‘You never actually own a Patek Philippe. You merely look after it for the next generation.’ Should your clients be lucky enough to own one, a whole-of-life plan will provide the liquidity for your clients’ heirs so they won’t need to sell these valuable assets.

Justin Naughton is a whole of life specialist at Zurich
SMART NUMBERS

ZURICH PAYS 96% OF PROTECTION CLAIMS IN 2018

Zurich paid 96% of all retail protection claims in 2018, with payments of more than £233 million benefiting thousands of customers and their families.

**LIFE**

<table>
<thead>
<tr>
<th>Claims</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,798</td>
<td>£134.6 million</td>
</tr>
</tbody>
</table>

- Largest claim: £1.2 million
- Average: £51,000

Just six claims were declined because of non-disclosure of important medical information when customers applied for cover – for example a history of smoking or alcohol misuse.

**CRITICAL ILLNESS**

<table>
<thead>
<tr>
<th>Claims</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>912</td>
<td>£90.6 million</td>
</tr>
</tbody>
</table>

- Largest claim: £2.1 million
- Average: £83,000

91% of claims accepted

- 9% declined where illnesses were not covered by policies or for non-disclosure of medical information at application stage
- 9% declined where illnesses were not covered by policies or for non-disclosure of medical information at application stage

**REASON FOR CLAIMS**

- Breast cancer: 23%
- Heart attack: 13%
- Prostate cancer: 6%
- Other: 50%

Zurich paid more than £600,000 in claims for children, with cancer being the most common cause.

**CASE STUDY: GLENN**

Life is unpredictable. Glenn, a father of two and co-owner of his family’s bakery, was diagnosed with cancer in January 2019. Thankfully, Glenn had taken out a critical illness policy which meant he could focus on the most important thing: getting better. Watch our short video on Glenn at [www.zurichintermediary.co.uk/en-gb/protection/critical-illness-case-study](http://www.zurichintermediary.co.uk/en-gb/protection/critical-illness-case-study)
INCOME PROTECTION

**AVERAGE**

451 CLAIMS IN PAYMENT EACH MONTH

**TOTAL**

£8.2 MILLION

95% of new claims paid

5% recovered from their illness within their policy’s deferred period

Many customers in this situation benefit from support and treatment available from Zurich’s in-house rehabilitation team. This includes quick access to counselling or physiotherapy which can be key to a quick recovery and supporting customers back to health.

**REASON FOR CLAIMS**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mental illness, including anxiety, stress or depression</td>
<td>28%</td>
</tr>
<tr>
<td>Cancer</td>
<td>23%</td>
</tr>
<tr>
<td>Musculoskeletal disorders</td>
<td>10%</td>
</tr>
<tr>
<td>Chronic fatigue syndrome</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>32%</td>
</tr>
</tbody>
</table>

PETER HAMILTON  
Head of retail protection, Zurich UK:

“Our consistently high claims paid figures help to reinforce the message that we’re here to support our customers when they need it. As well as flexible products and extra support services, we’re committed to providing first class service with claims handled sensitively and efficiently. When people make a claim, we know that they’re usually facing difficult and life changing situations and we’re here to support them to make the whole process as smooth as possible.”
Advisers are divided on the issue of centralised retirement propositions. Jennifer Hill hears a range of views.

Certified wealth planner Alistair Creevy initiated his centralised retirement proposition (CRP) when running Glasgow-based Independent Advisers Scotland (IAS) in 2014. It has been fully integrated into Succession Wealth, which bought IAS last year.

“I’m very surprised that any adviser doesn’t have a CRP,” he says. “If advisers don’t have one then I’m afraid they should not be in the market for retirement advice.”

His CRP is built on three distinct age groups – 45 and over, 55 and over and 65 and over.

“It’s not too prescriptive as the different age groups can have similar requirements,” he says. “The main aim is to highlight to clients that they are not alone – most clients have the same concerns.

