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MARCH/APRIL 2015

WEALTH ATTRACTION

Legally minimising or mitigating taxation on current and future tax liabilities before 6 April 2015

NISA COUNTDOWN

Time is running out if you want to make the most of your tax-efficient savings allowance

PENSION FREEDOMS - WHAT COULD THEY MEAN TO YOU?

Accessing your pension safely, without unnecessary costs and a potential tax bill

INFLUENCING FACTORS TO MANAGING YOUR FUTURE WEALTH

When was the last time you revisited your investment goals?

Plus Pension Wise

Discussing life expectancy as part of your retirement planning is key

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.

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INSIDE THIS ISSUE

WELCOME TO THE LATEST ISSUE in which we provide an informed insight that extends across both the financial planning and tax calendar as we enter a very important time of the year.

With the biggest pension reforms in a lifetime rapidly approaching on 6 April, are you ready for how these reforms could potentially affect you, whether now or in the future? The wide media coverage that followed the 2014 Budget announcements talked of pensions in the future being used as bank accounts and new pension freedoms leading to long waiting lists for Lamborghinis. On page 06 we look at what pension freedoms could mean to you.

It's vital to know why you're investing. The first step is to have a good think about your financial situation and your reasons for investing. But whatever your personal investment goal may be, you need to consider your time horizon at the outset. On page 14 we consider why it makes sense to revisit your investment goals at regular intervals to account for any changes to your personal circumstances.

If you are keen to take advantage of the New Individual Savings Account (NISA) allowance, now increased to £15,000, and make the most of your tax-efficient savings, time is running out. You only have until 5 April to fully utilise your 2014/15 NISA allowance, after which it will be lost forever. Find out more on page 13.

Tax planning is a very complex area covering many forms of tax. No one likes paying more tax than they legally have to but one of the challenges of wealth is the high taxation it attracts. For some individuals the need for specialist professional advice has never been greater. With the current tax year end rapidly approaching, on page 10 we've provided some tax planning areas for you to consider before 6 April 2015.

The full list of the articles featured in this issue appears on page 03 and opposite. ■

Contents

'MIDLIFE CRISIS'

Baby boomers are some of the least prepared for retirement

A RECENT SURVEY HAS REVEALED the concerning fact that 40% of baby boomers, those aged 55 to 74, have not started to save specifically for retirement yet, despite two-thirds of respondents understanding the State Pension will not be sufficient.

The BlackRock Global Investor Pulse survey found that Britain's baby boomers are some of the least prepared for their retirement. The challenge remains to encourage short-term savers to become long-term investors.

The findings show that 59% of respondents are concerned they will not live comfortably in retirement, while 63% hold their non-pension savings in cash, causing inflation erosion. Of the participants, 81% said they did not know how to access income with their pension savings.

PENSION REFORMS

In light of the pension reforms commencing from 6 April this year, 9% say they will invest their pension pot to generate an income, while 8% will move their pension into a cash savings account.

The survey highlighted that 28% of the respondents are undecided on what to do, while 26% plan to stay invested in their pension plan but take out cash regularly and use some of it to buy an annuity. Meanwhile 6% of participants say they will use part of their pension to clear debt or similar, while 3% plan to blow the lot on whatever they desire.

APPROACHING RETIREMENT

If you are about to retire or are approaching your retirement, it's important that you think very carefully about how you will sustain your income through a much longer retirement than previous generations.

The research shows that many will use the flexibility and choice offered by the pension reforms to stay invested in their pension for longer, while taking regular income, and combine purchasing an annuity alongside it, potentially later in life. Meanwhile, almost one in five baby boomers may take advantage of the freedom to invest their money elsewhere, with half choosing a cash savings account.

More than half of the people surveyed said that they would be encouraged to save more if the Government provided a stable pensions system that is not changed by successive political parties. ■

CHOOSING THE RIGHT PENSION SCHEME

Whatever stage of life you're at, it's important to plan for the future by choosing the right pension provision. So whether you're just starting out and looking to set up your first pension, or building on your existing retirement plans, in the light of the pension reforms now is the perfect time to discuss your requirements. Please contact us – we look forward to hearing from you.

PENSION FREEDOMS - WHAT COULD THEY MEAN TO YOU?

Accessing your pension safely, without unnecessary costs and a potential tax bill

WITH THE BIGGEST PENSION REFORMS in a lifetime rapidly approaching on 6 April, are you ready for how these reforms could potentially affect you, whether now or in the future? The wide media coverage that followed the 2014 Budget announcements talked of pensions in the future being used as bank accounts and new pension freedoms leading to long waiting lists for Lamborghinis.

The changes to the pension tax rules were initially announced in the 2014 Budget to give individuals greater flexibility to access their Defined Contribution (DC) pension savings. They were subsequently confirmed in the Taxation of Pensions Bill published on 14 October last year and will take effect from 6 April 2015, which some commentators are calling 'Pension Freedom Day'.

However, according to Standard Life, nearly half of adults aged 50 to 65 are indifferent to the upcoming pension reforms, and almost one in five are confused about what it all means and how the changes could affect them. If you're aged 55 or over from 6 April 2015, you should immediately be able to take advantage of this increased flexibility, but obtaining professional advice is essential to make sure you get an informed analysis of your particular situation.

THE CHANGES TO THE PENSION TAX RULES WERE INITIALLY ANNOUNCED IN THE 2014 BUDGET TO GIVE INDIVIDUALS GREATER FLEXIBILITY TO ACCESS THEIR DEFINED CONTRIBUTION (DC) PENSION SAVINGS.

TAX-FREE CASH FROM YOUR PENSION ON RETIREMENT

If applicable to your particular situation, from 6 April there will be the option to withdraw up to 25% of the fund as tax-free cash from your pension on retirement or at anytime from age 55 whether retired or not. This can either be taken all at once or you could make a series of withdrawals and have a portion of it paid tax-free.

In this instance, someone with a pension worth £100,000 could withdraw £25,000 cash tax-free in one lump sum and have subsequent withdrawals taxed as income, or alternatively make a series of withdrawals over time and receive 25% of each withdrawal tax-free.

If this person withdrew five lump-sum withdrawals of £20,000 they would receive £5,000 tax-free with each withdrawal, equating to £25,000 tax-free cash overall. Withdrawals of £1,000 a month would receive £250 of each payment tax-free, with the remainder taxed as income. Although this example would enable the person to manage their tax liability, it is not available if they use their pension fund to purchase an annuity.

WITHDRAWING YOUR PENSION

If you are aged 55 and over from 6 April 2015 you'll have the freedom to decide how you choose to withdraw your pension, in excess of any tax-free cash. However, if you choose to take an Uncrystallised Funds Pension Lump Sum(s) (UFPLS) it wouldn't be 'in excess of any tax-free cash.' The choices will be to take the entire fund as cash in one single go, withdrawing differing lump sum amounts when you choose or taking a regular income utilising income drawdown where you are able to withdraw directly from your pension fund. The last two options would mean that your pension remains invested. Alternatively, you could purchase an annuity to secure an income for the rest of your life.

Depending on your particular situation, if you withdraw your pension in stages rather than all at the same time, this may enable you to manage your tax liability, as any withdrawals in excess of the tax-free amount will be taxed as income at your marginal rate.

There will be three primary options for you to consider in terms of taking benefits for the first time on or after 6 April 2015. If you are not in capped drawdown prior to 6 April 2015 it will not be an option to move into capped drawdown after this date. Capped drawdown is the current form of drawdown that allows you to draw an income from your pension subject to an annual limit.

MAXIMUM VALUE OF PENSION SAVINGS

The Annual Allowance is the maximum value of pension savings on which you receive tax relief each year. The Annual Allowance is £40,000 for the 2014/15 tax year. Your pension contributions after 6 April 2015 will still be subject to this and other specific contribution rules. Contributions to DC pension savings could also be restricted to £10,000 if you make any withdrawals from a DC pension in addition to any tax-free cash after 6 April 2015 via the flexi access drawdown route. In the event that you have already entered flexible drawdown before 6 April 2015 you will also be able to make contributions of up to £10,000 a year, something not currently allowed.

The £10,000 reduced allowance also applies to any withdrawal of a UFPLS which wouldn't be 'in addition to any tax-free cash'.

