THE UKSA NEWSLETTER

UKSA
UK Shareholders' Association

ISSUE 10

Chairman's message

Since the last newsletter I have had a number of eclectic investment-related thoughts and now want to mention some of them.

Listening to an FT podcast the other day about Luna cryptocurrency and its failure and that lots of so-called lunatics, those invested in it, especially retail investors, have lost money, it made me reconsider the age-old adage "buy low, sell high". The retail investors apparently thought they should buy the cryptocurrency when the value dropped on the basis that it is better to buy when the value is low as there is a better chance of experiencing subsequent gains. However, they seem to have forgotten some other investment guidance that is known, such as do some homework, which could include looking up recent market research, on what you are investing in to understand its fundamentals, drivers of its value, its risks and potential returns, a lot of which is covered in our associated website Honest Money Now. The lunatics seem to have missed the fact that, having bought low, the expected subsequent increases in value are not always a given. Deciding on an investment is a multifaceted decision and should not be confined to one binary piece of guidance "buy low, sell high". Nothing in the investment world is easy, as you will always have the risk of losing your money. It won't always be the case that your investments gain in value, as we all know from experience, but it pays to put in the hard work thinking.

On Monday 30th May I attended a meeting at the offices of Euroclear, the operators of the CREST system, in the City with Harry Braund (who organised the meeting and is currently chairman of UKSA London & South East/Croydon & Purley), Nick Steiner (one of our main members who organises company meetings) and Mohammed Amin (a member of our policy team) to discuss dematerialisation. We wanted to get across our views on what a future dematerialisation model in the UK should look like and how that could improve shareholder rights and corporate governance. We pointed out our main concerns:

- that CREST and dematerialisation so far (since CREST was introduced in 1996) seems to have benefited companies, their registrars and the intermediaries in the share-buying, selling and holding process (such as brokers) more than shareholders. Companies don't know who their

UKSA Chairman Charles Henderson

shareholders all are, as a lot are hidden behind nominee accounts;

- shareholders are missing out on their rights, mainly information and voting rights, such as receiving notices of general meetings and annual reports and financial statements, attending general meetings and voting;

- shareholders have no control over their shares when intermediaries lend them;

- shareholders are forgotten about in the application of pre-emption rights in share capital raises.

With the advances in technology we have seen in recent years and full dematerialisation being on the government's agenda, we see an opportunity to improve the lot of individual shareholders through better connectivity between them and their companies and changes in company law that require intermediaries to pass on shareholder rights to those people who have actually paid for the shares where the intermediaries have those rights as registered shareholders. We will continue to engage with Euroclear/CREST and the government on this.

Talking about voting, a recent news item about tennis players boycotting Wimbledon this year, as a result of the Russian and Belarusian player ban and the related follow-on decision by the Association of Tennis Professionals not to count the tournament towards tennis rankings, made me wonder whether companies' sponsorship of these boycotting players should be withdrawn. If shareholders felt strongly about this, they could pressure companies to withdraw such sponsorships under the banner of a social ESG issue? Just a thought.

I hope you all had a good Jubilee holiday (and avoided the flight travel chaos that seems to have hit us recently).

UKSA's policy work

Many UKSA members are unhappy with the way stockbrokers' nominee accounts restrict their right to receive company information, vote and attend AGMs. We have expressed concerns for several years and now intend to lobby vigorously on this, particularly because there are moves to complete the dematerialisation process by doing away with the certificated holdings that still exist.

As part of this, as mentioned by Charles above, four UKSA people (Chairman Charles Henderson, Nick Steiner, Harry Braund and Mohammed Amin) recently met with Euroclear to get a better understanding of the CREST system and to discuss the problems.

UKSA is writing a paper on the subject which will be published on our website and sent to regulators, government ministers, MPs and the media once finalised.

UKSA's policy team continues to provide high-level input into consultations by UK government and international bodies. The table of current and recent work can be found here.

Dean Buckner, UKSA's Policy Director

False advice advertising, Case 2 *by John Hunter*

Newsletter 9 included the first of a promised series of examples from IFAs. Here's the second.

US investment giant 'the Vanguard Group' has found that clients benefit from a maximum additional 3% of net returns per annum on their portfolios when they take advice from advisers following Vanguard's advice framework.