“By having a CRP clients can see that we’re familiar with retirement requirements, which makes them more comfortable in dealing with us. I don’t understand any adviser who doesn’t have a CRP; it’s essential for a long-term relationship.”

LEBC Group started its governed portfolios in 2010 as a way to help manage the risks of capped drawdown. It fully implemented its CRP after 2015 when pension freedoms opened up flexible access to pensions for all.

“This is essential to enable a consistent approach to be taken when advising clients in drawdown,” said Kay Ingram, its director of public policy.

“While each person’s circumstances will dictate the pace and pattern of income withdrawals, advisers need to be given the tools to navigate clients through retirement safely to avoid unexpected shortfalls in income.

“We use cash flow tools to help inform the process so that clients and advisers can work collaboratively in determining the optimum withdrawal pattern.

“Our centralised investment process combined with the personalised review brings efficiencies and discipline into management of drawdown, which helps keep clients’ plans on track at a reasonable cost.”

In previous issues of Advice Matters, we have outlined the bucket approach to managing income withdrawals in retirement and discretionary fund manager (DFM) Brooks Macdonald is following suit.

It has launched a service that aims to address the conflicting risks that investors face when approaching retirement and drawing an income from their investments, namely sequencing risk and inflation.

“This is achieved by creating two separate and distinct portfolios that cater for different time horizons,” says John Wallace, its head of regional offices.

The DFM works with clients and advisers to ascertain when income withdrawals will start and how much is expected to be taken.

The first portfolio is invested in assets that target these exact income requirements with the intention being that this portfolio will be exhausted in the first seven years. The second portfolio, which will subsequently be used for income requirements, is diversified and set at a client’s highest acceptable risk tolerance.
Kent-based Pentins is a small business with two advisers and 200 clients, around 15% of whom are in drawdown. It has a centralised investment proposition (CIP), but has not yet adopted a CRP.

“We are holistic planners and treat retirement the same as any other planning work really, but I have looked at a couple of investment propositions specific to supporting drawdown,” says founder Samantha Secomb.

The adviser predominantly uses low-cost passive funds, which offer no downside protection in falling markets. “This is a concern if clients are regularly drawing on the capital value because deeply depressed prices mean lots of units have to be sold to provide the required drawdown,” says Sam.

Up to now, the adviser has stuck with passive investments with an overweight cash position for those in drawdown to allow for taking a break of up to one year from withdrawals to protect against market downturns.

Gloucestershire’s Ashlea Financial Planning has been managing drawdown pots for clients for more than a decade without a CRP, but it is an area currently under consideration.

“If you have discussed the income requirements with a client and have calculated a sum which is sustainable there is no real need to change the investment strategy,” says director Diane Weitz.

“I tend to set up portfolios where natural income forms a part as dividends grow each year and can provide a buffer in turbulent markets.

“Clients do not fit into a box for a centralised solution – it really is individual – but I do realise that if we are to create efficiencies in the business some form of centralised proposition would be sensible for certain tranches of our client bank. It’s an area we will explore as a firm over the next six months or so and then make a decision.”

Tom Munro, director of his eponymous Falkirk-based firm, likens CRPs to CIPs, both of which are ‘similar to running through treacle’.

“Considering there is no one size fits all approach, I prefer to keep things simple and cost effective,” he says. “From a business perspective running a CRP requires additional, time-consuming in-house resources with all the associated costs of these, further exacerbated by MiFID II necessities,” he says.

“These include continuous suitability report writing prior to each client’s assessment of any investment proposal, all repeated for pre and post switching recommendations.

“Throw in recently increased research outlays and it all adds up to even higher ongoing expenses, as well as a marked extra administrative burden. For me, it’s just not worth the hassle.”

Tom believes clients in the decumulation phase most value a well-executed financial plan, fully supported by meticulous cash flow modelling, tax and succession planning.

Perth-based GS Group does not have a CRP and at this time has no intention of instigating one.

“Our belief is that our current processes and planning are robust enough to cater for the numerous issues a client faces both pre- and post-retirement,” says financial consultant Keith Herd.