If you were to have a pension worth £10,000 or less and took it as a 'small pot', the reduced £10,000 annual allowance will not apply. You could take pensions as small pots up to three times from personal pensions and unlimited times from occupational ones. The reduced annual allowance will also not apply if you enter capped drawdown before 6 April 2015 and your withdrawals thereafter remain within the maximum GAD income current drawdown limit, even if you move more funds into the same plan. Other scenarios where the reduced annual allowance does not apply are if you withdraw your pension as a lifetime annuity (excluding flexible annuities) or a scheme pension (except when fewer than 12 people are entitled to one under that scheme).

FROM 6 APRIL 2015 THE CURRENT 55% TAX CHARGE ON LUMP SUMS PAID FROM YOUR PENSION FUNDS IF YOU DIE BEFORE AGE 75 WILL BE ABOLISHED.

BENEFICIARY PENSION PAYMENTS

From 6 April 2015 the current 55% tax charge on lump sums paid from your pension funds if you die before age 75 will be abolished. The tax rules will also be changed to allow joint life annuities to be paid to any beneficiary.

If you die after age 75, your beneficiaries have the options of taking the entire pension fund as cash in one go, subject to 45% tax, or receive a regular income through income drawdown or an annuity. This income will be subject to Income Tax at their marginal rate, and if they receive periodical lump sums through income drawdown, these will be treated as income, so subject to Income Tax at their marginal rate.

Even if you die prematurely before April 2015, your beneficiaries could still take advantage of the new rules if they wait until 6 April 2015 to take benefits.

MAKING UNLIMITED WITHDRAWALS

Anyone with a Defined Benefit (DB) pension, such as a final salary pension, will be able to make unlimited withdrawals. But in order to do so they will have to transfer to a DC pension such as a Self-Invested Personal Pension (SIPP).

As you could lose very valuable benefits this is rarely a suitable course of action and you will be required to receive professional financial advice first. It will also no longer be possible to transfer from most public sector pension schemes.

The age at which you can draw your pension is set to increase. Currently it is 55, and will increase to 57 from 2028 and remain ten years below the State Pension age and then increase in line with it thereafter. This will not apply to Public Sector Pension Schemes for Firefighters, Police and Armed Forces.

You will be unaffected by the changes if you have already retired and are receiving an annuity income from all of your pensions. If you are in capped or flexible income drawdown you should be able to benefit from the new rules. ■

ACCESS YOUR PENSION SAFELY, WITHOUT UNNECESSARY COSTS AND A POTENTIAL TAX BILL

The pension reforms will bring about a new level of flexibility and choice. For some, an annuity may still be the right option. Others may want to withdraw their entire tax-free lump sum and convert the rest to drawdown. It's essential to obtain the right professional financial advice to ensure that you access your pension safely, without unnecessary costs and a potential tax bill. To discuss your situation, don't leave it to chance. Please contact us.

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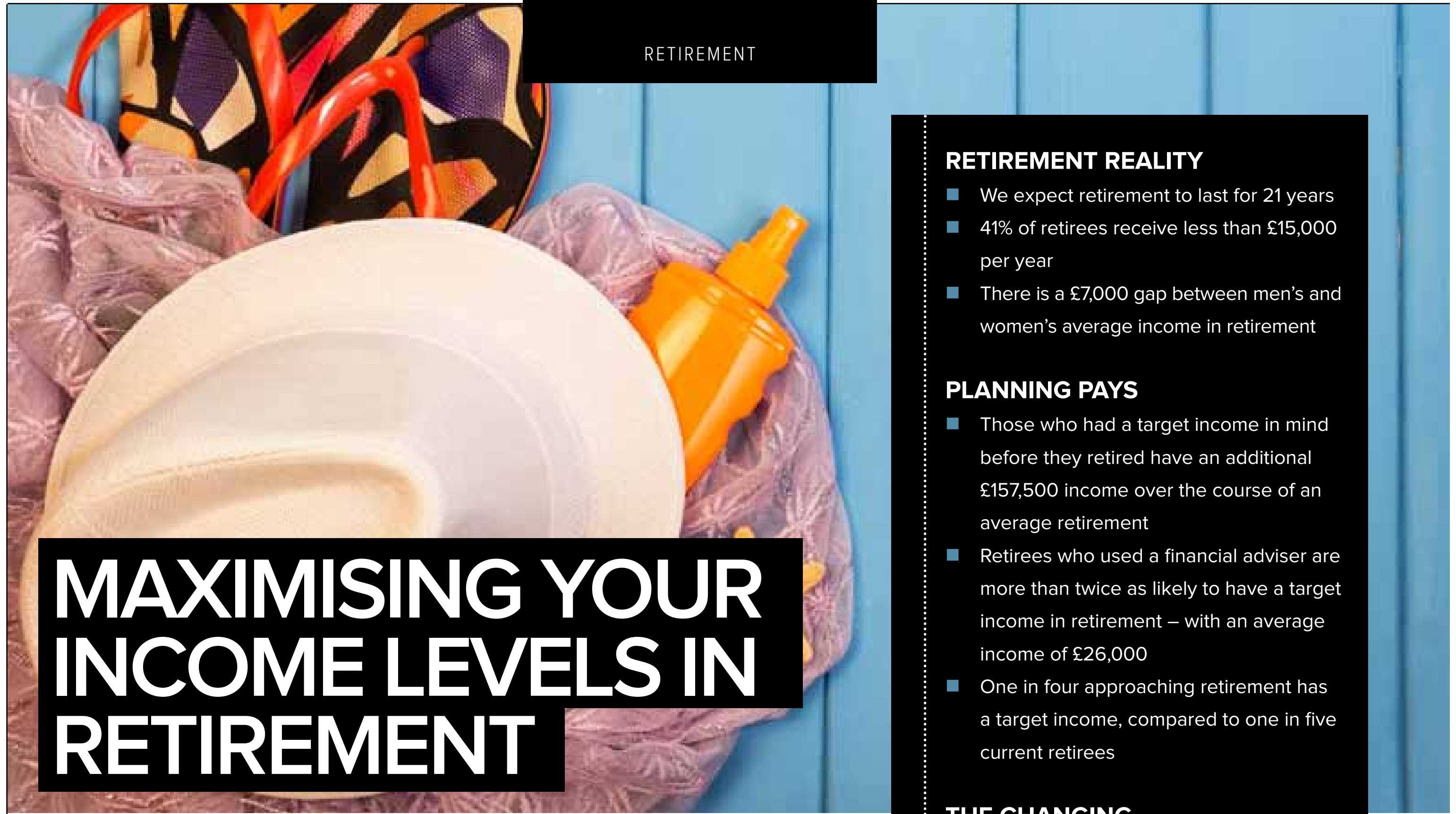
A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.



MAXIMISING YOUR INCOME LEVELS IN RETIREMENT

Why having a target in mind clearly makes a difference to fund this stage of your life

A RECENTLY PUBLISHED REPORT has highlighted the positive impact planning and professional financial advice can have on income levels in our retirement. The first Retirement Income Uncovered report from Old Mutual Wealth found that retirees who hadn't set themselves an income target to aim for in retirement had an average income of £17,500 per year. However, those who saw a financial adviser at least once have an average income in retirement of £20,800.

ADVICE MATTERS

In addition, receiving regular professional financial advice from an adviser doubles the likelihood that a person will have a target, and those who had a target and saw an adviser have an average income of £26,000 a year, a 49% increase compared to those who did neither.

The report looked into the level and source of retirement income for people already retired from full-time work, plus those over 50 approaching this crucial part of their financial lives. This provided a concise picture of current and changing sources of retirement income, changing attitudes to work in retirement and also levels of satisfaction and understanding of the different sources of retirement income.

OTHER INCOME SOURCES

In addition, the report examines how other income sources are expected to make a greater contribution to the income of those yet to retire. As expected, access to, and reliance on, final salary pension schemes is on the wane, and while property downsizing contributes an average of just 2% of income for those currently retired, this rises to a 15% expected contribution for those yet to retire. ■

Source data:

Old Mutual Wealth partnered with YouGov to conduct research into the attitudes and behaviours of those currently in retirement or approaching retirement. The research was carried out via an online survey among YouGov's consumer panel. The sample consisted of 1,536 UK adults aged between the ages of 50 and 75. The sample was split up into five brackets (50-54, 55-59, 60-64, 65-69 and 70+) with a target quota of 300 participants in the research from each age bracket. YouGov invited a nationally representative sample to take part within each age bracket. Fieldwork was carried out between 4 July and 10 July 2014.