An English IFA selectively lifted this quotation in a way that could be misleading. Vanguard in the US had done its maths perfectly legitimately and included the calculation in a 28-page paper of September 2016 addressed to its in-house advisers, not to its clients. The paper suggested a framework for dividing a notional 3% return into five sections that might be attributed to five different advice characteristics. This was presented to advisers as a selling aid and (rightly) made no claim for research support for any of the numbers. It simply offered the maths as speculation to support a pitch for business.

The paper is supported by 17 reference papers, which is impressive, except that 14 were authored by the Vanguard Group and three by non-academic others. Presumably the English IFA who referred to it couldn't find anything better.

What other examples can you find? Send them in!

John Hunter, former Chairman of UKSA

UKSA on Twitter

The picture below shows a selection of recent tweets published by UKSA. Click the picture to go through to the UKSA Twitter page.

If you are already on Twitter, follow us at @UKShareholders

UKSA **UK Shareholders** @UKshareholders 2d
Like eating an elephant, audit reform will come in one bite at a time. UKSA signs up to pragmatism. But directors must remember they are responsible for corporate controls, not the auditors; auditors must remember they work for the owners, not the board. ft.com/content/831d58...

UKSA **UK Shareholders** @UKshareholders 2d
Pension planning can be complex. Projections are at best a guide and never a guarantee. Look at Honest Money Now honestmoneynow.co.uk/personal-pensi... to see what pension saving options we have. ft.com/content/451b0b...

UKSA **UK Shareholders** @UKshareholders
ESG reporting is hard. Much harder than financial reporting because ESG goes beyond reporting on company performance into areas where we are not experts. ft.com/content/40192e...

UKSA **UK Shareholders** @UKshareholders 2d
The impact of dematerialisation (nominee accounts) on shareholders has broken connectivity between shareholders and the companies they own to the detriment of both. Shareholder rights for users of nominee accounts is a problem UKSA plans to focus on over the coming year.

Government advice

There's a lot of it. Just don't expect anything that impacts the profits of the Financial Services Industry.

…and it's not 'advice' either. Government is only able to supply 'guidance'.

Government has always been aware of its responsibilities to help people in the financial jungle, but struggles with conflicting objectives. So you will find nothing in any government site on:

1 The compounding effect of quite small ad valorem percentage fund charges;

2 The conflict of interest inherent in 'tied' advice or the many other ways in which the open-mindedness of advisers can be corrupted by commercial arrangements.

These are two of the largest drags on building a savings pot.

Government financial guidance always manages to fragment. This is despite the 'Financial Guidance and Claims Act 2018', which enabled a 'single financial guidance body (SFGB)'. There are four names (or 'brands') involved.

Money & Pensions Service (MaPS)

This is the SFGB. It describes itself as 'an arm's-length body sponsored by the Department for Work and Pensions and also engages with HM Treasury on policy matters relating to financial capability and debt advice'. A typical civil service description of mind-numbing ambiguity. Doesn't mention the Financial Conduct Authority (FCA) towards which it has certain obligations under the Act. Does not provide guidance directly, but links to its declared 'MoneyHelper' brand.

MoneyHelper

Provides useful information under eight headings, one of which is 'Savings'. This hides a subsection entitled 'investments'. Clearly written but basically a whole stream of questions, many of them warnings, with often incomplete answers (e.g. think about...). If you are 'unsure about whether to invest your money or don't know where to start', you are directed to another site, 'InvestSmart'.

InvestSmart

Part of the FCA. Overlaps with MoneyHelper. Yet another essay on some, but not all, investment issues and would be incomprehensible to the beginner. E.g. 'Do you understand your risk profile?' Does not mention pensions.

This article is drawn from the HonestMoneyNow website, a unique and totally independent resource developed by John Hunter. To explore the site, click the image above.

Pension Wise

A grand name for what is a single service – a free one-hour session of telephone advice. We have no experience of it, but anything that's free can't be all bad. It appears to be under the MoneyHelper umbrella. However, the small print says: 'the providers of Pension Wise Guidance are MaPS and the Citizens Advice Bureaux'.

So, four different names, overlapping functions, confusion for the individual. Honest endeavour, but it is hard not to believe that their heart is not in it. Can it be because improving the money-management capabilities of ordinary people allows us to pass up the less helpful offers of the industry (see Fixed-Sum-Game)?