“Whilst it could be argued that an ad hoc system may not deliver a consistent approach for clients, our experience demonstrates that each client has to be treated individually as their aspirations prior to retirement and their demands post retirement can be significantly different. We believe we can provide a bespoke and robust service to our clients.”

The adviser usually conducts client reviews twice a year at which the importance of risk and attitude to risk are discussed.

“We use a cash flow modelling tool to demonstrate to clients what their financial future may look like and clearly this can be adapted to cater for changing circumstances,” adds Keith.
When company director Doug Brown, 69, from Chichester, and his late business partner sought pension advice, they did not envisage the adviser becoming part of their lives...

I STARTED A BUSINESS IN THE IT SECTOR 31 years ago with my business partner Moira Pollard. We came from the same employer before that and had a pension fund that we transferred using that company’s existing pension adviser.

AS A START-UP we didn’t have much money, so didn’t pay much into the pension, but our business became very successful and is still going today – managing the IT infrastructure for hedge funds and lawyers in the City of London.

THE PENSION ASSETS WEREN’T PERFORMING very well. The company was beginning to generate an income for us, but the pension fund wasn’t giving us the growth that the market had experienced.

THE ADVISORY FIRM KEPT CHANGING OUR ADVISER and every time we got a new one we were switched into different funds. It didn’t instil us with confidence. It was working for them; it wasn’t working for us.

MATTIOI WOODS FEATURED IN A PRESS ARTICLE as a rising star in the wealth management sector. We met Doug and explained our woes to him. He was a breath of fresh air. Personality was the key – we clicked with him straight away.

WE WERE OLD IN THE IT SECTOR, having started the company in our late 30s and early 40s. Doug was in the same age group as our staff and that reassured us he’d be around for a while.

HE WAS VERY PEDANTIC in going through reams of paperwork to establish the composition of our existing investments and confirm the previous advisory firm hadn’t mismanaged them.

IN THOSE DAYS I WAS VERY SCEPTICAL of investment advice, but Doug has proven he knows a lot more than me about investment. We quickly adopted the approach of ‘what he says goes’.

HE’S KEPT US ABREAST of legislative changes, particularly the cap in pension savings [lifetime allowance], and has given us the confidence that we don’t need to worry.

WHEN WE STARTED THE COMPANY Moira was already diagnosed with MS and she’d had breast cancer. We didn’t know how quickly her illness would progress. She passed away last September. Doug is executor of her will and has done an amazing job.

HE TOOK THE TIME TO LEARN ABOUT US as individuals and has shown great ability in handling our individual situations. Moira was born at the end of the war and abandoned in a hospital. She was married but had no children or other relatives. She had plenty of good friends though – Doug among them. Her needs were based around her health and rapidly increasing care costs. I have two sons and six grandchildren and want to ensure my family has some financial security.

DOUG HAS BEEN VERY SENSITIVE to Moira’s needs. She insisted on dying at home – that’s a promise I made to her. It was very expensive, but it didn’t matter. Doug made sure the money was there at the drop of a hat. His caring approach sets him apart from any other adviser we’ve known.
In winning business, simplicity is key for Doug Ryan, a wealth management director at Mattioli Woods in Leicester

TWO IT CONSULTANCY BUSINESS OWNERS contacted us in 2006 after reading about our company in a press article. They were looking for an advisory firm to run their pension assets better than they had been in the past.

WE WERE ONE OF THREE COMPANIES that they asked to tender for the business. Their pensions were held in a variation of a SSAS [small self administered scheme]. It was incredibly convoluted and had a very complex fee structure that made no sense to man nor beast.

MY PROPOSITION TO THEM was that I wanted to do things a great deal simpler. I suggested setting up a multi-member SIPP [self-invested personal pension] with a clear and straightforward fee structure. They would both be trustees of the pension fund alongside us, enabling them to retain ownership of the pension. Our approach seemed to create real traction with them.