RETIREMENT REALITY

- We expect retirement to last for 21 years
- 41% of retirees receive less than £15,000 per year
- There is a £7,000 gap between men's and women's average income in retirement

PLANNING PAYS

- Those who had a target income in mind before they retired have an additional £157,500 income over the course of an average retirement
- Retirees who used a financial adviser are more than twice as likely to have a target income in retirement – with an average income of £26,000
- One in four approaching retirement has a target income, compared to one in five current retirees

THE CHANGING FACE OF RETIREMENT

- Those approaching retirement are 25% less dependent on a final salary pension compared with retired people
- Those who have a retirement income goal are 63% more likely to be satisfied with their retirement income than those who do not

WHERE IS YOUR INCOME GOING TO COME FROM?

What is very clear is that retirement income is changing and people are preparing to use many different sources to fund this stage of their lives. Thinking about where your income is going to come from and having a target in mind clearly makes a difference to your outcome in retirement. So does obtaining professional financial advice. More people yet to retire are setting goals that will make them better off in retirement, and advice clearly pays. For further information, please contact us – we look forward to hearing from you.

NEW LANDSCAPE FOR LATER-LIFE PLANNING

Making informed decisions about how to best use your savings and manage your income in retirement

MORE THAN ONE IN FOUR BRITONS (27%) expect to come under pressure to lend their family money from unlocked retirement pots when the new pension freedoms are introduced from 6 April this year, according to latest research from the Centre for the Modern Family.

The report, *Forever Young: The New Landscape of Later-Life Planning* from the Scottish Widows think tank, revealed that the new pension reforms could have a knock-on effect on intergenerational finances, with more than one in five people expecting to use pension savings to fund care costs of elderly relatives (23%) or to invest on behalf of the wider family, for example, in a property for children (22%).

MANAGING SAVINGS MORE EFFECTIVELY

Almost one in four believes the reforms will enable people to manage savings more effectively. However, they are outnumbered by the two in five (39%) who worry that the reforms could mean not having enough money for the whole of their retirement. Added to this picture is an increasing life expectancy.

Despite feeling the pressure to give up their retirement savings, more than a third of people (38%) say they don't know or haven't thought about how they will survive financially in retirement. Almost one in five (17%) intend to rely on state support, which may leave them without the means to secure their financial future in later life.

BUDGET REFORMS MOST ACUTE FOR FULL NESTERS

The effect of the Government's pension reforms may have a greater impact on particular groups, especially those with adult children still living at home, or 'full nesters', who have been identified as a particularly financially strained group.

One in four full nesters think they will come under pressure to use pension savings not spent on an annuity to fund care costs of elderly relatives (25%), compared to 19% of empty nesters. Full nesters were also the most likely to feel under pressure to use their retirement savings for investments on behalf of the wider family (25%).

Almost a third of full nesters (29%) expect retirement savings to be used for loans to other family members, compared to 27% of empty nesters.

FAMILY GIVE AND TAKE

The report also found families are pulling together to support one another at different stages of life, and parents are increasingly looking to their children to plug the gap that loans and investments from an unlocked pension pot may leave in their retirement savings. 40% of people feel that support from children in later life is repayment for what they have provided, and 41% also believe that children have an obligation to support their parents.

These attitudes are particularly prevalent among young people – 55% of boomerang kids and 59% of individual renters believe children have an obligation to support parents in later life. While on average just one in five (18%) expect to support their parents financially in later life, this rises dramatically to 40% among those currently renting with friends.

SUPPORT NOT LIMITED TO FINANCIALS

This support is not limited to financials however, with more than a third (39%) expecting to care for their parents (62% for boomerang kids) and 12% expecting parents to live with them (18% for boomerang kids).

The reforms to the pension system announced in the 2014 Budget are transforming the retirement landscape. Although for many they will represent greater autonomy over how to use their savings in later life, it is important to consider the knock-on effects on families.

Many may feel pressure to access their pots to support struggling family members in an already challenging economic environment. ■

MAKING INFORMED DECISIONS IS VITAL

While it is reassuring that family members are seeing the importance of pulling together in this way, it is vital to make informed decisions about how to best use your savings and manage your income in retirement. If you would like to review your current situation or plans, please contact us – we look forward to hearing from you.

Source data:

The research was completed by YouGov and the findings are based on 2,082 online interviews with a nationally representative sample of adults aged 18 and over living in the UK. The interviews were conducted between 28 April and 1 May 2014.

WEALTH ATTRACTION

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TAX PLANNING IS A VERY COMPLEX area covering many forms of tax. No one likes paying more tax than they legally have to, but one of the challenges of wealth is the high taxation it attracts. For some individuals the need for specialist professional advice has never been greater. With the current tax year end rapidly approaching, we've provided some tax planning areas for you to consider before 6 April 2015.

INCOME TAX

If appropriate, consider transferring income (for example, interest or dividends) by transferring investments between you and your spouse or registered civil partner, to ensure use of all personal allowances and to minimise the income taxed at the higher rates of 40% (£31,866 and above of taxable income) or 45% (additional rate band over £150,000).

If your net income for 2014/15 will exceed £120,000, you will not receive a personal allowance so consider mitigating this by making a pension contribution or Gift Aid payment. A full personal allowance is available if your taxable income is £100,000 or less.

Child benefit is taxable where chargeable income exceeds £50,000. The tax rate increases in line with income and reaches 100% where income is more than £60,000 (i.e. child benefit is fully clawed back at that point).

If you are close to these thresholds, pension contributions and Gift Aid donations can be used to reduce income and retain the entitlement to tax-free child benefit. Alternatively you can ask HM Revenue & Customs (HMRC) not to pay child benefit in the first place to avoid having to declare it on your tax return.

NEW INDIVIDUAL SAVINGS ACCOUNTS (NISAS)

Income and capital gains in NISAs are tax-efficient. The annual allowance is £15,000, all of which can be put into a Stocks & Shares NISA, Cash NISA or combination of both.

Shares in newer, less established companies which are ineligible to join the main stock markets (FTSE100 or FTSE250) are allowed to be held within a NISA, making them one of the most tax-efficient investment vehicles as they also benefit from Inheritance Tax (IHT) relief after two years.

PENSIONS

You can contribute up to £40,000, inclusive (where applicable) of the 20% pension tax relief recoverable from HMRC by the pension scheme, and obtain full tax relief at your marginal income tax rate(s).

Unused pension relief can be carried forward three years in some cases, so any relief from the year ended 5 April 2012 not utilised by the 5 April 2015 will be lost.

A pension fund grows largely tax-free, which can help to increase the amount you have in your fund. (Remember that the value of your fund can go down as well as up and you may not get back your original investment.)

If you haven't earned income you could still receive tax relief at 20% on the first £2,880 (i.e. £3,600 will go into your pension pot) you pay into a pension each tax year (6 April to 5 April).

INHERITANCE TAX (IHT)

Make sure that you have a Will and review it periodically to ensure that it still leaves your estate to those you intend and that it remains tax-efficient.

The IHT annual exemption of £3,000 in aggregate on gifts to individuals is £6,000 for 2014/15 where you did not use this exemption in 2013/14 and can reduce your estate.

Gifts of up to £250 to any individual during 2014/15 are also exempt from IHT.

Increased relief for gifts is available if made in consideration of marriage or registered civil partnership.

Other gifts to individuals made during your lifetime which are potentially exempt transfers (PETs) will be disregarded when calculating any IHT due on your death once you have survived seven years from the making of the gift.

Gifts into trust can be considered up to your (unused) nil rate band of £325,000 without creating an IHT charge at lifetime rates; however, published draft measures prevent multiple use of the nil rate band.

Regular gifts made out of your income that are not needed to support your usual standard of living are IHT exempt, even if made within seven years before death, and should be carefully recorded.

With an appropriate review of your investment risk profile, shares in unquoted trading companies, including those listed on AIM, can qualify for business property relief once held for two years, thereby effectively removing their value from your estate.

If you have been resident for 17 out of the last 20 tax years you will be 'deemed domiciled' for IHT purposes and therefore subject to IHT on your worldwide assets. If this applies to you, action should be taken to mitigate the impact.

CAPITAL GAINS TAX (CGT)

The CGT annual exemption for 2014/15 is £11,000 and, if not used by 5 April 2015, cannot be carried forward.