Northern Rock update

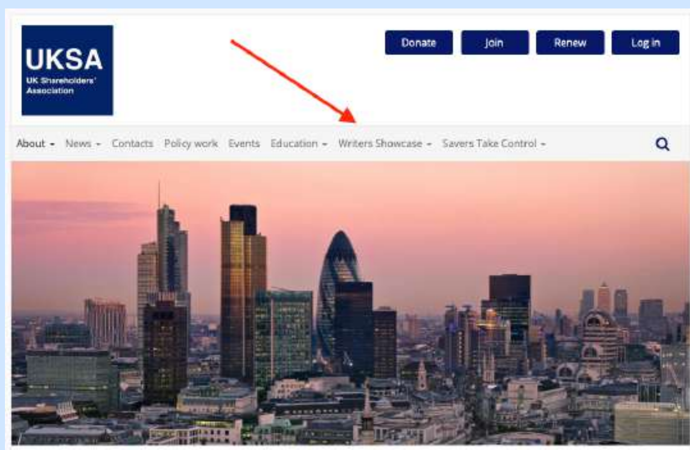
Thank you to the NRSAG members who responded to the last newsletter with ideas on how to restart the campaign. The committee remain committed but cannot do much without active support from the NRSAG community. The committee's favoured options in the quest for justice are: to appeal for an independent review by the Treasury Select Committee; proposals for gaining public support; engaging with a number of MPs; engaging with the media.

New in our Writers Showcase

We are adding to the page by Bill Brown, making it the go-to place for updates, reflections and insight into the Northern Rock campaign.

Also new is a report by Malcolm Howard on the UKSA company visit to BP plc.

If you would be interested in writing for UKSA and would like to have a dedicated page on our website, please let Helen Gibbons know on 01273 901806 or helen.gibbons@cantab.net.



Savers Take Control update *by Martin White*

Any Interactive Investor customers out there?

What do we think about the takeover by Abrdn, now that it has been completed? All customers will have had an e-mail to inform them of it.

I have to admit I have a little bit of trepidation. To me it is absolutely vital that there continue to be services out there which enable you to hold assets without anyone taking an annual percentage.

However, the industry would probably love it if that option didn't exist. I think we need to work to ensure it continues to be there. I don't trust Abrdn not to change things, in spite of assurances from II to the contrary.

Annual percentage charges are the financial sector's trick for extracting the wealth of its customers. Sadly, the reason they are so successful at this is that so many people just don't realise how large and damaging they are. 0.5% doesn't sound much, but research commissioned by the FCA not too long ago reported that people were shocked when told the amounts in £ rather than percentages.

According to an FT article in January 2022, II had around £55bn of client assets. Quoting from the article "Abrdn does see an opportunity to sell its wealth management services — such as financial advice and estate planning — to Interactive Investor's pool of 400,000 customers."

So let's do the maths. Obviously, the 400,000 is a rounded number, and it might be as low as 351,000 rounded to the nearest 100,000. And Wikipedia says they have 300,000 customers. £55bn divided by 400,000 gives average customer assets of £137,500, which I think we can deduce is probably an underestimate.

However, in practice, the 80:20 rule is often a useful guide to how things are distributed. It is quite possible that 80% of those assets, i.e. around £44bn, is owned by 80,000 customers, who would have an average of over £500,000.

In practice, I think that for self-select customers who stick to ETFs, investment trusts and individual shares, most of the companies providing SIPPs, ISAs and ordinary accounts have a capped annual charge. But if you have funds, there is no cap. So if you are with HL and with funds of this size, 0.45% of £500,000 is £5,000 * .45 = £2,250 per annum. And that's just the amount HL get. It's not the total costs you are suffering by any means. What I'm not absolutely certain about is whether, and if so through what mechanism, II make extra money if you have funds through them. Do they get commissions from the fund managers, perhaps?

Buying shares that have a big bid-offer spread, such as some AIM stocks

Like many people, I find myself with II having been with Selftrade. Something that Selftrade used to offer was a "direct access to dealer" service for buying and selling shares. Whilst the charge for online dealing was

Martin White, UKSA Director and Creator of Savers Take Control

something like £15, that for talking to the dealers was, I think, £40. However, what you could do was ask whether they could get the market makers to deal within the quoted spread. Sometimes that saved me way more than the £40 charge, and I would have been much more reluctant to invest in those stocks without that facility. Having spoken to II at length about this, they do not offer this service, and I'm wondering if customer pressure could get them to change their minds.

