MONEY view

Spring 2012

Verity wealth management

Your Pensions, Savings, Investments and Protection newsletter from Verity Wealth Management LLP

With Uncertainty comes Opportunities

Have a Financial Spring-Clean to ensure you're making the current marketplace work to your advantage.

Almost daily, we hear the various tales of woe, in the UK, the Eurozone and further afield, as the markets react to each new development.

On a positive note, we've seen initiatives by the Central Banks of the US, Eurozone, UK, Japan and others joining forces to do their bit to help ease some of the strains within the global financial system.

But whilst these are difficult times, it does help to also look at the picture over the longer-term, rather than purely reacting to the market sentiment of the hour.

Take the FTSE100 index, for example, which has suffered in recent times. Whilst its current position is well below the peak of just under 7000 in 1999, or even the 6000 figure of mid 2011, it's still a lot higher than the low of around 3500 back in March 2009.

Consider the past

And if you're trying to look to the future, just think how much the wider world has changed in just the last five years. Back at the start of 2007, there was no iPhone. Word had only just started to get around about Facebook and Woolworths was on every High Street! That's why taking a longer-term view may well make sense. And who knows, in five years time it could be a much rosier environment.

Prospects for 2012

As for the immediate future, 25 out of 27 leading economists polled by the BBC believe recession will return to Europe in 2012, and the majority put the possibility of a Eurozone break-up at 30-40%.

(Source: BBC, responses from 27 UK & European economists who are regularly surveyed by the Bank of England, Dec 2011)

Whatever happens, it's likely that there will continue to be periods of volatility within the marketplace, which is often a great time to reassess your portfolio, to help protect (or even grow) your investments and to ensure your retirement planning is on track.

The way ahead

Going forward, whatever you are investing for, whether it be for a property purchase, school fees, or retirement, always remember that your choice of investment should be dictated by your time horizon, attitude to risk and tax position.

Additionally, you may also need to consider if recent events or lifestyle changes could now impact upon that attitude to risk.

And with regard to your tax position, don't forget that now's the time to ensure you've considered utilising your allowances against investment and pensions contributions before the end of tax year on 5 April 2012.

So do get in touch with us to discuss your current financial needs.

The value of investments and the income from them can go down as well as up and you may not get back your original investment.

Past performance is not a guide to future performance.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Welcome....

to this newsletter, which covers some of the key issues of the moment that may affect your financial wealth - and sets out how we **may help you.**

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Beat the Deadline

The end of tax year is looming, so do make sure you've given consideration to this year's £10,680 allowance for your Individual Savings Account (ISA).

If the funds are available, have you used up your allowance? Even if you have, perhaps it may make sense for us to review your current portfolio.

As you probably know, there are different options afforded by an ISA. It can be used to: **save cash** - where the interest will be tax-free. Or it can be used to **invest in stocks and shares** - where any capital growth will be tax-free and there is no further tax to pay on any dividends you receive. Or as a **mix of both** cash and shares.

Share-based benefits

If you make gains of more than £10,600 from the **sale of shares** and certain other assets in the tax year 2011-12, you would normally have to pay Capital Gains Tax (CGT). However, you do not have to pay any CGT on gains from an ISA.

If you're a basic rate taxpayer, either inside or outside an ISA you will pay tax at 10% on **dividend income;** this is taken as a 'tax credit' before you receive the dividend and cannot be refunded for ISA investments.

If you're a higher or additional rate taxpayer you would normally pay tax on dividend income at 32.5% or 42.5%; in an ISA you won't get back the 10% dividend tax credit element of this, but you will save by not having to pay any further tax.

How it works

You can invest the entire £10,680 allowance into stocks and shares, or allocate up to half of it - £5,340 - to cash. And if you have a partner or spouse you could jointly commit up to a £21,360 allowance (in your two separate accounts/investments).

There are many suitable mutual funds and investment trusts which are ISA-able and we can provide information on those that best reflect your attitude to risk and meet your investment horizon.

Do give us a call to discuss this further.