For sophisticated investors, capital gains arising in 2014/15 can be deferred (or avoided completely) through investment in Enterprise Investment Scheme and Seed Enterprise Investment Scheme qualifying companies as well as in qualifying social enterprises. ■

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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

ESTATE PLANNING, TRUST PLANNING, TAX PLANNING AND WILL WRITING IS NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.

MAKE SURE THAT YOU HAVE A WILL AND REVIEW IT PERIODICALLY TO ENSURE THAT IT STILL LEAVES YOUR ESTATE TO THOSE YOU INTEND AND THAT IT REMAINS TAX-EFFICIENT.

NISA COUNTDOWN

Time is running out if you want to make the most of your tax-efficient savings allowance

IF YOU ARE KEEN to take advantage of the New Individual Savings Account (NISA) allowance, now increased to £15,000, and make the most of your tax-efficient savings, time is running out. You only have until 5 April to fully utilise your 2014/15 NISA allowance, after which it will be lost forever.

In his 2014 Budget speech the Chancellor, George Osborne, announced that from 1 July last year ISAs would be reformed into a much simpler product, the NISA. Furthermore, all existing ISAs would be automatically converted to a NISA.

From 1 July 2014 the overall subscription limit set by the Government for 2014/15 increased from £11,880 to £15,000. It is now possible for new subscriptions to be split in any proportion between a new Cash NISA and new Stocks & Shares NISA. Therefore, you now have more choice about where to put your money: invest it all in a Cash NISA, split it however you want between a Cash NISA and Stocks & Shares NISA, or invest the full subscription allowance in a Stocks & Shares NISA.

INCREASED FLEXIBILITY IN THE WAY YOU USE YOUR NISA ALLOWANCE

You can:

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

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FROM 1 JULY 2014 THE OVERALL SUBSCRIPTION LIMIT SET BY THE GOVERNMENT FOR 2014/15 INCREASED FROM £11,880 TO £15,000.

A NISA WAY TO WEALTH CREATION

ANY CONTRIBUTIONS MADE INTO A NISA from 6 April 2014 will count against your new NISA limit for 2014/15. If you already have a Cash or Stocks & Shares ISA, your existing ISA will have become a New ISA and your annual limit increased to £15,000 for 2014/15.

Junior NISA limits also increased to £4,000 from 1 July last year. So again, if you have any unused allowance for this year, you will be able to top-up contributions before 6 April.

TRANSFERRING NISAS

You can still transfer NISAs from one provider to another if you are looking to consolidate your investments, or want to transfer between Cash NISAs and Stocks & Shares NISAs. The new NISA rules give you total flexibility to do this. Transferring previous tax year ISAs to a new provider does not count as another NISA contribution, so if you have built up a number of ISAs with several providers over the years, bringing them together under one roof will enable you to gain control and ensure they keep working in line with your objectives and risk appetite.

WANT TO SHELTER £15,000 FROM TAX, OR £30,000 COMBINED WITH YOUR SPOUSE OR REGISTERED CIVIL PARTNER?

If you're thinking about saving or investing, we can help you understand your NISA options. To find out more about where you can invest in your tax-efficient NISA, please contact us for further information before April 2015.

INFLUENCING FACTORS TO MANAGING YOUR FUTURE WEALTH

When was the last time you revisited your investment goals?

IT'S VITAL TO KNOW why you're investing. The first step is to have a good think about your financial situation and your reasons for investing. Whatever your personal investment goal may be, it is important to set your time horizon at the outset, as this will impact on the type of investments you should consider to help achieve your goals. It also makes sense to revisit your investment goals at regular intervals to account for any changes to your personal circumstances.

TYPES OF INVESTMENT GOALS

- Retirement planning or property purchase over the very long term (15 years or more)
- Life events, such as school fees, over the medium term (10-15 years)
- Rainy day or lifestyle funds to finance goals, such as a prestigious car, over the medium to shorter term (5-10 years).
- The minimum time horizon for all types of investing should be at least five years.

Thinking about your reasons for investing now will help you work out your investment goals and influence how you manage your investments in future.

WHAT ARE YOUR INVESTMENT GOALS?

You'll need to give some thought to your investment goals. Investment strategies should typically include a combination of various fund types in order to obtain a balanced approach to risk and return. Maintaining a balanced approach is usually the key to the chances of you achieving your investment goals, while bearing in mind that at some point you may want access to your money. This makes it important to allow for flexibility in your planning.

HOW LONG ARE YOU THINKING OF INVESTING FOR?

If you're investing with a goal in mind, you've probably got a date in mind too. If you've got a few goals, some may be further away in time than others, so you'll probably have different strategies for your different investments. Investments rise and fall in value, so it's sensible to use cash savings for your short-term goals and invest for your longer-term goals.

SHORT TERM

Most investments need at least a five-year commitment. But there are other options if you don't want to invest for this long, such as cash savings.

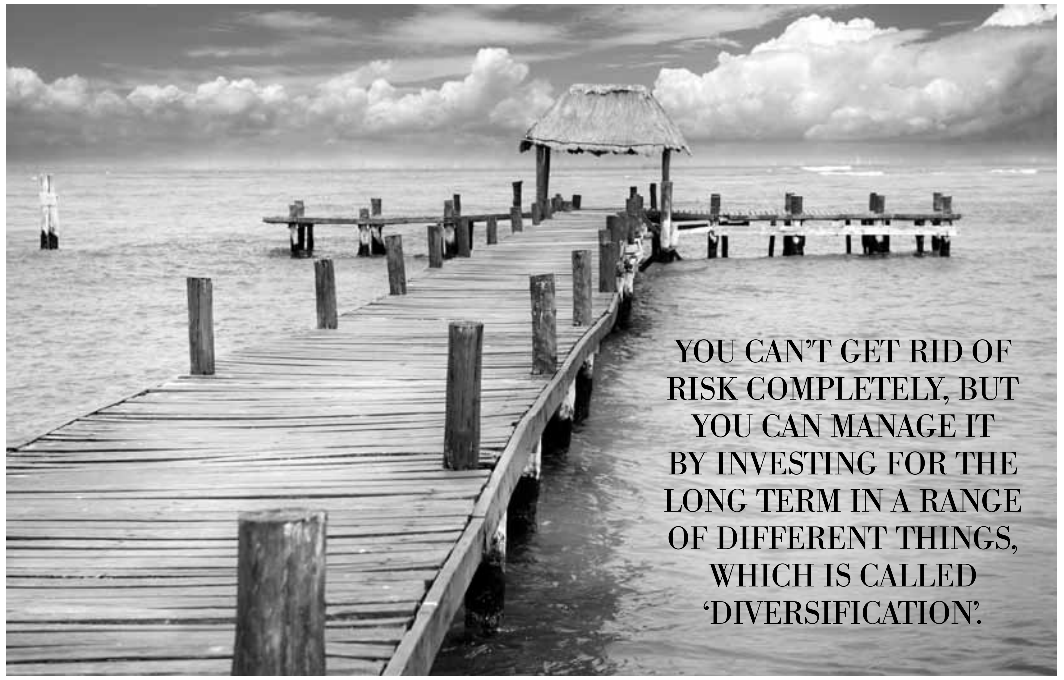
MEDIUM TERM

If you can commit your money for at least five years, a selection of investments might suit you. Your investments make up your 'portfolio' and could contain a mix of funds investing in shares, bonds and other assets, or a mixture of these, which should be carefully selected and monitored for performance.

LONG TERM

Patience is an essential ingredient of long term investment success. Let's say you start investing for your retirement when you're fairly young. You might have 20 or 30 years before you need to start drawing money from your investments. With time on your side, you might consider riskier funds that can offer the chance of greater returns in exchange for an increased risk of losing your money.

As you get closer to retirement, you might sell off some of these riskier investments and move to safer options with the aim of protecting your investments and their returns. How much time you've got to work with will have a big impact on the decisions you make. As a general rule, the longer you hold investments, the better the chance they'll outperform cash, but there can never be a guarantee of this.



RISK PROFILE

Risk is the possibility of losing some or all of your original investment. Often higher-risk investments offer the chance of greater returns, but there's also more chance of losing money. Risk means different things to different people. How you feel about it depends on your individual circumstances and even your personality. Your investment goals and timescales will also influence how much risk you're willing to take. What you come out with is your 'risk profile'.

As a general rule, the more risk you're prepared to take, the greater returns or losses you could stand to make. Risk varies between the different types of investments. For example, funds that hold bonds tend to be less risky than those that hold shares, but there are always exceptions.