Do please share any thoughts by e-mailing stc@uksa.org.uk

Transparency Task Force rally for "better financial regulation"

Something for me to declare here. TTF asked me whether I would be prepared to be on their advisory board, and I have agreed. It's completely voluntary, of course, just as is being an UKSA director!

TTF have dug up masses of horrible stories of people's encounters with the financial sector and regulators of the financial sector. Not a fun read. And it's not all that easy for them to get attention because of all the conflicts of interest involved. But if you fancy a look, go to Transparency Task Force – Driving up levels of transparency in Financial Services, right around the world. You can find a story about the recent rally for better financial regulation at Taskforce to rally for better financial regulation - FTAdviser.com.

Fund providers recruiting "advisers"

Not long ago, I read that Adrdn were recruiting "advisers" to sell more product. And it appears that HL are planning the same – looking to "serve" people coming closer to retirement.

Something I was reminded about recently: back in 2002, some 10 years before the Kay Review, the Sandler Review into retail savings was published. He had been commissioned to conduct a study into retail savings.

The ultimate consequence of this was that commission payments to advisers by product providers were banned. This changed the landscape for the good, but other recommendations for charge-capped products were less successful. One of the recommendations that did not get taken up was in para 143 of the Summary report, that intermediaries should not describe themselves as "advisers" unless they met an independence condition. We can see a pattern here: parliament and the regulatory arm of government find it incredibly hard to make changes that increase the power of the consumer relative to the financial sector. For a colourful picture of the sales culture that exists within the financial sector, try googling "St James Place sales culture".

Anyway, back to Abrdn and HL – here come more "advisers"!

Editor's note: We are very grateful to Peter Wilson for this comprehensive account of his experience of managing money in retirement. Peter quite rightly asserts his copyright to this substantial body of work.

Managing money in retirement - should we self-manage our savings?

Around 2001 my wife and I, both then aged 65, realising that our standard of living depended upon income from savings, began to talk seriously about how we should manage our saving.

As a first step, we calculated the level of income we needed for a comfortable lifestyle with foreign travel. As is normal for our generation, my pensions were two-thirds of our joint total and only mine provided residual 50% rights for a partner. A quick review showed that after tax these were not adequate for the standard of living we wished for in retirement.

The easy choice, which salesmen – sorry, financial advisers – offered in 2001 was to put all our savings into a secure, guaranteed, worry-free joint life indexed-linked annuity to top up our pension income. We soon realised that this would produce less income than what we already had by way of interest and dividends on our savings, and at the end there would be no capital for the next generation.

We realised that we had to make our savings work for us and produce sustainable long-term income.

This article summarises the issues we faced in addressing how to manage our money to produce the income we felt that we needed in retirement. Our issues included what to do about inheritance, since we were both remarried and there were two step-families to consider. This is a point often overlooked in articles both about financial planning for retirement and for inheritance tax minimisation. Far too often you read about families at war over inheritance. Finally, the article summarises what happened to our savings and consequentially income over the decade 2011-2021. As a result, we now face new issues.

We took a decade, 2001-11, to firm up what we should do and to implement our decisions, and on occasion reverse them. Given that it took some time to set up the arrangements, the rest of this article looks at what did happen over the last 10 years, 2011-2021. For simplicity of presentation, all numbers are rounded/approximated and for privacy reasons actual sterling values are not used.

Financial planning issues at 65

The primary objective was to ensure a sustainable level of income to live comfortably, fund world travel and provide capital reserves for possible emergencies and ultimately for care costs. As to the latter, we assumed whilst we both were alive that one would look after the other and, if needed, with paid, but limited, help.

In doing so we found that there were quadruple needs/aspirations to consider.

