Clocktower
FUND MANAGEMENT

JULY/AUGUST 2014

Pension wealth check

10 ideas served up to help you maximise your pension provision

A NISA home for your investments

Providing you with increased simplicity and greater flexibility

Pensions grab headlines

Taking centre stage in the Queen's Speech

INCOME GENERATION

Withdrawing income without prematurely depleting your portfolio

AUTOMATIC ENROLMENT WORKPLACE PENSION REFORM

Encouraging more people to save towards their retirement

ASSET ALLOCATION

Achieving the right balance of cash, fixed income and equities

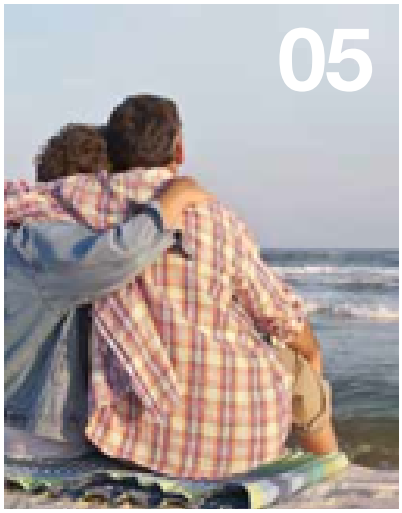
Clocktower Fund Management Ltd, 21a High Street, Cobham, Surrey, KT11 3DH
Tel: 01932 863400 **E-mail:** office@clocktowerfm.com **Web:** www.clocktowerfm.com

Financial planning is our business.

We're passionate about making sure your finances are in good shape.

Our range of personal financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

Contact us to discuss your current situation, and we'll provide you with a complete financial wealth check.



INSIDE THIS **ISSUE**

WELCOME

Welcome to the latest issue of our magazine designed to help you protect and grow your wealth. This year is best described as the year of the pension. After grabbing the headlines following the Chancellor's Budget 2014 speech, pensions were once again top of the agenda. On page 07 we look at how pensions took centre stage in an 11-bill programme, with major changes to annuities and workplace schemes also announced.

Investing for income is not simply about establishing a portfolio of income generating investments. It's also about the strategies you use to withdraw income from your portfolio. To do this effectively, without prematurely depleting your portfolio, there are three key areas you need to consider. To find out more, turn to page 10.

How you choose to allocate your wealth between different asset classes will be one of the most important investment decisions you ever make. Read the full article on page 11.

A full list of all the articles featured in this edition appears on pages 03 and 04.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

INSIDE THIS **ISSUE**

WE HOPE YOU ENJOY READING THIS ISSUE. TO DISCUSS YOUR FINANCIAL PLANNING REQUIREMENTS OR TO OBTAIN FURTHER INFORMATION, PLEASE CONTACT US.

Baby boomers' top five biggest financial regrets

New survey reveals how some approaching retirement wished they had made different choices

Not saving enough for retirement is the biggest financial regret among those aged 55 or over (today's baby boomers), according to the findings of an annual online survey from Standard Life by YouGov Plc. Nearly one in five (18%) baby boomers said they wish they'd started saving for their retirement when they were younger.

The top five biggest financial regrets for baby boomers – they wished they had:

1. Saved for retirement earlier (18%)
2. Avoided running up debt on credit cards or store cards (16%)
3. Set and stuck to a budget (6%)
4. Spent less on nights out and saved more in general (5%)
5. Invested in a Stocks & Shares ISA (5%)

Approaching retirement

But while the biggest regret for those approaching retirement is their lack of savings, the biggest regret for all other generations is running up debt on credit and store cards. Those aged 35–44 are most likely to have this as their number one financial regret (21%), while just 12% of 18–24-year-olds had it as number one, alongside wishing they had spent less on nights out and saved more.

Wake-up call

This research will be a wake-up call to the many people who aren't saving enough for when they retire. The value in starting to save early is clear in terms of increased potential for growth. We also know from previous research that parents often find they need to de-prioritise their own saving when they are older, to help support their adult children with large expenditure such as university fees and deposits for their first homes. So trying to close up a savings gap later on in life can be really tricky. ■

All figures, unless otherwise stated, are from YouGov Plc. Total sample size for the 2014 survey was 2,591 adults. Fieldwork was undertaken between 5–7 March 2014. The surveys were carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

TIME TO GET AN EXPERT PERSPECTIVE?

Whatever your hopes and goals for you and your family, you'll need enough money to make them happen. To get an expert perspective on what options are available to you, please contact us for a review of your situation.

FINANCIAL SUPPORT WHEN YOUR FAMILY NEEDS IT MOST

Why reviewing your level of life insurance is time well spent to ensure you look after their future

May 2014 marked the 253rd anniversary of the first life insurance policy being issued in the USA. Life insurance protects your family and anyone else who may depend on you for financial support. If you die prematurely, the people who are dependent upon your income could lose that financial support, which may leave them having to fend for themselves.

Having sufficient life insurance in place will help cover some or all of that loss, depending on the amount of coverage you choose. Of course, there are instances where life insurance can be beneficial even if you don't have any dependents.

So here's a timely reminder why reviewing your level of life insurance is time well spent looking after your family's future.

Five reasons why you might need to review your life cover

1. Childcare costs

If one person is taking a career break to raise a family, have you considered the impact their death would have on childcare? It may mean the other parent has to cut down to part-time hours at work or take on full-time childcare. With part-time childcare now costing on average more than a mortgage, it might be the right time to ensure that both parents are covered with life insurance.

2. Moving jobs

Changing employer could mean you lose any life cover that comes with your job or you receive a different level of cover. This is a valuable work benefit that is often overlooked when switching jobs. Any pay increase could also mean a greater loss of income should you die. Your level of income should always be a factor taken into account when reviewing your life cover.

3. Mortgage

Life insurance policies are often bought when we finalise our mortgage. But with house prices changing frequently, and more families repaying mortgages or switching providers, it's easy to forget about the life cover – check that you have enough.

4. Hopes for your family

Having children makes you more aware of the everyday costs but what about your hopes for your children? If you're saving regularly for their future, you may have a specific goal in mind. Have you considered what happens if you were to die without meeting that saving goal? A policy where the level of cover decreases over time (as you simultaneously increase your savings) could also help protect any shortfall you might have.

5. Inflation

Some life insurance policies do not keep up with inflationary cost of living increases. Would you be happy leaving your family to meet these extra costs if you have a protection shortfall? ■

SHOULD THE UNEXPECTED HAPPEN, IS YOUR FAMILY FULLY PROTECTED?

Life insurance is designed to protect you in different financial and emotional situations and help you – and your family – to be protected should the unexpected happen. To review your particular protection requirements, please contact us for more information.

Pensions grab headlines

Taking centre stage in the Queen's Speech

This year is best described as the year of the pension. After grabbing the headlines following the Chancellor's Budget 2014 speech, pensions were once again top of the agenda. In an 11-bill programme, pensions took centre stage, with major changes to annuities and workplace schemes also announced.

The plans to make significant changes to pensions were also a central theme in the Queen's Speech. The Government abolished the requirement for people to buy an annuity and is considering alternatives whereby workers contribute to 'collective pension' funds, which they would share with thousands of other pensioners.

GIANT POOL

The Collective Defined Contribution (CDC) is based on the Dutch pension system. These schemes work as follows: an employer contributes a fixed level related to your average salary, and this makes up the 'Defined Contribution' part. Members of the pension scheme also pay contributions at a specified level. All contributions go into a giant pool of assets – the 'Collective' element. Over time, a substantial fund is built up which pays out a pension linked to your salary once you reach the scheme's pension age.

The theory is that these schemes are better for employers than traditional final salary schemes (Defined Benefit or DB plans) and better for employees than standard occupational pension schemes – Defined Contribution (DC) plans. For employers, this is a much cheaper option than the gold-plated but fast disappearing DB schemes, as there is no balance sheet risk attached. Employees, meanwhile, receive a level of pension related to their career average salary with discretionary inflation protection.

LONGEVITY RISK

Pooling assets can also create economies of scale, which means savings both in managing investments and running the scheme, which in turn enables higher pensions as less money is taken out in fees. As such, CDCs are seen to be particularly beneficial for those on low incomes or saving small amounts of money, as savings are not eroded by individual charges. These schemes also have the benefit of pooling the longevity risk in pensions, much the way an annuity does (but without the guarantees).

