Hi, I'm Will Evans. Welcome to another episode of Ahead of the Field from NFU Mutual. Now it might not be something that us farmers get excited about, but the finances of the farm and the business side of what we do are hugely important. As such, we're speaking to two experts from NFU Mutual about things to consider. They are Matthew Bennett, investment manager, and Martin Ansell, a pensions expert.

Will: Good morning to you both

Martin: Morning.

Matthew: Good morning, Will.

Will: Matthew, let's start with you. Can you give us your view on the general financial climate in the present time and what it actually means for us farmers?

Matthew: Sure. I think at the minute everyone's following the economy quite closely and everyone really understands that it's going through quite a period of upheaval. A lot of uncertainty and some sectors doing well, some sectors clearly struggling. The hospitality, retail sector. Maybe what people are a bit less aware of is that financial conditions aren't fully in line with the economy. So financial conditions are quite different. So we had this initial shock in March and central banks and governments all around the world were very quick to throw a lot of money at the economy, in essence. So cutting interest rates to near zero, doing more Kiwi fiscal stimulus.

So you've got a sort of juxtaposition at the minute. You've got uncertainty upheaval in the economy, but financial market conditions are actually back to quite a benign state and there's no shortage of money about, which means asset prices have done fairly well throughout this period or over a whole term have done fairly well. So in terms of farming, yeah, asset prices and investments have held up reasonably well. In terms of farming itself, I guess it's difficult to generalize, isn't it? Because if you do have exposure to the retail, hospitality industries, then perhaps that's more difficult.

Will: What opportunities though... I'm interested in opportunities at the moment. What opportunities are there in terms of farmers' personal investments, both in the next year or so and taking a long term view as well?

Matthew: So normally, if you get the big shock to the economy and a recessionary environment, certainly in the past that would tend to throw up investment opportunities. But as I say, because of the way central banks and governments have intervened, actually the opportunity set in the short term isn't as wide and as varied or as strong as perhaps you'd think normally when the economy is struggling.

So you've got the US stock market, for example, the world's biggest stock market. That's near all time highs. Have a look at the share price of something like Tesla. There's not too much opportunity in that stock. And the same maybe if we think about the UK. House prices, again, I would have thought there'd be a few people thinking about investing in the property market, but actually the latest statistics show that house prices have trended slightly higher this year. Similar with government and corporate debt prices again, because of interest rates going so low, the prices of government and corporate debt is quite high relative to history. So yeah, it'd be lovely to think there were lots of short term opportunities out there, but actually because of the actions of central banks, governments, markets have been calm. So it isn't throwing out lots.

Where there might be specific pockets, it's where the news flows worse. So again, thinking about shares in the retail industry, hospitality ledger, and more generally the UK market. The UK equity market, and that's partly because of the nature of the market. It is quite negatively impacted by COVID. It's got big financial services sector, big leisure, hospitality, oil sector. And partly because of this whole Brexit going on in the background as well. So where you'd want to invest or where it would seem obvious to invest, prices are quite high. Where there's a bit of risk around there could be opportunity.

Will: Okay. You've cheered me up there, Matthew. Should we see the fortunes of the market as a way of diversifying? Because they're totally unrelated to the fortunes of farming?

Matthew: Probably the really short answer to that is yes. Yeah, financial markets will create a broad spectrum of the economy. You're investing in lots of different sectors, lots of different stocks if you're investing into equities, and that can certainly offer diversification. I guess what's happened recently highlights the benefits of diversification. The unexpected can happen and it can disproportionately affect a particular industry. And we don't always know what that's going to be. So diversification, the market does offer that opportunity. What that diversification should look like, I guess depends on each farmer's or each investor's individual circumstances, really. If you're very asset rich in the UK and you're trying to diversify away Brexit risk, then you might think of a different way of investing to someone that has different circumstances. So, yes it does, but it's all individual circumstance specific.

Will: I suppose, at the moment, it's just important to stay informed, isn't it? So you keep your eyes open and keep an open mind, I guess. It's such an unprecedented time, isn't it?

Matthew: Yeah, it is. Absolutely. And I don't think any of us know exactly what the next three or four years are going to look like. And again, that's where diversification is beneficial. So if you're feeling very risk averse and very negative about the economy right now, you might think, " Well, I'll keep all my money in cash." But, is that the right decision? Because there is a scenario where you could easily see that lots of stimulus from central banks and governments could create inflation, inflation down the line. And if you keep your money in cash for the long term, inflation is going to erode that value.

Will: So short term, a mixed picture there with some opportunities, but after all, I guess a lot of investing is for the longer term. Next up Martin. Martin, let's talk about the many merit of pensions. Many farmers don't normally retire as we know. Why should they be thinking about a pension?