Peter Wilson, Former Chairman of UKSA South-West and Midlands

Board note: Peter Wilson refers briefly to his contribution to UKSA, but we shouldn't let this issue pass without saying a bit more about that. "To enhance my knowledge I had joined UKSA" is all he says in his article, whilst his news release about Disabled Motoring UK does make modest reference to his UKSA achievements. **Peter's contributions to UKSA have been enormous and very important.** The South-West region has a strong tradition of meetings comprising lunch and talk, sometimes with guest speakers, sometimes without, as well as meetings with companies operating in the region. And it was Peter and his team who took the initiative to organise the first UKSA national residential conference in Banbury, which was a great success. It's not something that we can prove, of course, but it seems likely that the

They were:

1. **Lifetime income** - to ensure during our joint lifetimes that we had sufficient income, taking account of inflation, to enjoy a good lifestyle;

2. **Reserve funds** - to arrange reserve capital funds to cover possible emergencies and care costs which would be more likely for the sole survivor;

3. **Survivor needs** - to ensure that the survivor had a reasonable income to continue to live in comfort;

4. **Inheritance** - to provide equitable and fair inheritance for our two families.

Our pensions alone, as mentioned earlier, could not meet the level of income, so managing our savings for sustainable income, in real terms, became critical.

Lifetime income, with cover for inflation

Since tax-free income is what you are free to spend, we made three key decisions:

a) annually, we would each transfer the maximum allowed from existing investments to an individual personal ISA where income would be tax-free;

b) to invest directly in shares, as they offered good chances that over time they would keep up with inflation;

c) to keep costs down we would self-manage our investments.

a) ISAs

This was the easiest decision. Tax-free dividends in an ISA would be worth at least 25% more than income from investments not in an ISA and dividends not spent could be rolled up within the ISA.

b) Inflation

At the outset the fear was that pension rises might not keep pace with inflation and/or real wages and this fear contributed to the decision, since income was needed in the UK to invest in the UK. We had no personal knowledge of overseas markets. Nevertheless, prudence indicated that some money should be invested overseas in markets which were expected to grow faster than that of the UK.

c) Self-management

This decision to manage our own money was based on two factors.

The first factor was an awareness that a spread of 20 plus shares, chosen with some basic financial knowledge, could yield upwards of 4% p.a. with modest long-term risk, but with the risk of income variability. To enhance my knowledge, I had joined UKSA, a private shareholders association.

investment insights which Peter gained whilst contributing to the positive experiences of fellow members have helped him achieve the satisfactory results he describes in his article.

Now that we are out of the serious Covid19 restrictions on meetings, it is time we did more to help members meet up again. We will be writing to members directly on this, but in the meantime please do let us know whether you would like to be put in touch with other members wishing to meet up, either virtually or in person. Also let us know if you have the appetite for a short event at a hotel somewhere, where anyone from across the whole country could join in.

Cautiously, because of the risks involved, we assumed an average dividend rate over time on investments of 3% p.a.

The second factor in choosing self-management was the view that fund managers, on average, could only equal the FTSE 100 indices; some might do better, but equally others would fare worse. Otherwise there would be no average. In the main, regardless of their results, fund managers took a fee of 1% or more from your capital. Thus, a dividend yield of 4% before tax after fees could become effectively a return of 2.2% after tax (4% less 1% fees less 20% tax on the 4%). In the case of ISA managed funds, since there would be no tax on income, the yield after fees might be 3% pa.

Cautious self-management by avoiding fees offered the prospect of over a third more income.

Reserve funds

Generally, if care is needed, life expectancy can be limited and so we decided that reserve capital would have to be used to supplement income to meet the extra costs of care. However, physical disability can mean needing care without limiting life expectancy and so extra costs might arise whilst both were still alive. Our conclusions were that these reserve funds for emergencies and possible long-term needs (i.e. care) would:

i) go into managed funds, help achieve spread and so reduce risk;

ii) accumulate income within the funds;

iii) focus upon investing in international markets to enjoy their better growth prospects.

By 2011, pensions met about half of our after-tax income target. The outcome of our financial decisions was that by then our savings, to spread the risk, were invested in three ways:

70% directly invested in shares, in the hope of protecting against inflation and yielding sustainable income;

20% placed with fund managers, and mainly invested overseas;

10% in AIM shares for fun, with acceptance that we might lose the lot.

An important aspect of the 20% reserve was access. Overseas markets are volatile and may not be easily realisable when needed to cover two years' basic living costs for two or care for one, so enough was placed in index-linked savings certificates. At least they could not lose real value and would be accessible in the last resort.