Collective Defined Contribution schemes may suit some savers who have no intention of controlling their pension and who don't want to choose where to invest. Once retired, savers in such schemes would also have to accept that their pension income could fall during their retirement. These collective pensions may not allow savers to enjoy the pension freedom announced in the Budget, or if they do, may impose penalties for those who wish to use this flexibility.

These Collective Defined Contribution schemes would be made available through employers if they are ever introduced. In reality, it will be many years before such a scheme becomes available. ■

EXPERT AND PROFESSIONAL ADVICE

Regardless of the life stage you have arrived at, it is important to receive expert and professional advice on your pension plans and requirements. Whether you need to set up or review existing retirement planning strategies, we can provide you with the different options to help you make the most of your retirement opportunities. Please contact us for further information.

WHAT TYPE OF 'PENSION' DO YOU HAVE?

There's a simple way to understand the three different forms of pension – it's as simple as DA, DB and DC:

DB – Defined Benefit – full promise of a guaranteed income – there are fewer of these in the UK now than in the past. These pensions involve paying an income linked to your years of service and former salary.
DC – Defined Contribution – the new flexible rules commencing 6 April 2015 will mean you can generally take what you want when you want, after you reach the minimum pension age. There's no promise of a certain income since that would limit what you can take and when – you're in control.
DA – Defined Ambition – this featured in the Queen's Speech and is a type of halfway house between DB and DC. HM Treasury say a 'promise on part of the pot or income' might exist, but the amount you receive could go up or down, so it's not a full promise.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

What's your number?

Make sure your pension is on track to grow enough to support you in retirement

Do you know how much your pension is worth? Do you know how many you have or where they are? How about the type of funds they're invested in or how much risk is involved?

If the answer to any of these questions is 'no', you need to take stock and plan to review your pension at least once a year and every time your personal circumstances change. Make sure your pension is on track to grow enough to support you in retirement.

Almost three quarters of under 45s with pensions have no idea what their pension pots are currently worth. And nearly 80% say they don't know what income they are expecting when they retire.

Run-up to retirement

The YouGov research shows that many people don't really know the value of their pension until they are older and in the run-up to retirement, despite the fact that they're likely to be receiving annual pension statements.

Alongside your home, your retirement savings are likely to be one of your biggest assets. So by not keeping track of the value of your pension pots and how they are performing, you may be missing out on opportunities to take action and really are leaving yourself vulnerable at a later age.

Multiple pension pots

Keeping track of pension values is not helped by having more than one pension plan, perhaps built up over time as you move jobs. The research highlighted that 43% of people in the UK with pensions have two plans or more. Having multiple pension pots may make it more difficult for some people to get a clear picture of their total value. It could also be a reason for losing touch with a pension provider.

Managing retirement savings

Consolidating your pensions into a single pot could help and, if appropriate, may be something to consider. By the time you have been working for a number of years, you may have accumulated a number of different pensions from previous employers, and it can be hard to keep track of these pots. Having all these separate pension pots may not be the most efficient way of managing your retirement savings. Pension consolidation involves bringing all of your separate pension plans together and combining them into one single pension pot, although care is required.

Professional financial advice

But before moving your existing pensions, you should always obtain professional financial advice to make sure you are not giving up important benefits, such as defined benefits, 'with profits' bonuses, guaranteed annuity rates or enhanced tax-free cash.

Pension consolidation means that you would have only one provider to keep in touch with and one annual statement to look at and review. Potentially it can also mean paying lower charges and possibly having greater choice and buying power when you come to retire too. If you eventually purchase an annuity, you may also be able to obtain a better rate if your money is all in one pension pot. ■

Source:
All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,018 adults, of which 1,361 have a pension. Fieldwork was undertaken between 9–12 August 2013. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERORMANCE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

ARE YOU KEEPING A CLOSE EYE ON YOUR PENSION PLANNING?

By not keeping a close eye on your pensions in the earlier years, you could run the risk of falling behind and leaving any top-ups until the last minute, when it may become increasingly difficult to make up any shortfalls. So it pays to keep an eye on your pension pot. If you have any concerns about this subject, please contact us for a full review of your particular situation.

GET YOUR FINANCES IN SHAPE THIS Summer

Review our financial fitness checklist to see how we can help you make more of your money

Utilise personal pension tax relief

When you contribute to a registered pension scheme, you automatically receive basic rate tax relief on your contributions. Your personal pension tax relief depends on your circumstances. These are the current UK pension tax relief rules for the 2014/15 tax year, so don't miss out.

- **Non-taxpayers –** Non-taxpayers receive basic rate tax relief
- **Basic rate taxpayers –** Basic rate taxpayers receive 20% tax relief
- **Higher rate taxpayers –** Higher rate taxpayers receive 20% pension tax relief and can claim back up to a further 20% through their tax return
- **Additional rate taxpayers –** Top rate taxpayers receive 20% tax relief and can claim back up to a further 25% through their tax return

Invest on behalf of your children or grandchildren

You can contribute up to £2,880 net (£3,600 gross) per year into a pension on behalf of your children or grandchildren. The funds will be protected from tax charges and cannot be drawn on until the child/grandchild is aged at least 55.

Protect your wealth

Is your Will up to date? A Will becomes invalid when you marry. If you don't have a valid Will, your spouse or registered civil partner will not automatically inherit all your assets and may be left with insufficient funds to support themselves.

Secure an IHT exemption

If you are not married or in a registered civil partnership, but want to leave assets to a long-term companion or partner, Inheritance Tax (IHT) will be payable on that gift. Therefore the only way to secure the exemption from Inheritance Tax on the gift is to marry or register a civil partnership with the intended recipient before you make the gift.

Inheritance tax-free gift

Is there a wedding or registered civil partnership planned in your extended family? You can make an IHT-free gift to one couple of up to £1,000. If you are a parent of one of them, the gift in consideration of the marriage or registered civil ceremony can be up to £5,000 tax free.

An appropriate trust

If you have life assurance, have you looked at having the policy written in an appropriate trust to avoid the proceeds that are paid out forming part of your estate on which IHT is payable?

Tax-efficient savings

Have you taken advantage of your 2014/15 Individual Savings Account (ISA) investment allowance? From 1 July 2014, this has now increased to £15,000. The income and capital growth on savings in an ISA is tax-efficient.

Transferring income investments

Are your investments held between you and your spouse or registered civil partner so as to minimise your income tax? If you pay 40% or 45% tax and your spouse or registered civil partner pays 20% or less, you should consider transferring some income-producing investments to your spouse/partner to reduce the higher rate tax you pay.

Avoid high tax charges

Do you know how much your pension fund is worth? You need to check it will not exceed the lifetime allowance (currently £1.25 million) when you start to draw your pension, to avoid high tax charges. ■

HELPING YOU PROTECT AND GROW YOUR WEALTH

There are many different ways to protect and grow your wealth. Our expertise is helping you to understand your choices, and then advising you on how to make the financial planning decisions that are appropriate for you and your family. To discuss how we could help you, please contact us for more information.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE INHERITANCE TAX PLANNING, WILL WRITING OR TAXATION ADVICE.

Income generation

Withdrawing income without prematurely depleting your portfolio

Investing for income is not simply about establishing a portfolio of income-generating investments. It is also about the strategies you use to withdraw income from this portfolio.

To do this effectively, without prematurely depleting your portfolio, three of the key areas you need to consider.

1. When to draw income

It is important to think about when you will start taking income from your portfolio. Consider how often you will take income from your portfolio. Do you need the money monthly, quarterly, annually, or simply as and when required?

This could determine whether you invest in an income fund which pays out dividends on a quarterly basis or twice yearly. Or you may choose to buy bonds with different maturing dates, and then match these payments with the specific time periods when you need income.

Income payment dates are a useful indicator in structuring an income payment plan. But this should not be your only consideration – you also need to think about how much income you will take.

2. How much income to draw

The amount you can withdraw from your investments each month could be based on how much you've saved, your asset allocation, how long you expect to spend in retirement and which withdrawal method you plan to use. Making excessive withdrawals at the outset of your retirement is not recommended, and this will also depend on your withdrawal method. However it must be remembered that if you make withdrawals from your investment fund or pension fund that are higher than the level of growth achieved by the investment your underlying capital will be depleted. It is therefore difficult to assess the level of withdrawals to be made at the outset of your retirement.