You can't get rid of risk completely, but you can manage it by investing for the long term in a range of different things, which is called 'diversification'. You can also look at paying money into your investments regularly, rather than all in one go. This can help smooth out the highs and lows and cut the risk of making losses.

DIVERSIFICATION – WHAT DOES IT MEAN?

Just as a balanced diet is good for your health, holding a balanced, diversified portfolio can be good for your investments. Diversifying your portfolio with a mix of investments can help protect it from the ups and downs of the market. Different types of investments perform well under different economic conditions. By diversifying your portfolio you can aim to make these differences in performance work for you.

The idea is to put your money into lots of different things so that it's not all tied up in one area. If you hold the shares of just one company and it collapses, you could lose all your money. If you invest in a particular sector that performs poorly – like the banking sector in 2008 – you could find yourself with heavy losses.

Of course, even well-diversified portfolios are at risk from market movements. All investments can fall as well as rise. But a portfolio that's diversified will generally move less and produce more balanced returns – both gains and losses.

Diversify your portfolio in a few different ways through funds that invest across:

- Different types of investments
- Different countries and markets
- Different types of industries and companies

A diversified portfolio is likely to include a wide mix of investment types, markets and industries. How much you invest in each is called your 'asset allocation'. Diversifying your portfolio requires investing in more than just one company. It means introducing investments from different countries, different sectors of the same market and different asset classes so they behave differently in response to market conditions over the medium to long term.

TIME TO DEFINE YOUR INVESTMENT GOALS?

Before you can actually define your investment goals, you need to ask yourself what you want to achieve. If you would like to get a sound point of view about what may be right for your unique situation, please contact us. We'll review and discuss your financial situation and help you set goals and suggest specific next steps, discuss potential solutions and provide ways to help you stay on track.

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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.

TRUST IN YOUR FUTURE

Exposure to a range of assets through a single investment

IN PERFORMANCE TERMS, the attraction of investment trusts is consistently evident. They allow you to pool your money with that of other investors to get exposure to a range of assets through a single investment and are listed companies that issue a fixed number of shares quoted on a stock market, such as the London Stock Exchange.

BEST KEPT SECRET OF THE INVESTMENT WORLD

Investment trusts have been around since the 1860s and they have long been regarded by many as the best kept secret of the investment world. They are 'closed-ended' investments, meaning they issue a fixed number of shares when they are set up, which investors can then buy and sell on the stock market.

Investment trust managers always have a fixed amount of money at their disposal, and won't have to buy and sell to meet consumer demand for shares. This can add a degree of stability to investment trust management that a unit trust manager won't have.

SPREADING INVESTMENT RISK

The diversity investment trusts offer means you can spread risk by investing in tens or even hundreds of companies through one investment. However, this doesn't mean there is no risk to your capital, and the risks will vary depending on where the trust invests.

Due to changes in the value of the assets the investment trust owns, supply and demand can fall out of line. As such, there is a chance that the trust's share price could trade at a discount to the value of its underlying assets, or even trade at a premium.

SUPPLY AND DEMAND IN THE STOCK MARKET

The value of the assets held by an investment trust is called the 'net asset value' (NAV), usually expressed as pence per share. If a trust has £1million worth of assets and one million shares, the NAV is 100p. However, the price of an investment trust's shares is determined by supply and demand in the stock market. This means the price you pay will almost invariably differ from the NAV.

If a trust is trading at less than its NAV, it is said to be trading at a discount. If the share price is higher than the NAV, it is trading at a premium. Often, investment trusts trade at a discount. This looks like good value, as you pay less than £100 for £100 worth of assets. However, there is no guarantee that any discount will have narrowed by the time you come to sell. If the discount widens, then you'll lose out in relative terms, whatever happens to the NAV of the trust.

BORROWING EXTRA MONEY TO INVEST

Investment trusts also have the advantage of being able to borrow extra money to invest (known as 'gearing'). This ensures a boost in returns when the stock markets are performing well. As such, since share prices have historically tended to increase over the longer term, gearing has proved to be beneficial with regards to investment trusts, albeit adding risk at the same time. However, when share prices fall, the losses of geared funds are multiplied. ■

DISTINCTIVE APPROACH TO INVESTMENT MANAGEMENT

We help our clients achieve their investment goals by offering professional advice and access to our distinctive approach to investment management, and by ensuring that the plans we put in place remain effective in the future, no matter how your circumstances may change. To review your investment objectives, please contact us.

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WHAT'S YOUR MAGIC NUMBER?

The picture of retirement income in the UK is not as bleak as some would like us to think

A REPORT HAS REVEALED those approaching retirement are expecting to receive £23,700 per year when they retire. The same survey shows that the average income in retirement today is currently just £19,000 – a shortfall of £4,700 per year, or 25%.

Old Mutual Wealth published its first 'Retirement Income Uncovered' study that also unearthed a new magic number for retirement income of 47% of pre-retirement income. On average, people are hoping for around half of their current salary when they retire, and those who stated they were satisfied with their income have achieved 47% of pre-retirement income.

'Retirement Income Uncovered' looks into the level and source of retirement income for people already retired from full-time work, plus those over 50 approaching this crucial part of their financial lives. The report provides a concise picture of current and changing sources of retirement income, changing attitudes to work in retirement and also levels of satisfaction and understanding of the different sources of retirement income.

Other key findings of the report are:

RETIREMENT REALITY

- We expect retirement to last for 21 years
- 41% of retirees receive less than £15,000 per year
- There is a £7,000 gap between men and women's average income in retirement

THE CHANGING FACE OF RETIREMENT

- Those approaching retirement are 25% less dependent on a final salary pension compared with retired people
- Those who have a retirement income goal are 63% more likely to be satisfied with their retirement income than those that do not

PLANNING PAYS

- Those who had a target income in mind before they retired have an additional £157,500 income over the course of an average retirement
- Retirees who used a financial adviser are more than twice as likely to have a target income in retirement – with an average income of £26,000

THE EMERGING WORLD OF PENSION DRAWDOWN

- Using pension drawdown can reduce the pension pot required by 25% to generate the average income of £19,000
- Even as income drawdown hits the headlines, only 17% claim to have a good level of understanding of it

MAKING A GREATER CONTRIBUTION TO THOSE YET TO RETIRE

In addition, the report examines how pensions may contribute less to retirement income in the future with other sources expected to make a greater contribution to those yet to retire – property downsizing contributes an average 2% to those currently retired, yet rises to a 15% expected contribution for those yet to retire.

The survey also shows that people approaching retirement are not the 'rabbits in headlights' that many describe. Far from being frozen in fear, the study uncovers a pragmatic Britain that is adjusting expectations and facing up to the challenges of a retirement that people realistically expect to last for more than 20 years.

Retirement income is changing and people are preparing to use many different sources to fund this stage of their lives. The 'Retirement Income Uncovered' findings show that people are adapting their behaviour accordingly, and the picture of retirement income in the UK is not as bleak as some would like us to think.

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BETTER OFF IN RETIREMENT

Having a target in mind and seeking financial advice makes a real and positive difference to how much you will have when you retire. More people yet to retire are setting goals, and that will make them better off in retirement. People are satisfied if they achieve around half of their pre-retirement income when they retire, so perhaps the general rule of aiming for two thirds is outdated. To discuss your requirements, please contact us.

Source data:

Old Mutual Wealth partnered with YouGov to conduct research into the attitudes and behaviours of those currently in retirement or approaching retirement. The research was carried out via an online survey amongst YouGov's consumer panel. The sample consisted of 1,536 UK adults aged between the ages of 50 and 75. The sample was split up into five brackets (50-54, 55-59, 60-64, 65-69 and 70+) with a target quota of 300 participants in the research from each age bracket. YouGov invited a nationally representative sample to take part within each age bracket. Fieldwork was carried out between 4-10 July 2014.

HEDGING AGAINST DOWNSIDE RISK

Divergent monetary policies and growth trends could be key themes of 2015

THE RETURN OF VOLATILITY – as valuations and investor complacency remain elevated – will make it vital for investors to consider hedging against downside risk and cut back on 'me too' investments this year, according to the BlackRock Investment Institute's (BII) 2015 Investment Outlook.

The Outlook, 'Dealing with Divergence', explores the Institute's main economic assumptions, top investment ideas and views on likely crosscurrents for 2015. The BII anticipates that divergent monetary policies and growth trends could be key themes of 2015. Financial conditions in the US and UK will likely tighten due to a pickup in growth and improving labour markets, and will loosen elsewhere, particularly Japan and Europe.