Then, 10% allocated to AIM shares was a suggestion from my wife, who said: ‘You can risk it and we must accept you may lose it all.’

Survivor needs

We calculated that the surviving partner would still need an income of 80% of our joint income target. One less to support might save on food and

clothing costs but probably only marginally on everything else. A holiday for one often costs close to that for two. The natural assumption was that I would die first and my wife would inherit my residual pension rights, which would help meet her income target, but that would not be enough. The answer was to treat my modest SIPP as a reserve fund for the survivor to use and therefore we would not draw down income but let the income accumulate within it tax-free until needed by my widow. My wife's family has a history of longevity.

Inheritance

At the outset we had decided not to pool our financial resources. Thus, the savings would be invested separately, and income would not be in a joint account. In this way our assets could be separately accounted for and our respective children, with appropriate powers of attorney, would be able to look after their parent's money, income and capital, if circumstances required in the parent's final years.

Each willed, after bequests, if their death was the first, that that their entire estate should be placed in trust with the income to be used, as and when needed, to support the survivor, and ultimately to go to their respective children, i.e. there would be no cross-over of assets between families.

We then became aware the money could be placed in trusts outside the estate, but with access. This helped us decide what to do with reserve funds, primarily set aside to cover any care costs which may occur. Thus, these funds in trust bonds were invested overseas with managers to help provide spread. These reserves, if not used, would pass on automatically as IHT-free inheritance for the respective children. My wife's savings were greater and, assuming she would be the survivor, it made sense to place her money outside her estate, but with her having access to income and capital if needed. This was discussed and agreed with our respective children.

Twenty years after we first addressed the financial issues of retirement, we are both still alive at 85, so how has it worked out?

The results, 2011-2021

1. Investment income has exceeded expectations. Income from investments rose by around 90%, which was faster than full-time wages at around 44% and inflation at around 30%.

2. Yields averaged nearer 4%, one-third above the cautious expectation, and mainly tax-free. Over the years funds were moved into ISAs until, except for AIM investments, all directly held shares were held within ISAs. The tax saving is a valued addition to net income.

3. Capital growth was greater than inflation and real wage growth. In the 10 years to 2021, self-managed funds grew by over 100% after withdrawing income as needed. In the same decade, the FTSE 100 rose 31%, more or less in line with inflation. Interestingly, although our direct share investments were kept separate, and invested separately, they grew by value and net yield at similar rates.

4. Savings continued to be made because income targets were exceeded. Without becoming extravagant, we could not avoid failing to spend our income and so adding to our savings within the ISAs. Of course, lockdown limited our needs.

5. The reserve funds, which are mainly with managers, and set aside for long-term care, also grew, but only by 55%. As no income was withdrawn, this result showed up in stark contrast to the self-managed funds, which achieved 100% growth after income withdrawal. We attribute this reduced performance in the main to the fees taken from capital by managers – fees which are taken regardless of performance.

Editor's note: the total costs suffered in active funds are greater than just the explicit fees, which may also help explain Peter's experience here.

Outcomes

1. Income, in real terms, now significantly exceeds target and spending needs, so savings continue.

2. Managed funds are now large enough to top up income to cover care costs for two people for five years plus, and for the survivor for at least 10 years.

3. Both partners, when the other dies, will each, individually, have sufficient personal income to support themselves at the desired living standard and personal reserves to cover care without recourse to the estate of the deceased partner, i.e. the arrangements for each to leave money in trust for the lifetime of a partner.

4. The potential liability to IHT has risen significantly, although some action has been taken to reduce it.

5. The fun money invested in AIM produced little income but significant gains:

a) In my wife's case gains were transferred to her ISAs;

b) In my case, reinvested in the AIM, it has grown ahead of all other portfolios and now significantly reduces the IHT liability;

6. From time to time some of my not needed dividends go into a SIPP for a grandson.

Conclusions

In this article I have outlined the issues my wife and I faced when we retired and I have outlined what we did. It may not suit everyone, but I consider that in planning income for retirement:

1. **Inflation is perhaps the most serious factor to consider** if personal pensions are not indexed-linked. For the next generation of retirees with contribution-based pensions this will be the more so.

2. **Income after tax is what matters when planning for a comfortable retirement** and planning for that therefore must begin well before 65 in order to build up tax-free investments such as ISAs and VCTs, but consider the risk involved, and work to achieve spread.