While you may need to plan for a long retirement given increased life expectancy rates, you should think about how long your money will last if you take out the income you want. Would you like to draw down all your capital or keep some money for your heirs or to take advantage of future investment opportunities?

It is important to regularly review the income you are withdrawing from your portfolio. If your portfolio has performed well you might choose to increase your income withdrawals, or you can choose to reinvest excess income back into your portfolio. If your portfolio is not performing to your expectations, it is important that your capital is preserved, so income withdrawals might have to be reduced or suspended for a period to allow your portfolio some time to recover lost capital.

3. How to draw your income

There are various ways of withdrawing income from your portfolio. You'll also need a place to put the money you're moving out of your investments. Some providers offer a withdrawal facility which pays you a specified amount from your investments, transferring the money directly into your bank account.

If you're nearing retirement, you will need to make some important choices regarding your retirement income, starting with whether you opt for an annuity or income drawdown arrangement.

Another important consideration will be your tax-free cash lump sum. Pension rules currently dictate that once you start drawing an income from your pension fund, you are permitted to take up to 25% of your total fund as a tax-free cash sum. It may be that you simply want access to this tax-free lump sum and don't actually start drawing an income at all. ■

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

SECURING A FUTURE INCOME

Creating and maintaining the right investment strategy plays a vital role in securing your future income requirements. We can provide the quality advice, comprehensive investment solutions and ongoing service to help you achieve your objectives. To find out more, please contact us.

ASSET ALLOCATION

Achieving the right balance of cash, fixed income and equities

How you choose to allocate your wealth between different asset classes will be one of the most important investment decisions you ever make. Asset allocation can account for the majority of your portfolio returns over the long term, so it's essential that you achieve the right balance of cash, fixed income and equities in your portfolio.

Different types of assets

If you are an income investor, you need to understand that different types of assets generate different forms of income. These can broadly be classified into three groups: fixed income, guaranteed income and variable income.

Fixed income is generated by investments that yield income payments on the basis of a fixed schedule. Bonds, whether corporate, government or anything in between, are collectively referred to as 'fixed income investments'. The term fixed in this case refers to a schedule of obligatory payments, not the amount of income or its predictability.

Variable income, on the other hand, cannot be predicted ahead of time and will fluctuate depending on factors such as interest rate changes, inflation rate movements or the profitability of a company. The dividend income paid by company shares can be seen as a variable form of income, as this will depend on the company's results and profits. Rental income from a property investment will also vary over time, depending on factors such as demand and supply in the property market.

Guaranteed income is backed by a third party, such as the Government or an insurance company. As such, it is viewed as the safest form of investment income you can get, although the strength of this guarantee will depend on the party backing the investment.

Examples of investments which could fall into this category include those backed by government-backed institutions such as National Savings & Investments (NS&I) or purchasing an annuity in retirement, in which case the insurance company issuing the annuity guarantees income for the rest of your life.

Drawing a range of incomes

By holding a sensible mix of different assets, you can draw a range of incomes, each paying out at different times and in different sizes. The aggregation of these will be your portfolio income, which you can use to live off or to supplement your active income – your salary or wage. You could also choose to reinvest this income back into your investment portfolio, thereby growing your original capital invested.

> **BY HOLDING A SENSIBLE MIX OF DIFFERENT ASSETS, YOU CAN DRAW A RANGE OF INCOMES, EACH PAYING OUT AT DIFFERENT TIMES AND IN DIFFERENT SIZES.**

How do you decide on the right mix of assets?

There is no rigid formula, but it is worth noting that the ideal mix will differ from one individual to the next depending on variables such as your age, wealth, investment goals, risk appetite and the amount of income you would eventually like to draw from your portfolio.

Generally, those more risk-averse will weight their portfolio's asset allocation mix more towards the safe asset classes, while those willing to accept more risk in the search for a higher income will opt for riskier investments such as equities or property. The important thing is that you diversify your investments across a mixture of assets. ■

MAKING THE RIGHT DECISIONS ABOUT YOUR FINANCIAL FUTURE

Obtaining professional advice to help you make the right decisions about your financial future is crucial. To discuss how we can help you develop your plans for the future and advise on the best way you can meet your objectives, please contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE NATIONAL SAVINGS & INVESTMENTS.

A NISA home for your investments

Providing you with increased simplicity and greater flexibility

Individual Savings Accounts (ISAs) have been around since 1999, providing a tax-efficient wrapper for savings and investments. However, in the recent Budget, the Chancellor, George Osborne, promised to increase the simplicity and flexibility of ISAs. As of 1 July 2014, there is now a single ISA which has been named the new ISA, or 'NISA', which provides a bigger tax break than ever before and more flexibility about how it can be used.

TAKE FULL ADVANTAGE OF YOUR NEW NISA ALLOWANCE

With the new NISA allowance rules, now is the ideal opportunity to grow your investment portfolio. Please note that amounts invested between 6 April and 30 June will count towards your increased £15,000 allowance for the 2014/15 tax year. To discuss how we can help you, please contact us.

All ISAs have now become NISAs, including any ISAs opened from 6 April 2014 to 30 June 2014.

How do NISAs differ from ISAs?

Greater flexibility – You can invest your whole allowance in stocks and shares or cash, or any mixture of the two.

Freedom to transfer – You can transfer existing ISAs from stocks and shares into cash, or the other way around.

Improved tax efficiency – You can now earn tax-efficient interest on cash held in a NISA. Previously, with the exception of a Cash ISA, any cash held within the stocks and shares element of an ISA was subject to a 20% charge on the interest earned.

Generous tax break

The ISA allowance has now been increased from £11,880 to £15,000 for the 2014/15 tax year. For any couple, that means they can put aside £30,000 for this tax year, which is a generous tax break. This means you can now save another £3,120 into either cash or stocks and shares in the current tax year. The amount that can be paid into a Junior ISA for the 2014/15 tax year has also increased from £3,840 to £4,000. Do bear in mind that whilst the NISA does allow a generous amount to be sheltered from tax during your life, the total amount forms part of your estate on death and so could be subject to 40% tax.

Moving your existing investments

You also now have the full flexibility of moving your existing investments in a Stocks & Shares ISA to a Cash ISA, or vice versa. You should not withdraw sums from your Stocks & Shares account yourself in order to deposit it into a Cash NISA, or the other way around. If you do, any amount that you pay in may count as a fresh payment against your overall limit of £15,000.

NISA subscription limit

It is worth noting that if you have paid into a Cash or Stocks & Shares ISA since 6 April 2014, you will not be able to open a further NISA of the same type before 6 April 2015. You may however make additional payments – up to the £15,000 NISA subscription limit – into your existing account(s).

Increased flexibility

As of 1 July 2014, there is now increased flexibility in the way that you can use your ISA allowance.

You can now allocate:

- the full £15,000 in a Stocks & Shares ISA
- the full £15,000 in a Cash ISA
- any combination of amounts between a Stocks & Shares ISA and a Cash ISA up to the new limit

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

Demystifying quantitative easing

Reviving consumer spending and economic growth

Since the global financial crisis, both the Bank of England and the US Federal Reserve have used the policy of quantitative easing (QE) to try to revive consumer spending and economic growth.

When the economy is struggling, cutting interest rates is the traditional way to get us to spend more. If rates are low, saving is not such an attractive option – and we're more likely to spend. But when rates are already very low, as they've been, central banks try to increase spending in the economy in another way, by injecting money directly into the economy. We've seen this practice, known as QE, used in both the UK and US since the financial crisis stepped onto centre stage.

Creating money

When interest rates are already low, QE is a way for the world's central banks to boost the economy and avoid deflation. They 'create' money — not actually printing it but electronically — and use it to buy assets from financial businesses. Typically, they buy government bonds. The banks, insurance companies and pension funds selling such bonds can then use the proceeds either to invest in other assets or to lend to consumers and businesses at attractive rates. Money is released, lent and spent. Or that's the theory.

We first saw QE in 2000 in Japan when the central bank used it to ease deflation. The US Federal Reserve (Fed) employed QE in 2008, while the Bank of England's Monetary Policy Committee (MPC) followed in 2009. The practice hit the headlines when the Fed announced last year it would begin reducing its QE. The result was that stock markets fell, mortgage rates spiked and mortgage refinancing activity plummeted as investors worried about the extent and timing of the 'tapering'. Tapering is a term that former Fed Chairman Ben Bernanke used in testimony before Congress when stating that the Fed may taper – or reduce – the size of the bond-buying programme.