A stocks and shares ISA is a medium to long-term investment, which aims to increase the value of the money you invest for growth or income or both. The value of your investment and any income from them can fall as well as rise. You may not get back the amount you invested.
Tax concessions are not guaranteed and may change in the future.

New Kid on the Block

Parents predict that the cost of supporting a child beyond the age of 18, will total almost £25,000, to help them with costs such as university, a car, or a deposit for a home.

(Source: L&G Investments Survey, October 2011)

The recent Government initiative to launch **Junior ISAs** may be just the ticket to help fund this cost.

The set-up is much like the tax-free benefits of the 'grown-up' version (see above) - with no tax to pay on any interest or gains.

You can take out on behalf of your child, either a 'cash' or 'stock and shares' Junior ISA, or both types at any one time.

In this instance anyone can invest in a Junior ISA (parents, grandparents, etc).

The total limit for payments each tax year is £3,600, provided the recipient is under 18, lives in the UK and does not already have a Child Trust Fund account.

The money within the Junior ISA belongs to the child and they can't take anything out until they are 18. If money is left in, it then converts to a normal ISA at this stage.

Whilst, it's important to consider how children can be helped out, this is not the only way that savings can be made on their behalf, especially if you'd rather not pass across control when they are 18. Or perhaps would want the option of having access to the money prior to them hitting 18.

Talk to us to find out more about the new Junior ISA, or to assess alternative options.

Did you know that the average life expectancy for those who were aged 65 across 2008-10 was projected to be a further 18 years for men and 20.6 years for women. *(Source: Office for National Statistics, October 2011)*

It's all Ours

If today's 65 year-old could, on average, live well into their 80's, then, with increasing longevity, you can understand why it's important to plan for what may be, a long retirement!

As part of this process, increasing numbers are keen to have greater control over their investment decisions, as part of their pension planning. And setting up a **Self-Invested Personal Pension (Sipp)** could help meet those needs. If you already have a company pension in place, that's not a problem, as you can contribute to more than one scheme.

And with regard to tax, a Sipp will also offer the same tax advantages as other pension arrangements.

Buy your own premises!

A key benefit of a Sipp is that it delivers the flexibility to have a truly diversified portfolio across a **range of investment choices,** such as cash, equities (both UK and foreign), unit trusts, gilts, investment trusts and commercial property.

Take the latter, for example, this facility is often used by people who want to **purchase their own commercial premises,** and then rent it back to themselves, with the rent being paid tax-free into the Sipp. You'll be able to view your pension every day!

And Sipps also give you the option a taking an income directly from your pension at retirement, rather than having to buy an annuity for life. This drawdown facility allows you to take up to 25% of your pension investment as tax-free cash, and then receive an income from the remaining money in your pension pot.

Not just for the wealthy

And these days, Sipps are no longer the domain of the wealthier investor, as there are now plans out there with relatively low monthly contributions. However, Sipps won't be right for everyone. And due to their complexity, they can offer more options than most people would ever require, resulting in higher charges than normal.

To arrive at the best decision for you, advice is essential. So talk to us first.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Income Drawdown carries significant investment risks, as your future retirement income remains totally dependent on your pension fund performance. This type of pension is not suitable for everyone.

AUTO-ENROLMENT

From October 2012 (subject to the employer's own introduction date), all eligible workers will have to be auto-enrolled into a qualifying pension scheme. This process will roll-out from the larger companies, with the smaller-sized firms having a cut-off date of 2015. Although workers will be able to opt-out of their employer's scheme if they choose not to participate.

The Pension Maze

These days there are different types of **Annuity** coming along, but the standard established one will deliver the surety of paying out a risk-free income, that's guaranteed for life.

The actual amount you receive will be dependent on a number of factors - size of your pension fund, your age, health and how the economic climate is. In recent years the climate for Annuities has not been favourable, with poor stock market returns, quantitative easing and falling interest rates.

Additionally, the requirement to buy an Annuity by age 75 was relaxed last April, enabling you to consider other options.

Are they flexible?

No. Conventional Annuities cannot be changed, transferred or surrendered for cash. This makes it essential to choose the best possible deal when the time comes to convert your pension savings into an income.