I WAS YOUNG AT THE TIME – I’d just turned 30, but they were never prejudiced. As good business people, they focused on the solution. That’s undoubtedly why they picked me in the first place.

THE NEXT STEP WAS TO DECIDE upon a diversified investment strategy. Unfortunate timing – coming just before the credit crunch – meant their investments were quite severely affected in the next few years. I got myself straight in front of them to ensure they knew what was going on. That helped to give them confidence. Their investments have since recovered substantially.

OUR RELATIONSHIP DEVELOPED OVER TIME and evolved from a purely professional to a personal one. We met every six months and spoke on the phone intermittently. We often discussed our personal lives and how they were going. It was clear to me that they were very nice people.

EVERY TIME WE MET WE DISCUSSED OTHER AREAS of their personal finances. Since the initial work on their corporate pension assets, our remit has extended to personal investments and consolidation of other investment strategies. Our overriding aim was to take care of them.

MOIRA SADLY PASSED AWAY LAST YEAR, but I had immense respect for her as a businesswoman. I always appreciated it when she imparted a bit of her knowledge. She provided me with some great guidance in terms of my career.

I HAVE SEEN YOUNG PEOPLE RISING through the ranks of their business and I have been interested to learn how they advanced their careers. A number of these people have subsequently bought most of the share capital in the business.

I HAVE A REALLY CLOSE FRIENDSHIP with Doug. We have an awful lot of trust in each other.

Having spent his career working in IT in the City, Doug Brown loves nothing more than spending time on his woodland – something that was made possible by Mattioli Woods’s Doug Ryan

I’M STILL A DIRECTOR of the IT business – I retained 5% and now have Moira’s 5% – but look on every day spent in the office as time I could be out in my woodland or on my boat. My wife and I have never been big spenders, but Doug insists on us spending more. We have a boat at Chichester harbour and bought 12 acres of woodland in the South Downs a few years ago. Forestry is my passion – I’ve been going on courses and making furniture. It gets me outside and keeps me fit.

DOUG’S ADVICE IS COMING OUT in spades. But he’s more than an adviser at this stage – he’s a very close friend. We never expected a pension adviser to become part of our lives.
Having started Worcestershire-based Laurent Wealth Management three months ago, it’s all work and no play for Keith Laurent, as he tells his Zurich business account manager Jon Brookes.

Firstly, tell me a bit about your company...
My company commenced in March 2019, so is effectively brand new! I worked for a firm for 14 years and when they decided they wanted to back away from financial services to plan their retirement, I agreed to acquire the client bank and set up on my own. I have one support staff member but have intentions to add a paraplanner within the next 18 months. The firm has a healthy mix of advisory areas with significant responsibility for a number of group personal pensions. I don’t advise on pension transfers or mortgages and refer enquiries in these areas on to others.

What made you want to be a financial adviser?
I didn’t – I wanted to be an airline pilot!

What do you enjoy most about your job?
Meeting people and helping them on their financial journey. I have dozens of clients, individuals and corporates, who I have advised for decades. These people have become friends as well as clients over time and that is something I am always grateful for.

And the least?
Unsurprisingly, the compliance/paperwork trail, as unavoidable as it is.

What personality traits make you well suited to the profession?
I guess it would be being personable. My passion, humour and confidence in what I do and what I believe in is something I am often told comes across strongly with clients. I also have the ability to simplify complex financial issues that are ordinarily heavy in jargon, so the client ‘gets it’, which makes client meetings less top heavy and more enjoyable for them, and me.
WHAT IS THE MOST REWARDING THING ABOUT YOUR JOB?
Receiving thanks and appreciation from satisfied, happy clients. Being financially rewarded for my time and expertise is one thing, but the appreciation shown by a client is the icing on the cake.

HOW WOULD YOU DESCRIBE YOUR RELATIONSHIP WITH ZURICH?
Very good thankfully, more so since I began using their platform five years ago. The representatives who look after my firm are reliable, knowledgeable and perhaps as equally important, nice people who I am happy to share my time with.