For investors, caution will be key, as valuations in most markets are rich, and investor faith in monetary policy underpinning asset prices is high, with many investors now embracing momentum investment strategies.

STRENGTHENING CALLS FOR MONETARY STIMULUS

Around the globe, the recovery from the 2008 financial crisis has been unusually tepid, the BII notes, with nominal growth in 2015 expected to be below the 15-year trend in most economies, except for the US and Japan.

According to the report, many pro-growth assumptions – rising wages and inflation expectations, a behind-the-curve Fed and an uptick in global growth – did not pan out in 2014, while GDP forecasts have recently had one common thread: downward revisions.

On the other hand, the ongoing oil price decline, if sustained, could counterbalance the low-growth trend in 2015, giving a boost to growth in most economies. The price fall should dampen headline inflation in the developed world. This could strengthen calls for monetary stimulus in weak economies and help keep a lid on bond yields in stronger ones. Cheap oil could drive up consumer demand and benefit some emerging markets nations due to improved trade balances, reduced government subsidies and lower inflation.

A CYCLICAL UPSWING FOR THE US

The US economy is in a cyclical upswing and is one of the world's few major economies expected to perform well throughout this year. A rising US dollar will likely be the key financial market trend of 2015, bringing a de-facto tightening of global financial conditions because the greenback is still the world's premier funding currency. European and EM companies with US sales could benefit from a strong US dollar.

Steady growth in employment, a moderate (yet patchy) housing recovery and rising capital spending (capex) all point to a sustainable recovery. The BII expects the Fed to start tightening monetary policy in 2015, but only at a gentle pace, likely ending at a historically lower end point than in previous cycles.

When it comes to the impact of higher rates on US equities, the BII notes that there is likely to be a big difference between the performance of low-beta stocks (defensives) – which historically do well when rates are falling (and vice versa) – and high-beta stocks (cyclicals) – which do best when rates rise, but only when the rise is mild. If history repeats itself, this could bode well for cyclical stocks in 2015.

A BOOSTER FOR EUROPEAN RISK ASSETS

The BII describes the eurozone as like 'a low-flying plane that constantly hits air pockets, with occasional lifts and near-death experiences.' Its recovery from the recent financial crisis has fallen far short of that from previous crises around the world – and dramatically short of the typical recovery from past recessions.

Eurozone growth could yet surprise on the upside, the BII believes, with expectations at rock-bottom and the European Central Bank likely to deliver on market hopes for full quantitative easing (QE). QE's 'wealth effect' (the impact on consumer spending from boosting asset prices) would not mirror the US experience due to lower equity and home ownership rates in Europe, but QE could have a big impact on confidence.

Even a moderate cyclical rebound would be a booster for European risk assets, the BII says, and indeed the bar is low. The ideas for exploiting a potential rebound include cyclicals such as European automakers – many companies are trading near 2008/09 lows – and contrarian investments in beaten-down luxury goods makers and integrated oil majors.

MONETARY STIMULUS TO JUMPSTART JAPAN'S ECONOMY

Japan is 'all in' on a high-stakes bet that monetary stimulus will jumpstart the country's economy, the BII says, with the Bank of Japan's balance sheet now swollen to almost 60% the size of Japan's GDP.

The Bank of Japan is buying equities as well, a move that – especially when combined with a decision by Japan's $1.2 trillion Government Pension Investment Fund (GPIF) to more than double its allocation to Japanese and foreign equities – should offer a big boost to equity markets. Other pension funds and households may start mirroring the GPIF's move and shift some of their cash piles into stocks.

Market gyrations are not out of the question, however, with the biggest near-term risk for Japan a loss of momentum for 'Abenomics', Prime Minister Shinzo Abe's plan to revitalise the economy and drag Japan out of a two-decade economic funk.

SATELLITES OF THE EUROZONE AND ASIA

Divergence in the emerging world is becoming more evident due to tightening US monetary policy and falling commodity prices, according to the BII. The reforms anticipated in many emerging markets this year are only likely to accentuate this divergence. Satellites of the eurozone and Asia will likely import dovish monetary policies from the European Central Bank and Bank of Japan respectively, and will have room to cut rates to spur growth. Brazil and Russia might have to hike rates to defend their currencies. Others, including Mexico and China, stand to gain from US economic momentum.

What these diverse countries have in common, the BII notes, is that traditional export models are challenged, with export growth essentially flat for the past three years. The reasons are weak global demand from the developed world and a deceleration in the emerging world's locomotive, China.

Weak emerging market currencies and equity prices have offset the lack of export growth to some extent, yet countries could do more to unlock their potential: improve infrastructure, institutions and education, and enact reforms to make their economies more competitive.

Emerging market equity valuations are generally cheap, relative to both developed market stocks and their own history, but the BII suggests that company selection will remain key to effective strategies in this sector. ■

ARE YOU CONSIDERING WORKING AFTER RETIREMENT?

Two thirds of over-50s plan to lengthen their working lives

NEARLY TWO THIRDS OF OVER-50S workers would consider retraining so they could work longer in retirement, according to new research from MetLife.

Its study found 63% of over-50s are looking at potentially lengthening their working lives, with 50% considering learning new skills to continue in full or part-time employment, while 13% would look to retrain so they could launch their own business.

Traditional working patterns in later life are changing dramatically. The research among all adults shows around 71% of all workers say they would consider working after retirement, with just one in three (31%) expecting to retire completely from full-time work.

SOCIAL INTERACTION

The decision to work past the traditional retirement age is not entirely financially driven, with 23% of over-50s saying they enjoy working and don't feel ready to retire. A further 30% say they would miss the social interaction that work provides, and 29% say they feel that work gives them a sense of purpose. However, the study found 55% of working over-50s admit they are not financially well prepared for retirement.

The change in working patterns was highlighted in an independent report, sponsored by MetLife, from Dr Ros Altmann CBE entitled *Flexibility in Retirement – Planning for Change.* The report by Dr Altmann, now the Government's Business Champion for Older Workers, highlighted the tremendous opportunity of how the change in working patterns can dovetail with pensions planning, flexible approaches, new products and more creative methods of funding retirement. ■

Source data:
Research conducted online between 11-12 March 2014 among a nationally representative sample of 2,531 employed adults aged 18+ by independent market research firm Consumer Intelligence.

HELPING YOU PLAN FOR YOUR RETIREMENT

It is striking that many over-50s are considering retraining to become more flexible at work just as pensions are being changed to be more flexible. The numbers contemplating working in retirement – whether it's full-time or part-time – shows that as the retirement landscape changes and people prefer to phase retirement, flexible income solutions will be needed to enable people to make the best possible use of pension freedoms. For more information, please contact us.

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'SHOT IN THE ARM' FOR OIL CONSUMING ECONOMIES

Positive impact on earnings, and a small positive impact on dividends

DESPITE THE SO FAR RATHER negative response of equity markets, the oil price falls could be seen as a 'shot in the arm' for oil consuming economies, with many viewing the oil price decline as being deeply beneficial because it amounts to a reduction in input costs and a dividend to consumers.

However, it's not all good news, as this could result in increased volatility and geopolitical risk. The polarisation of performance between markets which are net importers of oil and those which are net exporters is likely to continue.

POSITIVE IMPACT ON EARNINGS

The decline in oil price is expected to have a positive impact on earnings, and a small positive impact on dividends. Global growth will be given a boost, inflation will be pushed lower and central bank policy may well remain more accommodative, with rate rise expectations getting pushed out even further in the near term. The reach for yield may extend further and, with oil related shares being amongst the higher yielders, but increasingly risky, other areas with yield may be bid up even further from current levels. The starting point is different, but it is worth remembering that the last two supply-led oil shocks, in 1987 and 1999, were followed by equity bubbles.

CONTAGION FROM THE HIGH YIELD MARKET

However, based on historical experience, global energy earnings are set to decline by around a quarter to a third, and equity markets are hardly enthusiastic about the decline in the oil price seen so far. Firstly, markets are concerned that, with inflation low, the oil shock may tip economies into outright deflation with negative implications for consumption. Secondly, capital expenditure may be at risk in this scenario and has also been heavily boosted in the US by the shale story, which is at serious risk from here. Thirdly, the labour market in the US, which has been very strong, has been significantly boosted by the shale states. If this is derailed, then perhaps US growth is at risk. Another risk is contagion from the high yield market where energy issuance has been high.

