

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

Calmer waters ahead?



» A survey of fund managers has shown that 80% expect the world economy to grow over the next 12 months. The BofA Merrill Lynch fund manager survey (which questioned 213 fund managers, who manage \$617bn in assets) has also shown that two-thirds expect equity markets to return to traditional growth levels, or better.

Overall, the respondents feel that 2010 will be a year of moderate economic growth, benign inflation and solid returns in global equities. (Source: BofA Merrill Lynch, December 2009)

However, this more optimistic worldwide outlook does not mean that there won't be further stock market volatility, but it does show that investor sentiment has improved markedly since the dark days of October 2008, or even the low in the UK's FTSE100 of 3,512 back in March last year. But while the FTSE100 has risen in recent months, it still has some way to go before it would hit the 6,000+ figures of May 2008.

Opportunities

If the volatility of the stock markets are too much to stomach, a regular savings plan can help smooth out the peaks and troughs. By investing each month, investors benefit from investing on the dips and avoid the problem of 'market timing'.

And for a more conventional tax-free investment vehicle, the annual ISA

allowance increased from £7,200 to £10,200 from 6 October 2009 for the over-50s, and from 6 April 2010 for everyone else, enabling you to 'individually' invest up to £5,100 in cash, or up to the full £10,200 amount in stocks and shares. Allowing you to shelter even more in a tax-free environment.

On the property front, with both commercial and residential valuations down markedly from their Summer/Autumn 2007 peaks, there is value in some areas of the market. Take a look at what's available via estate agents and auction houses.

Going forward

Whatever you are investing for, whether it be for a property purchase, school fees,

home improvements or retirement, your choice of investment should be dictated by your time horizon, attitude to risk and tax position.

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

Levels, bases and reliefs from taxation are subject to change.

Making the wrong investment decisions because you failed to take professional advice can be a costly mistake, so why not get in touch so that we can discuss your needs?

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

8 Dalamere Close, High Generals Wood
Washington, Tyne & Wear NE38 9DH

Tel: 0191 417 4799

Email: office@veritywm.co.uk

Web: www.veritywm.co.uk

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It is never too late...

» **Failure to take steps to mitigate your estate's potential Inheritance Tax (IHT) bill could lead to problems for your nearest and dearest.**

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.

You can also make use of the numerous IHT-exempt gift allowances, which you can make during your lifetime.

Once you have maximised these exemptions, you can make further gifts during your lifetime, which will be free from IHT providing you survive seven years from the date of the gift.

Where there's a will...

Another reason for IHT planning is that it will force you to write a will. Failure to do so can have dire consequences in today's world of serial marriages and unmarried partnerships. If you want to ensure that your estate and personal belongings pass to exactly the people you want to benefit, it is essential to write one.

For example, dying intestate in

England or Wales means that whilst your spouse (or civil partner) will be the first person entitled to the estate, they may not inherit all of it. How it pans out is dependent on various family scenarios and financial thresholds, which may mean that some of the estate would also be divided amongst any children and other blood relatives. It's even worse for unmarried couples!

And it's a similar onerous scenario too

for spouses and partners in Scotland and Northern Ireland.

So it makes sense to have a will in place. **Do talk to us to find out more.**

- **The Financial Services Authority does not regulate Taxation 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.**

Sipp your way to retirement

Did you know that the average life expectancy for those who were aged 65 in 2006 was projected to be a further 20.6 years for males and 23.1 years for females.

(Source: Office for National Statistics, October 2008)

» So it's important to plan for, what could be, a long retirement.

And if you're not part of the £150,000+ earners (who were affected by the 2009 Budget), then it is business as usual: pension tax relief continues at 20% or 40% (depending on your marginal rate of tax) and very cost-efficient it can be too.

Sipp route

Small wonder, then, that Self-Invested Personal Pensions (Sipp)s continue to be popular for those who like making their own investment decisions. For example, Sipp)s permit investment in commercial property and this facility is often used by business people who want to purchase their own premises, renting them back to themselves, with the rent being paid tax-free into the Sipp.

Another useful feature of Sipp)s is the facility to transfer shares acquired through a SAYE Share

Option Scheme or Share Investment Scheme into a Sipp, so that the dividends can be received largely tax-free (there is a 10% tax credit on dividends, which is not reclaimable).

Sipp)s also enable you to take an income directly from your pension at retirement, rather than having to buy an annuity for life. This is called taking Income Drawdown and the amount of income you take each year can be varied (within certain HM Revenue and Customs limits) to suit your financial circumstances.

Of course, Sipp)s won't be right for everyone, due to the complexity of these products, and that 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.

If you would like to discuss Sipp)s or have a general review of your pension planning, please get in touch.

- **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.**



You know it's important to make sure your loved ones are protected should you suffer an untimely death – but have you done anything about it? If not... read on...

It's your life

» Consider the following; as life expectancy has increased, life cover rates have dropped markedly - so even in the current difficult economic conditions, this vital cover may be affordable for you.

For example, if you were a 39 year-old, non-smoking male, looking for £100,000 of life cover, over a 20 year term, then it may cost around £12.62/month today against around £17.09/month, five years ago! And that disregards inflation!

(Source: Moneyfacts; comparison of the average premium from over 25 firms; Nov. 2009 vs. Nov.2004)

This product is called **term assurance**, and is one of the cheapest forms of life cover as it's designed to cover you for a specific period only - such as the duration of your mortgage. But once the term expires, there's no payout if you die thereafter.

The next step

Life cover, like other protection policies will be contingent on certain terms, conditions and exclusions applying. So you must be honest when completing the forms, to ensure that your dependants are less likely to face any problems should there be a claim against the policy.

