

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

# Leap into action

Give your finances a spring clean ahead of the end of tax year.

strengthen in 2011. (Source: Bank of America Merrill Lynch, December 2010)

Additionally, on the homefront, the FTSE100 has generally risen over recent months, although it's still a long way off its 1999 peak of just under 7000.

**So what do you do to protect your investments and to keep your retirement planning on track?**

### The way forward...

Firstly, why not have a spring clean of your portfolio (ahead of the end of tax year on 5 April), to ensure that all your assets are as tax-effi-

ciently allocated as possible?

**Property, Individual Savings Accounts (ISAs) and pensions** can be some of the most tax-efficient places for ordinary investors to put their money and/or to make their money work as hard as possible for them.

With some people having difficulty buying **property**, more and more are renting into their 30s and 40s, thereby

helping to rejuvenate the buy-to-let market, by boosting yields across the country.

**ISAs** continue to be a great way of salting away £10,200 a year, tax-free (or £20,400 for a couple), with over 2,500 mutual funds to choose from.

As for **pensions**, there have been a number of changes in recent years, with some people affected by complex restrictions as to how much they can contribute this tax year.

There will be yet more tax and pension changes effective from 6 April, so get in touch with us now about this (and other matters), so that we can get your contributions in by the 5 April deadline.

**Making the wrong investment decisions because you failed to take professional advice can be a costly mistake, so leap into action and talk to us.**

**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.**

» Investors may face uncertainty (along with some opportunities) across many fronts in 2011. There's a growing checklist, with the ongoing turmoil in the eurozone, inflation in China, tension in the Korean peninsula, not to mention the threat of rising inflation and possibly higher interest rates at home.

But there are glimmers of hope as the German and American economies were showing signs of greater confidence at the turn of the year.

And also, a recent Bank of America Merrill Lynch Global Survey of some 209 fund managers worldwide (who handle \$569bn in assets), has shown optimism is increasing. Of those surveyed, 44% are expecting the world economy to

## 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.

■ Verity Wealth Management LLP is an appointed representative of Sesame Ltd.

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# Hit the ISA target

In addition to your pension, you may also need to think about this year's Individual Savings Account (ISA) and how you are going to invest your £10,200 tax-free allowance.

» Have you used it in full? If not, and you have the funds available, you may want to invest the entire £10,200 into stocks and shares, or allocate up to half of it - £5,100 - to cash. And if you have a partner or spouse you could jointly invest up to a £20,400 allowance (in your two separate accounts/investments).

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

With the investment outlook being uncertain, you can be forgiven for not knowing where to invest. But whether you are considering property, equity or bonds, we can advise you of the funds that are available.

The same goes for geographical region. Diversifying your existing portfolio away from the UK may be a good idea to spread your risk, as some parts of the world could have better economic prospects than the UK and Europe.

Alternatively, you may wish to put half your money into a Cash ISA. These are great in case you need to access the money at short notice for a rainy day, school or university fees or a wedding.

There are also other tax-efficient investments which you may wish to consider, particularly if you are a higher rate taxpayer.

To ensure you make decisions that are the most suitable for your needs, talk to us first and we'll help identify the most appropriate investments for you. And for existing ISA investors, we can review your current portfolio.

**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.**

## Plan for RETIREMENT...

The end of the tax year is looming and it's time to consider your pension contributions.

**A key area at this time of year - if it's relevant to you - is making sure that you have maximised your contribution allowance to your pension.**

It may sound deadly dull, but just think of all the tax you will be saving and how glad you will be that you made the effort to put your affairs in order when you come to spend the money in retirement!

What your maximum pension contribution allowance is this year is particularly complicated because there have been so many changes.

How much you can invest this tax year (2010-11) depends on your earnings and the pattern of your pension contributions in the last three years.

There are three sets of criteria as to what you can invest up to, but don't worry, we can help you ascertain what maximum applies to you this year.

Another call to action is that if you

aren't already a member of pension fund, it is well worth becoming one, even if you have little, or no money to contribute this year.

New rules effective from 6 April 2011 will enable you to carry forward three years' worth of pension contribution - that's up to £150,000 (£50,000 for each of the past three tax years 2008-09, 2009-10 and 2010-11) but you can only do this if you were a member of a pension scheme in this tax year.

This carry-forward facility is particularly useful if you are self-employed, receive bonuses, commissions or have fluctuating earnings and can only make large one-off contributions every few years.

You may also be confused about all the different types of pension. For example, you may be a member of a company pension scheme, but that does not stop you mopping up your pension contribution allowance by investing in a personal pension elsewhere, such as in a Stakeholder Pension or a Self Invested Personal Pension (Sipp).

**So talk to us, before it's too late. A pension is a long-term investment. The fund value may fluctuate and could go down.**



Have you ever counted up all the pension schemes you have paid into?

# The Pension puzzle

» If you are in your 40s, 50s or 60s, you may have contributed to quite a few pension schemes throughout your working life.

So think about all the places you have worked and make a list of all the pensions you hold. If nothing else, a bit of spring-cleaning could reveal a few forgotten treasures and help you get your retirement planning in order.