WHAT ARE YOU GLUED TO ON TV?
Having been addicted to Breaking Bad in the past, I am eagerly awaiting the next series of Better Call Saul to air.

WHAT DO YOU DREAM OF DRIVING?
I’d really love a Tesla Model X but that is a long way off happening unfortunately.

OUTSIDE WORK, WHAT ARE YOUR PASSIONS?
I love flying and aeroplanes and I’ve been taking flying lessons to obtain my private pilot’s licence in the coming years. I love music and still play guitar in a rock band. My other passion is following my beleaguered football team Birmingham City. On the latter, I have worked as their on-pitch stadium announcer and live match commentator at different times over the past 20 years, so the club has played quite a big role in my life. I’ve been privileged to meet and get to know many people through that connection.

WHAT MOTTO DO YOU CHOOSE TO LIVE BY?
“Treat others as you would wish to be treated yourself.” Extending this to our industry, it could be slightly modified to read: “Advise others as you would wish to be advised yourself.”

HOW WOULD YOU DESCRIBE YOUR WORK/LIFE BALANCE?
Chaotic. It’s a brand new business and since day one I have worked far more than I’ve played due to the pressures a new business venture brings. The gym membership is certainly wasted money at the moment.

HOW ARE YOU LOOKING TO GROW YOUR BUSINESS?
My client bank is almost exclusively borne from referrals and recommendations, yet I have never asked for a referral in my career. My work is appreciated by many and I am lucky to see people pass on my name to others. I would like to think that the organic referral process will continue to work well for me in the future and so marketing is not something I am focussed on right now.

WHAT’S YOUR FAVOURITE PLACE IN THE WORLD TO VISIT AND WHY?
Islamorada in the Florida Keys. I love the people, the food, the vibe.

WHAT DOES THE FUTURE LOOK LIKE FOR OUR PROFESSION?
There are many uncertainties, but I truly believe a large proportion of our society will always want and need a financial adviser to help them. People buy people; most IFAs are excellent at what we do. I’ve lived through several “the end is nigh” times since I joined the industry more than 30 years ago, RDR perhaps being the most recent “crisis”, yet we are still here and continue to provide a critical service to people who need a personal financial guide to hold their hand. I do not believe that will change, now or in 20 years.

JON BROOKES
ZURICH BUSINESS ACCOUNT MANAGER
The rapid growth of buy-to-let has seen the number of private landlords reach almost two million, owning one in 10 homes in the UK. Against this backdrop, however, the government has been making life more expensive for landlords, taxing them at every step from mortgage to purchase and ongoing letting through to sale. As a result, advisers need to be wary of potential tax traps when managing the affairs of clients with second homes.

**REDUCTION IN TAX RELIEF**

Changes in the taxation of buy-to-let properties could leave clients facing higher tax bills.

Under reforms introduced in April 2017, tax relief on residential property finance costs is being restricted from a landlord’s highest marginal tax rate to the basic rate of tax over the next four years. This could increase a landlord’s property profits (their taxable property income) significantly, meaning that, apart from paying increased income tax, many will be pushed into the higher rate tax band and various tax traps.

The higher rate threshold is £50,000 for clients in England and Wales, and £43,431 for Scottish clients this tax year.

Take, for example, an English landlord earning £45,000 a year, plus receiving £12,000 rental income and paying £2,000 in expenses plus £6,000 mortgage interest.

As the chart shows, the calculation of the property profits/taxable income and income tax could change significantly.

In this instance, not only will a client’s annual income tax liability have increased by £1,200 by 2020/21 (the difference between higher and basic rate tax relief), but because of the change in the calculation basis their taxable property income will have soared by 150% to £10,000.

While some landlords may consider moving their portfolio into a limited company to...
Andy Woollon is a wealth specialist at Zurich.

sidestep this and some of the other tax changes, this can be a minefield fraught with alternative taxes and costs, and few appear to have done so with existing properties.