Side effects

One of the side effects of QE is to hike up the price of government bonds, consequently reducing their yields or income. This ripples into other areas.

Firstly, it steers investors into assets with the potential for higher returns, such as stocks, property or bonds issued by companies. We certainly saw rallies in stock markets during 2013. In the US, investors leapt into stocks; the S&P 500 stock market index gained almost 30% in 2013, its best year since 1997[1]. However, anecdotally, US QE also resulted in investors looking overseas for potentially higher returns (for example, in emerging markets) at a time when the Fed was trying to bolster domestic activity.

Secondly, QE has been blamed for the increase in deficits in many pension funds. The cost of paying pensions is calculated by final salary schemes, assuming that all their assets are bonds. If income from bonds drops, it means we need more assets to generate the same level of pension. And if you're buying an annuity (an annual pension) with your accumulated pension pot, a fall in yields means less income.

Market impact

Investors are concerned about how the Fed's withdrawal of QE will ripple through the economy. As we know, what happens in the US has a major impact on other global markets. But while QE tapering will be implemented throughout this year, the Fed first told markets about it last summer, and much of the potential impact on markets is already 'priced into' bond and stock valuations.

The good news is that a reduction in monetary support from the central banks indicates that there are signs of real growth appearing. Financial markets are often worried when the central bank begins to tighten policy. History suggests that investors need not be overly concerned about a turning point in monetary conditions, as long as they become reassured that no policy error is being made. In other words, markets will perform well if they are convinced that the main reason that policy is being tightened is because the economic cycle is lengthening and becoming more robust. ■

Source:
[1]Daily Finance Investor Centre 31 Dec 2013.

You've protected your most valuable assets.

But how financially secure are your dependents?

Timely decisions on how jointly owned assets are held, the mitigation of inheritance tax, the preparation of a will and the creation of trusts, can all help ensure your dependents are financially secure.

Contact us to discuss how to safeguard your dependents, wealth and assets, don't leave it until it's too late.

Automatic enrolment workplace pension reform

Encouraging more people to save towards their retirement

The Government's flagship scheme to encourage more people to save towards their retirement is well underway – but there's still a distance to go.

Under the workplace pension reform, also known as automatic enrolment, all UK businesses will legally have to offer pensions to workers eligible for auto enrolment by 2018. Employers will also have to contribute towards their workers' retirement savings, although workers can choose to opt out of the scheme.

The introduction of automatic enrolment commenced in July 2012 and will eventually affect 1.35 million employers (the vast majority of whom will be small- and medium-sized employers), according to The Pensions Regulator[1].

Smaller businesses with between 50 to 249 employees have between 1 April 2014 and 1 April 2015 to automatically enrol all eligible workers into a workplace pension.

Employer checklist

If you haven't done so already, you may want to:

- Create a plan of action
- Consider setting up a dedicated project team to help co-ordinate the transition
- Select a pension provider
- Communicate with your workers about what's going to happen

Source:
[1] Automatic enrolment: commentary and analysis 2013 published: July 2013.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

IF YOU ARE AN EMPLOYER, FOLLOW OUR CHECKLIST OR FIND OUT MORE ABOUT YOUR EMPLOYER RESPONSIBILITIES BY CONTACTING US.

PENSION WEALTH CHECK

10 ideas served up to help you maximise your pension provision

It's important to review your pension planning regularly to make sure it still meets your specific requirements. Over time, your circumstances may have changed, so we have provided ten areas that, if appropriate to your particular situation, should be reviewed.

IF YOU PLAN TO RETIRE FROM 6 APRIL 2015, YOU WON'T NEED TO BUY AN ANNUITY TO ACCESS THE REMAINDER OF YOUR FUND.

1. Check your State Pension Age. The State Pension Age is changing. The Pensions Act 2014 provides for a regular review of the State Pension age, at least once every five years. The Government is not planning to revise the existing timetables for the equalisation of State Pension age to 65 or the rise in the State Pension age to 66 or 67. However, the timetable for the increase in the State Pension age from 67 to 68 could change as a result of a future review.

2. How much pension are you likely to receive from the State? An estimate of your likely State Pension can be obtained from the Pension Service. There are two parts to the State Pension – the basic State Pension, which almost everyone gets, and the additional State Pension, which is only for employees. You qualify for the basic State Pension by reaching State Pension age and making 30 years' worth of National Insurance contributions.

3. Boost your National Insurance (NI) contributions. If you have an NI credit record of less than 30 years you may not receive a full State Pension unless you boost your NI credits. If you've got gaps in your NI contributions record, you may be able to top up the gap by making one-off voluntary payments. If you're not working or getting NI credits, you may also be able to make regular payments to protect your contributions record for the future.

4. Consider retiring later. If you're not sure you can afford to retire yet, think about delaying retirement. It could increase your State Pension or provide you with a one-off payment. The main reason for delaying your retirement is to try to boost your retirement income. And in order to take a pension early, you'll need to know you'll be able to afford a reduced income from it.

5. Decide whether to take a tax-free lump sum from your private pension. The rules for how you can access your private pension pots were made more flexible from 27 March 2014, and will be made even more flexible from April 2015. Commencing 6 April 2015, you'll be able to access and use your pension pot in any way you wish after the age of 55. Until then, the rules about how much income you can access as a cash lump sum or through income withdrawal have been relaxed.

6. Decide how to use your pension fund to provide an income for life. If you plan to retire from 6 April 2015, you won't need to buy an annuity to access the remainder of your fund. Instead you could choose to take the whole fund as one or more lump sums. Generally, only 25% is tax-free and the rest will be taxable. For many people, this may still involve buying an annuity, but there are different types of annuity and other products to consider.

7. Select which options you want. If you do opt for an annuity, you need to decide what will happen on your death and whether to protect your income against inflation. Joint-life annuities after you die pay an income to your partner or spouse until they die. Variable or flexible annuities rise or fall in line with investments. However, they have a guaranteed minimum, so you have a degree of certainty, but they're complex products and not right for everyone.

8. Consider consolidating your pension pots. If you've accumulated numerous workplace pensions over the years from different employers, it can be difficult to keep track of how they are performing. These plans can be forgotten and may end up festering in expensive, poorly performing funds, and the paperwork alone can be enough to put you off becoming more proactive. There may be advantages to switching your pensions but there are also pitfalls. You should always obtain professional financial advice.

9. Shop around for the best deal. As you approach your chosen retirement age, you may want to use some or all of your pension savings to purchase an annuity. You don't have to accept the income offered by the company you've saved with. You could boost your pension considerably by shopping around. After deciding what level of income you need, you should shop around and compare rates. This is called using the 'Open Market Option'. Shopping around can increase your retirement income significantly.

10. Catch up on missed pension contributions. If you haven't fully utilised your previous years' contribution allowance, you could use 'carry forward' from the previous three years and catch up on contributions you may have missed. The conditions are that in the same tax year you must have earned at least the amount you wish to contribute. In addition, you must have been a member of a UK-registered pension scheme in each of the tax years from which you wish to carry forward, even if you did not make contributions or were already taking benefits.

ARE YOU IN DOUBT ABOUT YOUR RETIREMENT OPTIONS?

Although it is anticipated that the new pensions reforms will come into force from the next financial year, discussions are still at the consultation stage. However, there is a lot to think about when you are looking at your pension options. For specialist professional advice, please contact us to discuss how we could help you make the right retirement decisions. We look forward to hearing from you.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

INVESTING IN A HIGHLY COMPLEX WORLD

Easy-to-understand groupings should be viewed with caution

Investors like to sort things into neat categories; it helps make sense of a highly complex world. Categories like 'Emerging Markets', 'BRICs' and the 'Fragile Five' have all been invented as easy-to-understand groupings of supposedly similar countries. Yet we have to be careful of such generalisations, because the more research you do, the more you realise that there are often more differences than similarities between these groupings.

Developed market status

Take 'BRICs' as an example. Aside from the fact they are all large countries on the cusp of developed market status, you'd be hard pushed to find four more different countries than Brazil, Russia, India and China. Linguistically, culturally, historically, politically and economically, they are actually about as different as you can get.