The newer types of Annuity can be more flexible. For example you can buy 'Fixed Term' Annuities, which last for a fixed period, such as five years. And investment-linked products do provide some scope for changing your risk appetite.

An Annuity has been the historical product that provides a regular retirement income in exchange for a lump-sum from your pension scheme.

Do shop around

Everyone has the right to look for the best deal, it's called the **Open Market Option,** so you don't have to accept the offer from your existing pension plan provider. At this stage, you can also withdraw (if wanted) a tax-free lump-sum of up to 25% of the total value of your pension.

Bad news is good news!

It's not often that ill-health can work to your advantage. However, if you suffer from certain medical conditions, then you may qualify for an 'Enhanced Annuity', which pays a much better income, as you're not expected to live as long!

Whatever you do, take advice before proceeding.

Did you know that if there isn't a Guardianship arrangement in place to protect the children - and both parents die - they might have to go into care!

Do the right thing...

» As unlikely as this event may be, it would be a nightmare scenario if the worse did happen, yet it's relatively easy to sort out.

The simplest ways are through a Will, or by having a Guardianship letter in place, both of which will set out your wishes, and whom you want to appoint as a guardian.

If you don't undertake this task, then irrespective of who you would expect to care for your kids, it's solely down to the courts and social services to decide. And whilst they're going through this (possibly lengthy) process, your offspring may be placed in care.

Similar circumstances might occur if a couple aren't married and the mother dies. In this scenario, the surviving parent may not necessarily have immediate responsibility for the children, if the mother hasn't previously granted parental rights!

These are **VERY** good reasons why it makes sense to have an all-encompassing Will in place, along with writing relevant aspects into Trust.

Will planning

Yet a remarkable two-thirds of us don't have a Will!* Even though dying Intestate (without a Will) may mean that whilst your spouse (or registered civil partner) will be the first person entitled to the estate, they may not inherit all of it.

*(Source: *Advicenow website, December 2011)*

In the absence of a Will, the whole process is slowed down dramatically; often meaning that the family left behind may face financial hardship, at the worst possible time. And it's even worse for unmarried couples!

That's why a Will should be a key aspect of your estate planning, together with giving thought to Inheritance Tax (IHT) and the use of Trusts.

IHT planning

For those who expect to inherit or have sufficient money to leave to others, Inheritance Tax may be an issue to consider. The amount an 'individual' can bequeath free of IHT (called the 'nil rate band') is currently £325,000 for 2011-12. After that, your worldwide estate (including property) is taxable at 40% on any excess over the nil rate band.

To lessen your potential liability, you can make use of the numerous IHT-exempt gift allowances during your lifetime. And once maximised, you can make further gifts, which will generally be free from IHT, providing you survive seven years from the date of the gift.

Additionally, since October 2007, married couples and registered civil partners have been able to pass any unused portion of their nil rate band to their spouse/partner, without having to engage in complex estate planning - even if the first spouse/partner died before 2007. This could increase the IHT threshold of the second spouse/partner to as much as £650,000 in 2011-12.

Trust planning

You can set up a Trust in your lifetime or in your Will. A Trust is another legal arrangement and common uses are:

- to possibly reduce the tax liability, for example, by placing a life policy in trust.
- to help ensure life policies are paid out speedily to the beneficiaries.
- to protect beneficiaries who might be too young to handle their affairs.
- to protect someone who is unable to handle their affairs because they are incapacitated.

The next step

Whilst these issues may seem morbid, and possibly daunting, they're vitally important. **And that's where we can help;** we can assist in a number of areas to either set up some of the elements above, or perhaps conduct a timely review of your current arrangements. As part of the process, we'd liaise with other parties too for your legal and tax advice.

The Financial Services Authority does not regulate some forms of Taxation, Trust advice or Will writing.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

■ The contents of this newsletter are believed to be correct at the date of publication (January 2012).

■ Every care is taken that the information in *Money View* is accurate at the time of going to press. However, all information and figures are subject to change and you should always make enquiries and check details and, where necessary, seek legal advice before entering into any transaction.

■ The information in this newsletter is of a general nature and does not constitute advice. You should seek professional advice tailored to your needs and circumstances before making any decisions.

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