CHILD BENEFIT TAX TRAP

As their taxable income increases from the buy-to-let tax changes, clients could also fall into the child benefit tax trap.

Using the above example again, if the client was married with three kids claiming child benefit of £2,501 a year, the high income child benefit tax charge would now apply as their total taxable income would be £55,000, meaning they would lose £1,250 in child benefit (1% for each £100 in excess of £50,000), making a total tax increase of £2,450 a year from 2020/21.

Do not forget the personal allowance and tapered pensions annual allowance tax traps could apply at higher income levels. To avoid this, consider tax planning opportunities including transferring the property and rental income to a spouse/civil partner or making a personal pension contribution.

IHT INCREASES

With so many other tax changes afoot, landlords could have overlooked the inheritance tax (IHT) liability they will be building up, which is unlikely to be covered by the new residence nil rate band (unless the property was previously a main residence).

Property prices continue to rise: the average UK house price in April 2019 was £236,619 according to the Halifax, some 5% higher than a year ago and representing average growth of 4.3% every year in the decade since the 2009 low point following the financial crisis. This trend continues to stoke IHT liabilities for landlords.

Advisers have an opportunity to discuss the possible use of a guaranteed whole-of-life policy written in trust to cover the IHT liability or, alternatively, convertible term assurance, which can provide the cover they need now at a price they can afford, but with the flexibility to convert to a guaranteed whole-of-life policy in future with no further medical evidence.

POTENTIALLY EXEMPT TRANSFERS

To avoid IHT, some landlords may have made outright gifts of second properties to adult children. While taking care not to give rise to a gift with reservation of benefit or trigger pre-owned assets tax, this is a potentially exempt transfer (PET) for IHT purposes.

Should they die within seven years, the failed PET will use up the donor’s nil rate band first with any excess gift value taxed on the beneficiary.

The traditional use of a gift inter-vivos policy (or a series of level term assurances) can cover the beneficiary’s potential liability, but it is the loss of the nil rate band to the donor’s estate (increasing IHT by up to £130,000) that is often overlooked. This can be simply covered by a seven-year term assurance written in trust.

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**RAPS: KNOW**

**EXAMPLE BUY-TO-LET PROPERTY PROFITS/TAXABLE INCOME CALCULATION**

<table>
<thead>
<tr>
<th>Tax year</th>
<th>Rental income</th>
<th>Expenses</th>
<th>Mortgage interest</th>
<th>Property profits</th>
<th>Tax @40%</th>
<th>Basic rate tax relief reducer</th>
<th>Overall tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/17</td>
<td>£12,000</td>
<td>£2,000</td>
<td>£6,000</td>
<td>£4,000</td>
<td>£1,600</td>
<td>-</td>
<td>£1,600</td>
</tr>
<tr>
<td>2017/18</td>
<td>£12,000</td>
<td>£2,000</td>
<td>(£6k*75%)</td>
<td>£5,500</td>
<td>£2,200</td>
<td>(£6k*25%)*20%</td>
<td>£1,900</td>
</tr>
<tr>
<td>2018/19</td>
<td>£12,000</td>
<td>£2,000</td>
<td>(£6k*50%)</td>
<td>£7,000</td>
<td>£2,800</td>
<td>(£6k*50%)*20%</td>
<td>£2,200</td>
</tr>
<tr>
<td>2019/20</td>
<td>£12,000</td>
<td>£2,000</td>
<td>(£6k*25%)</td>
<td>£8,500</td>
<td>£3,400</td>
<td>(£6k*75%)*20%</td>
<td>£2,500</td>
</tr>
<tr>
<td>2020/21</td>
<td>£12,000</td>
<td>£2,000</td>
<td>0</td>
<td>£10,000</td>
<td>£4,000</td>
<td>£6k*20%</td>
<td>£2,800</td>
</tr>
</tbody>
</table>

Source: Zurich UK

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INTERESTED IN LEARNING MORE?