Looking more closely at India and China, far from being similar, India and China are so different they often look like negative images of each other. India is a raucous, noisy democracy; China is a single party system. India's development has been heavy on consumption, light on infrastructure; China's has been heavy on infrastructure, light on consumption. China has a current account surplus of around 2% of GDP; India has a similar-sized deficit. China has less than 3% inflation; India has over 9%.

Broad-brush decisions

It's hard to see how the two can be squashed into the same artificial investment grouping when the fundamentals are this different. So if you generalise about 'BRICs' or 'Emerging Markets', and you sell them as a group or buy them as a group, you will potentially miss out on big differences in performance between them. That's why we do the research necessary to figure out where money can be made, rather than making broad-brush decisions based on generalisations.

The difference between China and India's stock market performance is a good example of one of the most important things to understand about markets – that is that the second derivative drives performance. If you examine the economic fundamentals, you might conclude that China is a better investment than India. It has much higher GDP growth, a sounder currency, a current account surplus, a stronger fiscal position, lower inflation and lower interest rates. Yet the market has performed worse than India. Why? Because it is the second derivative that is important. What we mean by this is that it is not the absolute level of things that matters, it's whether at the margin they are getting better or worse.

GDP growth rate

Take China as an example. China's GDP growth rate is high at 7.5% – much higher than India's and far higher than the developed world. But the rate of GDP growth has been steadily declining over recent years. This change in the second derivative of GDP – the rate of growth of the rate of growth – is one of the main reasons that Chinese equities have not done well over that period. India, on the other hand, has a large current account deficit. But at the margin, it has been improving recently, from around 5% of GDP to around 2.5% of GDP. This marginal improvement is one important reason the India equity market has done well.

Just as generalisation in the form of grouping countries or markets together can be dangerous, generalising at the country level is also a mistake, because it hides a wide variation in sector performance within the country. The poor performance of China equities in aggregate has been driven by the very large sectors such as banks (down 18% over 12 months), energy (down 21%), materials (down 20%) and telecoms (down 16%). These sectors are often grouped

together by those who like to generalise as the 'old economy' sectors or state-owned enterprise (SOE) sectors. These sectors, because of their size and therefore weight in the index, have outweighed the excellent performance of the smaller 'new economy' sectors which have done so well.

Catalyst for profit

Perhaps the answer lies with our old friend the second derivative if, at the margin, some of the old economy sectors are looking 'less bad'. Examples of this could be sectors like cement, where consolidation driven by the Government's need to remove capacity may be to the benefit of the surviving players in the industry, or perhaps selected banks where the fundamentals don't look too bad and the valuations are supportive. Equally, if some of the 'new economy' sectors are looking less good at the margin, and are already very expensive, then that could be a catalyst for profit taking. An example of this could be something like increased government focus on regulating Internet finance, a recent but fast-growing part of the Internet sector. ■

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

Isn't it time you had a financial review?

We'll make sure you get the right advice for your individual needs.

We provide professional financial advice covering most areas of financial planning, including, tax-efficient savings, investment advice, retirement planning, estate & inheritance tax planning, life protection, critical illness cover and income protection.

To discuss your options, please contact us.

BANK OF GRAN AND GRANDAD

Three quarters of grandparents say that they have dipped into their savings to help their grandchildren this year

Forget the bank of Mum and Dad – today's young people are now receiving help from the bank of Gran and Grandad, with millions of grandparents offering financial support to their grandchildren.

According to retirement specialist LV=, nine out of ten grandparents (86%) have given cash to their grandchildren since 2012. While most grandparents give on average £30 a month[1] to their loved ones, some have given as much as £50,000. The trend looks sets to continue, as more than half (52%) of grandparents plan to give the next generation handouts within the next five years, with an average amount of £1,000[2].

Financial support

Among all grandparents, three quarters say that they have already dipped into their savings to help their grandchildren this year. Over the last five years, one in six (17%) grandparents[3] have made contributions to child trust funds or savings accounts. However, the research shows that grandparents aren't just putting money aside for their grandchildren's future. Almost half (47%) of all grandparents give their grandchildren pocket money, with one in eight (15%) giving regular pocket money.

Yet it is not just younger grandchildren who are benefiting from the bank of Gran and Grandad. Grandchildren are now being offered financial support throughout their journey into adulthood and beyond, and they are now receiving help with everything from university fees to deposits for their first home.

Big-ticket purchases

One in eight grandparents have helped their grandchildren to buy big-ticket purchases such as cars and luxury holidays, and one in twenty say that they have contributed towards their grandchildren's school and university fees. It is clear that the generosity of the bank of Gran and Grandad shows no sign of abating, as half (52%) of grandparents say that they plan to help their grandchildren over the next five years.

The research indicates that, due to the impact of rising living costs on families, many grandparents have stepped in financially. Almost three quarters (70%) say that they give their grandchildren money because they want to help out where they can, with one in six (16%) saying that they help out because the children's parents cannot afford to.

Many grandparents are now contributing regularly towards their adult grandchildren's day-to-day living costs and are providing money for bills, mortgage and rent. The support being provided is a much-needed reprieve for many, with one in ten (11%) grandparents saying that their grandchildren would struggle without the money they give them.

A living inheritance

When it comes to grandparents' generosity, one in 25 (4%) view the financial gifts they make as 'a living inheritance'. In fact, the reason that more than a third (37%) of all grandparents are planning to give their grandchildren financial help in the future is because they want to be around to see them enjoy the cash and don't want their gifts reduced by inheritance tax later on.

What's more, the new pension rules coming into effect next April could see the bank of Gran and Grandad helping out even more. Under the new rules, retirees will be allowed to take all of their pension savings as a lump sum, and one in 16 (6%) grandparents are already considering taking out a significant amount of cash so that they can help out their grandchildren.

However, the bank of Gran and Grandad isn't all cash gifts and early inheritance. Amongst all grandparents, one in 14 (7%) have lent money to an older grandchild for deposits for property and holidays, lending on average £500 per grandchild[4], with one in ten planning to do so in the future.

Changing needs

The generosity of grandparents in Britain is clear to see, and it is great that so many feel comfortable enough to be able to help out their family and plan to continue doing so. However, the average retirement is now much longer than past generations, and people's lifestyle and associated costs are likely to change over this period. It is important that those approaching retirement choose to structure their income in a way that offers them enough financial flexibility to enable them to remain generous, but also adapt to their changing needs.

Source:
[1]According to Opinium, 82% of grandparents give on average £30 a month. So far in 2014, grandparents have given an average of £184. Divided by the number of months passed so far (six) gives a figure of £30 a month.
[2]52% of grandparents are planning to give an average of £1,000 (when asked to estimate how much they will give) to all their grandchildren over the next five years.
[3]According to Opinium, 17% of grandparents put money towards a trust fund or savings account for their grandchild during the last five years.
[4]According to Opinium, 7% of grandparents have lent money to a grandchild which they expect to be repaid. When asked how much these grandparents lent their grandchildren, the average (mean) figure was £500.

ON THE LOOK-OUT FOR OPPORTUNITIES

Animal spirits are finally stirring again

It has been a long wait, but animal spirits are finally stirring again. Not just in financial markets, where the bull market has been underway for more than five years now, but in the real world of corporate activity.

After half a decade of caution, rebuilding balance sheets and keeping their heads below the parapet, business leaders are finally on the look-out for opportunities. With interest rates at rock bottom, market volatility low and growth hard to come by in a sluggish global recovery, there has never been a better time to think about getting the corporate chequebook out.

A global phenomenon

According to a recent report in the Financial Times, takeover deals worth $1.7trn were completed in the first six months of this year. That's a 75% increase on last year and the highest since the pre-crisis mergers and acquisitions (M&A) boom in 2007.

It's proving to be a global phenomenon – big rises in activity were recorded in the US, Europe and Asia. A lot of the activity has been in the healthcare field, with more than $300bn of the total in this sector alone. It would have been even higher had Pfizer managed to persuade AstraZeneca's shareholders to sell out.

Positive economic backdrop

M&A is typically a late cycle activity. That's because launching a bid for another business requires a high degree of confidence from an acquiring company that the favourable environment is likely to continue. That positive sentiment is only widespread after the recovery has been underway for a while.

So takeovers are both a sign of a positive economic backdrop but also an indication that the cycle is maturing. They can be a warning sign as well as a piece of positive reassurance. So should we be worried that M&A is picking up so fast?