You also need to consider that if you die, any life assurance policy you own will normally form part of your estate and could be hit by inheritance tax. In many cases you can avoid this by writing the policy in trust. By so doing, the proceeds of the policy can be paid directly to your dependants.

Do talk to us to find out more.

■ **The Financial Services Authority does not regulate Trust advice.**

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



Targeting growth

With the prospect of higher tax rates in the years ahead, the race is on to maximise use of tax-free investments.

» If you have any savings, or investments, you should consider an **Individual Savings Account (ISA)**, as your first port of call, as it is tax-free.

And with the higher ISA allowance of £10,200, effective from 6 October 2009 for the over-50s (and from 6 April 2010 for other UK residents), you will be able to put up to £5,100 into cash and £5,100 into stocks and shares, or up to the full £10,200 amount in stocks and shares. This means that you and your partner/spouse could invest up to a £20,400 allowance (in your two separate accounts/investments).

Stocks and shares

Share-based investments in various forms are ISA-able. For example, shares in individual companies may be placed inside a self-select ISA, as well as collective investment vehicles, like unit or investment trusts.

Unit and investment trusts are pooled investments where a fund manager picks a selection of shares based on various criteria and the value of the investment depends on the

collective performance of the shares selected.

Cash

Switching cash ISAs into equity ISAs is okay to do, but remember that you can't do the reverse.

Pension

If you can't afford to invest in a pension as well as an ISA this tax year, you can always use your ISA savings at a later date to fund pension contributions. In which case you will benefit from another slug of tax relief - this time on entry, because pension contributions receive tax relief upfront.

The next step

So ISAs should be the first port of call for most investors as any gains and income generated by cash, bonds and stock market investments held in an ISA wrapper are free of income tax and Capital Gains Tax (CGT) on exit.

It is best to talk to us to ensure you choose appropriate investments. And for existing ISA investors, we can review your portfolio.

■ **A stock 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.**

GET PROTECTED!

Recent research from the Association of British Insurers (ABI) shows that over 40% of people are either saving far too little, or nothing at all, for their retirement

And the vast majority of the UK's population has little or no protection in place to help them cope with unemployment or other unexpected financial shocks.

(Source: ABI Savings and Protection Survey, Q3 2009)



Alternatives to pensions

You don't necessarily have to invest in a pension to provide yourself with an income in retirement.

» Of course, for the majority of people, investing in a pension may be the most suitable vehicle for saving for retirement.

But for those who need options, or are prepared to take a higher risk with some alternative vehicles (perhaps, in addition to their existing pension arrangements), here are some routes they could consider. These options (aside from ISAs) will not be suitable for the vast majority of people due to the high(er) risk attached to them and their complexity, so advice is essential.

You could invest in a whole range of different vehicles: the important thing is that you plan ahead and have a strategy for generating a desired level of income in retirement, using products which match your attitude to investment risk.

Impact on higher earners

Additionally, the loss of some tax relief for high earners may have tipped the balance for some within this group in favour of alternative investments for their retirement.

From 6 April 2011 (when the top rate of tax would be 50%), the Government intends to restrict tax relief on pension savings for those with taxable incomes of £150,000 or more on a sliding scale, until it falls to 20% for those with taxable incomes of £180,000+.

To prevent those with incomes of £150,000+ from making huge contributions to their pensions in the run up to this change, new legislation has been in force, whereby full tax relief (at 40%) is allowable only if certain criteria are met.

Some options... ISAs

From 6 April 2010, everyone will be entitled to a £10,200 ISA allowance, of which up to £5,100 can be invested in cash and up to £5,100 in stocks and shares, or

up to the full £10,200 amount in stocks and shares. The new limit came into effect from 6 October 2009 for the over-50s.

If you can't afford to invest in a pension now, remember that you can even use ISA savings as pension contributions in future years.

Buy-to-Let

With property values showing signs of recovery*, now could be a good time to invest in buy-to-let. And, according to the Council of Mortgage Lenders (CML), the buy-to-let market grew in the third quarter of 2009 for the first time in two years. And for a third quarter in a row, there was a decline in the number of buy-to-let mortgages with arrears of more than 1.5% of the balance.

*(Sources: *Nationwide house prices, December 2009 vs. December 2008; CML press release, November 2009)*

Invest in your company

Invest in your own company by paying down any company debt, or securing new plant or machinery (which may assist the future value of the business). Remember, that when you sell your company, there is a special entrepreneur's CGT rate of 10% for companies sold for £1m or less.

And, if you're fairly adventurous... VCTs

Venture capital trusts (VCT), which invest in unquoted and AIM-listed companies, attract tax relief at 30% on investments up to £200,000 a year, as long as you hold them for five years. Income and gains are tax-free.

So if you earn £200,000 and invested £50,000 in a VCT, you would receive £15,000 in tax relief. But, bear in mind that VCTs are high-risk investments and some have fallen significantly in value, so don't let the 'tax tail wag the investment dog'.

Do talk to us, as we may be able to help you in a number of ways.

■ **Your property may be repossessed if you do not keep up repayments on your mortgage.**

For buy-to-let mortgages we act as introducers only/charge a fee of ?.

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

Past performance is not a guide to future performance.

Levels, bases and reliefs from taxation are subject to change.

For advice on VCTs, we act as introducers only.

■ The contents of this newsletter are believed to be correct at the date of publication (March 2010).

■ 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. You should seek professional advice tailored to your needs and circumstances before making any decisions.

■ **We cover pensions, savings, investments and protection products, along with a number of other financial areas, so do contact us if you'd like to discuss your financial needs:**
Tel: 0191 417 4799 Email: office@veritywm.co.uk Web: www.veritywm.co.uk