Martin: The forbidden word, retirement. Yeah, I can understand it's hard for farmers to retire because it's their personal identity. It's a way of life. But there are some sound reasons why they should consider a pension. First, it can resolve housing problems. So for example, it can finance the purchase of a new home for the next farmer to come in and allow the existing farmer to stay in the farm house. Or it can allow the existing farmer to move away from the farm, move to a smaller, more convenient property and assist generational succession. Or if the farmer is into diversification, and we just heard Matt talking about diversification, it may be that the new enterprises could only attract new people if there's housing provided. So housing, this particular area. Secondly, it provides an income. It can avoid liquidating business assets to supplement their state pension, et cetera. And lastly, it allows independence from the younger generation and can give them more dignity in retirement. If you've got the funds, you've got options.

Will: So for farmers that do currently have pensions, what are their options when they come to take money out to those pensions?

Martin: Yes, there are now six retirement options that you can consider. Option one is leave your pension pot untouched and take the money later. It's up to you when you take your money. You don't have to do it when the provider writes to you. Just check your investments are still okay, and check the charges.

Secondly, you can go for a guaranteed income, which is an old world annuity. It typically gives you a regular and guaranteed income. There's different types available, particularly enhanced annuities, which pay more if you meet certain criteria, which could shorten your life expectancy. So typically smokers, et cetera. The new one is getting an adjustable income through drawdown 00:00:09:46. You can take up to 25% tax free cash sum. The rest is invested, and then you set up an income whenever you like. Option four is you just take chunks out of your pot as and when you want. And each lump sum you take is taxed. You get 25% tax free. And 75% is taxed.

One of the other new ones is you can completely take all of the pot as cash. You can do this, but there are obviously things you need to check about. For example, how much tax you're going to pay, because that will be added to your income for the year. And you have to think about what you've got left to live on in retirement. Finally, one of the beauties of all this is you can mix your options. So you can take some tax free cash now. Later on, you might buy an annuity when you're older and your health is not so good and you get better rates, et cetera. So those are the options.

But I'd like to also just finish on a note of caution. There's been a significant increase in pension scams, particularly during COVID. So please everyone be careful about this. If you are in any doubt, ring the Pension's Advisory Service on 0- 800- 011- 3797 because it's better to be safe than sorry.

Will: Okay. You mentioned succession before. It can be a complex issue in family businesses. How can pensions actually help with handing down the farm?

Martin: Yes. I didn't realize before this program that there are many multi- generational family farmers and 30% have continuity before 1900, which was quite staggering to me. But you can pass down wealth through a pension. So for example, if you have a farmer, if he unfortunately dies before the age of 75, any money remaining in the pension pot can be paid tax- free to a beneficiary and that beneficiary can take it as a lump sum or they can take it as an income.

If it's after age 75, then that is taxed at the beneficiary's marginal rate of income tax. Okay. But not only that, is that beneficiary can then pass it on to their successor and so on. As well as the issue of passing on wealth, there are some things to watch out for. So when you take your pension, the lifetime allowance may be triggered. The money purchase annual allowance may be triggered when you take your income rather than just a tax free cash sum. So there are some technical aspects there in terms of tax. Best thing to do is seek some advice. There's free advice from Pension Wise online, the government sponsored website, and they give guidance and you can see them. You can ring them up if you can't make it, if you're living remotely. And then finally, there's also a range of financial advisors out there.

Will: Okay. What about younger farmers? A pension can seem a very long way off to them. They may be preferring to save it to buy land, for example, or other options. Why should they be thinking about pensions at a young age?

Martin: Well, there's record breaking low supply out there of land at the moment. You just can't buy it, really. There's long term high demand as always because it's a finite resource. We've still got a final Brexit trade deal yet to be agreed. So land purchase is very difficult to negotiate. Saving the pension is much easier, and it should be remembered that farmers can claim income tax relief for pension contributions on the same basis as any other taxable person. So they get it at their highest marginal rate. Also when they come to take the money out, 25% is tax free. So that's always nice.

So it is a very tax efficient way of saving and it gets you into the habit of saving. And then it may be that you can use that pension later on to help you buy some land, if you're lucky enough to do that at an auction or something.

I have to also tell listeners to the podcast that the value of pensions and investments can fall and you may get back less than invested, and don’t forget the tax treatment of pensions depends on your circumstances and may change.

Will: Yeah. Okay. Matthew and Martin, you've given me plenty to think about, and I'm sure the listeners too. But sadly, that is all we have time for. But thank you both very much for your time today.

Martin: Thank you, Will.

 Matt: Thanks, Will.

That's it from this edition of Ahead of the Field. From me, Will Evans, and everyone at NFU mutual, we continue to wish our listeners and the farming community all the best.