NEGATIVE REACTIONS HAVE FOCUSED ON THREE THEMES:

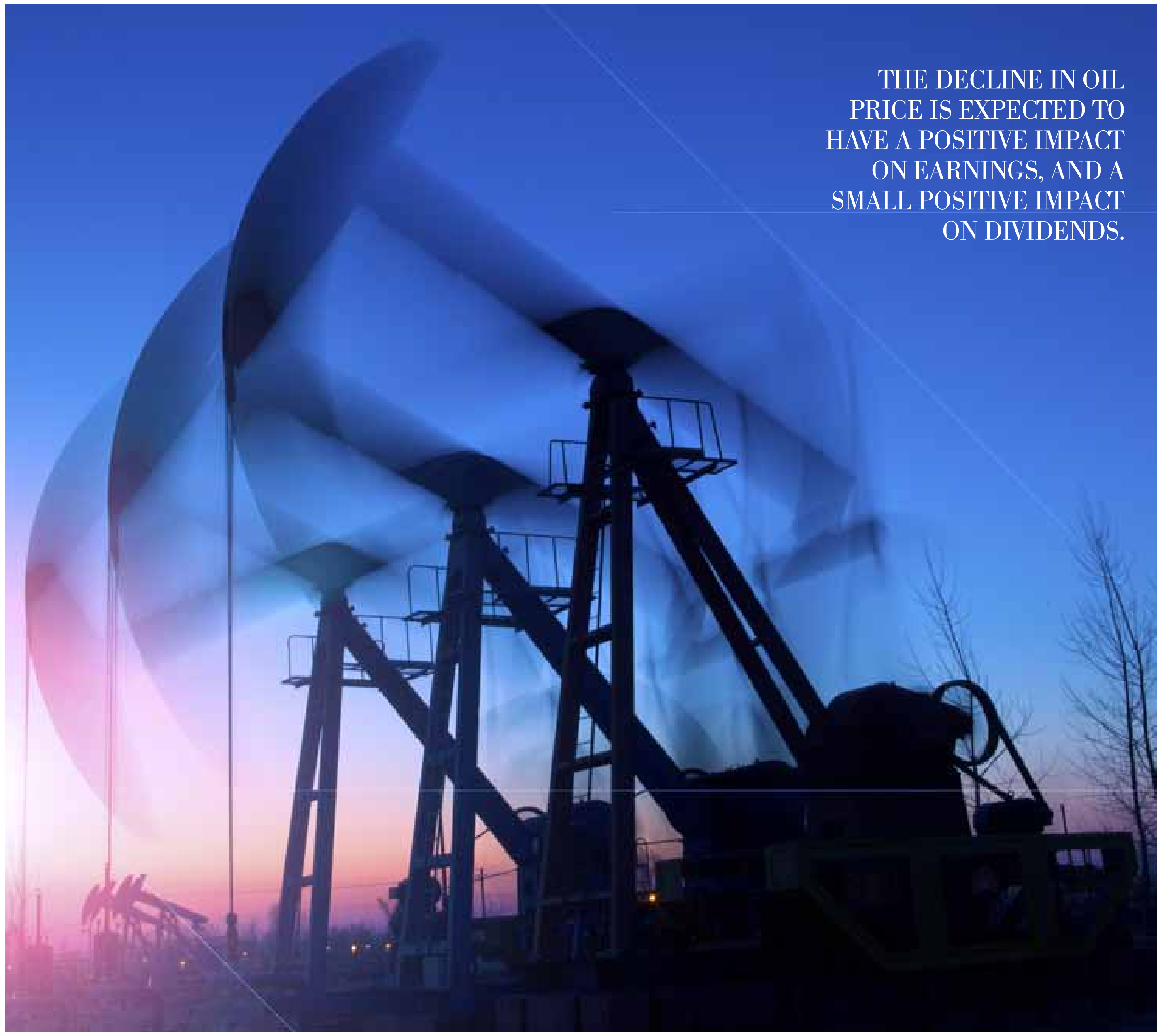
1. That the speed of the fall creates a major shock for the oil producers, who will be forced to cut investment rapidly.
2. That falling world demand is the possible cause, so we should be worrying about recession; increasing (shale) oil production has contributed more to the oversupply, even though demand has grown by less than forecast, so the lower price does not seem to be a forecast of recession as it was in 2008.
3. That lower oil prices will push inflation rates lower or into negative territory, increasing worries about deflation. Lower inflation due to falling costs rather than collapsing growth could be seen as 'good deflation'. Reversing the argument, would higher oil prices accompanied by higher inflation rates really be better?

REDUCTION IN UNAVOIDABLE SPENDING

Relative to where we were a few months ago, the growth outlook has improved as a result of the halving in the oil price despite the equity markets' grudging reaction to the windfall. The fall in oil prices is a major benefit for much of Asia (including Japan), which is a big importer of oil. Another key beneficiary is consumer spending beneficiaries in developed economies, where the reduction in unavoidable, spending on fuel and energy will free up income for other uses.

Sectors which are highly energy intensive (such as cement or mining) and where hydrocarbon operating costs are significant (for example, autos, trucks and transportation companies) should enjoy some margin relief from such a large fall in prices, although it may take some months before analysts' earnings estimates fully adjust. Selectivity is important, since other factors impinge on the different sectors and the world remains in a subdued growth phase that will not float all boats.

Overall, the impact of the lower oil price is beneficial. Consumers and companies the world over get cheaper transport, power, raw materials and heating. Countries that import oil have a huge benefit to their terms of trade, and also a fiscal benefit if they are subsidising oil prices to the consumer. But it's not all good news, as this could result in increased volatility and geopolitical risk. The polarisation of performance between markets which are net importers of oil and those which are net exporters is likely to continue. There is a real need not to generalise about global emerging markets but to distinguish between good ones and less good ones.



VOLATILITY IN ASSET PRICES

The fall in the oil price recently has caused a lot of volatility in asset prices, but its impact on demand will be deeply beneficial because it amounts to a reduction in input costs and a dividend to consumers. We have seen that the headline rate of European inflation has dipped into negative territory, but this is not the type of pernicious deflation that destroys confidence and encourages consumers to defer purchases; rather, it alleviates pressure on real incomes.

Falling oil prices help airlines and distribution companies by lowering input costs. They help automotives who benefit from the marginally lower cost of buying a car and cheaper fuel; they benefit a wide variety of consumer sectors such as retail that will see higher demand from consumers enjoying higher real incomes. It is true that the energy sector, including those companies who supply energy giants with capital equipment, will struggle. Certain countries such as Norway will also be negatively affected, but on balance this is a shot in the arm for the European economy which will help to heal confidence.

While there are obvious losers from the fall in oil prices, there are also winners. Many emerging markets, such as India, have limited natural resources and import oil, so will enjoy an immediate benefit to consumer incomes and balance of payments. Consumers in Western economies are also clear winners, with the benefit of the oil price fall being estimated as equivalent to a $200bn tax cut for US consumers. ■

SHOPPING AROUND COULD MEAN YOU RECEIVE A HIGHER INCOME

Spotlight firmly on people rolling over into the holding provider's own annuity

THE FINANCIAL CONDUCT AUTHORITY'S (FCA) thematic review into annuity purchases has shone the spotlight firmly on people rolling over into the holding provider's own annuity.

NOT BENEFITING FROM HIGHER RATES

The FCA evidence shows annuities have provided good value when people have used the open market option to shop around and are receiving a higher income through enhanced annuities, which take into account health and lifestyle. Unfortunately, the vast majority of people buying from their holding pension provider do not benefit from these higher rates, and there is typically a 30% gap between standard and enhanced annuity rates. Given up to 60% of people could potentially benefit from a higher income from an enhanced annuity, this affects a huge number of retirees and equates to a significant difference in income over a typical retirement.

MORE COMPLICATED CHOICES AT RETIREMENT

Unfortunately, the changes coming in April do not automatically mean better outcomes, as the choices at retirement will become a whole lot more complicated. The guidance guarantee will help some people, but given the likely low initial take-up, a second line of defence is needed. This will minimise the number of people who end up being sold solutions that do not meet their needs or pay out significantly less than the competitive deals available in the open market.