Dot.com bubble

The first point is that the deals that have recently been announced seem to make sense from a business point of view. That's important because later in the M&A cycle, companies that are afraid they might miss the boat are talked into deals that make more sense to the investment bankers dreaming them up than to the shareholders of the acquiring company.

The classic example of this was the merger of Time Warner and AOL at the top of the dot.com bubble. This deal, which effectively marked the top of the market, was at the time the biggest ever corporate combination but, despite the apparently good idea of trying to capitalise on a convergence of mass media and the Internet, it failed on many fronts.

Huge goodwill

The bursting of the dot.com bubble sharply reduced the value of AOL, leading to a huge goodwill write-off and a massively embarrassing $99bn loss for the combined group in 2002. It quickly became evident that a market-leading Internet company did not necessarily have the right skills to manage a massive entertainment business employing 90,000 people.

Finally, turf wars between the two sides ensured that the planned synergies from putting the companies together never materialised. Soon AOL was dropped from the company name and a chastened Time Warner put its piece of top-of-the-market folly behind it.

Financial firepower

Takeovers like this one have cemented the view that takeovers are a good way to squander shareholders' money, but this is not always the case. Good reasons to pursue deals might include expanding market share; diversifying into new, fast-growing market areas; pushing more volume through an existing fixed cost base; and increasing capacity.

So, the uptick in M&A is, for now, a good thing. It suggests that company managements have the financial firepower and, more importantly, the confidence to seek ways to grow their businesses.

There will be a time to worry about M&A, but it isn't just yet.

ARE YOU AWARE OF THE BUDGET CHANGES?

You could be missing out on your retirement options

More than one in three people approaching retirement are unaware of the pensions reforms announced in the March Budget, according to new research[1] from MetLife.

Its study among people aged 55 and over with pension savings shows 35% are either unaware or unsure about the overhaul due in April 2015, which will enable retirement savers with defined contribution schemes to access their money however and whenever they like from the age of 55.

Pension changes

The research found 27% admitted to having not heard or read about the pension changes, while 8% did not know whether they had heard or read about the changes.

However the study – conducted after the Budget – showed a switch away from annuities, with 27% of savers definitely ruling out buying one before legislation is agreed, while another 22% were unsure of retirement income plans.

New pensions' flexibility

It is easy for the pensions industry to assume that everyone is focused on the Budget reforms and thinking about what they need to do. In reality, substantial numbers of people who need help and advice to navigate the new pensions' flexibility are unaware that the industry has changed completely, and they will now have the freedom to control their retirement funds.

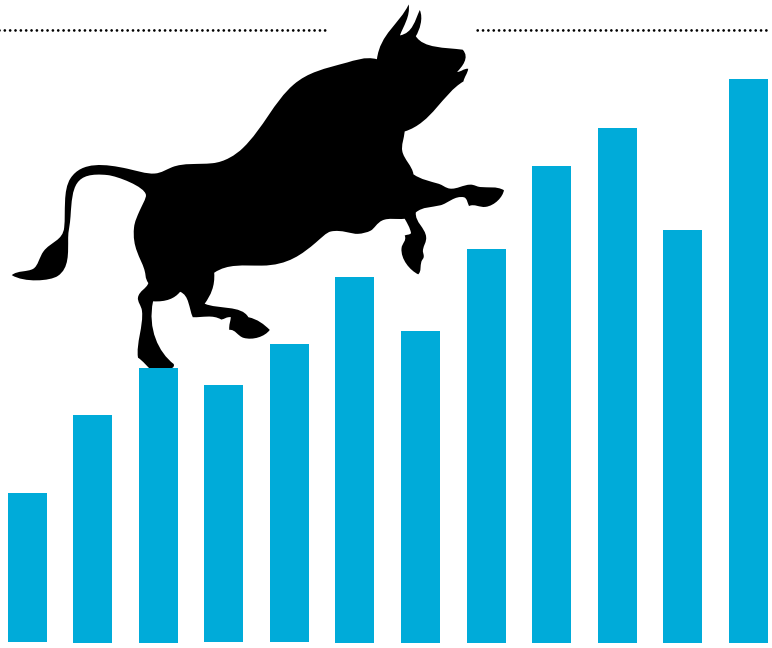
How can we help?

The Budget changes will benefit everyone saving for their retirement, but for that to be achieved, there is a real need for consumer education on retirement income solutions now and in the run-up to April 2015, with a major role for financial advisers to help deliver. For more information, please contact us today.

Source:
[1]Research conducted online between 1–7 April among a nationally representative sample of 568 adults aged 55+ with defined contribution pension savings by independent market research firm Consumer Intelligence.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.



TRACKING RETIREMENT SAVINGS TRENDS

Records at five-year high, according to new report

The number of people saving adequately for retirement at 53% is the highest it has been since 2009 and the biggest ever year-on-year rise, up from 45% in 2013, as the impact of auto enrolment and improvements in the wider economic environment begin to take effect.

The monthly amount people are saving towards retirement outside a pension has also increased by 141% from £54 in 2006 to £130 in 2014, and the total amount people have in savings and investments is at its highest ever level; an average of £40,000 per person, according to the tenth Scottish Widows Retirement Report. Even when discounting those who have large amounts of savings[1], this represents an increase of almost £5,000 on 2013 levels alone – from £28,964 to £33,678.

An important role

Auto enrolment is playing an important role in increasing the number of people preparing adequately for retirement, with the average proportion of earnings put aside for employees of companies with 250 staff or more increasing from 9.7% to 11.6%. This is almost four percentage points more than the long-term minimum required under automatic enrolment of 8% of earnings, which shows that people are increasingly understanding the importance of long-term savings for retirement.

Improving attitudes towards finances and the wider economy have also played their role, with 37% of people saying they felt optimistic about their long-term finances compared to 32% in 2013.

Reasons of affordability

The proportion of people who cite affordability as a reason why they don't plan to save any more over the next 12 months continued to fall from 71% in 2012 to 68% in 2013 and 59% in 2014; the number of people free from debt reveals a positive trend, increasing from 13% in 2012 to 14% in 2013 and 16% in 2014.

The proportion of people who cite affordability as a reason why they don't plan to save any more over the next 12 months continued to fall from 71% in 2012 to 68% in 2013 and 59% in 2014; and the number of people free from debt reveals a positive trend, increasing from 13% in 2012 to 14% in 2013 and 16% in 2014.

How can we help?

A decade of tracking retirement savings trends has shown the impact that events such as the recession, auto enrolment and the recent Budget announcements have had on the nation's savings behaviour. It seems that people are starting to sit up and take notice of the importance of planning for the future – whether this be through proactively upping their contributions due to a more favourable economic climate or starting to make plans for their retirement for the first time thanks to auto enrolment. To discuss your requirements, please contact us.

> **AUTO ENROLMENT IS PLAYING AN IMPORTANT ROLE IN INCREASING THE NUMBER OF PEOPLE PREPARING ADEQUATELY FOR RETIREMENT.**

Source:
[1]The Pensions Index covers those who could and should be preparing financially for retirement – those aged 30 or over, who are not retired and are earning at least £10,000 a year. Saving adequately is those saving at least 12% of their income or expecting their main retirement income to come from a defined benefits pension.
The Scottish Widows UK Retirement Report, which first launched in 2005 as the Pensions Report, monitors pension savings behaviour annually using the Scottish Widows Pensions Index and the Scottish Widows Average Savings Ratio. The research was carried out online by YouGov, who interviewed a total of 5,055 UK adults over the age of 18 in March 2014.

Achieving a comfortable retirement.

Do you need a professional assessment of your situation to make this a reality?

If you are unsure whether your pension is performing in line with your expectations, and that you've made the right pension choices – don't leave it to chance.

Contact us to discuss these and other important questions, and we'll help guide you to a comfortable retirement.

YO-YO EFFECT

Why so many of us are financially uncertain

Almost half (47%) of Britons are up and down when it comes to money, making shrewd savings one moment to justify overspending the next, according to research from Standard Life by YouGov Plc.

The survey finds that almost half of people in Great Britain take a 5:2 diet approach to their personal finances – they adopt shrewd money-saving tactics simply to offset overspending sprees.