3. **'Houses to let' may not be as good an investment as they look!** House prices doubled between 2011 and 2021, which in real terms was about a 50% gain, ahead of the FTSE 100 at around 30% growth. Managing property to rent takes up time, such that the maintenance and managing costs and tax on the net rents erode the real return. The probability is that they may be a doubtful source of adequate income in retirement, and a burden to look after in extreme old age. My father invested his savings in property to let and in retirement he progressively had to sell them to raise capital to live off.

4. **Holding UK shares as part of a portfolio is a good thing.** Cautious investment with spread in shares can maintain gross real values and hopefully income, but in April 2022, with inflation threatening to reach 9% p.a. for the current tax year, this view could be questioned. However, assessing all the income-producing alternatives with liquidity, quoted shares did their job.

5. **Self-management.** This proved to be the crucial final decision for us. By self-managing in retirement, in effect, I got paid, tax-free, for my time researching companies and markets. It became a profitable but not an obsessive and time-consuming hobby. Yes, I regret the sales I failed to make at the right time and the purchase opportunities I failed to spot, but then I was out and about enjoying life. Even so, I did, in a decade, double our capital and, I hope, safeguard our real long-term after-tax income in retirement*.

It is recognised that successful self-management of a portfolio of individual shares requires a combination of three key factors: aptitude, energy and a willingness to commit time to the task. For investors who are not sure of their levels of ability, a good starting point could be to try self-managing prior to retirement a small proportion of their savings, say in an ISA, to see if this is right for them. Important in this process is to place your savings whilst in employment where they attract tax-free income. Income saved soon compounds into significant sums. For example, a modest £2,880 a year paid into a self-managed pension fund, a SIPP, with dividends saved, can become about £90,000, and with modest capital gains in real value terms upwards of £160,000.

6. **Using managed funds.** Where they were used, the gain over the 10 years was, as previously mentioned, 55%. If, after fees were taken, the net yield is assumed at 2% p.a. over a decade, this accounted for 22% of the gain, leaving a capital gain of 33%, which was marginally ahead of inflation. Perhaps the choice of funds was poor, but it does seem that annual management fees charged on capital can be costly.

An alternative approach, which does not require the same levels of commitment as full self-management, could be to build a portfolio of low-cost sector or index tracker funds, where the fees would be significantly lower than a traditional managed fund, but so would be net income. I chose not to adopt this approach as I felt that self-management was right for us.

The next 10 (?) years

1. The plans worked in 2011-21 to the extent that:

a) Real income exceeded the income target, after tax, for 2021 by some 70%;

b) Capital growth was almost 70% ahead of the FTSE 100, but policies must now be updated taking account of changes in tax and the markets.

2. Furthermore, as we both approach over 86 years of age, there is a need for serious replanning for the next 10 years, taking account of:

a) increasing likelihood of care costs. One partner has serious mobility issues and the other's recent health problems could be a warning of the increasing probability of requiring intensive care;

b) the fact is that each has now sufficient personal income and reserve capital funds to support themselves, if in care. My wife will also benefit from partner's pension rights;

c) our children are approaching retirement ages and inheritance may be part of their planning for income in retirement;

d) our current wills provide for reciprocal lifetime trusts, which, when the time comes, can be costly to set up and run, especially, as explained at (b) above, there is no longer a need.

**The investment criteria set and sometimes ignored are a separate subject.*

UKSA member elected Trustee of Disability Motoring UK

Peter T Wilson, a retired Professor of Management, who has severe mobility issues, and now lives in Woodchester Valley Retirement Village, has been elected a Trustee of Disabled Motoring UK.

Commenting on his appointment Peter said he was keen to see better positioning of disabled parking places. So often they are located without regarding for the physical disabilities of the driver, leaving too far for them to walk to shops etc or carry goods back to their cars thus reducing the independence of disabled drivers.

Peter is a contributor to TPI (see his current article of Managing Money in Retirement),a former Director of UKSA, has run a national Conferences for UKSA, and for two decades promoted an active South west Region. Now experiencing physical limitations to his life style is seeking to help others faced with similar problems.