NOT SHOPPING AROUND

On a conservative basis, the true cost of people not shopping around for their annuity income is around 30%. A 65-year-old could receive an income of £2,536 a year with a standard annuity today, or £3,298 a year with an enhanced annuity, from a purchase price of £50,000. Over retirement, the difference in income is £16,002, or 30%. This income gap between standard and enhanced rates has been relatively consistent over time and makes a huge difference in the income available over a typical retirement. ■

Source data:

Annuity rates are based on analysis of data supplied by Investment Life and Pensions Moneyfacts to Advantage (30 November 2014). The analysis looked at level annuities without a guarantee. Income levels are based on a pension pot of £50,000 and a retirement age of 65. All rates are on a gender-neutral basis. To create total retirement income figures, MGM multiplied annual annuity income by 21 years in the case of a male aged 65 at retirement. Enhanced rate figures are from a sample of smoker rates and enhanced rates based on health conditions.

TIME TO SHOP AROUND FOR YOUR RETIREMENT INCOME?

If you do shop around for your retirement income, you are more likely to purchase an enhanced annuity. 50% of the external annuity market (people who bought an annuity from a new provider) purchased an enhanced product, compared to just 5% of the internal market for annuities (people who bought an annuity from their existing pension provider). To find out more, please contact us – we look forward to hearing from you.

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DESPITE THE MOVE TOWARDS GENDER EQUALITY IN RELATIONSHIP FINANCES AND AMONG YOUNGER WOMEN, CHILDCARE CONTINUES TO DRIVE A GULF BETWEEN MEN AND WOMEN, WITH TWO THIRDS (68%) OF WOMEN WITH CHILDREN UNDER 18 STILL PRIMARILY RESPONSIBLE FOR PROVIDING CHILDCARE.

CHANGING FINANCIAL ROLES

Almost 1 in 5 women are now the main household breadwinner

NEARLY ONE IN FIVE (17%) OF WOMEN claim to be the main breadwinner in their relationship, according to new research commissioned by Scottish Widows to mark its 200th anniversary.

FINANCIAL INDEPENDENCE

The study of 2,000 UK women found that their financial role in the family has evolved significantly in the two centuries. While a third (37%) of women say their mothers were in charge of managing household finances while they were growing up, half (49%) of women living with partners are solely responsible for this today.

What's more, 32% of this group claim sole responsibility for funding day-to-day household expenditure, including energy bills, groceries, childcare and clothing, compared to just 13% of their partners. Other households are more balanced, with 44% of couples living together sharing the responsibility equally.

The study suggests that financial independence is especially ingrained in the younger generation, with the proportion of women in relationships who claim to be the main breadwinner in their household rising from 17% overall to 25% among 25-34-year-olds.

This age group is also the most likely to keep finances separate from a partner, with more than half (52%) admitting they do not share any bank accounts with their partner, compared to 39% of women overall. On average, UK women first feel financially independent at just 22 years old.

CHILDCARE GULF

Despite the move towards gender equality in relationship finances and among younger women, childcare continues to drive a gulf between men and women, with two thirds (68%) of women with children under 18 still primarily responsible for providing childcare. Two in five (42%) women with children said they agreed with their partner to take a backseat in their career to provide childcare.

However, a quarter (26%) of women with children say having children has negatively affected their career progression, and 37% feel it has reduced their financial independence.

It is not just providing childcare that impacts women though, as a quarter (26%) of women who live with their partners with children under 18 are also responsible for funding childcare, compared to fewer than one in ten women (8%) whose partners fund this.

While over two thirds (69%) of women living with a partner and contributing to childcare pay up to half of their salary towards it, 15% claim the cost of having children looked after while they work amounts to more than half of their salary.

Back in 1815, women were largely excluded from the workforce, couldn't vote and had no right to their own property – and yet today, the research shows that the average woman feels financially independent by the age of only 22. ■

GETTING MORE SAVVY ABOUT SAVING AND SPENDING

Sorting out our finances is high on our list of priorities in 2015

THE BRITISH POPULATION IS determined to get more savvy about their saving and spending habits in 2015, with three quarters (76%) of adults admitting they are prepared to moderate their lifestyle, according to a new survey by Standard Life.

SORTING OUT FINANCES

Showing that sorting out our finances is high on our list of priorities in 2015, nearly half of adults (46%) made a money-related New Year's resolution. Topping the table is saving more: nearly a quarter (22%) of adults plan to save more this year, and one in five (19%) hope to cut day-to-day costs.

Less than a third of people (28%) are currently happy with the amount of money that they save, with a quarter of adults (26%) not currently saving at all despite thinking they should, and 37% don't save as much as they think they should.

FLEXIBLE PENSION CHANGES

Pensions are a crucial element of saving for the future, and changes coming in April mean the way people can access this money is becoming more flexible. While the majority of UK adults (75%) are aware of the upcoming reforms, only 22% say they understand the changes and what it means for them*.

Despite the increased focus on saving, 65% of adults are still planning a 'big ticket' spend this year. Over half of these people (53%) are expecting to cover the cost from their savings, while 27% plan to cut back on day-to-day spending to afford these bigger buys. Some of the most popular big ticket items people will be spending on this year are expected to be:

- Holiday – 36%
- Home improvements – 19%
- New car/motorbike – 8%
- Property – 5%
- Wedding – 3%

Source data:

*All figures (with the exception of those marked with *) are from research conducted by Vision Critial on behalf of Standard Life in January 2015. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). Research marked with * was also carried out online by Vision Critical on the same basis in November 2014.*

FOUR WAYS TO BE FINANCIALLY FIT IN 2015:

1. Review your finances for the year ahead, looking to see if you can pay off any debt, reduce the cost of any regular outgoings, perhaps by switching providers and considering how much you're able to save. It's then a case of finding out more about your savings options and which products are tax-efficient, so you can help your money grow tax-efficiently.
2. You can save up to £15,000 in a tax-efficient New Individual Savings Account (NISA) this current tax year, so make the most of that ahead of the tax year end on 5 April.
3. Be informed – it's not just about the numbers, its understanding things too. Therefore, speak to us about how to make of the most of the new pensions freedom changes.
4. If, like many people, you're planning to spend on holidays or home improvements this year, then aim to save towards the cost, rather than running up a debt or putting it on a credit card and worrying about how you will pay it off later.

TAKE CONTROL AND REMOVE THAT SENSE OF STRESS

It's clear that lots of people are trying to get on top of their finances, and spending a little time planning can help us take control and remove that sense of stress. Now is a great time to start planning, understand your options and the key money moments coming up, including NISA deadlines for this tax year and the new pension reforms in April. For more information, please contact us.

PENSION WISE

Discussing life expectancy as part of your retirement planning is key

Pension Wise, the government's guidance guarantee service, must discuss life expectancy as part of people's retirement planning, according to a recent Aviva report.

MORE ACCURATE PICTURE OF LIFE EXPECTANCY

The special report on key retirement themes suggests that using nationally agreed longevity figures that take into account the differences between savers and non-savers will provide people with a more accurate picture of their life expectancy.

The report considers the implications for people who underestimate their life expectancy. In particular, people who are savers and healthy are likely to live significantly longer than the national average figures suggest.

NEW PENSION FREEDOMS TO TAKE EFFECT

People will have far more choice in what they do with their savings from 6 April this year when the new pension freedoms take effect. With the option to take all of their money in one lump sum if they wish, they could find themselves penniless if they outlive their savings. The report highlights significant regional differences in life expectancy in the UK, and the link to lifestyle factors such as smoking and obesity.

The lack of clarity around the interplay of factors affecting life expectancy could mean that many people default to average longevity figures that do not reflect their personal situation, either because they do not understand that as they get older their life expectancy increases or that, as a healthy saver, they need to add years on to their life expectancy.

WHAT DO YOU NEED TO CONSIDER?

- You should accurately assess your life expectancy as part of your retirement planning, taking into account factors such as existing conditions and lifestyle choices
- When thinking about how much money you will need in retirement, you should consider the total savings you have, including all of your assets (such as your property) and measure this against your expenditure and the years you expect to live in retirement
- Your life expectancy may change as you get older, so once retired you should review your finances during the course of what could be a long retirement

DO YOU HAVE AN ACCURATE VIEW OF YOUR LIFE EXPECTANCY?

It's impossible to say with any certainty what an individual's life expectancy will be, but we know enough about the factors affecting it to be able to arrive at informed conclusions. For a retiree sitting down for the first time and working through their finances and retirement plans it is absolutely essential that they have the most accurate view of their life expectancy. Please contact us if you would like a review of your current retirement plans.

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