People most likely to take this yo-yo approach are those aged 55 or over (51%) and 18–24-year-olds (48%), while 25–34-year-olds are least likely, although 43% of them still 'yo-yo' about. Notably, those with most control of their spending and saving are adults with three or more children living in their household (41%).

Controlled spending

Looking across Britain, people in Wales (57%) and the West Midlands (53%) are the most likely to yo-yo about with their money, while people in the North East are the least likely – but 42% of them still manage their finances like a 5:2 dieter.

Knowing that so many Britons are up and down when it comes to money is slightly worrying. But it's also encouraging to know that these same people can be shrewd cost cutters when they want to be. They just need to channel that smart behaviour so they build up a savings pot, rather than just bankroll a spending spree – that way, they can enjoy controlled spending and don't have to feel guilty or anxious. Families certainly seem to be doing their best to avoid the financial uncertainty of the up and down of the yo-yo approach.

Recognising the challenge of 'saving smart' for long-term savings, such as in a pension or ISA, is important. Here are some top tips:

1 Money sitting in a savings account is likely to be losing real value, so think about checking the rates you are getting on your savings, and if you're not already doing so, you might consider an alternative tax-efficient option such as a Stocks & Shares ISA.

2 If you're employed, you might be automatically enrolled into a workplace pension. If you're tempted to opt out of this, think very carefully before missing out on 'free money' from your employer's contributions and generous tax benefits from the Government too.

3 If you are self-employed, then you need to make your own pension arrangements. That's something to factor into your plans when starting your own business.

4 If you have several different pensions, you might want to consider bringing them together into one. It could make it all a lot easier, so you only have to deal with one company and can see more clearly how your pension is doing – it will be less paperwork too. However, it's not right for everyone and doesn't guarantee a better pension. For example, you could be giving up valuable guarantees.

5 The earlier you start investing for your future, the more chance your money has to grow. If you are concerned about locking your money into a pension until you reach age 55, then tax-efficient ISAs could be considered as an alternative in the meantime.

6 Use as much of your ISA allowance as possible each tax year. From 1 July 2014, new ISA (NISA) rules apply, and you now have the chance of greater tax-efficient growth over the longer term by being able to invest up to £15,000 in the 2014/15 tax year.

7 Consider holding some money in cash to cover your outgoings (such as your rent, mortgage, food and utilities) and in case of emergencies, before looking to invest for the longer term. But make sure you are getting the best interest rate on your cash, and be wary of holding lots more money in cash than you need to – you could be investing some of it instead and giving it the potential for long-term growth in the stock market.

8 If you are dipping your toe in the stock market for the first time, then you may want to seek guidance when it comes to choosing which funds to invest in.

TIME TO REVIEW YOUR PARTICULAR SITUATION?

We offer a range of ways to help you manage your finances, based on your requirements. To review or discuss your particular situation, please do not hesitate to contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

MANAGING YOUR PENSION POTS

Keeping track of your retirement savings

Over the course of your working life, the chances are you'll change jobs a few times, picking up different pension pots along the way.

After a number of years, you may even forget about the odd pension pot. To help you manage your pots, it's possible to bring them all together, making it easier for you to keep track of your retirement savings.

Don't underestimate the importance of keeping track of your pension. The Pension Tracing Service reckons £3 billion is lost in UK pensions, affecting around five million people.

Combining your pension pots

Combining your pension pots can prove a good move in many circumstances, not least as it allows you to keep track of how your investments are performing more easily.

This is a definite advantage if you are approaching retirement and want to get a grip of your various sources of retirement income. Performance is another reason to get hold of all of your pension pots – if you've forgotten about one or more, the chances are they are not working as hard as you'd like. Poorly performing funds are of little use to you, and regular reviews are essential for anyone who wants to make the most of their retirement income.

Things to consider

There are a number of things to consider when you're thinking about combining pensions:

1 If you have a defined benefit (DB) pension scheme, it's probably best to keep it. DB schemes pay out a certain retirement income every year once you reach retirement age, based on your salary and the number of years you paid into the scheme.

2 If you are a member of an occupational pension scheme, you may be entitled to take more than the standard 25% tax-free lump sum. However, you could lose this entitlement if you transfer out.

3 You may have other benefits from your pension (for example, life cover or dependants' benefits), so it's worth checking these with your pension provider before transferring out.

4 If you have up to three small pension pots – each of up to £10,000 – you can take these as a cash lump sum, due to new rules introduced earlier this year by the Chancellor.

Exit fees

It's also worth bearing in mind that you may pay exit fees for moving your pension pot, which may see a sizeable proportion of your hard-earned retirement income shaved off. For this reason, always check for fees and charges if you are transferring out of a scheme.

While many providers won't impose a penalty for transferring (as they want the business), it's still best to check this upfront.

MAKING THE MOST OF YOUR PENSION POTS

Retirement is inevitable, so how you plan to fund it is just too important to ignore. Whether you have accumulated many small pension pots over your working life, or have consolidated them all into one, the key priority should be to make your money grow and avoid any costly charges. For more information, please contact us today – we look forward to hearing from you.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

WEALTH PLANNING STRATEGY COMES UNDER SCRUTINY

Concerns a tax planning arrangement was being abused

HM Revenue & Customs (HMRC) has confirmed that new proposals for a single nil rate Inheritance Tax (IHT) band for trusts will not be applied to existing trust arrangements, where no further assets are added or variations made to that trust.

Multiple trusts

Setting up multiple trusts on different days, each with its own nil rate band below the £325,000 IHT limit, has proved a popular wealth planning strategy for many individuals over the years. HMRC were concerned this tax planning arrangement was being abused, so they set about a period of consultation on how they could close down this practice by introducing a single nil rate band for all trusts created by the same individual.

It was feared the new proposals would be retrospective and HMRC would introduce a single nil rate band across all existing trusts. This would have meant some existing trusts facing a tax charge for the first time at the 10-year periodic charge point.

Dual regime

HMRC have proved to be pragmatic in their approach by proposing to leave existing trusts alone. Trusts set up prior to 6 June 2014 will remain under the current arrangements, creating a dual IHT regime for trusts. The proposed changes will take effect from 6 April 2015, and will only apply to trusts set up on or after 6 June 2014.

However, trusts created before 6 June 2014 are not completely out of reach. If any trust has additional assets added to it or where it becomes a relevant property trust on or after 6 June 2014, the change will bring that part of the settlement into the new regime. If this is applicable to your particular situation we could help your preserve the benefits of your existing trusts. For example, if you have more assets to add to your trust, the creation of a new trust may be more beneficial than adding it to an existing one.

Attractive option

With IHT on death set at a rate of 40%, using trusts could still be an attractive option for many families, despite the maximum charge of 6% every 10 years. Trusts continue to offer many advantages, such as no probate and more certainty and protection.

DO YOU HAVE A PURPOSEFUL AND INFORMED PLAN?

Tax planning is inherently complex, so if you would like to discuss any of these opportunities, we'll take the time to understand your needs and wishes and recommend solutions that are tailored to your needs. To review your situation, please contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

FUTURE PENSION SAVINGS

New freedom could still prove costly

The Budget 2014 announced unprecedented flexibility and choice in how people can use their pension savings in the future. From 6 April 2015, people over 55 can choose to withdraw their pension savings as they wish, although this will be subject to their marginal rate of income tax in that year.

However, a large part of an individual's pension fund could be payable in tax if they withdraw large sums in one tax year. Even people who have been used to paying basic rate tax their whole life could find themselves paying 40% tax on part of their fund.

Lack of understanding

This comes as new research from the ABI and Onepoll shows there is a complete lack of understanding around the implications for taking the whole pension pot as cash, with 59% of people aged over 55 saying they do not understand the tax implications of such a move. The research also shows that when the tax implications are explained, people are far more likely (83%) to leave their money in a pension wrapper and draw an income as needed, rather than taking the entire pot as cash in one go. 17% say they are happy to pay tax on any withdrawal.

Potential downside

Assuming an average pre-retirement salary of £30,000 and average annuity pot of £35,600, someone would pay around 33% tax (£11,867) if they choose to withdraw their entire pension in the same tax year they were earning.

The new freedoms proposed by the Chancellor could result in some significant tax bills for those wanting access to all of their pension savings in one go. While increased flexibility is good, there is a huge potential downside and a minefield to navigate. It is important for you to fully understand the impact of the tax hit if you want access to your pension money in one fell swoop.