Read more from Andy on the tricky world of property tax by visiting www.zurichintermediary.co.uk/en-gb/have-you-talked-about/articles/2019/05/landlord-clients-how-to-tackle-property-tax

Andy Woollon is a wealth specialist at Zurich
Since the global financial crisis, unconventional monetary policy has pushed yields inexorably lower. This means that investors seeking a better rate of return must now either aggressively pursue capital appreciation (an approach which has had limited success over the last 20 years) or evolve their investment process.

Our process starts with, and is focused on, security selection. We look for securities with resilient yields and the potential for capital stability or appreciation. The yield of these individual securities provides the driving force behind our total return.

We then ensure diversification of the portfolio by owning a mix of securities based on their behaviours. We believe traditional diversification ideas, which rely on whether an asset is a bond or an equity, can prove naïve.

Finally, we hedge the portfolio when the risk environment appears to be dangerous. Just as an engineer cares about the nuts and bolts, we care about bottom-up security selection.

We believe a process that starts with, and is focused on, resilient income-generating security selection is the best way to generate defensive total returns. This is important not just for the current climate, where yield is harder to find and aggressive capital appreciation tactics aren’t likely to work, but during any time when investors are looking for a more reliable source of capital. This is why we see income like a dependable engine, able to drive returns through the ups and downs of the investment cycle.

We see income as a more dependable source of return generation than capital appreciation. Over the long term, income has been the most important component of total return. This is true across asset classes.

Looking at individual securities, we find that higher dividend stocks produce better returns than lower ones, but the pattern is not uniform. Given our desire to achieve a balance between returns, volatility and drawdown, the best mix sits with yields that are higher than average but not the highest.

We believe a process that starts with, and is focused on, resilient income-generating security selection is the best way to generate defensive total returns. This is important not just for the current climate, where yield is harder to find and aggressive capital appreciation tactics aren’t likely to work, but during any time when investors are looking for a more reliable source of capital. This is why we see income like a dependable engine, able to drive returns through the ups and downs of the investment cycle.

**INCOME:** THE ENGINE THAT DRIVES RETURNS

Over the long term and across asset classes, income has proven to be the most important, and dependable, component of total returns, writes John Stopford

John Stopford is head of multi asset income at Investec Asset Management and co-manager of the Investec Diversified Income fund.
Customer financial wellbeing is at the core of the financial advice market. Yet research shows that currently 47% of adults in the UK do not feel confident making decisions about financial products. This presents a serious challenge for advisers, as well as regulators, government and guidance bodies.

We believe improving the UK’s financial wellbeing is only possible through collective action. This is why the recently launched Money and Pensions Service (incorporating the Money Advice Service, Pension Wise and The Pensions Advisory Service) is calling on professional advisers to share their views on what is needed to improve financial wellbeing, based on their experience of working closely with customers.

The Money and Pensions Service is a joined-up service for everything from debt help to money and pensions guidance. Uniquely, the organisation will focus on improving financial wellbeing throughout people’s lifetimes, equipping, empowering and enabling individuals to make informed financial decisions with confidence. We want to work in partnership with the industry to deliver financial help to consumers.

To facilitate this work, we are undertaking a UK-wide programme of listening events that run until the end of June, and we are also welcoming written submissions. For advisers, a key area of relevance calls for reflections on the current regulatory boundary between guidance and advice, and what experience customers have of this in practice. Your views will inform the development of our national strategy for money and pensions, to be released in the autumn.

It is crucial that anyone who has an interest in improving people’s ability to manage their money and pensions can contribute to the conversation about how to improve financial wellbeing. Together, we can help to build people’s confidence in making informed financial decisions.

Further details regarding the listening events can be found at maps.org.uk/listening-events/

Sarah Porretta is director of strategy and insights at the Money and Pensions Service
If you would like to contribute to a future issue of Advice Matters, or would like to receive a printed or digital version of this publication, please email zurich.intermediary@uk.zurich.com