With over 18,000 supporters Disabled Motoring UK is the charity which supports disabled drivers, passengers and Blue Badge holders. It works with government and businesses across the UK in order to improve parking, refuelling especially of EV cars, and access provision for disabled people, so that they can get the goods and services that they need.

For further information contact 01508 489 449 info@disabledmotoring.org

Peter has asked us to include his latest news release here, which we are pleased to do.

Letter from John Walters

I am raising an issue that for inexplicable reasons has not received the attention that I fervently believe it deserves, as it concerns a huge and increasing proportion of our working population and for each of those individuals very considerable sums of money. Please forgive the lack of brevity, but I am keen to ensure you and those to whom you may choose to refer it have an adequate overview.

This is something that in some way shares features of the WASPI (Women Against State Pension Inequality) case in both subject and consequence, but has yet to receive anything like the same media coverage despite it having greater and more supportable legal and moral validity. This arises due to the change of taxation and the introduction of the lifetime allowance that has been introduced recently relative to the necessary duration of contracted pension arrangements. These changes are by any reasonable measure (other than the shorter-term interests of our Exchequer) wrong and would appear to be in contravention of the Human Rights Act 1998. Although the consequences of this will affect an increasing (albeit still relatively small) proportion of our non-public sector workers, the number is insufficient to date to have caused the outcry that is deserved. The cost to the working public will total many billions of pounds. The financial institutions and insurers are generally vocal and quite successful in their lobbying on introduced iniquities, but only when it is their interests that are compromised.

It is indefensible that the many affected will be incurring the heaviest of penalties for the sole reason of following the most clear and consistent advice of successive governments and at a time of life when it is impossible to reverse the measures undertaken up to the time the penalties were announced and arrangements then adjusted. Whilst the allowance may sound considerable (and to many of course it is), a pension fund that is the current allowable maximum of £1 million will, as you will know better than I, only produce a taxable income of around £20k for a retiring 60-year-old that incorporates the same safeguards as those in the public sector and many of the remaining final salary schemes – certainly not an income of exceptional privilege and unjustifiably a fraction of what is available to those in the overwhelming proportion of occupational schemes.

Relative to the WASPI case, it is my view that a legal challenge arising from what is in effect retrospective and recent legislation that governs long-term retirement provision that is necessary is large in scale and supportable in merit. The legal profession appears inexplicably disinterested, despite it inevitably being a concern that affects many within, including those among their partnership.

Is this a concern over which you or your associates may be able to either be able to offer some involvement or steer me in the direction of someone who may?

Editor's note: John summarises the issues from his perspective as follows:

The concern is the heavy taxation (55%) imposed on a fund that:

a) is so limited as to be inadequate to anyone other than an individual on a relatively modest income;

b) was established at a time when there was no suggestion that such a penal tax might apply (i.e. it is in practice retrospective); and

c) was established with the explicit and active encouragement of all relevant government departments over the working life of those attempting to provide adequately for themselves and for their families.

Those in defined benefit schemes, notably including all public sector workers, are relatively immune from these change.

So, a pension fund at the £1 million limit would produce an income (with the same characteristics applicable to a public-sector employee) of approximately £20k. This limit was originally index-linked but no longer is and is therefore in very significant real-term further decline. That is not a huge income and not remotely comparable with senior public-sector workers who have relatively insignificant restrictions.

The above cannot be fair or right. Furthermore, I can see no obvious reason why Article 14 of the 98 Act does not apply.

Given that a sizeable sector of our legal profession will increasingly be affected by the above, it would seem strange if they were not well suited to instituting a legal challenge.

I would suggest that my work history is not abnormal, but I seemingly made what only now transpires to be the error of following all prudent government recommendations throughout my working life. Remember, the contributions to pension arrangements were restricted so as to ensure there was a reasonable relationship between contributions and benefits and to restrict the tax benefits claimable on such provision at the time that provision was made. The penalty with which I am currently faced is approximately £500k despite my having ceased contributions before the restrictions and tax penalties were announced. My wife is in a similar situation. By any measure this is a large, previously non-existent penalty for following all advice and acting in a manner that all would agree to be nothing but prudent.

AGM

UKSA's AGM will be held on Monday 27 June 2022 at the RAF Club, from 3:30pm.

Don't forget, Associate Members can take advantage of **half-price full membership** of UKSA in the first year by clicking here.

The UKSA Board

12 June 2022