Taking an income

People taking an income over £100,000 could find themselves in an effective 60% tax bracket due to the reducing personal allowance over that threshold. Higher rate taxpayers will of course pay 40% on any withdrawals from their pension pot or even the additional rate of 45% on some of the fund if their total gross earnings exceeds £150,000.

The below table is an example of someone who earns £30,000 in the year they wish to retire and takes the first 25% as tax-free cash, deciding to cash in the rest of their fund. This is what their tax position would look like, given various size pension pots:

Pension fund withdrawal (after tax-free cash)	Tax payable on the withdrawal (and effective tax rate)
£90,000	£37,627 (42%)
£75,000	£28,627 (38%)
£37,500	£12,627 (34%)
£22,500	£6,627 (29%)

TIME TO DISCUSS YOUR RETIREMENT OPTIONS?

To discuss how the changes announced in Budget 2014 could impact on your financial plans in the future, please contact us for further information. We look forward to hearing from you.

Source:
[1]ABI, the average annuity purchase price in 2013 was £35,600, after tax-free cash has been taken. These figures have been calculated using income tax limits for 2014/15 as follows:
Personal allowance £10,000
Basic rate limit £31,865
Higher rate payable £41,865
Figures assume person born after 5 April 1948
[2]Research carried out online among 1,000 respondents aged 45–65 by Onepoll, all who are paying into a pension. 299 people were aged 56–65. Fieldwork was completed 23–27 May 2014.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

KNOW YOUR NUMBERS

£10,000

Amount most individuals can earn before paying income tax (tax year 2014/15).

£31,865

Level of income, above the personal allowance, at which the higher rate of 40% income tax is payable (tax year 2014/15).

£1.25m

The total pension pot maximum before tax would be due, down from a previous £1.5m level (tax year 2014/15).

£11,000

The gain or profit you can make when you sell, give away or otherwise dispose of something. The annual capital gains tax allowance is also known as the annual CGT exemption (tax year 2014/15).

£15,000

Individual Savings Account (ISA) allowance. From 1 July 2014, a new simpler product, the 'New ISA' (NISA), offers equal limits for cash and stocks and shares (tax year 2014/15).

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

Budget tax trap on pension withdrawals

Helping you to understand the increased flexibility and choice available to you

The Budget announced unprecedented flexibility and choice in how people can use their pension savings in the future. From 6 April 2015, people over 55 can choose to withdraw their pension savings as they wish, although this will be subject to their marginal rate of income tax in that year.

A large part of an individual's pension fund could be payable in tax if they withdraw large sums in one tax year. Even people who have been used to paying basic rate tax their whole life could find themselves paying 40% tax on part of their fund.

- 33% tax (£11,867) could be paid on complete cash withdrawal from the average pension pot[1]
- New research shows 59% of the over 55s do not understand the tax implications of lump sum withdrawals[2]

This comes as new research shows there is a lack of understanding around the implications of taking the whole pension pot as cash, with 59% of people aged over 55 saying they do not understand the tax implications of such a move. The research also shows that when the tax implications are explained, people are far more likely (83%) to leave their money in a pension wrapper and draw an income as needed, rather than taking the entire pot as cash in one go. 17% say they are happy to pay tax on any withdrawal.

Assuming an average pre-retirement salary of £30,000 and average annuity pot of £35,600, someone would pay around 33% tax (£11,867) if they choose to withdraw their entire pension in the same tax year they were earning.

Although it is anticipated that the new pensions reforms will come into force from the next financial year, discussions are still at the consultation stage. The new freedoms proposed by the Chancellor could result in some sizeable tax bills for those wanting to access their entire pension savings in one go. While increased flexibility is good, there is a minefield to navigate. ■

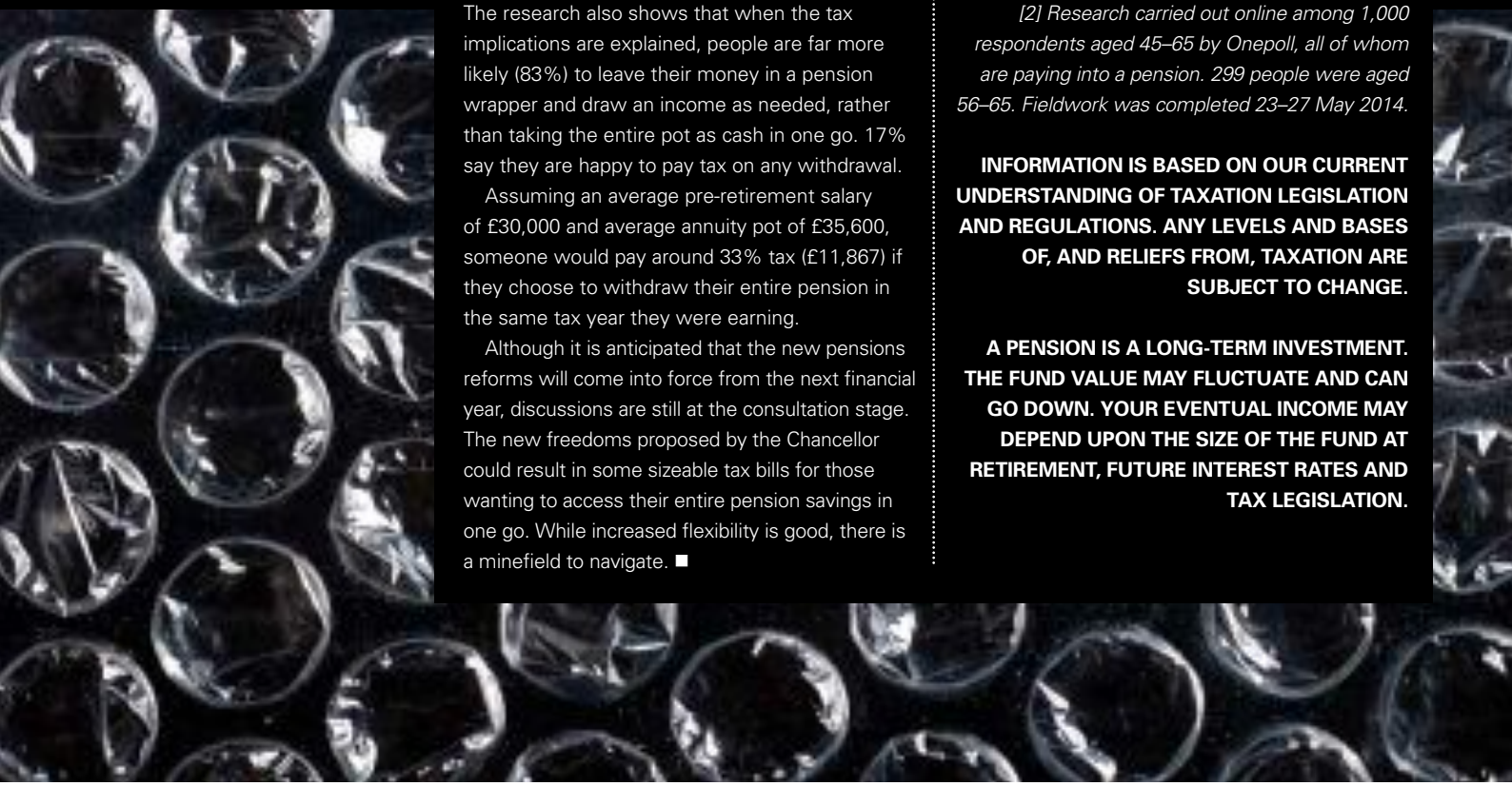
UNDERSTANDING THE OPTIONS AVAILABLE TO YOU

Retirement has now just got a whole lot harder to work out, so speaking to a professional financial adviser will be key in the new world to help consumers fully understand the options that will be available to them. For further information, please contact us to discuss your requirements.

Source:
[1] ABI, the average annuity purchase price in 2013 was £35,600, after tax-free cash has been taken. These figures have been calculated using income tax limits for 2014/15 as follows: individual personal allowance £10,000, basic rate limit £31,865, higher rate payable £41,865 (figures assume person born after 5 April 1948).
[2] Research carried out online among 1,000 respondents aged 45–65 by Onepoll, all of whom are paying into a pension. 299 people were aged 56–65. Fieldwork was completed 23–27 May 2014.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.



Published by **Goldmine Media Limited**,
Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL

goldmine media