Financial Planning infobyte

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Males take a unisex haircut

Annuity rates are based on the life expectancy of the annuitant. The shorter the period the insurance company is likely to pay out for, the greater the amount it will be able to pay. Stands to reason!

Commercial reason, however, goes out of the window when the European Court is involved. The Court's 2011 decision will shortly require insurers to ignore that on average women live longer than men. Unisex annuities are on the way, and with effect from 21 December 2012 there is to be no distinction between men and women in the pricing of annuities.

Since the date of the Court ruling the gap between annuity rates for males and females has closed; the difference is now around 5%. But, for men considering drawing retirement benefits, either in the form of annuity or income drawdown, there could still be advantage in doing so before 21 December. Conversely, women might do better to wait until after that date.

Carry on snoring

It is well known that those with medical conditions which may affect life expectancy can obtain enhanced annuity rates. But a new angle was revealed by research undertaken by MGM Advantage, an annuity provider, which suggests that snoring should be regarded as a medical condition for this purpose.

An estimated 6 million people suffer from sleep apnoea, which causes interrupted breathing - in other words, heavy snoring - and is often associated with being overweight.

Disclosing that you are a heavy snorer when buying an annuity could provide help the underwriters who calculate annuity risk, and could make a difference of several thousand pounds a year to the annuitant.

Investing in wine

Can wine be a good investment? Is it possible to enjoy the option - a supreme taste experience or the realisation of a capital profit? The answer is – sometimes. But it could be argued that wine could more accurately be described as speculation than investment.

Some wine experts visit the Hospices de Beaune wine auction in Burgundy every year and sample the wines before they go into cask, in the expectation (realised more often than not) of selling half the tranche purchased a year later when the wine goes into bottle, and recoup the entire cost. But these are the insiders.

For people outside the trade, buying wine as an investment means selecting classified growths, paying for them to be warehoused securely at the optimum temperature, and insured, and hoping that the cork will not succumb to deterioration which would contaminate the product. Meanwhile, the "investment" produces no income.

Selling, probably by auction, will incur additional costs, possibly capital gains tax, and prices are subject not only to market factors but also changing taste and fashion in international markets.

The alternative is to invest through a wine fund and bear the management costs, though most such funds are small and several have gone bust over the years.

You could get lucky and, subject to hanging on for a sufficiently lengthy period of time, find yourself with an impressive increase in value, particularly if the holding is in a robust wine such as port. Indeed there is much to be said for laying down a box of port for a new child or grandchild.

For most people, however, it makes sense to buy the liquid gold for the purpose for which it is intended – drinking!

Cash flow forecasting

A financial planning tool which is proving to be of particular value to solicitors' clients is cash flow forecasting – that is to say, projecting how long a given capital sum is likely to sustain income or capital withdrawals, given alternative assumptions as to inflation and investment returns.

One application is for personal injury awards, when the Court of Protection may need to be satisfied that a proposed level of compensation is likely to meet the needs of a claimant over their prospective lifespan.

Other examples are divorce settlements, perhaps in favour of non-working mothers, and situations in which elderly people considering lifetime gifts in the context of estate planning, wish to ensure that they will have sufficient funds for their own purposes.

Running for Cover

It is striking how many cautious managed funds have been launched recently, as investors seek refuge from the turbulent stock market conditions of recent years.

But perhaps the smart thing would be to go against the herd. There are countless instances when the herd mentality has taken hold of investors, more recent examples being the boom and bust for technology stocks and property.

Diversification remains key to successful investment, but there is an argument that rather than over-weighting cautious funds, investors might instead be considering some over-sold markets, such as Europe. The majority of pundits currently seem to favour equity investment.

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