For example, a Retirement Annuity Contract (RAC) was a type of pension plan that individuals could take out before July 1988, and were only available to the self-employed and those in employment where there was no access to an occupational scheme. Perhaps you have one of these old contracts tucked

away in a drawer or filing cabinet.

But you need to proceed with care. Many RACs and with-profit policies sold from the 1970s to the 1990s contain valuable Guaranteed Annuity Rates (GARs), so you should not transfer these contracts elsewhere or you could lose the high annuity rate.

Elsewhere, if you have previously contributed to a company pension scheme but have lost the paperwork, you may be able to trace it by going to: <http://www.direct.gov.uk>, and then type in 'pension tracing service' in the 'search' box, or alternatively call 0845 6002 537.

Generally speaking, final salary pensions should not be transferred, as they carry valuable benefits, which can be

difficult to replicate elsewhere.

If you have been a member of Group Personal Pension (GPP), the contract is between you and the insurance company, so if you leave the company, you can usually transfer it elsewhere.

If it makes sense to take action, then by consolidating some of your pensions, it should make it easier to administer and monitor the investments, possibly with lower management charges as well.

And as you've seen from this short piece, there are already a number of issues to consider and possibly follow up, which may benefit your overall retirement planning.

**Please get in touch to find out more.**

## Annuity changes

The requirement to buy an annuity by age 75 will be relaxed from April 2011 onwards. This should deliver greater flexibility for retirement planning, so do talk to us to find out how this may benefit you.

*(Source: DirectGov website, June 2010 Budget)*

# Protect yourself!

The impact of the Comprehensive Spending Review may have a profound effect on some of us over the course of this year.

**Last year's Spending Review set out that around 490,000 public sector jobs may go by 2014-15** (albeit reduced to 330,000 in the Autumn

Forecast). On top of this, according to PWC research, there may be a similar number of job losses within the Private sector too, for businesses that relied on contracts with the State.

*(Source: PWC, November 2010)*

The same Review has the Government tightening up on how it treats claimants for long-term sickness or disability.

One way of protecting yourself is to take out an **Income Protection** policy. This is designed to pay out a tax-free monthly sum in the event that you are unable to work due to illness or accidental injury, or become unemployed (as some policies may offer unemployment cover as a bolt-on).

You decide how much cover you require (up to the insurers maximum amount) in order to continue paying your bills and the policy usually pays out until you return to work, or (in extreme cases) when you retire. Although, do note that cover for the 'unemployment' element only tends to be for up to 24 months.

## Do your sums to lessen your premiums

You must factor into any planning what you may receive from your employer, should you suffer an illness, injury or be made redundant.

And Income Protection generally covers - unlike some other products - two of the main reasons for taking time off work; stress and back pain.

**Talk to us to find out more.**

**As with all insurance policies, terms, conditions and exclusions will apply.**

## It's not suitable for all...

Be warned, if you know or suspect (at the time of taking out the policy) that you are going to be made redundant - and opt for this cover as a bolt-on, then it would invalidate any claims you subsequently make. The same may also apply to any pre-existing medical conditions or illnesses.

And you may also face problems in taking out this policy if you are self-employed, a temporary or contract worker, have been with your current employer less than six months, or are over 65.





**A massive two-thirds of people\* never get round to making a Will, yet it may create enormous problems for the nearest and dearest if there isn't one.**

(Source: \*Advicenow, October 2010)

# Will YOU Won't YOU

» Of course, we may assume that when the worst happens, the law would ensure our estate went to our loved ones anyway. But, unfortunately, this may not always be the case.

For example, 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. And it's even worse for unmarried couples! And without a Will in place the whole process is slowed down dramatically, often meaning that the family left behind may face financial hardship, at the worst possible time.

Additionally, if you have young children, you would surely want to set out in a Will how they should be looked after.

That's why writing a Will should be a key aspect of your estate planning, where you would also give consideration to Inheritance Tax (IHT) and the use of Trusts to further assist in tax planning.

## IHT

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 2010-11. After that, your worldwide estate (including property) is taxable at 40% on any excess over the nil rate band.

And don't forget, 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 2010-11.

For example, say a widow dies during this tax year, but her deceased husband, who died in 1997, used only 50% of the nil rate band applicable at that time, the widow could pass £487,500 (£325,000 + £162,500) to her family free of IHT, an additional tax saving of £65,000 (40% of £162,500).

You can also 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.

If you still think your heirs may face a tax bill, you could even consider covering this by taking out a joint life, second death, life insurance policy, written in trust, to help cover any potential IHT liabilities.

## Trusts

This brings us nicely onto Trusts. You can set up a Trust in your lifetime or in your Will. A Trust is another legal arrangement and common uses include the following:

- to possibly reduce the tax liability, for example, by placing insurance policies in trust.
- to help ensure any insurance 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.

Whilst this information may initially seem quite daunting (and morbid too!), it's vitally important. And that's where we can help; we can assist in a number of areas and then liaise with other parties for your legal and tax advice.

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■ The contents of this newsletter are believed to be correct at the date of publication (January 2011).

■ 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.